

December 18th, 2017 | Research

Direct port delivery share breaches 34% in November 2017 at JNPT.

The Direct Port Delivery (DPD) initiative under 'Ease of Doing Business' has witnessed steady growth in terms of proportion of total containers handled. In the month of November 2017, 34.7% of container cargo was cleared through DPD compared with 25-27% during the beginning of the year, indicating pick-up in DPD.

Under "Ease of doing business", JNPT had issued Trade Notice in February 2016 to extend the DPD facility to all **Accredited Client Programme (ACP)** Clients irrespective of their monthly volume. This was done in order to extend the benefit of DPD to more importers to reduce the handling cost/dwell time at JNPT.

It is expected that DPD would facilitate savings towards dwelling of boxes till clearance at destined custom bound warehouses. An importer is assured clearance of cargo in less than 48 hours under DPD as against an average of seven days if routed through a CFS.

Additionally, delivery of containers at terminals is expected on a 24x7 basis which is not possible on custom bounded warehouses. Hence improving dwelling time off goods and additional cost savings are expected on account of reduction in handling, storage, transportation and container detention charges.

This in turn will affect business of CFS (Container Freight Stations) as DPD allows importers/consignees to take delivery of the containers directly from the port terminals.

Contact:

Madan Sabnavis

Chief Economist

madan.sabnavis@careratings.com

91-22-67543489

Arunava Paul

Senior Manager- Corporate Ratings

arunava.paul@careratings.com

Manohar Annappanavar

Manager- Corporate Ratings

manohar.annappanavar@careratings.com

Ashish K Nainan

Research Analyst

ashish.nainan@careratings.com

Mradul Mishra

mradul.mishra@careratings.com

91-022-6754 3515

Disclaimer: This report is prepared by CARE RATINGS LTD. CARE Ratings has taken utmost care to ensure accuracy and objectivity while developing this report based on information available in public domain. However, neither the accuracy nor completeness of information contained in this report is guaranteed. CARE Ratings is not responsible for any errors or omissions in analysis/inferences/views or for results obtained from the use of information contained in this report and especially states that CARE Ratings has no

DPD to impact traditional CFS business; CFS operators gearing up for business opportunities arising from DPD

Overview container freight station facilities (CFS):

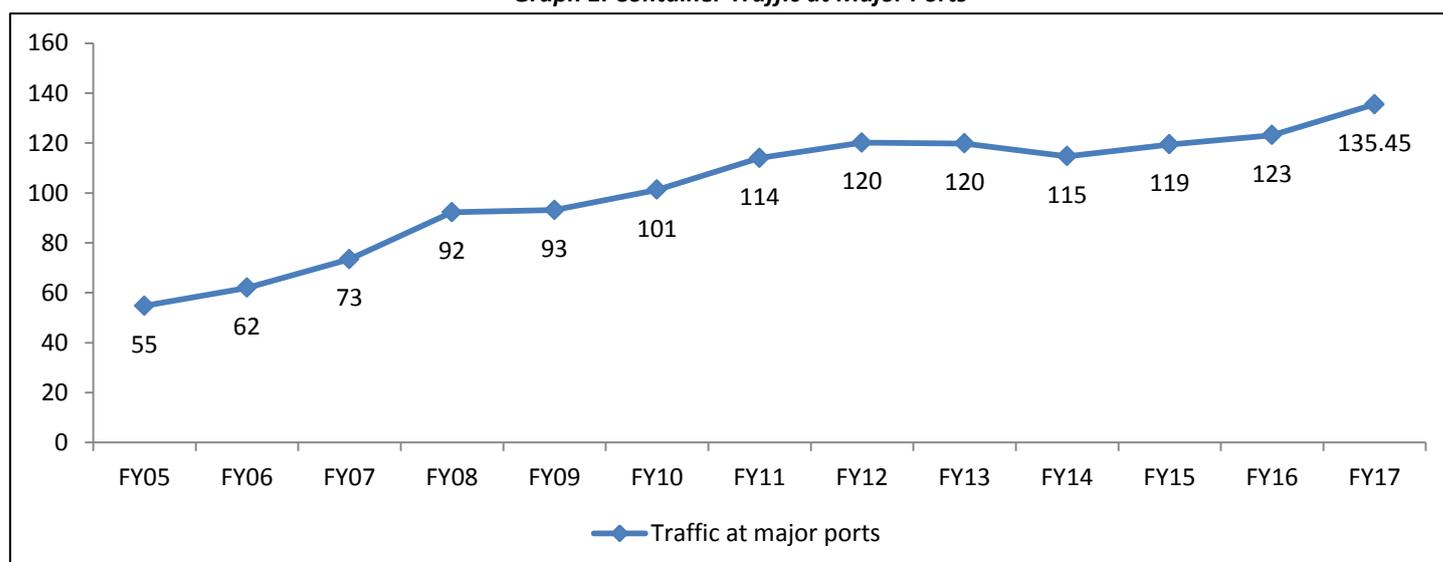
Presently 7 ports out of 12 major ports have container handling facilities. JNPT and Chennai ports continue to remain the largest in terms of CFS business.

