

# *Executive Summary*

## **2<sup>nd</sup> Stage Development of Karwar Port**

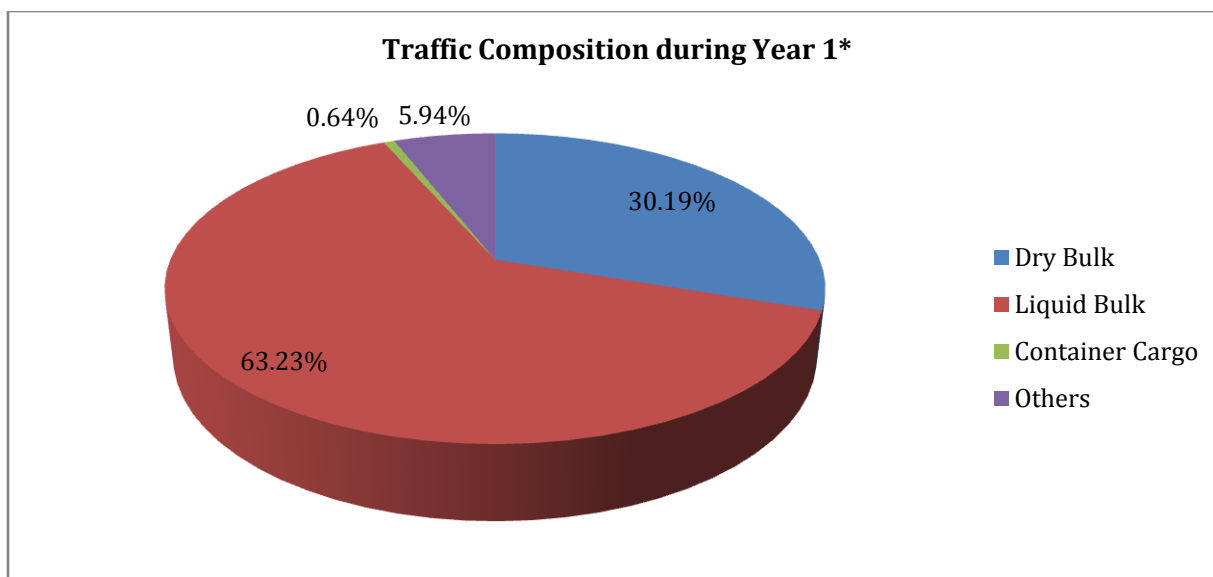
- With the growing cargo traffic across the Indian coastline, development of high quality port infrastructure with commodity focus is imperative and this has been recognised by the Government. As on May 2011, major ports in India have a total of 233 berths, 5 single buoy moorings and two barge jetties to handle cargo traffic. Including the non-major ports would account for more than 300 berths. However, it must be noted that Indian Ports largely continue to remain dominated by multipurpose berth (approximately 60%), which evidently is falling short of specialised commodity focussed requirements.
- Karwar port is a natural all weather port, situated at the Northern extremity of sea coast of Karnataka in Uttar Kannada District. The port is located between the two major ports i.e., 70 Km's South of Mormugao and 276 Km North of New Mangalore Port. The port is located in the shelter of Karwar Head, which gives a great measure of protection to the Karwar Bay from South West Monsoon waves to form a natural harbour. The geographical characteristics and positioning of Karwar port qualifies Karwar as an all-weather port in the country.
- Given the strategic position of Karwar Port, it is imperative to best utilise the natural asset available to the state in the optimal way possible. To best utilise the efficiencies of the private sector and increase the share of Karnataka in the port trade, the Department has decided to develop the all-weather port at Karwar on PPP basis.
- Based on preliminary study it is found that Mormugaon will be the major competing port, followed by New Mangalore, Vishakapatnam, Krishnapatnam and Tadadi in decreasing order of their threat to Karwar port's traffic. However it should be noted that although currently Tadadi is not a threat to Karwar, developing Tadadi will have significant amount of hinterland overlap with Karwar which may be a cause of concern for the developer. As per the current developments, Tadadi is expected to be developed to a capacity of 34.1 million tonnes.
- Preliminary stakeholder consultations were carried out in relation to 2<sup>nd</sup> Stage Development of Karwar Port. Hinterland connectivity, Infrastructure suited to commodity specific needs and service quality were observed to be the top considerations among exporters/importers/shipping agents when selecting ports for transactions.
- In terms of procurement process, Request for Qualification (RfQ) was released in 2007 and 6 numbers of applicants were shortlisted for the RFP stage. However, two major issues were observed in proceeding forward. Firstly, Maytas Infrastructure Ltd which formed a part of consortium has been taken over by IL&FS Engineering Services. It is important to consult the Legal Department of Government of Karnataka and seek their opinion. Secondly, based on our initial

