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CASE STUDY 11 DECEMBER 2013

Public Private Partnership: Kakinada Deep Water Port, Andhra Pradesh

Project Description

Kakinada Deep Water Port (KDWP) is situated at the east coast of India in the state of Andhra Pradesh. Kakinada forms the part of the main gateway port for the rich agricultural belt of East Godavari, West Godavari and Krishna Districts of Andhra Pradesh. The Government of Andhra Pradesh commissioned the port facility in November 1997, and thereafter in 1999, the facility was privatised by way of public private partnership (PPP). The project was operated through two models of PPP, namely, OMST/BOMST (Operate Maintain Share and Transfer/ Build Operate Maintain Share and Transfer). The concession agreement in the present case was signed with M/s International Seaport Pte Ltd (ISPL), a Singapore joint venture company, promoted by Larsen & Toubro Ltd, India, Stevedoring Services of America (SSA), USA and Precious Shipping Company, Thailand. Subsequently, ISPL inducted a Malaysian company Konsortium Perkaplan Berhard (KPB) floated a Special Purpose Vehicle (SPV) named Kakinada Sea Port Limited (KSPL), for managing the port operation. The KDWP facility has a multi-modal connectivity through roads, rail and pipelines.

The duration for the project was up to 20 years with two extensions of five year each. Under the original concession agreement, KSPL was to:

1. Operate and manage the existing three berths at the already existing deep water port on OMST basis (Phase 1)
2. Construct, operate and manage a fourth berth at a later date, contiguous to the existing three berths after 70% berth occupancy was reached on BOMST basis (Phase 2).
3. To levy, collect and retain appropriate charges from the port users and further as KDWP was a minor port, to determine tariff. (Tariff of minor ports is not governed by Tariff Authority)
4. To share 20-22% of revenue with the State Government yearly, subject to minimum guarantee provided on yearly basis.

However, after ten years of existence, it was realised that the contract will not be viable under the terms of the contract and thus the project agreement was amended with the consent of all the parties including operators involved:

1. Extend the duration of the project period from 20 years to 30 years.
2. Extend the duration of subsequent extensions from five years to ten years.
3. Eliminate Minimum Guarantee Amount pertaining to revenue sharing.
4. Allow, KSPL to undertake new or additional development at the port such as construction of additional facility, with the same agreed terms of the contract.

It was agreed that at the expiry of the term period, KSPL shall transfer all the immovable project assets to the State Government free of cost. With reference to the movable assets it was agreed that subject to the payment of the book value of assets at the time being paid by the State Government, the assets will be transferred to them thereafter.

Project Financial & Risk Allocation Description

The concession was divided into two phase. Under phase I, KSPL had to operate, maintain and develop further, the three existing berth facilities. This required an investment of Rs 175 crores, which included an equity contribution of Rs 60 crores and further a debt funding of Rs 115 crores. Under Phase 2, a fourth berth was to be constructed and developed along with an offshore jetty. The investment required for phase 2 was around Rs 330 crores. IDFC was the lead lending agency in the present project by providing Rs 60 crores of the debt, wherein the loan tenure was of 11 years. Further funds were raised through debt financing by Asian Development Bank which provided a loan of Rs 242 crores. The rest amount was raised through equity contribution and partly government allocation.

The development of port given for concession under this PPP was already in existence (developing three berths facilities), and therefore, the issue of land acquisition and delays caused due to them, were very limited. However any pre-operative delay caused either due to land acquisition or pertaining to external linkages (constructing road and rail network) was with the State Government. The financing risk for the expansion of the existing facility and the development thereupon, was with the private partner. The risk was low as the port was already in existence and working and therefore there was already inflow of revenue from day one. However, as there were two more ports at a distance of 40-50 KM north and south to this port, the competition was tough and such risks were allocated to the private sector. Construction and Operation risk were with the private partner only.

In the year 2010, Value for Money (VfM) assessment was carried on, which projected that, the project has:

1. Maximised the port potential.
2. Steady revenue to the Government (even after the minimum guarantee amount was eliminated).
3. Developed into a landmark as being the first minor port which was privatised, considering the VfM, it paved way for adopting similar policy of PPP for other minor ports in India.

Learnings & Observations

1. **Level Playing Field:**

   KDWP had another port, Kakinanda Anchorage Port (KAP) nearby. KAP was governed and operated by the State Government. Initially while awarding concession to KSPL, level playing field with KAP was promised. However, various restrictions emerged during time over handling of cargo and many huge shipments were directed towards KAP, affecting tariff to an extent. Although, the matter was resolved subsequently, however same could have been avoided.

2. **Redundant concept of Minimum Guarantee Amount (MGA):**

   PPP project contract usually contain a clause of MGA. In the present case, it was brought out that how the concept of MGA put substantial pressure on the project and leads to an extent of wrecking it. The concept has become redundant, where the revenue is generated through tariff and not commercial sale of products.

3. **Rise of competition leading to efficiency:** Besides KAP, two other ports were developed subsequently around KDWP. The new ports had an advantage over KDWP, as they were Greenfield ports. Thus, contract with KSPL was amended, therefore emphasising the need for supplementary amendments in infrastructure contracts and analysing the plausible course of action.

Further Readings:

1. Fredy Kurniawan, S. Ogunlana, I, Motawa, M Dada, ‘Public Private Partnership Project Implementation: Three Case Studies of Sea Ports in India’, *Proceeding of PPP International Conference- 2013, University of Central Lancashire, Preston*, Prof. Akintola Akintoye, Dr. Champika Liyanage, Prof Jack Goulding (Eds.), UK, 2013.
2. DoP, ‘About Kakinada Deep Water Port’, Department of Ports, Government of Andhra Pradesh. Available on:http://www.apports.in/in/content/view/52/71/ Last visited on 11.12.2013

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