Container traffic handling capacities for major ports as on March 31, 2017		
Location	Port Cap (Mn MT)	Container Cap. (Mn MT)
JNPT	89.37	81.97
Chennai	93.44	44.85
Cochin	49.66	12.50
Haldia*	21.10	9.86
V.O Chidambaram	59.26	7.23
Kandla	131.06	7.20
Vishakapatnam	107.75	6.20
Kolkata*	65.89	4.00
Total	617.53	173.81

*Part of Kolkata Port Trust

JNPT port has 34 CFS operators operating at 3 terminals of the port as on May 31, 2017. The total container handling capacity at JNPT in terms of TEUs (Twenty feet equivalent units) was at 5.3 mn tones as on March 31, 2017. Further, the Port of Singapore Authority (PSA) is presently implementing the 4th terminal with a total projected capacity of 4.8 million TEUs and the same is expected to be operationalized by early 2018, which will take the total container handling capacity at JNPT to about 10 million TEUs. During FY18, for the period between April-Nov, JNPT handled 3.2 million TEU, growing at 5.76% over the previous year's corresponding numbers. The total traffic handled at all 12 major ports has remained stagnant over last few years lead by stagnant EXIM trade. However, the total container traffic on tonnage basis grew by 10% on a y-o-y basis in FY17.

Graph 1. Container Traffic at Major Ports



Source: CMIE

Performance of container traffic at JNPT port in FY17 (TEU)				
TEUs		FY16	FY17	April-Nov 2017
Total Traffic		44,91,568	45,00,149	3,175,490
JNPCT		14,29,277	15,33,975	1,023,619
DP World	NSICT	9,99,680	7,28,560	426,287
	NSIGT	2,02,328	4,45,111	406,622
API Terminal		18,60,283	17,92,503	1,318,962

Source: JNPT website

JNPT handled 54.53 million container cargo in FY17, which constitutes about 87.7% total cargo handled. The liquid cargo handled was 6.78 million tonnes (11%) and remaining 0.84 million tonnes (1.4%) was miscellaneous types of dry bulk cargo/break bulk cargo.

JNPT handled 4.5 million TEUs (4,500,150 TEUs) of container traffic during 2016-17. The share of JNPCT, NSICT, NSIGT and APM Terminal was 1.53 million TEUs (34.1%), 0.73 million TEUs (16.2%), 0.45 million TEUs (9.9%) and 1.8 million TEU(39.8%) respectively. Port owned container terminal (JNPCT) registered a growth of 7.33% in terms of TEUs and 1.78% in terms of tonnage compared with previous year. DP World's new Container Terminal NSIGT registered a growth of 120% in terms of TEUs and 125.43% in terms of tonnage.

DPD opportunity or a threat for CFS operator

(DPD route to reduce dwell time by an average of about 4-5 days.)

Chronology of DPD at JNPT:

- Direct Port Delivery (DPD) initiative is one of the most critical initiatives under the "Make in India"& "Ease of Doing Business".
 - DPD was introduced at JNPT on September 01, 2008 for select reputed importers having ACP* status and 100% EOUs on selective basis.
 - The DPD permission was granted by Commissioner of Customs (Import) JNCH. The DPD was initially only given to clients importing not less than 300 TEUs per month at all the three terminals of JNPT.
 - On February 09 2016, DPD facility was extended to all ACP clients and the minimum TEU criteria was dispensed.
 - On May 10, 2016, DPD facility has been extended at other two terminals (GTI and NSICT) at JNPT port.
- *ACP or Accredited Client Programme has been designed to provide recognition and the incentive of facilitation to clients who maintain high levels of compliance. Clients who are assessed as highly compliant would be given assured facilitation by the Risk Management System.