verbal check, it came to our notice that the consortium comprising (a) M/s. Hindustan Infrastructure Projects & Engineering Private Limited

- Bangalore (49%) and (b) M/s. Pembinaan Redzai Sdn Bhd, Malaysia (51%) is not interested in the project anymore.
- In terms of land access issues, a part of the 1<sup>st</sup> Stage land that is to be used for development of storage facilities is yet to be evacuated. Although, the procurement of land is complete, the area is illegally occupied by local dwellers (approximately 1000 families). There are monetary issues in relation to evacuation and Department has provided decision that the cost in this respect up to a maximum of INR 65 Crores will have to be borne by the concessionaire. However, Communication with District Commissioner needs to be initiated as soon as possible by the Department.

### **Port Traffic & Capacity**

- The Port capacity with the development of the 2<sup>nd</sup> Stage has been estimated to be of the order of 20 million tonnes approximately.
- In terms of traffic, Karwar will be highly dependent on primary its hinterland comprising Uttar Kannada, Shimoga, Belgaum, Haveri, Koppal, Bagalkot, Devangere and Bellary. While the secondary hinterland would include few districts from Southern Maharashtra and western Andhra Pradesh, development of ports like Tadadi and Haldipur and expansions at Mormugaon, NMPT and Krishnapatnam will substantially reduce the possibility of traffic emerging from secondary hinterland.
- The key commodities transacting via Karwar are expected to include Iron Ore; Manganese Ore; Granite; Coal; POL Products; Limestone and products; Agricultural products and processed food; Marine Products; Container Cargo.
- Based on best case scenario under traffic projection (based on traffic studies carried out in 2012), it is estimated that the full traffic potential will be reached only by the 21<sup>st</sup> year of operation. The commodity mix would include 22.95% dry bulk, 69.90% liquid bulk, 0.58% container cargo, and 6.57% general and other cargo



\* Results indicated are on the basis of traffic studies carried out in 2012

### **Estimated Cost of Project\*\***

- The original cost provided by TECSOK in the Project Report submitted in 2003 was Rs. 20,054.85 Lacs. The cost was subsequently revised to Rs. 78,800 Lacs by the Department of Ports & Inland Water Transport (the Department) in the year 2008. Currently, the Project Cost for 2<sup>nd</sup> Stage development of Karwar Port is estimated at Rs. 1,99,354 Lacs. It is important to note that this figure has taken into consideration the possible inflation during the period of construction, based on an assumed spend schedule. Hence the inflation effects of phasing have been taken into consideration.

