Ports and shipping industry's outlook continues to be strong over the medium to long term

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The Indian ports and shipping industry plays a crucial role in sustaining growth in the country's trade and commerce. India currently ranks 16th among the maritime countries, with a long coastline of about 7,517 kilometres (km) with 13 major ports (12 government and one corporate) and about 200 non-major ports currently operating on the western and eastern coasts of the country. According to the Ministry of Shipping, around 95 per cent of India's trade by volume and 70 per cent by value happens through maritime transport.

Driven by new manufacturing and power projects and higher cargo traffic at ports, the sector is poised for significant development. During 2013-14, India's major ports handled 555.50 million tonnes (MT) of cargo as compared to 545.83 MT handled in 2012-13, registering a growth of 1.8 per cent.

The State governments have realised the strong growth potential and the increasing need for robust ports infrastructure, and have consequently provided sops and a favourable investment climate which are attracting investments from private players into the sector.

Market size

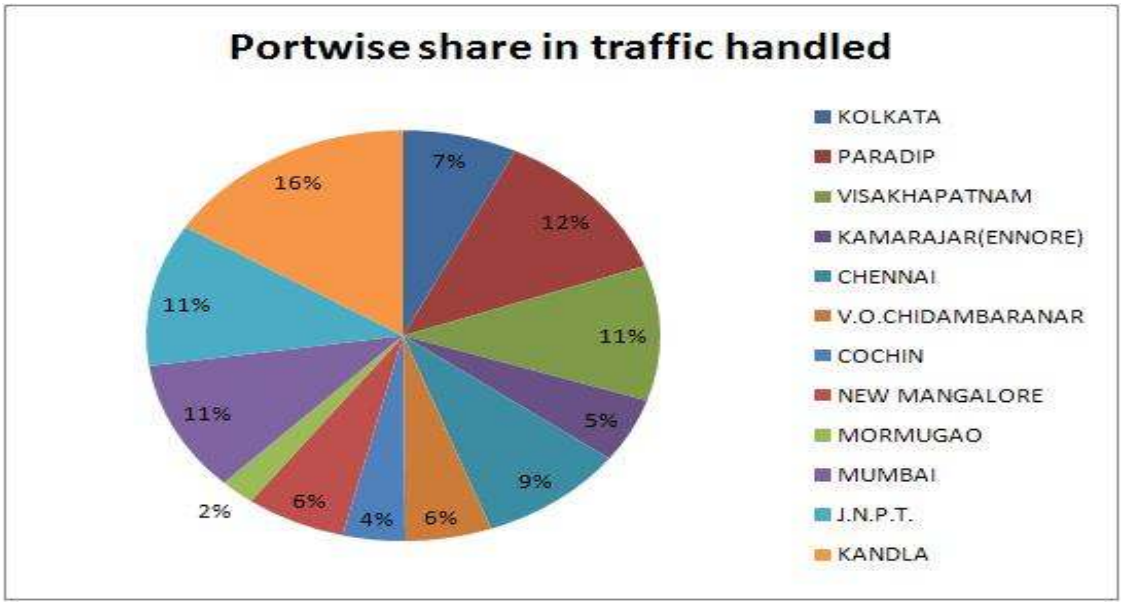
Cargo traffic at Indian ports stood at 911.5 MT in FY 12 and is expected to touch 1,758 MT by FY 17. During April and May 2014, India's major ports handled 95.87 MT of cargo as against 91.48 MT handled during the corresponding period last year, an increase of 4.8 per cent.

Of the major ports, Mormugao Port posted highest growth in traffic (24.48 per cent) during April and May 2014, followed by Mumbai Port (14.35 per cent), Kamarajar Port (13.90 per cent), V.O. Chidambaranar Port (13.67 per cent) and Kolkata Dock System (12.36 per cent) as compared to the same period last year. In terms of volume, Kandla port led the pack with 15.31 MT of traffic handled followed by Paradip port at 11.73 MT during the same period.

