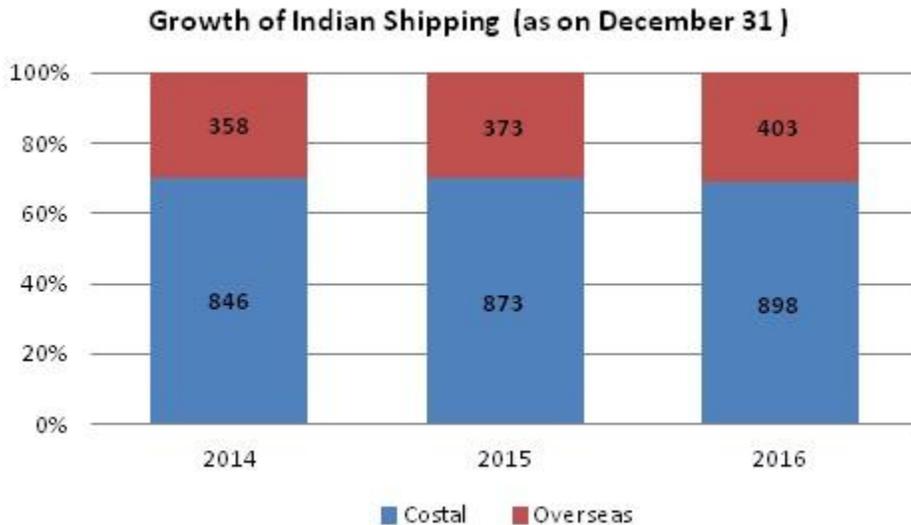


Digital push to drive growth for Shipping sector

JULY 11, 2017

Near term outlook of shipping sector remains grim

Shipping is an important indicator of both commodity and services trade of any country and plays an important role in the economic development, especially in India's international trade. The Indian shipping industry also plays an important role in the energy security of the country, as energy resources, such as coal, crude oil and natural gas are mainly transported by ships. Approximately, 95% of the country's trade by volume and 68% in terms of value gets transported by sea. On the eve of Independence, in August, 1947, the Indian Shipping tonnage stood at 0.19 million GRT, consisting of 48 coastal ships of 0.12 million GRT and 11 overseas vessels with 0.07 million GRT. Since independence the Indian Shipping tonnage has registered a remarkable growth. As on December 31, 2016, India had a fleet strength of 1301 vessels with Gross Registered Tonnage (GRT) of 11.43 million, compared with fleet strength of 1246 vessels with 10.51 million GRT at the end of December, 2015. This reflects a net addition of 55 vessels with an increase of 0.92 million GRT, while it represents 60 fold increases in GRT since independence.



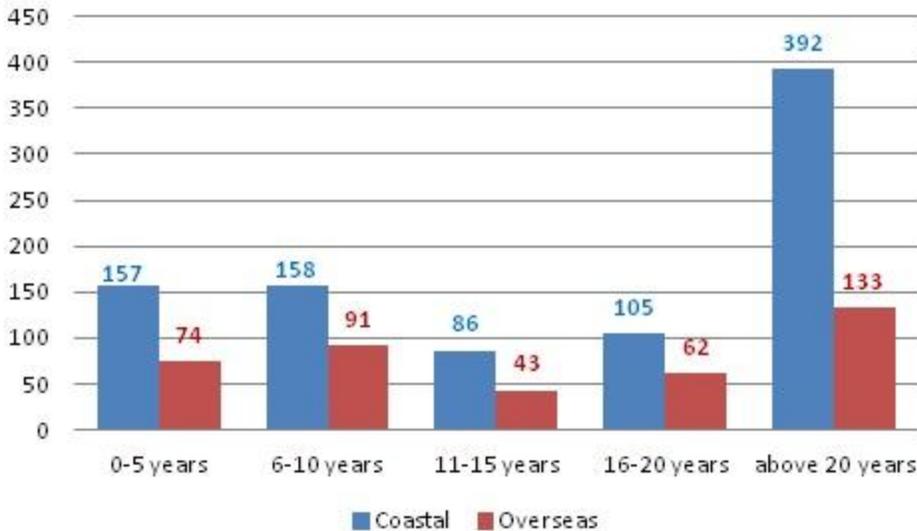
Out of the 1301 vessels registered as on 31st December, 2016, 898 vessels (69.0%) with 1.52 million GRT were engaged in coastal trade and the remaining 403 vessels (31.0%) with 9.91 million GRT were deployed for overseas trade. Thus the tonnage deployed for overseas trade was 86.7% of Indian GRT in contrast to 13.3% of the tonnage deployed for coastal trade.



