



Report and Recommendation of the President to the Board of Directors

Project Number: 47941
October 2014

Proposed Loan
Ocean Sparkle Limited
Ocean Sparkle Expansion Project
(India)

This is an abbreviated version of the document approved by ADB's Board of Directors that excludes information that is subject to exceptions to disclosure set forth in ADB's Public Communications Policy 2011.

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 01 September 2014)

Currency unit	–	Indian rupee/s (Re/Rs)
Re1.00	=	\$0.016
\$1.00	=	Rs60.52

ABBREVIATIONS

ADB	–	Asian Development Bank
CAPEX	–	capital expenditure
CPS	–	country partnership strategy
ESMS	–	environmental and social management system
GDP	–	gross domestic product
IMS	–	integrated management system
ITM	–	independent technical and market
O&M	–	operation and management
OSL	–	Ocean Sparkle Limited

NOTES

- (i) The fiscal year (FY) of Ocean Sparkle Limited ends on 31 March.
- (ii) In this report, "\$" refers to US dollars.

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PROJECT AT A GLANCE

1. Basic Data		Project Number: 47941-001		
Project Name	Ocean Sparkle Expansion Project	Department /Division	PSOD/PSIF1	
Country	India			
2. Sector	Subsector(s)	ADB Financing (\$ million)		
✓ Transport	Water transport (non-urban)			40.00
		Total		40.00
3. Strategic Agenda	Subcomponents	Climate Change Information		
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project		Low
Environmentally sustainable growth (ESG)	Eco-efficiency			
Regional integration (RCI)	Pillar 1: Cross-border infrastructure			
4. Drivers of Change	Components	Gender Equity and Mainstreaming		
Partnerships (PAR)	Commercial cofinancing	No gender elements (NGE)		✓
Private sector development (PSD)	Private Sector Promotion of private sector investment			
5. Poverty Targeting		Location Impact		
Project directly targets poverty	No	Regional		High
6. Nonsovereign Operation Risk Rating				
Obligor Name		Obligor Risk Rating Local Currency	Obligor Risk Rating Foreign Currency	Facility Risk Rating
Ocean Sparkle Limited		NSO6	NSO6	NSO8
7. Safeguard Categorization	Environment: B	Involuntary Resettlement: C	Indigenous Peoples: C	
8. Financing				
Modality and Sources		Amount (\$ million)		
ADB		40.00		
Nonsovereign LIBOR Based Loan: Ordinary capital resources		35.30		
Nonsovereign Local Currency Loan: Ordinary capital resources		4.70		
B-Loans		0.00		
None		0.00		
Official Cofinancing^a		0.00		
None		0.00		
Others^b		0.00		
Total		40.00		
9. Effective Development Cooperation				
Use of country procurement systems		No		
Use of country public financial management systems		No		

^a Includes loans funded by Clean Technology Fund and Canadian Climate Fund.

^b Derived by deducting ADB financing, B Loans and Official Cofinancing from Project Total Cost.

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan of up to \$40 million to Ocean Sparkle Limited (OSL) (to be disbursed in Indian rupees and/or US dollars) for the Ocean Sparkle Expansion Project in India.

II. THE PROJECT

A. Project Identification and Description

1. Project Identification

2. India is the world's third largest economy by gross domestic product (GDP), with 7,517 kilometers of coastline—making it one of the major destinations and hubs for global trade. India's ports play a vital role, as almost 95% of the volume and 70% of the value of India's global merchandise trade is carried by maritime transport.¹ While world trade increased at a compound annual growth rate of 11.7% during 2000–2007, India's trade growth was 19.8%.² In line with this trend, merchandise trade (the sum of merchandise exports and imports) in India has grown rapidly, from 30.5% of GDP in 2009 to almost 42.5% in 2012.³ Accordingly, the 12th Five Year Plan of the Government of India gives high priority to ports, with the budget allocation for ports 149% higher than in the previous five-year plan.⁴ The objective of the Maritime Agenda, 2010–2020 prepared by the Ministry of Shipping is not only to create more capacity, but also to enhance port performance to reduce transaction costs significantly and make Indian ports globally competitive and efficient.⁵ The agenda states that public funds are planned to be mainly deployed for common use infrastructure facilities (e.g., deepening of port channels, and rail and road connectivity from ports to hinterland) while most investment for the port sector (e.g., cargo handling equipment and operating berths) is expected to come from the private sector under public–private partnerships. The focus is to add capacity and infuse efficiency in order to enhance trade volumes.