In 2013-14, coal cargo traffic (thermal coal and coking coal) volumes rose by 20.6 per cent to 104.5 MT from 86.7 MT a year ago. Among commodities, there was an increase of 25 per cent in handling of fertilisers in April 2014 in comparison to April 2013. Iron ore handling has also shown an increase of 16.8 per cent during the month.

Indian Ports Infrastructure

India has 13 major ports and 176 minor ports, which acts as an interface between ocean transport and land transport in the country. The major ports in the country are Kolkata, Haldia, Paradip, Vishakapatnam, Chennai, Ennore, Kandla Tuticorin, Cochin, V.O.Chidambaranar, New Mangalore, Mormugao, Jawaharlal Nehru at Nhava and Mumbai. During April to Sep period of 2014, Mormugao port witnessed high growth of 22.09 percent to 6.30 MT in traffic handled as compared to 5.16 MT recorded in the corresponding period of the previous year. While, Ennore and new V.O.Chidambaranar ports both witnessed a growth of 15.56 percent and 11.52 percent during the April- September 2014.



Among the major ports, Kandla port located in Gujarat has become the major port of the country consisting over 16 percent share in total traffic handled by the major ports followed by Paradip and JNPT port having 12.30 percent and 11.20 percent share respectively. In terms of commodity, P.O.L. represents the major share (around 34 percent) in total commodities traffic handled, as the country fulfills around 80 percent of domestic needs through oil imports. Meanwhile, coal import accounts for 19 percent and Iron ore accounts for 4.3 percent share in total traffic handled at all major ports of the country.

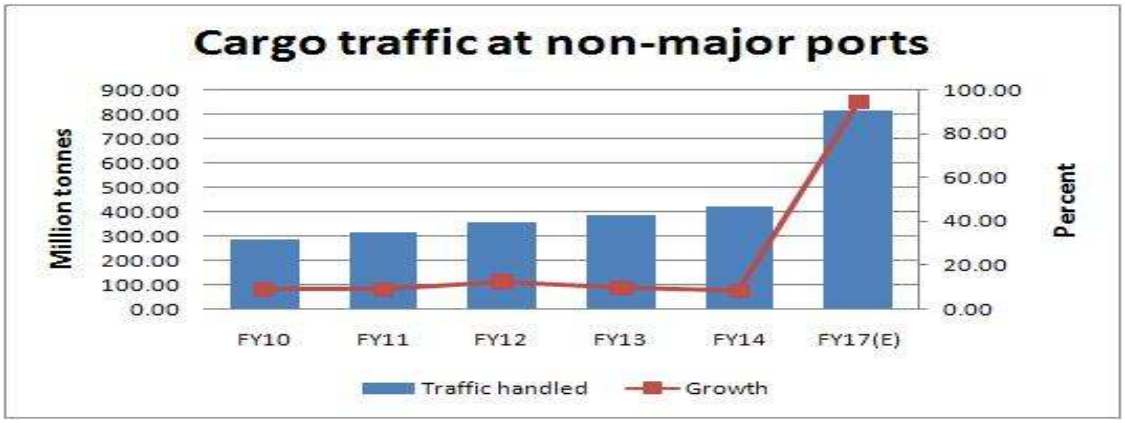
As world trade started growing owing to increasing globalization, ports have become the backbone of country's trade and the nations which built good ports with excellent infrastructure became competitive manufacturing centers/hubs. Meanwhile, Indian ports infrastructure is not at par with other ports across the world, reflecting low investment in ports infrastructure development. Furthermore, existing ports in the country are mired with problems like lack of adequate facilities, poor connectivity, congestion and accessibility, making the country one of the biggest handicaps logistics service providers. Given that high importance of ports for the economic development of the country, the government has been taking various measures for modernising Indian ports infrastructure, improving the service quality and increasing the ports' productivity levels. The government in its Maritime Agenda 2010-20 has proposed investment at around Rs 283500 crore by 2020 for creating more capacity of major and non-major ports and augmenting ports performance. The agenda has also identified a total of 352 major ports projects with construction/reconstruction of berths and jetties, accounting for one third of the country's total infrastructure projects. Moreover, most of the investment including foreign direct investment (FDI) has to come from the private sector, which will not only increase investment in the port infrastructure, but also efficiencies in ports through induction of latest technology and better management practices.