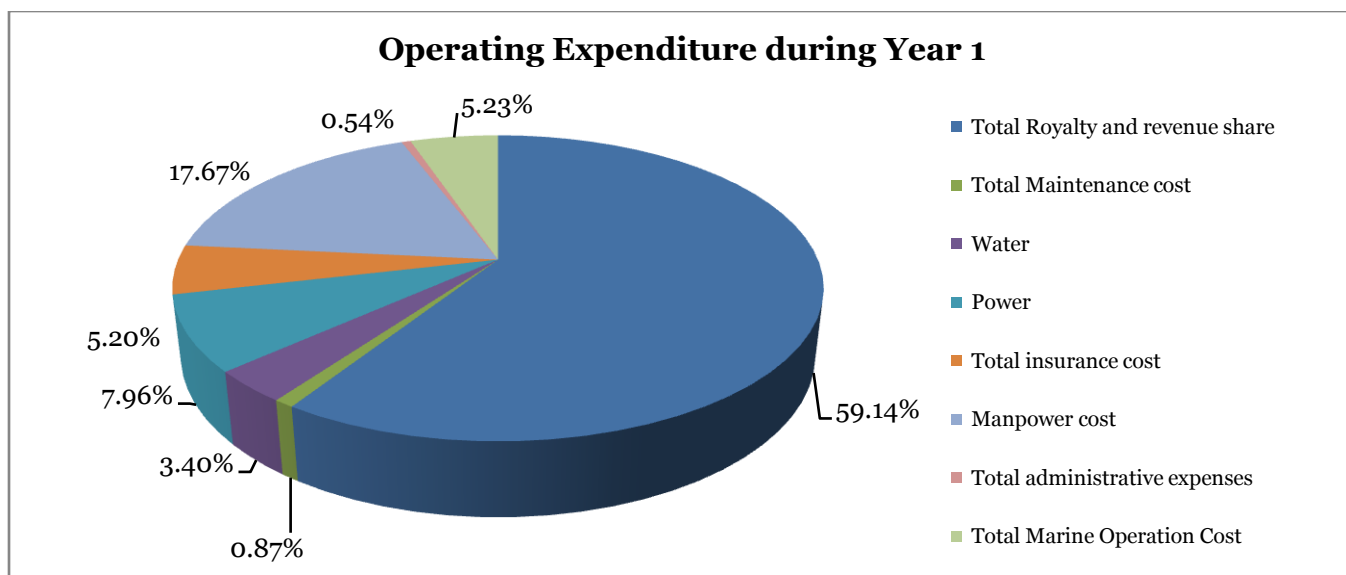
*\*\* Project Cost is based on line estimated provided by the Authority*

### **Revenue Generation**

- The revenue generating services for Karwar Port would be the following principal activities Port Dues, Pilotage, Mooring, unmooring services, Berth hire services, Wharfage, Cargo handling charges, Storage and bunkering charges. Total Revenue during the first year of operation is estimated to be Rs. 350.47 Crores.

### **Operating Expenditure**

- The major components under operating expenditure are given below. The total expenditure during the first year accounts for INR 72.66 Crores.



### Profitability and Viability

- The project is able to generate cash profit (excluding interest) from the first year of operation.
- The project's internal rate of return (IRR) over a period of 30 years based on projected normal net cash inflows is 13.12% (best case scenario).
- The Average Debt Service Coverage Ratio (DSCR) is 1.31, while the minimum DSCR is 1.06.

### Conclusions

- Considering the increasing demand for port services and trends in the traffic at Karwar Port, there is potential to develop and expand the facilities for meeting the requirements of trade.
- Development of 2<sup>nd</sup> Stage of Karwar Port, with deepened drafts and addition of berths, would facilitate movement and handling of larger sizes of ships.
- Karwar will be highly dependent on primary hinterland comprising Uttar Kannada, Shimoga, Belgaum, Haveri, Koppal, Bagalkot, Devangere and Bellary. While the secondary hinterland would include few districts from Southern Maharashtra and western Andhra Pradesh, development of ports like Tadadi and Haldipur and expansions at Mormugaon, NMPT and Krishnapatnam will substantially reduce the possibility of traffic emerging from secondary hinterland.
- Even under the best case scenario, the capacity utilization touches 100% only during the 21<sup>st</sup> year of operation. Hence, it may be apt to let the concessionaire decide on the phase-wise implementation of the project rather than implementation of the entire project in the first three years.
- In consideration of the above, it may be apt to allow the concessionaire the flexibility to develop the project as felt needed by the concessionaire. This could improve the viability of the project.