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Ports Sector – Downside risks alongside recovery

April 20, 2021 I Economics

Cargo volumes handled at the Indian ports in FY21 declined owing to the demand as well as supply chain disruptions brought about by the pandemic. The year was characterised by upheavals in cargo movement globally. Congestion at some ports and shortage of vessels and containers at others led to imbalances, resulting in time and cost overruns.

The fall in economic activity and global trade has had a direct bearing on the cargo traffic handled at the Indian ports. Following the sharp decline during April-August'20, there has been a progressive improvement in the volume of cargo traffic at the major and non-major ports of the country. This corresponds with the recovery in economic acitivity and trade being witnessed domestically and globally.

The recent spike in Covid -19 infections in the country and the consequent reimposition of lockdowns and restrictions in various regions have raised concerns over the sustainability of the rebound in cargo volumes. At the same time, there is growing optimism over the vaccination programme-led economic recovery that is expected to lead to a rise in trade across economies and thereby cargo traffic at ports. Also, the fresh restrictions in the country are seen to be more region specific and the setback this is likely to pose to economic revival is expected to be limited. However, if they are prolonged the situation will change.

Traffic handled at Ports drops to a three year low in FY21

The total consolidated cargo traffic handled at the government-run ports (major and non-major) in FY21 dropped to a three year low and was 5.3% lower than in FY20. In volume terms, the total cargo managed at 1248 Mn Tonnes (based on provisional data[1]) was 70 Mn Tonnes lower than FY20 and 34 Mn Tonnes less than FY19 (Chart 1).

- The overall lower volumes in FY21 was due to the contraction in cargo traffic during the first five months of FY21 (ranging between 9% to 22% on a year-on-year basis), attributable to the pandemic led disruptions.
- The major,as well as non-major ports, witnessed a decline in cargo traffic handled in FY21 v/s FY20.
- The fall has been sharper for non-major ports at 6.2%, while in the case of the major ports it was 4.6% lower (Chart 2).

Chart 1: Traffic at Indian Ports

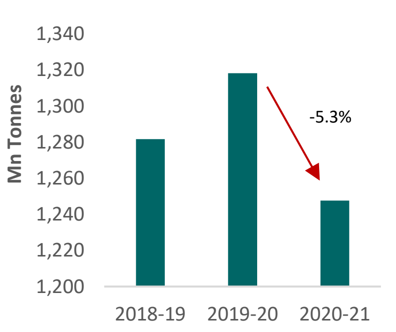


Chart 2: Traffic at Major and Minor Ports

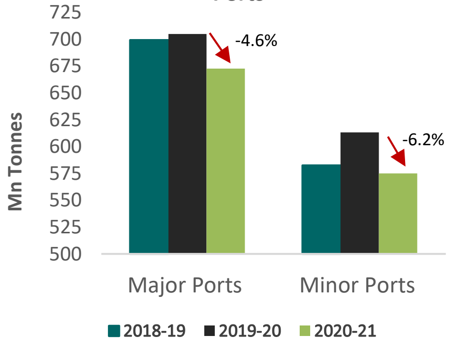
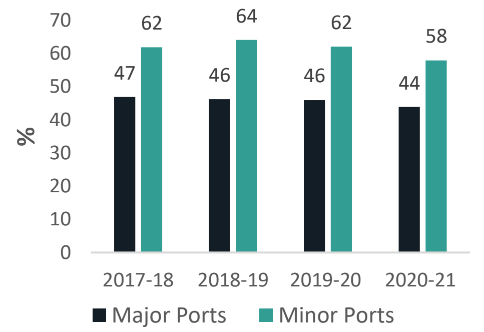


Chart 3: Capacity Utilization (%)



Source : IPA and Ministry of Shipping (prov)

Fall in capacity utilization

Owing to the lower traffic, the aggregate capacity utilization of the government run ports slipped to 49% in FY21 from 52% in FY20.