Cargo volumes at major ports witnessed Modest growth in FY14

In FY14, total cargo handled at Indian ports increased by 4.3% to 976 million tonnes from 935 million tonnes during FY13. The growth was pegged down by sluggish cargo performance at the major ports which registered a meager 1.8% growth in cargo volumes to 556 million tonnes in FY14. Non major ports on the other hand bucked up the overall growth rate by recording an 8.3% growth in throughput on a y-o-y basis to 420 million tonnes. While the growth was meager, on a positive note, the major ports arrested the decline in cargo volumes to register the first increase in y-o-y cargo throughput since FY11. During the first four months of FY 15, the cargo throughput at major ports had registered a modest 3.3% growth over the corresponding period of previous year. The growth was supported by an increase in all cargoes except POL (-0.5%) and Iron Ore (-7.5%), at all ports. In addition, coal volume growth, remained significantly lower than overall growth in FY 14 at 1.1%, while other cargo, Containers and FRM registered growth of 10.8%, 5.33% and 24.7% respectively.

Non major ports registers higher growth in cargo volumes for FY14

Non major ports, by virtue of a more diversified cargo mix and higher efficiency standards, registered higher growth in cargo volumes for FY14. Non major ports, thus continue to boost the growth in overall all-India port volumes. As a result, in market share terms, major ports account for approximately 57% of total throughput in FY 2014 compared to 58% in FY 2013, while the share of non major ports rose up to 43% in FY 2014, increasing from 42% during the previous year. Among the listed non-major ports, Adani Ports & SEZ, which operates the Mundra and Dhamra Ports as well as terminals at Dahej and Hazira through SPVs, continued to register strong growth in Q1 FY15 (22% up to 28.9 million tonnes at Mundra; 26% up to 37.5 million tonnes overall) in it volumes across all cargo segments, while Essar Port, operator of bulk terminals at Hazira, Vadinar and Paradip (under SPVs), registered a modest 2% growth in overall volumes to 13.75 million tonnes in Q1FY15 as captive cargo for the group remained subdued. Gujarat Pipavav Port, operator of the Pipavav Port also registered healthy growth in its container throughput as well as bulk volumes (38%, 3.26 Million Tonnes).



Capacity addition projects approved by Ministry of Shipping

The Ministry of Shipping (MoS) had achieved its target for 2013-14 of awarding 30 ports projects. These projects would entail an estimated investment of around Rs 21000 crore and result in capacity addition of 217 MMTPA (increase of 27% over existing capacity of the major ports). Further, the Ministry of Shipping plans to award 35 projects in 2014-15 which is expected to add 259 mtpa in capacity at an estimated investment of Rs. 137 billion. Out of these, 23 projects will be taken on a priority basis (entailing an investment of Rs 5200 crore) while the remaining have been marked as standby projects. The current focus is on developing ports infrastructure and improving ports connectivity as against capacity augmentation in the earlier years. Out of these, the MoS plans to award 17 projects on PPP which will entail an investment of Rs. 102.77 billion, the major ones of which would be container terminal at Diamond Harbour at Kolkata Port Trust (Rs 1758 crore), liquid terminal at JNPT (Rs 2496 crore) and iron ore berth at Paradip Port (Rs 681 crore). These projects were in addition to the projects announced in the last union budget during 2013-14, for development of two major port projects, one in Andhra Pradesh (AP) and the other in West Bengal (WB) entailing a combined capacity of 79 million tonnes at an investment of around Rs 15800 crore.

Investments

The Indian ports sector received foreign direct investment (FDI) worth $1,635.40 million between April 2000 and May 2014. The ports sector in India was awarded 30 projects in 2013-14 entailing an investment of over Rs 20,000 crore ($3.32 billion), marking a threefold increase over the preceding year.

