India Infrastructure Finance Company Limited
IIFCL

# IIFCL INFRA NEWSLETTER

October-December, 2008 Vol. I No.4

## Our Vision

"Provide innovative financing solutions to promote and develop world class infrastructure in India"

## Our Mission

"To adopt best practices in financing infrastructure and develop core competencies in facilitating infrastructure development; Develop a team of highly engaged employees to deliver services in a professional manner and to the satisfaction of all stakeholders"

# From the Chairman's Desk

*The events that have unfolded recently present an unpleasant picture. The real dimensions of the sub-prime crisis have emerged and come about like a financial tsunami. It has devastated the Wall Street and established names like Lehman Brothers, Merrill Lynch and AIG have crumbled. The meltdown in the US financial markets has assumed global proportions and is threatening to affect the entire global financial system. The response to the crisis has been equally unparalleled. An unprecedented bail out package of USD 700 billion is being implemented in USA, while in other parts of the world, bail-out measures have been taken up by the respective governments. Liquidity has suddenly vanished in the global financial system and central banks have moved in to pump in liquidity. But merely providing liquidity may not help as the crisis is not only of liquidity but also solvency. With the bursting of the credit and housing bubble, many banks in the western world are insolvent. And as they start de-leveraging, they would bring further pressures on asset prices, and this can only worsen the situation. Although, commodity prices have eased, a new fear has been voiced. US and European economies have slackened and the threat of deflation is a worry. The falling house prices and credit contraction by the banks in US is likely to result in a downward spiral in asset prices which could drag down the economy.*

*Indian banking system has not been affected much from the crisis. However, liquidity has tightened and the rupee has shown consistent depreciation. Exposure of Indian banks to the toxic assets of the Wall Street has been meagre. Indian banks continue to enjoy their fundamental strengths. At the end of March 2008, Average capital adequacy of Indian banks is 13%, Gross NPA ratio was 2.4%, Net NPAs were less than 1% and Return on Assets stood at 1%. Exposure of the banks to sensitive sectors like capital market and commodities is low. However, there is need for abundant caution in dealing with the likely impact of the global crisis.*

*Reserve Bank of India and the Government have come up with a slew of measures to address the liquidity constraints. CRR and SLR have been cut, besides other measures taken to pump in liquidity including the release of first instalment of the debt waiver scheme implemented by banks will supplement liquidity. Inflationary pressures have shown some softening. Global oil prices have fallen and indications are for commodity prices to stabilize.*

*The global events could cause a slowdown on the infrastructure sector. Notwithstanding the large injection of liquidity into the system, with the cost of funds going up further, lending rates have gone up as high as 14 to 16%. With interest burden already high, any further increase in interest rates could seriously hamper the progress of infrastructure projects. Despite this, disbursement by banks to infrastructure projects should not be delayed/curtailed as this would adversely impact on the viability of such projects.*

*Infrastructure assets have been well accepted as an asset class and development of infrastructure fuels the growth of core industrial sector. Infrastructure services are essential and have relatively inelastic demand. With large capital requirements, the entry barriers into the sector is high and as the returns from investment occur only in the long term, infrastructure assets are almost like natural monopoly with little competition. They constitute long duration assets. For instance, generally, the average life of a road before major maintenance is needed is about 30 years and 60 years in the case of power grid lines. Moreover, in view of their "public good" character, infrastructure services are highly regulated.*

*In view of the unique nature of infrastructure assets, they also offer strong counter-cyclical potential. Even in times of economic downturn, the essential nature of infrastructure services could ensure that demand is not affected much. As such, lending to infrastructure, unlike in the case of retail lending which is vulnerable to cyclical movements in the economy, can help banks to balance their asset portfolio and protect their income streams.*

*The global financial woes may have relatively moderate impact on India. But to avoid any hard landing, it is essential that the trust and confidence in the financial system is maintained. Banks should not become overly cautious of lending. Banks need to have to proper risk management in place, but pragmatism is the need of the hour.*

S S Kohli
Chairman & Managing Director

## India's Port Infrastructure : A Perspective

A strong seaport is the backbone of any country's economic development and growth. India has 12 major ports and 200 non-major ports and a long coastline of 7517 Kms. The 12 major ports among themselves handle more than 75% of the trade in terms of quantity and 90% in terms of value. During 2006-07, traffic handled by all ports is estimated at 650 Million Tonnes. The strong economic growth witnessed by the country has called for improving port infrastructure and a National Maritime Policy has been evolved.