- Capacity utilization was lower across major as well as non-major ports.
- Despite the moderation, the capacity utilization rate of the non-major ports continued to be higher (at 58%) than that of the major ports (44%) in FY21 (Chart 3).

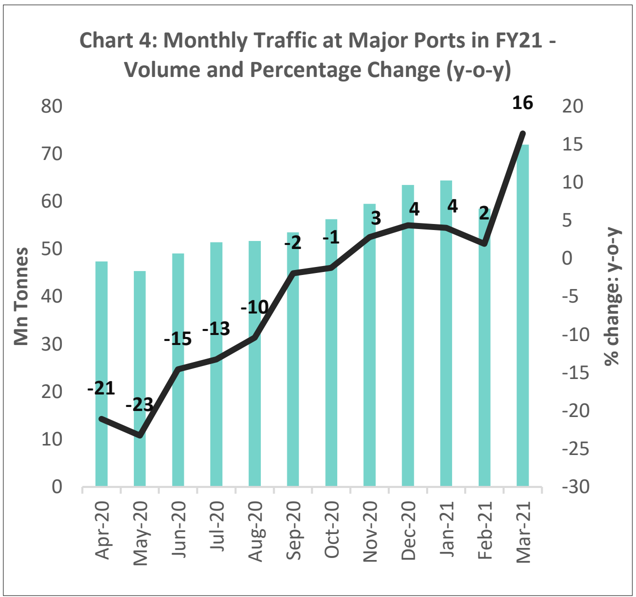
Signs of recovery in cargo traffic

Major Ports

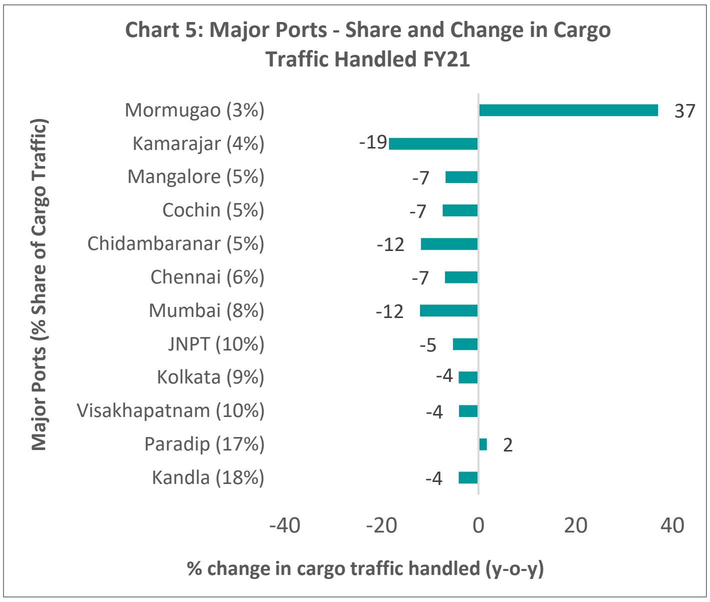
Cargo traffic at India's 12 major ports in FY21 at 673 Mn tonnes was the lowest in four years and 32 Mn tonnes lower than FY20.

- Following the sharp contraction during April-May'20 i.e the period of the nation-wide lockdown, there has been a sequential as well as an annualized pickup in traffic at these ports following the unlocking of the economy.
- After a gap of eight months, traffic volume registered year-on-year gains from November'20, growing in the range of 2% to 4% till February'21.
- There has been a sharp increase in cargo handled at these ports in March'21 with a sequential increase of 23% and year-on-year growth of 16% (Chart 4). At 72 Mn Tonnes, it not only surpassed pre-pandemic levels of traffic but was also the highest volume of cargo handled in a single month by the major ports in over two years.
- This improvement in cargo traffic coincided with the improvement in economic activity and trade, domestically as well as globally. Both exports as well as imports rose by over 50% in March'21 from that in March'20.

