Indian Seaports – Covid-19 sinks cargo volume impacting port operators' credit profile

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Seaports Sector Overview

Cargo handling at major ports of India grew by a meagre 0.82% for FY20 as compared with 2.90% growth achieved in the previous financial year.

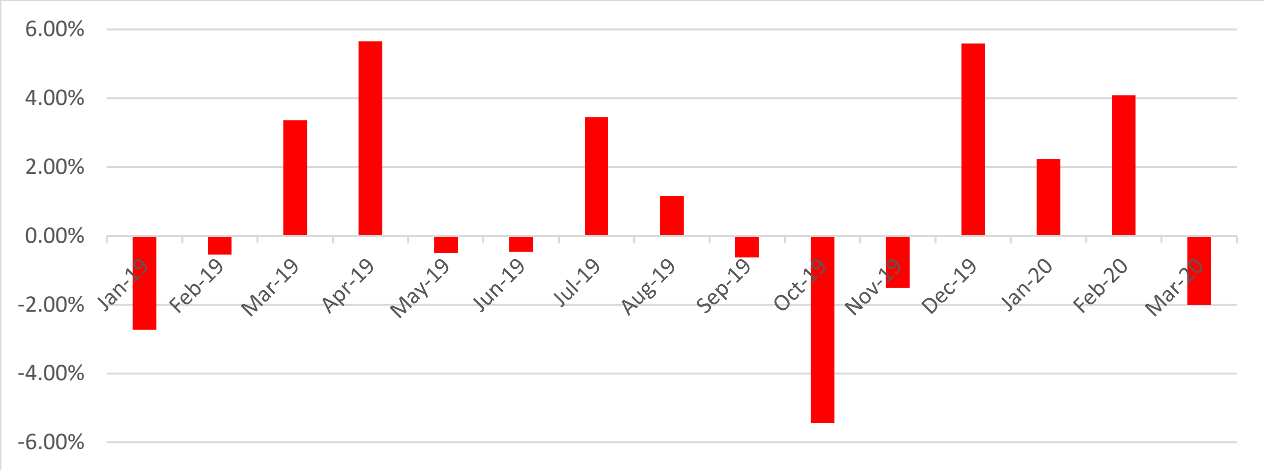
Million Tonnes

FY	Liquid	Container	Coal	Iron Ore	F&RM	Other Cargo	Total
2019	261.83	145.45	161.39	40.69	15.24	74.51	699.10
2020	266.71	146.93	149.34	55.00	15.91	70.93	704.82
Growth%	1.86%	1.02%	-7.47%	35.17%	4.40%	-4.80%	0.82%

Escalated tensions and weakness in global trade due to the trade/tariff wars between China and the US and the prevailing slowdown in the Indian economy led to the subdued trade growth till February 2020 which further escalated in March 2020 due to Covid-19. Cargo volume during FY20 was supported by an increase in the cargo operations attained in the ports of Deendayal, Visakhapatnam, Paradip, Mumbai, Cochin and Haldia Dock Complex (Kolkata).

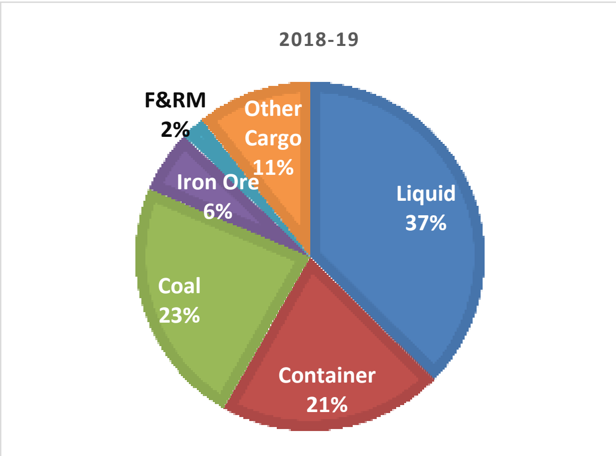
Corona virus outbreak has stalled the continuous growth of cargo volume, which registered positive growth for the period December 2019 to February 2020, to a negative year on year growth of 2.01% in March 2020, dragged by a significant drop in container and liquid cargo volumes. Indian ports witnessed a volume of 631.71 lakh tonnes of cargo in March 2020 against 644.69 lakh tonnes of cargo during the corresponding month of previous year. Liquid cargo which constitutes oil & gas declined in volume by 5.3% year on year to 233.20 lakh tonnes, while container volume declined by 11.1% to 122.20 lakh tonnes. Liquid cargo alone constitutes 38% of the total cargo volume and together with container constitutes more than 50% of the total cargo volumes.