The age profile of Indian merchant shipping vessels indicates that about 40.4% of the fleet was above 20 years of age, 19.1% of the fleet was between 6-10 years, 17.8% of the fleet was between 0-5 years, while 12.8 % & 9.9 % of the fleet were in the age groups of 16-20 years and 11-15 years respectively. As on December 31, 2016, 403 Indian registered vessels of 9.91 million GRT were deployed on overseas trade. The class of maximum number of vessels (114) was between 1000 and 4999 GRT. The total GRT of these 114 vessels was 0.28 million tonnes. About 38.5% of the vessels (155) undertaking overseas trade were in the category of Dry Cargo Liner whose carrying capacity was 1.58 million tonnes.

Out of the 1301 vessels as on 31st December, 2016, 898 vessels were engaged in coastal trade with a GRT of 1.52 million tonnes. The maximum number of vessels (304) out of the 898 were registered under the category 'Tug' with a tonnage of about 111 thousand GRT and only one vessel was registered in the categories LPG, Motor Tanker, Motor Tug, Pleasure Yacht, RO-RO, Utility Boat & Yacht with GRT less than 1000 tonnes.

**Age Composition of Indian Shipping Fleet  
(as on December 31, 2016)**

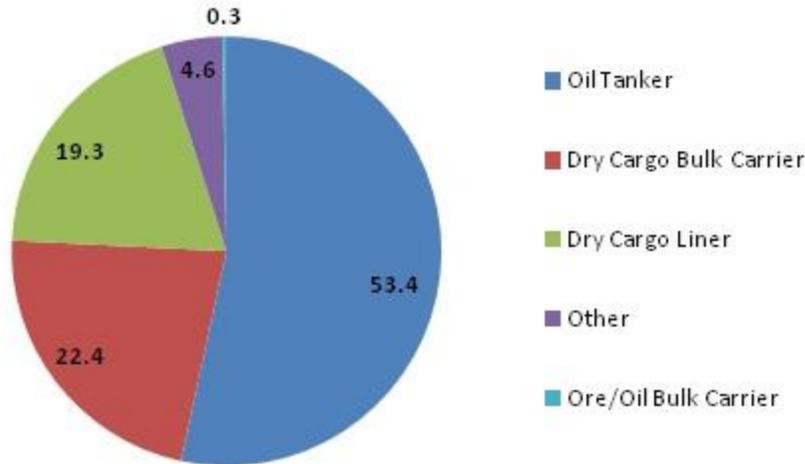


### Fleet Composition

In 2016, the maximum number of vessels (741) was Dry Cargo Liners followed by Oil tankers (150). In terms of GRT, the fleet composition reveals that the maximum tonnage 6105 thousand tones (53.4% of the total tonnage) was in the category of Oil Tankers whereas Dry Cargo Liners (which accounted for highest number of vessels (741) contributed only 19.3% (2210 thousand tonnes) to India's total tonnage.

The composition of India's tonnage reveals that tonnage share of oil tanker has dropped from 61.3% in 2006 to 53.4 % in 2016. Also, the tonnage share of dry cargo Bulk carriers decreased from 28.6% in 2006 to 22.4% in 2016. Similarly, over the same period, the tonnage share of Dry cargo Liner has increased from 5.9% to 19.3%.