In terms of share, the major ports accounted for 53.9% of the overall cargo handled at the government run ports in FY21, a marginal improvement from 53.5% in FY20. The share of major ports in total cargo traffic has seen a near steady decline from 57% in FY17 .



Source: IPA



Source: IPA

The traffic handled differed significanlty across the major ports

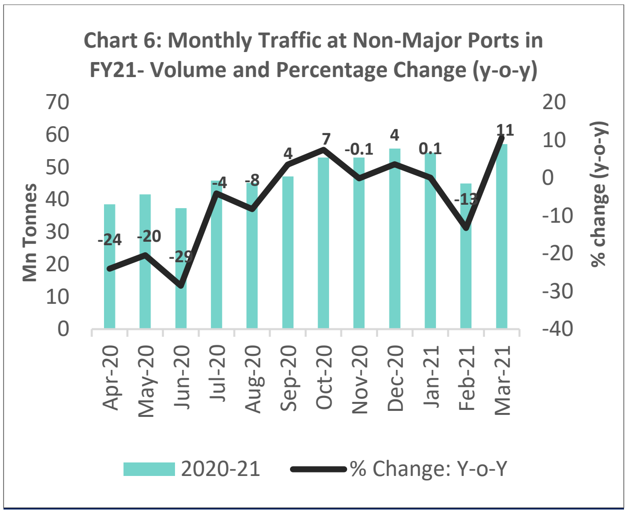
- Deendayal Port (Kandla) and Paradip ports handled the highest volume of cargo in FY21 with a share of 18% and 17% respectively in total traffic (Chart 5).
- The cargo of 118 Mn tonnes handled at the Kandla port was however 4% lower than in the year-ago period.
- Barring Paradip and Mormugao, all other ports saw a decline in cargo traffic in FY21 v/s FY20.
- Paradip port witnessed 2% increase (to 115 Mn tonnes) in cargo traffic during the year while Mormugao Port, which handled 3% of the cargo traffic, saw the highest annual growth in cargo volumes at 37% to 22 Mn tonnes.
- The sharpest fall in annual cargo traffic in FY21 was at the Kamarajar Port (by 19%), followed by the Mumbai Port and Chidambaranar(by 12% each).

Non- Major Ports

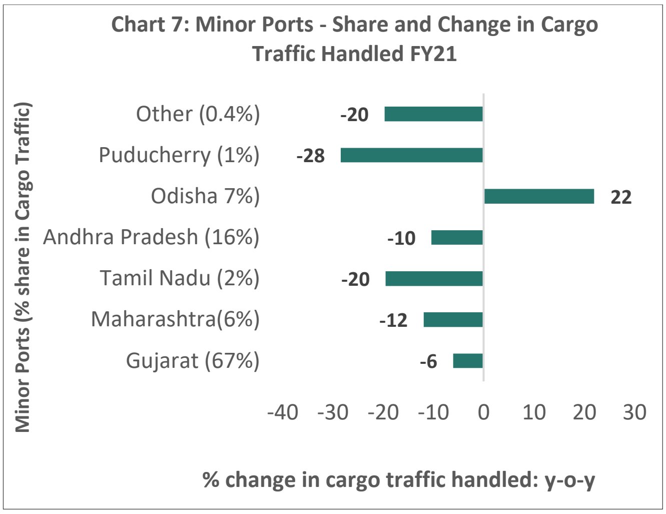
The cargo traffic handled at the non-major ports which number 200 at 575 Mn tonnes in FY21 was 38 Mn tonnes lower than FY20 and the lowest since FY19 (583 Mn Tonnes).

- Non-major ports accounted for 46% of the total cargo traffic at Indian ports in FY21.