DPD gaining momentum at JNPT port:

TEUs	FY16	FY17	YoY Growth%
Total Traffic	44,91,568	45,00,149	0.2
JNPCT	14,29,277	15,33,975	7.3
DPD TEUs	67,539	1,03,323	53.0
Share of total traffic(%)	1.50	2.30	
Share of JNPCT (%)	4.73	6.74	

Source: JNPT

- Presently the DPD has been introduced at JNPT and Chennai Ports. It is expected that the same would be implemented across all the container handling major ports in the country.
- As on March 31, 2017 there are about 800 importers who have been granted the DPD at JNPT as against 357 ACP clients as on January 01, 2016.
- The traffic handled by DPD has seen a significant rise of 53% to 103,323 TEUs in FY17 from 67,539 TEUs.
- In November 2017, 34.73% of container cargo was cleared through DPD indicating gaining momentum of DPD.

Understanding DPD:

- DPD entails the delivery of a shipment from the port to the consignee instead of initially holding it at a container freight station (CFS).
- The Container Freight Station (CFS) bound cargo involves the following process and generally takes about 6 to 9 days.

	CFS bound imports	
Activity	Operator	Days
Offloading & stacking in Terminal Yard	Port	1-2 days
Loading of CFS container on CFS trailer	CFS	
Transportation from Terminal to CFS	CFS	
Offloading of container at CFS	CFS	5-7 days
Completion of Customs Formalities at CFS	CFS	
Loading of container on Importer's trailer for delivery	CFS	
Total Time taken		6-9 days

- Containers under DPD mechanism involve the following process-

	DPD bound imports	
Activity	Operator	Days
Offloading & stacking in Terminal Yard	Port	0.5 days
Customs out of charge subsequent to seal verification	Customer	2-3 days
Loading of DPD container on trailer for delivery from Terminal directly	Customer	
Total Time taken		2.5 to 3.5 days

Impact of DPD on importer and CFS operator and the way forward

For importers: Importers opting for DPD route are likely to benefit on account of timely delivery, savings in transportation, handling and storage charges at warehouse as a result of reduction in dwell time. The DPD also helps in faster evacuation of container at port thereby leading to some reduction in congestion.

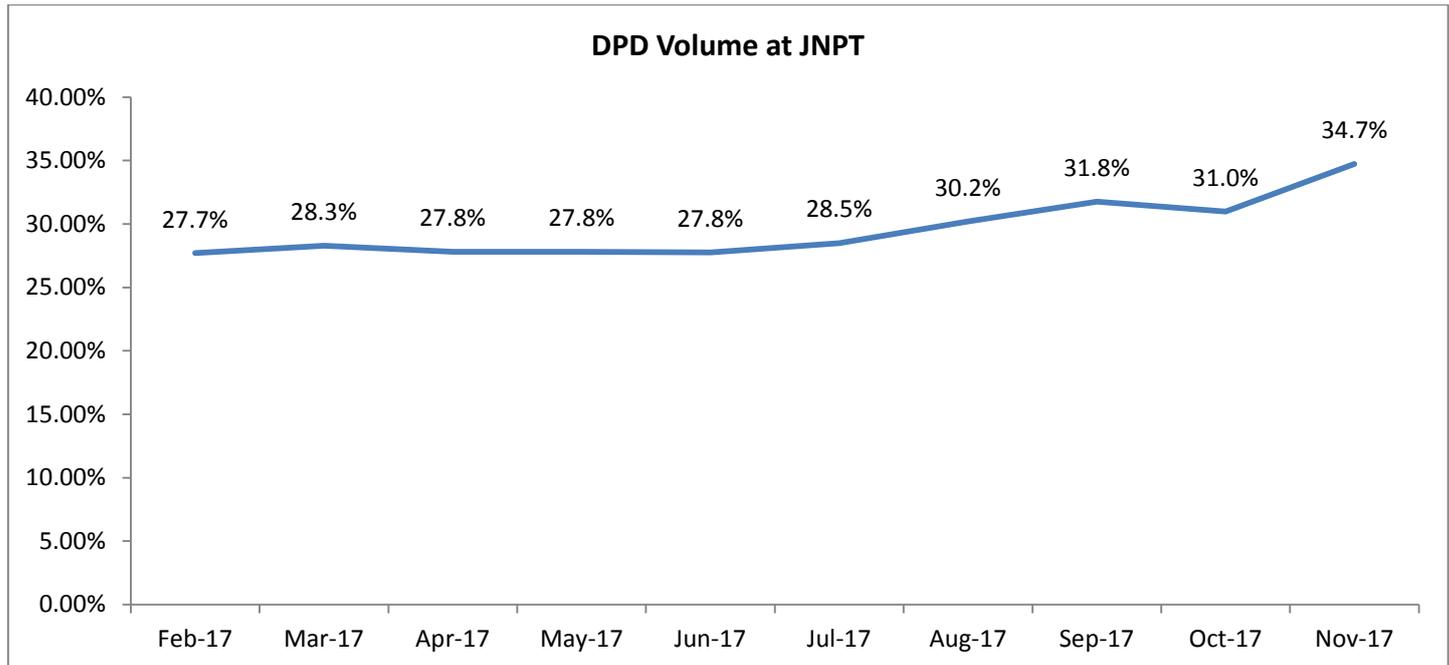
(Dwell time is the measure of the time elapsed from the time the cargo arrives in the Customs Station till the clearance is provided by Customs.)