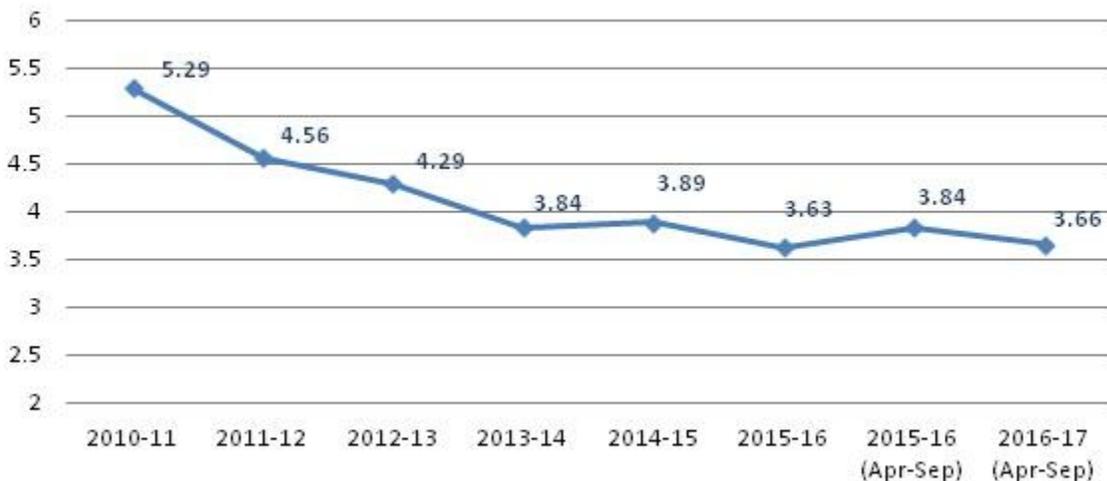
**Fleet Composition (as on December 31, 2016)**



**Average Turn-Round Time (TRT)**

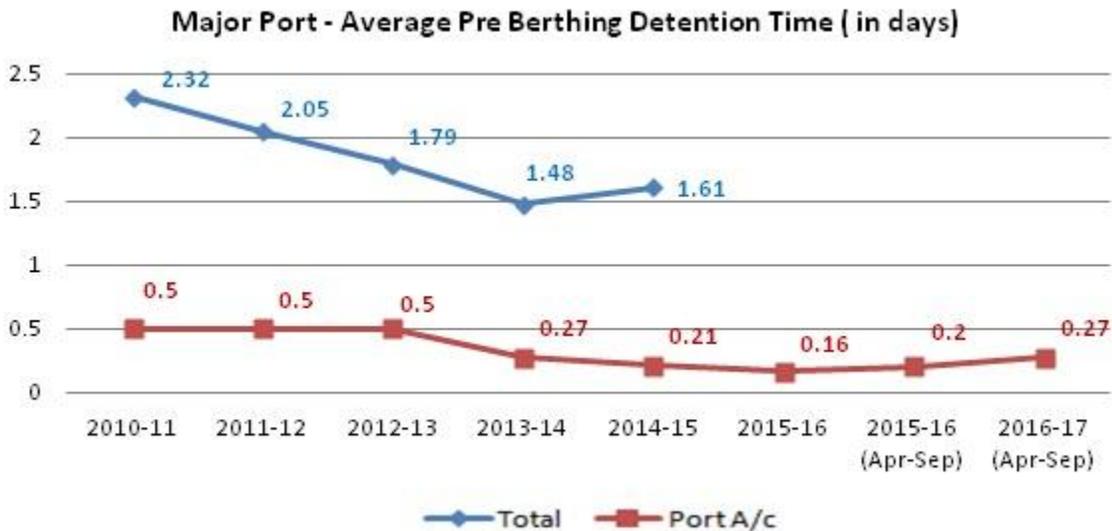
Average TRT, the total time spent by a ship since its entry till its departure, for all major ports improved from 8.10 days in 1990-91 to 3.63 days in 2005-06. Thereafter the TRT has increased steadily to 5.29 days in 2010-11, while in 2011-12, the average TRT declined to 4.56 days and further to 3.84 days in 2013-14. The TRT declined to 3.66 during first six months of 2016-17. Amongst the 12 major ports, improvement in TRT during April-September, 2016 compared to corresponding period of 2015-16 is reflected in all Major Ports except Kolkata, Haldia, Chennai and Mormugao.