According to a recent study of Ernst and Young, Indian ports are operating at more than 90% capacity utilisation due to stagnant capacity. This is also an indicator of the demands for cargo. This has led to intense congestion at the ports and consequent delays in cargo handling.

A benchmark analysis of India's major ports in the Kandla-Kolkata (KK range) with Hamburg-Le Havre (HH) range in Western Europe is revealing. The following table presents the comparison:

| Details | K K Range | HH Range |
|---|---|---|
| Coastline | 7517 KMs | 1000 KMs |
| No of major ports | 12 | 11 |
| Cargo handled 2006 | 420MT | 1020MT |
| Hinterland population | 1100 million | 200 million |
| Competition | Limited | Strong |
| Port management | Public service ports with private terminals | Mostly landlord ports |
| Role of private sector | Weak | Strong |
| Port capacity | Almost at capacity | Spare capacity available |
| Hinterland connections | Road, rail insufficient supply | Road, rail, inland water transport, and pipeline |
| Logistic clusters | SEZ (in the offing) | Available within ports |
| Industrial port clusters | Absent | Many (Rotterdam, Antwerp) |

*Source: Consolidated Port Development Plan, Indian Ports Association, September 2007*

It is evident from the above that vast potential is available for development of Indian ports. In the development of ports, three stages are envisaged. The first generation ports have cargo handling as their core activity; the second generation ports are those where apart from handling cargo, industrial clusters are also developed so that the port could handle the import of raw material and export of the finished goods from the industrial cluster; and the third generation ports are where besides cargo handling and facilitating activities of the industrial cluster, the port is transformed into an integrated hub for logistics and distribution.

In India, the major ports have cargo handling as their main line of activity compared to ports in developed economies. For instance, Port of Rottardam Authority employs 1200 persons compared to 66,000 persons employed by 11 Port Trusts in India. Although Rotterdam Port is a land lord port, it is highly mechanized and as the cargo handling system is automated, limited number of persons are required to be employed. Further, Rotterdam Port has set up 3 Distriparks which are advanced logistics parks with facilities for cargo handling and multimodal transport for transit shipment. The Distriparks have facilities for warehousing, forwarding, stuffing and stripping of containers and various valued added services like packaging, labeling, assembly, sorting and import and export documentation.

## SWOT Analysis of Major Indian Ports

| Strengths | Weaknesses |
|---|---|
| • High growth<br>• High market share<br>• Financial means available<br>• Most ports located at strategic locations | • Old infrastructure<br>• Limited water depth<br>• Old and inefficient cargo handling systems<br>• Poor hinterland connections<br>• Rigid institutional framework<br>• High tariffs<br>• Poor quality of services/ business attitude<br>• Overstaffing<br>• Lack of capacity<br>• Lack of extension possibilities |
| **Opportunities** | **Threats** |
| • Introduce competition<br>• Huge Indian Market, and landlocked countries in the North<br>• Improve organisation : training, IT, downsizing<br>• Port reform - more autonomy<br>• PPP other than BOT<br>• Invest in infrastructure, lower costs for port users<br>• Invest in total transport chain | • Private ports<br>• Minor ports<br>• Bureaucracy<br>• Time |

*Source: Consolidated Port Development Plan, Indian Ports Association, September 2007*

The National Maritime Development Programme (NMDP) has projected the traffic in ports at 877 million tones by 2011-12, of which the projected traffic in major ports is 800 million tonnes. To achieve this, the NMDP has envisaged an investment of Rs55,800 crore. Of this, as much as 34,505 crore is expected from private sector sources and state governments.