3. According to the Maritime Agenda, an investment of Rs1,094 billion will be required in major ports and Rs1,679 billion in non-major ports to create additional capacity. The private sector is expected to fund 66.0% of the projects in major ports and 96.1% in non-major ports in three phases until 2020.⁶ In addition to capacity investment, private sector participation in port operation and management (O&M) service is expected to lead to improved efficiency, reduce turnaround time (average time spent by a ship from its entry into port waters until its departure), and make Indian ports more competitive through the introduction of the latest technology and better management practices. Providers of specialized maritime services such as OSL can benefit from this drive to improve O&M efficiency at newly developed or expanded ports.⁷

¹ The World Bank. World Development Indicators Database. GDP PPP. <http://www.worldbank.org/> (accessed 15 July 2014).

² GMB Ports. Role of Ports in Economic Development. http://www.gmbports.org/emusing_fifth_edition/apr11/ip_economic_development.htm

³ The World Bank. World Development Indicators Database Merchandise Trade (% of GDP). <http://www.worldbank.org/> (accessed 15 July 2014).

⁴ Government of India, Planning Commission. <http://12thplan.gov.in>

⁵ Government of India, Ministry of Shipping. 2011. *Maritime Agenda: 2010–2020*. Delhi. <http://www.performance.gov.in/sites/default/files/document/strategy/Shipping.pdf>

⁶ Major ports are primarily owned by the public sector, though may outsource some of their operations to private service providers, while non-major ports are owned and managed by state governments or private parties.

⁷ The Asian Development Bank (ADB) independent technical and market (ITM) consultant projects the private sector share in Indian ports' O&M to rise to 85% from 70% from 2014 until 2019.

4. Established in 1995, OSL is a market leader with a majority share of privatized and outsourced port O&M services in India. The company has sound commercial, technical, and financial fundamentals, and a proven record that has increased its market share by consistently delivering quality of service and value to its customers.

5. OSL approached the Asian Development Bank (ADB) for long-term financing for its growth in domestic and international markets. With ADB assistance, OSL aims to bring more efficient O&M services to ports. This will not only help in providing safe and efficient operations but also reduce turnaround time—eventually enhancing India’s port competitiveness to handle higher cargo and export volumes.

2. Project Design

6. The proposed financing will support funding of OSL’s capital expenditure (CAPEX) plan until 2016. All vessels are expected to be sourced from the international market. The acquisition process will be sequenced to ensure full vessel utilization and is scheduled to be completed within 24 months. These vessels will enhance the efficiency of ports where OSL operates through more competitive and efficiently run harbor towage, mooring, and pilotage operations.

3. The Borrower

7. OSL and its subsidiaries and joint venture companies (the OSL group) are engaged in the acquisition of marine vessels and the provision of such vessels for comprehensive port management services across major, non-major, and captive ports in India. OSL’s fleet includes 78 tugs, 10 pilot launches, five mooring launches, six dredgers, and five barges. OSL’s port management services can be broken down into four segments: (i) port management services, including pilotage, harbor towage, and O&M of port marine crafts; ship traffic management and communications; mooring of ships and upkeep of mooring equipment; upkeep of navigational aids; and maintenance of navigational channels; (ii) ship-to-ship transfer operations of crude and/or cargo at open sea resulting from ports’ lack of capacity to berth large vessels because of draft restrictions; (iii) cargo lighterage operations necessitated to resolve issues of congestion or draft restriction at ports; and (iv) maintenance and environmental dredging.

8. OSL has an ICRA rating of A+ (stable) on its term loans, cash credit, and non-fund based limits.⁸ According to the most recent assessment by ICRA Limited (ICRA), the stable rating reflects OSL’s long record, considerable experience, and very strong market position; the medium-to-long tenure of its customer contracts; presence of take-or-pay provisions, resulting in assured revenue streams; a good record in securing repeat business; a healthy bidding success rate for new contracts; and sound profitability and liquidity profile. OSL has enjoyed robust financial performance over the past 3 years with strong liquidity, asset turnover (indication of its ability to roll over contracts), coverage, and leverage ratios. ICRA also forecasts that OSL’s ratings will be strengthened by the favorable long-term demand outlook for port O&M services, driven by the large-scale ongoing and proposed port developments in India.

