

# Port Expansion Trimmed as Slowdown Dents Trade: Corporate India

by Ganesh Nagarajan and Karthikeyan Sundaram  
October 2, 2013 — 6:07 PM GMT+11



A woman cleans the road at the container terminal of the Jawaharlal Nehru Port in Navi Mumbai, Maharashtra, India. Photographer: Amit Bhargava/Bloomberg

Oct. 3 (Bloomberg) -- India plans to cut back expansion of a port that helps Ford Motor Co. and Hyundai Motor Co. ship cars after an economic slowdown and rival facilities dented traffic for the first time in seven years.

The Chennai Port Trust, which started 128 years ago in the southern Indian city, is hiring a consultant to help review its plans and advise on a reduced capacity, Chairman Atulya Misra said in an e-mail interview. The state-owned operator scrapped a bid this year to build a terminal that would have more than doubled its ability to handle 20-foot standard boxes or TEUs.

Container traffic at Chennai Port fell 1 percent in the year to March 31 as new harbors run by Larsen & Toubro Ltd. and Navayuga Engineering Co. threaten to lure customers away. The weakest economic growth in a decade, the need to contain the budget deficit and a dip in trade are leading to the spending cuts, undermining Prime Minister Manmohan Singh's efforts to improve infrastructure that is ranked below Kazakhstan and Guatemala by the World Economic Forum.

“When the mega terminal project was conceived, the scenario was different from what prevails today,” Chennai Port’s Misra said. “Container volumes are shrinking and there’s competition.”

## Exports Shrink

Singh had approved the expansion of Mumbai’s Jawaharlal Nehru Port, the nation’s biggest container facility by volume, and Chennai Port in 2010 when exports jumped 37 percent and imports surged 39 percent. Two years later, inbound shipments grew 6.5 percent and exports shrank 2 percent, according to data compiled by Bloomberg.

The delays in augmentation have added to congestion at state-controlled harbors including Chennai and Jawaharlal Nehru Port, while driving customers to alternative facilities run by private companies including Mumbai-based Larsen and Adani Ports and Special Economic Zone Ltd.

The average turnaround time for ships at Indian ports was about 4.2 days during April through August, compared with as little as six hours in Singapore and Hong Kong, according to data provided by the Indian Ports Association. About 90 percent of India’s international trade by volume is carried through sea, according to the shipping ministry.

## Private Railway

The long turnaround time at state-owned ports is increasing the appeal of private operators. Maruti Suzuki India Ltd., the nation’s biggest carmaker, uses billionaire Gautam Adani-controlled Mundra Port on India’s western coast, which boasts a 64-kilometer private railway line and a four-lane flyover within the port to move cargo.

In contrast, choked facilities prompted Hapag-Lloyd AG, Germany’s No. 1 container shipping line, to levy a \$100 per TEU congestion surcharge on shipments to and from Chennai in 2011.

Shipments handled at Mundra more than doubled to 1.74 million TEUs in the five years to March 31. During the same period, traffic at Jawaharlal Nehru Port grew 8 percent.

“If you have the right infrastructure, traffic will flow to you like water from the highland to lowland,” said Anand Sharma, a director at Mumbai-based Mantrana Maritime Advisory Pvt., which advises shipbuilders and shipping lines. “The government’s plan didn’t take the new private terminals into account. There’s far too much supply than is needed today.”

## Spending Cuts

On the east coast, Navayuga-controlled Krishnapatnam Port Co. started operating a facility in 2011 that can handle 1.2 million TEUs. In April, container vessels started calling at Larsen's facility at Kattupalli, 40 kilometers (24.8 miles) north of Chennai.

With growth in the \$1.8 trillion economy slowing amid pressure to rein in the budget deficit at 4.8 percent of gross domestic product and avert a ratings downgrade, Singh's administration is cutting back the spending needed to improve its ports. The government slashed its planned expenditure that includes funds for roads, ports and power plants by 18 percent in the financial year to March 31.

India's GDP rose 5 percent in the same year, the least since 2003, while growth in industrial output slowed to a monthly average of 0.9 percent in 2012 and 2013, compared with as high as 9.8 percent in 2010, according to data compiled by Bloomberg.

Shares of Adani Ports have risen 4.5 percent this year, compared with a 1.8 percent gain in the benchmark S&P BSE Sensex, while Larsen, the nation's biggest engineering company, has slumped 24 percent this year.

## Borrowing Costs

State-controlled major ports handled traffic of 546 million tons last year, compared with their capacity of 745 million tons, according to the ministry. Last year, the government awarded projects to boost capacity by another 137 million tons.

The highest interest rates among major Asian economies are also constraining private developers as funding costs go up, Chennai Port Trust's Misra said. The yield on five-year notes sold by Indian companies rated AAA jumped to an almost five-year high of 10.75 percent on Aug. 19, according to indicative rates compiled by Bloomberg.

Ennore Port Ltd., a state-owned operator used by Nissan Motor Co. to ship vehicles from its unit in southern India, scrapped work on a container terminal after the winning bidder failed to secure financing, Misra said.

"A lot of projects that are being pursued aren't viable in today's market," said Mantrana's Sharma. "The state of India's economy is not giving investors' confidence."

To contact the reporters on this story: Ganesh Nagarajan in New Delhi at [gnagarajan1@bloomberg.net](mailto:gnagarajan1@bloomberg.net); Karthikeyan Sundaram in New Delhi at [kmeenakshisu@bloomberg.net](mailto:kmeenakshisu@bloomberg.net)

To contact the editor responsible for this story: Anand Krishnamoorthy at [anandk@bloomberg.net](mailto:anandk@bloomberg.net)