To facilitate private sector participation in major ports, the Model Concession Agreement (MCA) has been put in place. As many as 38 port development projects are under implementation through PPP model with a total contract value of Rs60,487 crore. Out of these, in 13 cases, there has been foreign participation.

Although the Jawaharlal Nehru Port Trust (JNPT) has established itself as a modern port and features among the top 50 ports in the world, Indian ports need to move up the value chain. One of the suggestions in this regard has been corporatisation of the ports. Of the 12 major ports, Ennore Port is the only port which has been corporatised and does not fall under the Tariff Authority for Major Ports (TAMP). It operates as a Landlord port with a mix of public and private orientation. Under this model, the port authority acts as a regulator and as a landlord, while port operations like cargo handling are carried out by private companies. There is need for more operational autonomy of ports and this could be best achieved through corporatisation. If the port trusts could be bestowed the same operational autonomy as other public sector undertakings, significant gains could be achieved.

The need for modernization of India's ports may not be overemphasized. Particularly, as India globalizes and integrates with the world economy, the port infrastructure needs to be world class. There has been consistent improvement in port operations. Average pre-berthing time on port account has come down from 24 hours in 1999 to 11.13 hours in 2007-08 , while the average turn around time has declined from 5.7 days to 3.68 days during the same period. The emergence of smaller private ports is leading to inter-port competition which is a healthy sign. With 100% foreign direct investment allowed, the port sector has attracted foreign participation. At the same time, mechanization of ports and increasing the level of automation is important. Improving rail and road connectivity to the ports is vital as this would greatly help in decongesting the ports. Development of coastal and inland waterways also need to be taken up.

It is expected that India's share in world trade could go up from the current 1% to 10% by 2022. As ports are the gateway for achieving this, there is an urgent need for port reform and also encourage development of large scale industrial clusters and logistic parks on the lines of distriparks of the Port of Rotterdam.

## IIFCL : Progress Achieved

### Sector-wise details of proposals sanctioned (September 2008)

(Rs. crore)

| | No. of Projects | Project Cost | Loan Sanctioned |
|---|---|---|---|
| Road | 55 | 31,712 | 5,723 |
| Port | 5 | 3,772 | 580 |
| Power | 23 | 93,241 | 9,913 |
| Airport | 2 | 14,716 | 2,150 |
| Urban Infrastructure | 1 | 70 | 14 |
| **Total** | **86** | **143,511** | **18,380** |

### Sector-wise projects which have attained financial closure

(Rs. crore)

| | No. of Projects | Project Cost | Loan Sanctioned | Amount Allocated |
|---|---|---|---|---|
| Road | 46 | 24,827 | 4,570 | 3,178 |
| Port | 4 | 2,756 | 380 | 316 |
| Power | 18 | 67,363 | 8,453 | 7,523 |
| Airport | 2 | 14,716 | 2,150 | 848 |
| Urban Infrastructure | 1 | 70 | 14 | 14 |
| **Total** | **71** | **1,09,732** | **15,567** | **11,879** |

### State-wise loans sanctioned

(Rs. crore)

| State | No. of Projects | Amount |
|---|---|---|
| Andhra Pradesh | 9 | 862 |
| Chattisgarh | 2 | 165 |
| Delhi | 1 | 1,000 |
| Gujarat | 8 | 3,539 |
| Haryana | 2 | 495 |
| Himachal Pradesh | 2 | 183 |
| Karnataka | 5 | 842 |
| Kerala | 1 | 100 |
| M P | 8 | 1,195 |
| Maharashtra | 11 | 2,657 |
| Orissa | 1 | 250 |
| Pondicherry | 2 | 113 |
| Punjab | 2 | 140 |
| Rajasthan | 1 | 500 |
| Sikkim | 2 | 940 |
| Tamil Nadu | 14 | 1,475 |
| Uttar Pradesh | 9 | 1,770 |
| Uttarakhand | 3 | 514 |
| West Bengal | 3 | 1,640 |
| **Total** | **86** | **18,380** |