- There has been a notable increase in the monthly cargo traffic at the non-major ports from the lows of April-June'20.
- Cargo traffic at the non-major ports returned to growth (year-on-year) in September'20, two months ahead of that at the major ports. Growth in subsequent months however has seen fluctuations (as highlighted in Chart 6).
- There has been a surge in cargo traffic handled at these ports in March'21 as in the case of Major ports. 57 Mn Tonnes of cargo traffic was handled at the minor ports during the month which translated into a year-on-year growth of 11% and a month-on-month growth of 27%. It was the highest cumulative volume of cargo handled in a single month by the non-major ports in over two years. This increase can be put down to strong rebound in foreign trade domestically and globally during the month.



Source: Ministry of Shipping



Source: Ministry of Shipping

In terms of state-wise cargo traffic at non-major ports,

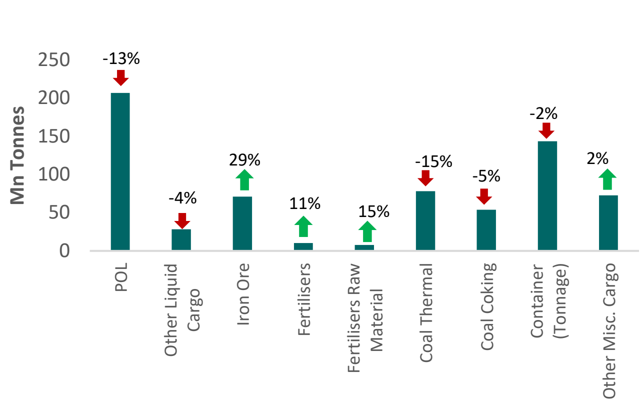
- Gujarat has handled the highest volume of cargo traffic of 387 mn tonnes which is 67% of the total cargo traffic at these ports in FY21. It was nevertheless, 6% lower than a year ago.
- Andhra Pradesh's non-major ports which accounted for 16% of the total traffic witnessed a 10% contraction (year-on-year) in cargo handled.
- Barring Odisha (22% growth) and Goa (350%), the non-major ports across states saw a decline in annual cargo traffic in FY21.
- Puducherry, Tamil Nadu, Kerala and Andaman & Nicobar Island witnessed a decline of 20% and above in annual cargo handled in FY21. These regions together accounted for 3% of the total traffic at non-major ports.

Reduced cargo volumes of energy products

Cargo volumes of POL, coal, and containers, which together accounted for 76% of the traffic at the major ports have declined while that of fertilizers and iron ores increased from a year ago during in FY21 (detailed in Chart 8). The year-on-year contraction has been the highest for POL at 13% followed by coal (thermal and coking) at 12%. Container cargo traffic has seen a decline of 2% in FY21 from that in FY20. Iron ore cargo, which accounted for 11% of the total cargo at major ports, witnessed an annual growth of 29% in FY21 and fertilzer cargo (share of 3%) grew by 13%.

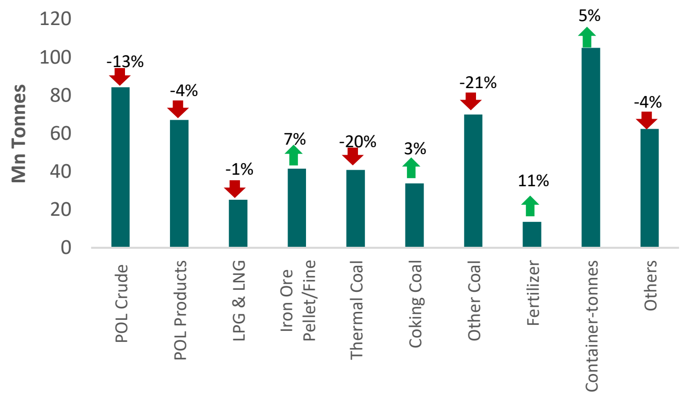
A similar trend was observed in the case of the commodity-wise cargo traffic handled at the non-major ports. Here too, the cargo volumes of POL and coal declined while that of fertilizers and ores increased in FY21 from that in FY20 (Chart 9). Container traffic in the non-major ports however witnessed a growth of 5% in FY21 as against the contraction at the major ports.