⁸ ICRA. 2013. *Ocean Sparkle Limited*. Delhi. http://www.icra.in/Files/Reports/Rationale/Ocean%20Sparkle_r_19092013.pdf ICRA Limited was set up in 1991 by leading financial institutions in India as an independent and professional investment information and credit rating agency.

B. Development Impact, Outcome, and Outputs

1. Impact

9. The development impact includes the growth of private sector participation in India's port operations through facilitating new investment in the sector, which will help to foster confidence among potential investors and lenders and promote private sector investment in India's port sector. The increase in global competitiveness has placed tremendous demands on improving and optimizing maritime infrastructure. The proposed financing will help to increase the competitiveness of major and non-major ports, and bring growth and opportunities to the surrounding areas by catalyzing and strengthening the private sector development of India's port operations and maritime infrastructure.

2. Outcome

10. The financing of OSL's growth will contribute to increasing efficiency and safety in port operations by supporting private sector expansion in port O&M services. OSL will apply international standards in its port operations and make the necessary investments to reduce costs and delays in major ports, which is a major concern for the growth of Indian ports. The project endeavors to reduce in turnaround time at OSL-operated ports from 3.75 days in FY2013 to 3.40 days in FY2018, as Indian ports have scope for improvement compared with other Asian ports.⁹ This will eventually lead to an increase in the total volume of cargo handled and a reduction in the number of pre- and post-berthing accidents.¹⁰

3. Outputs

11. Successful implementation will result in the capacity expansion of port operations October 2016. The project will ensure that environment and safeguards standards are well maintained and fully met. OSL's expansion has potential to create 250 direct jobs in addition to other indirect employment opportunities in the ports O&M sector.

C. Alignment with ADB Strategy and Operations

1. Consistency with Strategy 2020 and Country Strategy

12. The proposed financing is consistent with ADB's Strategy 2020 and the Midterm Review of Strategy 2020 as it (i) promotes export-led growth through infrastructure investment, (ii) enhances connectivity and regional integration, and (iii) promotes private sector participation in the ports sector in Asia.¹¹ The country partnership strategy (CPS) for India, 2013–2017 highlights transport and finance for infrastructure as two of the seven core areas under infrastructure development that support faster growth in India. The project is also aligned with the CPS priority areas, specifically with regard to port development and support for the infrastructure sector through nonsovereign operations.¹²

⁹ Turnaround times at major Asian ports are Taipei, China (0.71 days); Hong Kong, China (0.72 days); and Singapore (1.16 days). In India, the average turnaround time at major ports is just below 4 days as of FY2014.

¹⁰ C. Ducruet and O. Merk. 2013. Examining container vessel turnaround times across the world. *Port Economics*.

¹¹ ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila; ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

¹² ADB. 2013. *Country Partnership Strategy: India, 2013–2017*. Manila.

2. Consistency with Sector Strategy and Relevant ADB Operations

13. The project is also aligned with ADB's Sustainable Transport Initiative,¹³ which acknowledges under the regional cooperation and integration section the importance of addressing trade growth constraints, such as indirect costs associated with unreliable transit times, border crossing delays, and handling costs resulting from poor terminal infrastructure.

D. Implementation Arrangements

14. Table 4 summarizes the implementation arrangements.¹⁴

Table 4: Summary of Implementation Arrangements

Aspects	Arrangements
Regulatory framework	OSL operates under mid-long term contracts with the port trusts. The tariff at major ports is regulated by the TAMP. Indian ports levy two types of tariffs: (i) vessel tariffs (covering port dues, berth hire, pilotage, lighterage, and towage), and from which ports pay specialized O&M operators such as OSL; and (ii) cargo tariffs (covering cargo handling and wharfage). The general framework affecting competition in ports O&M in India, as elsewhere, is governed by cabotage laws of the Directorate General of Shipping, under which country flag vessels get first preference in the ports O&M sector. However, this is being relaxed—opening up the ports and shipping sector, increasing competition, and bringing more sector efficiency.
Implementation period	2014–2016
Operations arrangements	OSL provides comprehensive port O&M services and operates independently or (keeping in view tender requirements, and or legal or tax concerns) through its subsidiaries and joint ventures. All OSL port O&M operations are carried out in-house by its team of tug masters, pilots, and mooring crew, all of whom are required to possess the necessary sea qualifications and/or licenses from government and state authorities in addition to substantial seafaring experience. Additionally, OSL owns and operates its own training center with a simulator, which allows its key technical staff to experience real-time situations and various scenarios that may occur during operations. Technical staff are also sent overseas on specialist courses, particularly related to engine and other machinery maintenance.
Operation and maintenance	Operation and maintenance of its vessels are carried out by OSL's own staff.
Performance monitoring	Key performance indicators, including output and outcome indicators, will be reported by OSL and monitored by ADB.