**Major Port - Average Turn-Round Time (in days)**



**Average Pre Berthing Detention Time (PBDT)**

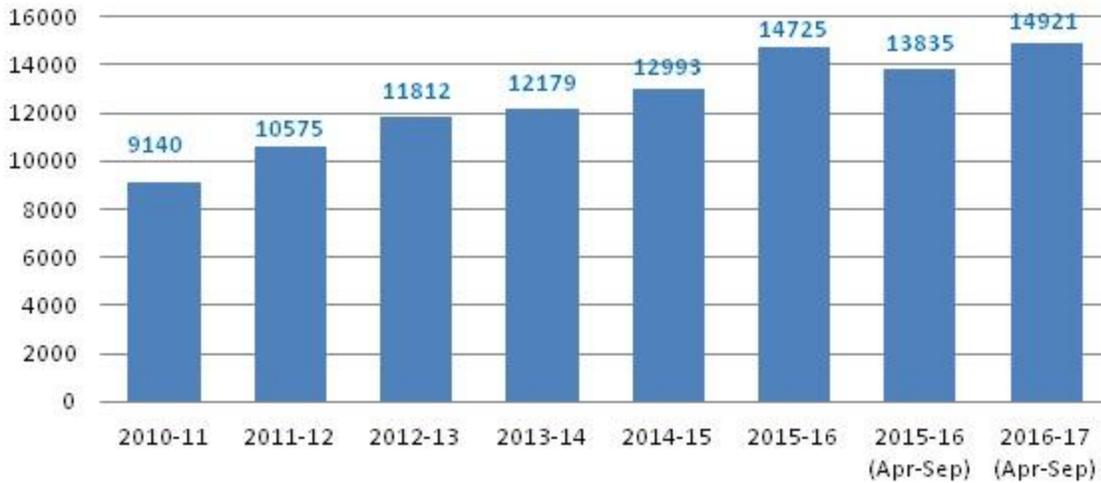
Average PBDT, the time for which a ship waits before getting entry into berth, for all major ports declined from 2.16 days in 1990-91 to 1.63 days in 2008-09. However, in 2009-10 and 2010-11, the average PBDT edged up to 2.16 days and 2.32 days respectively. In contrast, average PBDT on port account has seen a sharper decline from 2.10 days in 1990-91 to 0.50 day in 2010-11. Average PBDT on port account which remained same at 0.50 days in 2011-12 and 2012-13 declined to 0.27 days in 2013-14 and further declined to 0.21 days and 0.16 days in 2014-15 and 2015-16 respectively. Average PBDT on port account in the current year (up to September, 2016) further increased to 0.27 days.



**Average Output Per Ship Berth-day**

This indicator has seen a tremendous improvement during the last 25 years. Average Output per Ship-berth day has increased more than four times from 3,372 tonnes in 1990-91 to 14725 tonnes in 2015-16 for major ports and further increased to 14921 in 2016-17 (up to September, 2016). However, average output per ship berth day during April-September, 2016 is marked by substantial variation across major ports ranging from a high 22214 tonnes in case of Paradip port to a low of 4174 tonnes at Kolkata Dock System. This variation reflects the type of cargo being handled, level of mechanization and labour practices.