Chart 8 : Commodity-wise traffic at Major Ports in FY21 Volume (Mn Tonnes) and Y-o-Y change (%)



Source: IPA (prov)

Chart 9: Commodity-wise traffic at Non-Major Ports in FY21 Volume (Mn Tonnes) and Y-o-Y Change (%)



Source: Ministry of Shipping (prov)

Private ports – increase in cargo traffic

The cargo volumes handled by APSEZ (Adani Ports and Special Economic Zone), the largest private port operator in the country, grew by 11% (year-on-year) to 247 Mn tonnes in FY21. The Mundra port (part of APSEZ) handled cargo traffic of 144.4 Mn tonnes during FY21 which was 27 Mn tonnes more than the 117.6 Mn tonnes of cargo handled at the Kandla port which is the largest government run major port of the country.

Shipping container shortage and higher freight rates

The global maritime sector has been plagued by a shortage of shipping containers since the onset of the pandemic. The disruptions caused by the pandemic to the global supply chains have resulted in an imbalance in the supply of shipping container. The uneven rebound in trade across regions, the delays and congestion at ports, and the re-routing of container ships have led to a worldwide shortage of shipping containers. This has in turn has resulted in time and cost overruns, pushed up freight rates and has raised worries about the increase in the cost of inputs/goods and inflation. Shortages in raw materials and inventories on account of shipping constraints are adding to price pressures.

Container freight rates have surged since May'20 as has been highlighted by the movement of the composite World Container Index (WCI) by maritime research firm Drewry. The index captures the freight rate movement on eight major routes to/from the US, Europe, and Asia of 40 ft containers. The WCI as of 15 April'21 is 221% higher than a year ago at $4905 per 40 ft container.

The Baltic Dry Index, which is a key indicator of freight rates for dry bulk goods has increased by 203% during April'20 to March'21. As per market sources, the average price of the sea freight from USA to India increased by 25% during November'20 to March'21.

The shortage of containers poses a risk to the country's external trade as overseas demand revives, while the increase in freight rates is weighing on the competitiveness and profit margins of the exporters.

Sagarmala Programme

The Sagarmala programme of the Union Government (launched in April'16) which aims at reducing the transportation and logistics costs for domestic as well as overseas trade and thereby facilitate a port-led economic development in the country comprises 504 projects comprising 211 port modernization projects, 199 port connectivity projects, 32 port-led industrialization projects, and 62 coastal community development projects. As of February'21, 159 projects have been completed.

The estimated infrastructure investment for the projects under the programme is Rs. 3.55 Lakh Crores.

Andhra Pradesh has the highest number of projects at 96 under the Sagarmala Programme followed by Maharastra which has 90 projects and Tamil Nadu which has a total of 87 projects. Implementation of these projects is being done by the Central Government, State Governments / Maritime Boards, and SPVs through the Public-Private Participation (PPP).

The invocation of ‘force majeure’ clause by the Ministry of Shipping at end of March’20 coupled with the lower investment appetite of the private sector amid the weakness and uncertainty in the economy is expected to have pushed forward the timelines for the project completion, implementation, and development by at least 1 to 2 years.

Going Forward

The improvement in the port sector would be dependent on the pace and extent of the economic recovery, domestically as well as globally. The reimposition of pandemic restriction in various regions has raised worries about the vulnerability and uncertainty in trade flows between regions. Nevertheless, there is growing optimism about the strengthening of the global economy with the adminitration of the vaccines that is expected to lead to a rise in trade across economies and thereby cargo traffic at ports. At the same time, the constraints facing the global maritime industry viz. shortage of shipping container, bottlenecks at ports, and elevated freight rates are expected to prevail and normalize gradually.

The cosolidated volume of cargo traffic at the Indian Ports (major and non-major) during FY22 is expected to grow by 11% to 14%.

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