Importers now have to take delivery of containers as soon as they reach terminals which would require them to re-work their logistics chain.

For CFS operator

A CFS is an off-dock facility licensed by the Customs Department to help decongest a port by shifting containerised cargo and carrying out customs-related activities outside the port area. Due to customs procedures and space constraints at several Indian ports, customs clearance takes place at the CFS. JNPT was designed on the CFS model.

CFS charges constitute rentals (50-60%), transportation & handling (30%) and the remaining for miscellaneous charges, cranes charges, refrigeration, plugging, monitoring etc. DPD accounts for 30-35% of container cargo handled at JNPT and the Government targets the same to constitute at least 40% by the end of this year. This is likely to have an impact on the CFS business to the extent of 15-20% of their total business.



Higher dwell time* under the traditional CFS route can be attributable to combination of

- 1) Delay in custom clearance;
- 2) Intentional delay by the consignee owing to various reasons such as lower warehouse rent at CFS station as against a warehousing cost outside the CFS, and
- 3) Safety of goods owing to existing infrastructure facilities set by CFS etc.

The delivery and choice of CFS limitation posed by DPD will continue to provides a new business opportunity for CFS.

Dwell time is the time a container remains in a terminal's in-transit storage awaiting shipment (for exports) or evacuation by rail/road (for imports).

Challenges in DPD implementation

Some of the key challenges in implementing DPD include:

- Keeping the port roads decongested for quick movement of containers in and out of the port facility.
- Servicing containers of clients with fewer containers (1 or 2) poses a challenge as they have to be stored horizontally spread instead of vertical stacks, which occupies more space. Shortage of space at warehouses poses a challenge to service over 1000 DPD clients efficiently.

Care Ratings View:

The growing share of DPD as a percentage of total containers transported through JNPT is likely to have an immediate negative impact on the traditional CFS business. However, absence of end-to-end solution provider coupled with higher share of customers opting to go for CFS route owing to reduced rent and safety aspects would provide opportunity to CFS gradually. The CFS operators have to re-engineer their business model in order to provide warehousing facility to custom-cleared DPDs and bundled value-added-services such as delivery, packaging, inventory management and transportation in addition to traditional CFS services to recover the loss in business due to DPD.

Implementation of DPD improves “Ease-of-doing business” by providing efficient and hassle-free logistics service to the importers. The same is operational globally at most major ports. But capability to service a large client base requires improved technology and supporting infrastructure at container terminals and warehouses, which is lagging at the moment in case of major ports in India. It is important to expeditiously develop technology systems for storage and quick movement of containers. This would gradually lead to importers/consignee’s realizing both time and cost benefits of DPD.

CORPORATE OFFICE:**CARE RATINGS LIMITED** (Formerly known as CREDIT ANALYSIS & RESEARCH LIMITED)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022.

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457

E-mail: care@careratings.com | Website: www.careratings.comFollow us on  /company/CARE Ratings
 /company/CARE Ratings