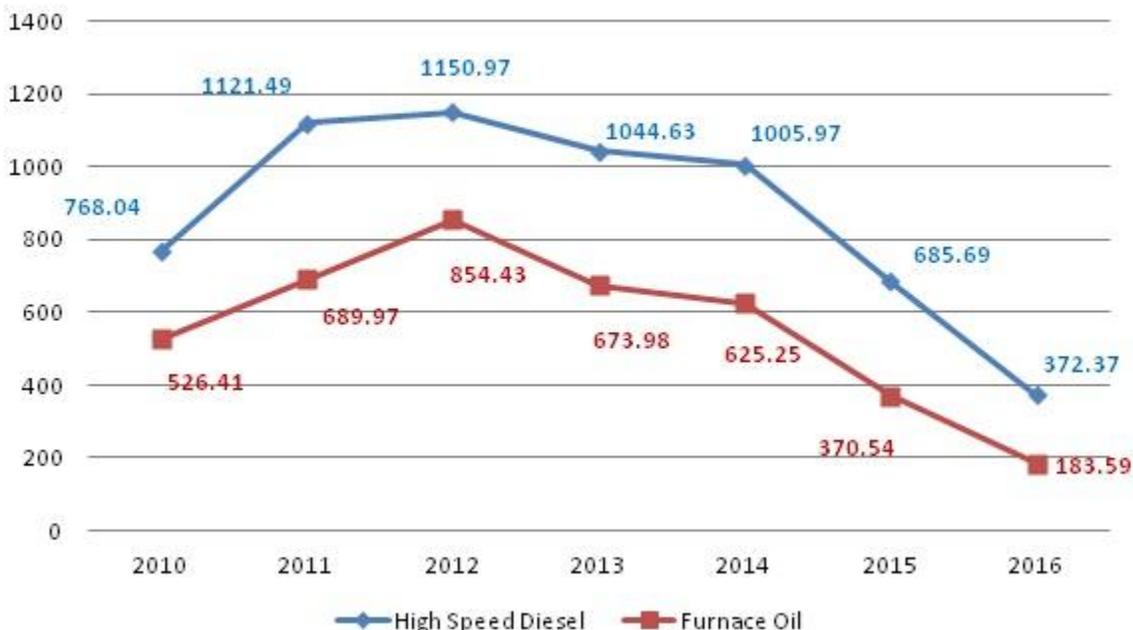
**Major Port - Average Output per Ship Berth-day (Tonnes)**



**Prices of Fuel for Vessels**

The shipping has transformed from coal fuelled to oil fuelled. Another hundred years later, transformation to a newer fuel source is making waves, only this time, it is to gas. Driven by tougher international and environmental standards, (Liquefied Natural Gas) LNG is being termed as the fuel of the future. Ship fuel prices have plummeted to lows not seen in over a decade, pulled down by a rout in crude oil prices as a result of a global glut. The falling fuel prices allowed some buffer for freight rates to adjust lower.

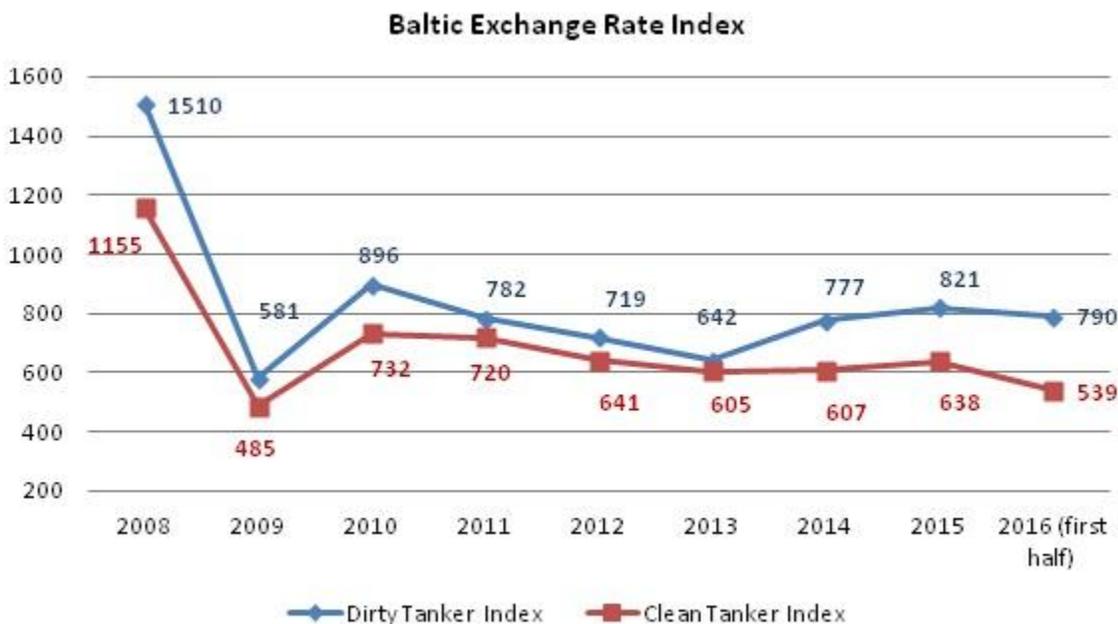
**Prices of Fuel for Vessels Plying on International Run (as on March 31) (prices in \$ per MT)**