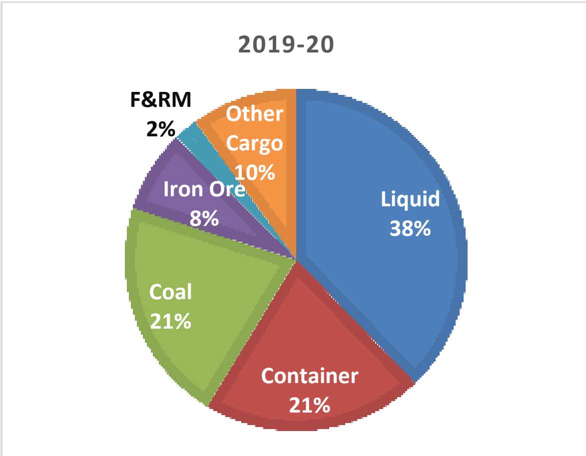
Chart 1: Year-on-year growth in monthly total cargo volumes (%) & commodity wise (%) traffic at Major Ports



Source: Ministry of Shipping, IPA

Chart 2: Percentage-wise Commodity-wise Cargo Traffic at Major Ports





Source: Ministry of Shipping, IPA

Impact Analysis of Covid-19:

Ports to register a fall in cargo handling traffic by 10-12% during FY21 and stabilise in longer term.

POL exports and imports (which accounted for 38% of the cargo handled during FY20) will take a hit because of low demand in oil as countries across the world have seen global energy demand fall sharply due to the spread of the pandemic in the US, UK and much of mainland Europe and Asia. India's crude oil imports are also expected be to be 5.1% down during FY21.

Coal imports are expected to decline further from current year decline of 7.47% (FY20) at the back of disruption in stoppage of industrial operations and closure of commercial establishments due to ongoing lockdown will result decline in demand for electricity leading to fall in coal imports.

Iron ore imports is also expected to come down due to sluggish demand for steel from temporary suspension of construction activities in major civil construction projects and real estate development across India coupled with slowdown in the production of automobiles and ancillary parts manufacturing firms. Real estate likely to have longer slowdown in demand than most other sectors which will have impact on the steel demand.

Container traffic is likely to face slowdown from the automotive industry and other container cargos like white goods imports and granite exports segments for FY21. However, the demand is expected to slowly come back to the previous levels when fear of pandemic tapers off.

Mitigations by way of measures taken by Government of India:

The Ministry of Home Affairs has ordered that each major port shall ensure that no penalties, demurrage, charges, fee, rentals are imposed on any port user for delay in berthing, loading or unloading operations, or evacuation or arrival of cargo caused by the reason attributable to lockdown measures.

In terms of port construction, the shipping ministry in its order stated that the period for completion of any project under PPP or any other mode can be extended by the ports, while allowing waiver of penal charges for existing and operational PPP projects on a case to case basis.

The ministry also intimated major ports that COVID-19 can be considered as a natural calamity that would entitle ports to invoke the force majeure (a clause absolving companies from meeting their contractual commitments for reasons beyond their control) provisions in various contracts.

Kolkata Port Trust has declared force majeure at its Haldia Dock Complex, becoming the first state-owned major port trust to invoke the clause in the wake of the outbreak of the coronavirus. Most of the private ports and terminals operating in the country too have invoked the force majeure clause as most of them are involved in end to end contracts.

Credit Outlook:

In view of the expected sink in volume of cargo handled by 10-12% during FY21, the outlook for the Indian players in seaports sector is expected to be 'Negative' in short-term. However, with the measures such as moratorium given by RBI and support from government for allowing the operations (falls under essential services) will reduce the impact of credit profile to an extent.

The extent of lockdown of industries to contain Covid-19 coupled with revival of global and domestic economic activity leading to revival of port operations will be the key determinant of the credit profile of the Port operators going forward.

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