ADB = Asian Development Bank, IFC = International Finance Corporation, O&M = operation and maintenance, OSL = Ocean Sparkle Limited, TAMP = Tariff Authority of Major Ports.

Sources: Asian Development Bank and Ocean Sparkle Limited.

III. THE PROPOSED ADB ASSISTANCE

A. The Assistance

15. ADB will provide a corporate finance loan of up to \$40 million in US dollars or Indian rupees, or a combination thereof.

B. Value Added by ADB Assistance

16. ADB's participation will provide long-term US dollar and Indian rupee loans presently unavailable in the market because of asset liability mismatches. It is important for OSL to have

¹³ ADB. 2010. *Sustainable Transport Initiative Operational Plan*. Manila.

¹⁴ Details of Implementation Arrangements (accessible from the list of linked documents in Appendix 2.)

long tenor loans to amortize the high up-front costs of its capital-intensive marine vessels over longer periods given their long asset life; this better matches the fixed-price nature of take-or-pay offtake contracts.

17. The loan will affirm ADB's confidence in India's port sector—a sector that forms the backbone of country's economic growth and trade potential. To date, ADB has supported policy reforms in the sector through various loans and technical assistance projects, including those that directly led to greater private sector port involvement and investment. The proposed financing by ADB's private sector operations—the first in India's port sector—complements ADB's public sector operations in South Asia, such as the Colombo Port Expansion Project in Sri Lanka, which enhances transshipment capacity available for feeder ports in India.¹⁵

18. By adopting ADB's Safeguard Policy Statement (2009), OSL will strengthen its environment, occupational, health, safety, and social systems. OSL considers this a key prerequisite to entry in the offshore and other Asian markets, which place a premium on adherence to best safeguard and safety practices.

IV. POLICY COMPLIANCE

A. Safeguards and Social Dimensions

19. The proposed assistance to OSL is classified under ADB's Safeguard Policy Statement (2009) as general corporate finance. The loan is classified category B for environment as the project's potential environmental risks are not significant. OSL's environmental and social management system (ESMS) includes an integrated (safety and quality) management system (IMS) based on International Organization for Standardization (ISO) 9001:2000 and ISO 14001:2004 standards, and Occupational Health & Safety Advisory Services (OHSAS) 18001. A corporate audit was conducted on its ESMS and current operations. No major environmental issues are associated with the audited facilities and its activities. The audit noted room for improvement with respect to OSL's accident classification and management system. OSL management has committed to adopt the audit's recommendations. ADB is satisfied that OSL's ESMS is adequate to comply with the Safeguard Policy Statement requirements, and the client has the capacity to manage the environmental risks.

20. The project is classified category C for involuntary resettlement and indigenous peoples impacts since OSL's operations are not expected to entail involuntary resettlement impacts or impacts on indigenous peoples. OSL services are provided within the boundaries of the port limits. OSL is provided office space by the port authorities, while crew is accommodated on the vessels. The audit confirmed that none of the OSL operations have triggered resettlement to date or have the potential for land acquisition or impacts on indigenous peoples. OSL will submit annual reports to ADB on the implementation of its ESMS, including the implementation of corrective actions required by its auditors.

21. **Other social dimensions.** The project is classified as having no gender elements. OSL has a human resources policy and manual, linked to the IMS. The policy provides equal opportunities to women for positions in the corporate and field offices. The manual includes a documented grievance redress process that is available to all its employees and workers. OSL encourages hiring its crew from the local population. The audit confirms that OSL complies with

¹⁵ ADB. 2007. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Democratic Socialist Republic of Sri Lanka for the Colombo Port Expansion Project*. Manila.

national labor laws and provides satisfactory working conditions and accommodation for crew living on board the vessels. OSL's ESMS includes arrangements requiring OSL to comply with national labor laws and to take measures to conform to internationally recognized core labor standards, in compliance with ADB's Social Protection Strategy.¹⁶

B. Anticorruption Policy

22. OSL was advised of ADB's policy of implementing best international practice relating to combating corruption, money laundering, and the financing of terrorism. ADB will ensure that the investment documentation includes appropriate provisions prohibiting corruption, money laundering, and the financing of terrorism, and remedies for ADB in the event of noncompliance.