**Recent Developments in Global Ocean Freight Rates**

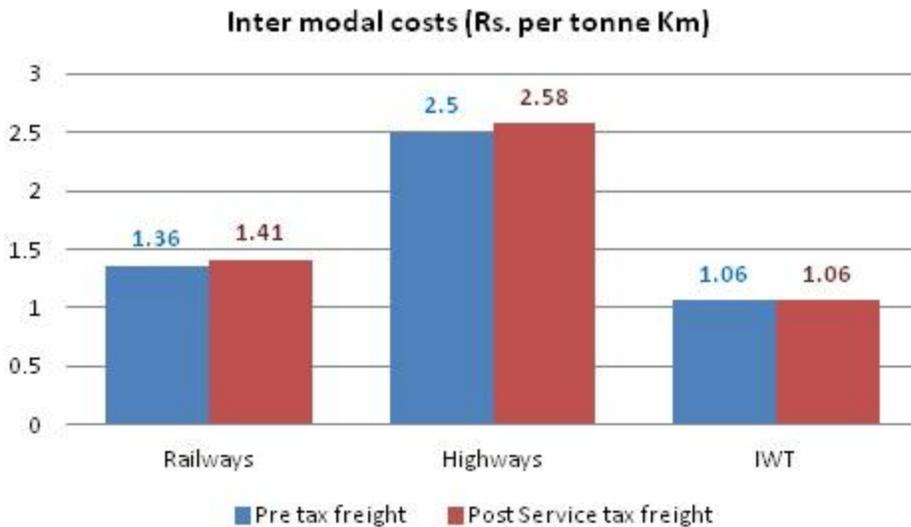
Container freight rates declined steadily, reaching record low as the market continued to struggle with weakening demand and the presence of ever-larger container vessels that had entered the market in 2015. The global container shipping demand slackened in 2015. In 2015, the dry bulk market witnessed one of its worst years since 2008. Dry bulk freight rates plunged to a record low as weakening demand and strong supply created a high imbalance in market fundamentals. The dry cargo market was mainly affected by a substantial slowdown in seaborne dry bulk trade, with volumes contracting by 0.2% as a result of limited growth in the iron ore trade and declining coal volumes.

The tanker market, which encompasses the transportation of crude oil, refined petroleum products and chemicals, witnessed one of its best years since the market crisis in 2008. The crude oil tanker and oil product tanker markets enjoyed strong freight rates throughout 2015, prompted by the drop in oil prices that had begun in mid-2014 and had been sustained by relatively low supply-side growth in 2015. Presently, the Baltic Exchange's main sea freight index, tracking rates for ships carrying dry bulk commodities, have been under pressure on account of weaker rates for larger vessels which could have an adverse impact on Indian shipping companies.