The following are some of the major investments and developments in the Indian ports sector:

- Adani Ports & Special Economic Zone (APSEZ) has executed a definitive agreement with L&T Infrastructure Development Projects and Tata Steel to acquire 100 per cent stake in the Dhamra Port Company (DPCL) for Rs 5,500 crore ($915.17 million).

- The Jawaharlal Nehru Port Trust (JNPT) and the Port of Singapore Authority (PSA) have signed a concession agreement for the Port's fourth container terminal worth Rs 8,000 crore ($1.33 billion). It currently operates container terminals in Kolkata, Tuticorin and Chennai ports, with a total capacity of 2 million twenty-foot equivalent units (TEUs). The fourth container terminal would have a capacity of 4.8 million TEUs.
- Paradip port plans to set up hybrid cargo terminals - captive-cum-common user facility - as part of its expansion plans. Paradip will be the first government port to offer this facility and will provide private investors the flexibility to ensure optimum unitisation of the ports capacity.
- L&T Shipbuilding is diversifying its cargo handling capacity at Katupalli Port to include automobiles and oil products in addition to container handling. Originally, the Katupalli port planned to handle a total of 25 MT of cargo, of which 24 MT was containerised cargo and the rest steel and project cargo.

Budget announcements likely to have a positive impact

The 2014-15 budget provides a thrust on reviving investments in the ports sector, with a significant increase in outlay on setting up of green-field ports, development of SEZs at existing ports, setting up of a single window for custom clearance, etc. Further the budget, proposes to set up an institutional body - '3P India', which could address some of the obstacles faced by ports developers operating through the PPP route and support the developers in obtaining regulatory approvals and speedy resolution of pending issues. Along with the constitution of this institution, the proposed large investments in the sector on new capacity additions, recent guidelines by MoS on Land Policy for Major Ports, plans for establishing a mechanism to re-negotiate terms of the PPP projects as well as to redefine the role of the ports tariff regulator and to deregulate tariff setting at the 12 major ports, are all expected to provide major impetus to growth in the sector and could boost trade movement at Indian ports in the long term.

Recent developments

Development of additional liquid bulk terminal at JNPT: The Cabinet Committee on Economic Affairs has approved the development of an additional liquid bulk terminal at Jawaharlal Nehru Port Trust (JNPT). The estimated total cost would be Rs 2496 crore. The award would be on highest Royalty basis. The project will be taken up for implementation under the Private Public Partnership (PPP) mode on Design, Build, Finance, Operate and Transfer (DBFOT) basis. Therefore the entire investment on the project will be made by the Concessionaire. The project is envisaged to be implemented in two phases with overall capacity as 26.6 Million Tonnes per Annum (MTPA). Phase I envisages construction of four berths to accommodate vessels size up to 180,000 Dead Weight Tonnage (DWT) with a capacity of 15 MTPA. Phase II envisages construction of two additional berths for 180,000 DWT vessels with a capacity of 11.6 MTPA. The project would enhance the liquid bulk cargo handling capacity of JNPT from the existing 5.5 MTPA to 20.5 MTPA by 2017-18 when Phase-I is expected to be commissioned. Capacity would go up to 32.1 MTPA with the commissioning of Phase-II by 2025-26. This infrastructure will facilitate industrial growth in the hinterland and also reduce

transaction cost for users who are suffering high waiting time in the existing berths. The project will also create, additional employment opportunities and lead to socio-economic development of the region.

Priority to Coastal Vessels: New Guidelines have been issued under which Major Ports will have to give priority berthing to dry bulk/general cargo coastal vessels irrespective of the origin and final destination of the cargo. The guidelines approved by the Minister of Shipping Shri Nitin Gadkari also provides for concessional port charges whether the vessel is berthed on priority basis or on normal basis . Major ports have also been asked to earmark exclusive berths and green channel for coastal cargo to promote the sector. These guidelines issued after recommendations of a Committee, are aimed at promoting coastal shipping to reduce pressure on rail and road transport systems.