C. Investment Limitations

23. The proposed loan is within the medium-term, country, industry, group, and single-project exposure limits for nonsovereign investments.

D. Assurances

24. Consistent with the Agreement Establishing the Asian Development Bank (the Charter),¹⁷ the Government of India will be requested to confirm that it has no objection to the proposed assistance to Ocean Sparkle Limited. ADB will enter into suitable finance documentation, in form and substance satisfactory to ADB, following approval of the proposed assistance by the Board of Directors.

V. RECOMMENDATION

25. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan of up to \$40,000,000 (to be disbursed in Indian rupees and/or US dollars) to Ocean Sparkle Limited for the Ocean Sparkle Expansion Project from ADB's ordinary capital resources, with such terms and conditions as are substantially in accordance with those set forth in this report, and as may be reported to the Board.

Takehiko Nakao
President

30 September 2014

¹⁶ ADB. 2003. *Social Protection*. Manila (adopted in 2001).

¹⁷ ADB. 1966. *Agreement Establishing the Asian Development Bank*. Manila.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and/or Indicators with Baselines	Data Sources and/or Reporting Mechanisms	Assumptions and Risks
<p>Impact Increased private sector participation in India's port operations</p>	<p>Share of private sector in port operations in India increases from 43% in FY2014 to 54% by 2022</p>	<p>National economic data and statistics</p> <p>Indian Ports Association</p> <p>Website and reports from Ministry of Shipping</p> <p>12th and 13th Five Year Plans</p>	<p>Assumptions Domestic demand for imported energy or goods and demand for India's exports grow</p> <p>Risk Progress of private sector-friendly regulatory reforms in the port sector is stagnant</p>
<p>Outcome Increased efficiency and safety in port operations</p>	<p>Average turnaround time at Indian ports where OSL operates reduces from 3.75 days in FY2013 to 3.40 days in FY2018</p> <p>No pre- and post-berthing major accidents at the ports where OSL exclusively provides O&M services. Accidents include collision, fire and oil spill, among others.</p> <p>Total level of cargo handled in OSL-operated ports increases from about 621 million tons in FY2013 to about 1,000 million tons in FY2018.</p>	<p>Research reports</p> <p>ADB annual monitoring reports</p> <p>Development effectiveness monitoring reports</p> <p>OSL annual reports</p>	<p>Assumption OSL continues to retain competent technical and managerial staff</p> <p>Risk Process for opening public sector-managed ports to private sector operations is slow</p>
<p>Outputs 1. Expand capacity of port operations</p>	<p>250 full time direct equivalent new jobs created by OSL for port O&M services 2014–2016</p> <p>Environment and safeguard policies met</p>	<p>OSL annual audited financial reports</p> <p>OSL Annual Board of Directors Report (September)</p> <p>DE Monitoring Reports</p> <p>HR Records</p>	<p>Assumptions Timely completion of the acquisition and capital investments in accordance with CAPEX plan, subject to market conditions and availability</p> <p>OSL successfully wins and/or renews ports operations and management and offshore agreements in Indian and</p>

Design Summary	Performance Targets and/or Indicators with Baselines	Data Sources and/or Reporting Mechanisms	Assumptions and Risks
2. Maintain environment and safeguard standards		ESMS Monitoring reports	international ports Risks Increase in costs of marine vessels Delay in commissioning of ports and/or projects or cancelation of tenders
Activities with Milestones 1. Expand capacity of port operations 1.1 Debt financing approval by ADB by October 2014 1.2 All vessel acquisitions to be completed within 24 months from signing of the loan agreement 2. Maintain environment and safeguard standards 2.1 Regular monitoring of environment and social safeguards			Inputs ADB: Up to \$40 million equivalent corporate loan in Indian rupees or US dollars

ADB = Asian Development Bank, CAPEX = capital expenditure, ESMS = environmental and social management system, OSL = Ocean Sparkle Limited, O&M = operation and maintenance.

Source: Asian Development Bank.