Concept to be Finalised Soon for Impementation of the Sagar Mala Project: The government proposes to finalize the Sagar Mala concept soon to implement the project. 'Sagar Mala' was an initiative that was announced by the then Prime Minister of India on the Independence Day in 2003 with the objective of achieving rapid capacity expansion and modernization of Ports along India's East and West Coast. The Sagar Mala project envisaged developing India's ports to levels comparable with the best global ports in terms of infrastructure, efficiency and quality of service, increasing the tonnage capacity, upgrading and creating ship building and ship repair facilities and increase the use of inland waterways for transportation. A concept note prepared by the Ministry has perceived Sagar Mala as an integrated infrastructure cum policy project to develop the Indian Maritime sector. The concept paper has proposed that the growth of India's maritime sector be achieved by developing Maritime Economic Regions (MER). The draft concept note has suggested that an MER would be a Regional Ports Systemcomprising of a cluster of Major Ports and Non-Major Ports and the development of an MER would involve development of ports, port based SEZs, coastal industrial clusters and other port based industries. The MER envisages that it would be linked with road, inland waterways transport and airport projects to have the best connectivity.

Outlook

The outlook for the Indian ports sector continues to be strong over the medium to long term driven by the domestic requirements of coal, for power and other sectors; crude oil, for meeting domestic petroleum requirements; and containers, given the cost and logistical advantages associated with containerization. Some near term uncertainty may, however, be associated with particular cargo categories like imported coal due to uncertainties plaguing the power sector and persistent delays in execution of greenfield power projects; or in iron ore, due to unresolved policy issues; and containers, due to the weak global environment affecting exim trade. Further, the resolution of the ongoing tariff policy related discussions to bring clarity on the tariffs going forward would be crucial for the long term cargo growth prospects at the major ports.

Companies Financial Data In Industry

Company Name	CMP	MCAP	BOOK VALUE	DIV. YEILD %	TTM EPS	TTM PE
GOL Offshore Ltd.	96.35	37.24	273.60	0.00	24.63	3.91
Hariyana Ship Breakers Ltd.	70.65	6.17	138.23	0.00	21.29	3.32
Dredging Corporation Of India Ltd.	441.70	28.00	512.34	0.68	13.80	32.02
The Great Eastern Shipping Company Ltd.	398.15	150.78	324.58	2.26	9.97	39.93
Adani Ports and Special Economic Zone Ltd.	292.80	414.01	47.53	0.34	8.98	32.62
Global Offshore Services Ltd.	502.30	24.73	144.51	0.24	7.53	66.71
Gujarat Pipavav Port Ltd.	171.50	483.44	33.81	0.00	6.37	26.91
Seamec Ltd.	130.50	33.90	146.52	0.00	6.02	21.69
Mercator Ltd.	27.90	24.49	27.31	0.36	1.07	26.12
VMS Industries Ltd.	23.80	16.47	30.47	0.00	0.55	43.42
Pipavav Defence and Offshore Engineering Company Ltd.	39.30	736.21	31.82	0.00	0.09	435.80
Chowgule Steamships Ltd.	17.00	36.31	36.92	0.00	-0.36	0.00
Essar Ports Ltd.	100.50	427.89	62.39	0.50	-0.43	0.00
Shahi Shipping Ltd.	11.00	14.49	18.99	0.00	-2.34	0.00
Shipping Corporation Of India Ltd.	60.80	465.80	137.17	0.00	-2.71	0.00
Essar Shipping Ltd.	22.75	205.23	235.88	0.00	-13.88	0.00
Shreyas Shipping & Logistics Ltd.	89.90	21.96	49.77	0.67	-14.72	0.00
Varun Shipping Company Ltd.	7.61	150.01	23.50	6.57	-28.55	0.00

Sorted with TTM EPS

Source – Ace Equity