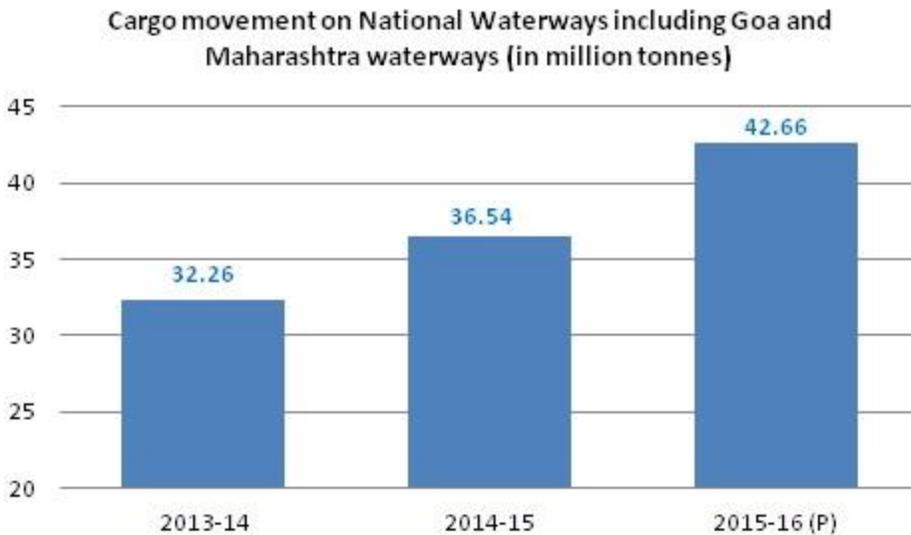
**Inland Waterways Transport**

Inland Waterways Transport has an important role to play in many parts of the country since it offers an economic, energy efficient, employment intensive and almost pollutant free mode of transport service. The Inland Water Transport (IWT) is functionally important in regions covered by the Brahmaputra and the Ganges in the North East and Eastern parts of the country, Kerala, Goa and in the deltas of the rivers of Krishna and Godavari where IWT offers natural advantages.



The ratio of navigable length to the total length is about 96.88% in the state of West Bengal; by contrast, in case of Gujarat the ratio of navigable length to total length is a mere 15.62%. Other states with good inland water transport prospects are Goa, Maharashtra and Bihar where waterways navigable length is 90.88, 73.22 and 62.40% respectively of the total length of rivers/lands/lakes reported by these states. The total cargo movement on India's waterways comprising the three national waterways and waterways in the state of Goa and Maharashtra was 426.56 lakhs tonnes in 2015-16 as against 365.37 lakhs tonnes in 2014-15, reflecting an increase of 16.7 %.

The Ministry of Shipping is entrusted with the overall responsibility of development of inland water transport in the country. It has taken concrete steps to utilize the potential of Inland Waterways as it is fuel efficient, cost effective and environment friendly mode of transport. With the enforcement of 'National Waterways Act, 2016' from April, 2016; 106 Inland Waterways have been declared as National Waterways. After declaration of 106 New National Waterways, pre-feasibility studies and techno economic studies are being carried out which cover the potential of navigability, cargo availability, cost of development etc.



### **Impact of GST on Shipping Industry**

The Goods and Services Tax (GST) became a reality with effect from July 1 and the shipping companies have welcomed the move as it will make life easier for the industry as taxation at multiple levels will be avoided. However, GST Council has decided to levy 5% tax rate (integrated GST or IGST) on Indian shipping companies that ferry cargo from or to India. Additionally, the 5% levy would also be applicable to Indian companies that buy or sell vessels. This rate structure is expected to have an adverse impact on India's shipping industry. On top of that, Indian shipping companies will have to do away with the prevailing abatement of 70% tax applicable on transportation of goods by vessel following the new norms of the proposed goods and service tax. The domestic ship owners will not be able to claim CENVAT on duty paid on coastal bunkers. GST will not be applicable to foreign companies, which would mean domestic companies losing customers to overseas companies. The tax levied under GST would also mean that many Indian shipping companies could move their business abroad and operate through a foreign subsidiary.

### **Government initiatives**

#### **Agreement between India and Cyprus on Merchant Shipping**

The Union Cabinet has given its approval to the agreement between India and Cyprus on Merchant Shipping, which was signed in April 2017. The agreement in Merchant Shipping will pave the way for cooperation in eliminating any hindrances which may hamper the development of sea trade between the two nations. The MoU will encourage participation in the transport of goods between the countries, and also from third countries. The MoU further seeks to enhance cooperation for employment, improvement of conditions of work and for the welfare of seafarers employed on each other's vessels.

### **MoU on passenger cruise services between India and Bangladesh**

The Union Cabinet has approved MoU on passenger cruise services on the coastal and protocol routes between India and Bangladesh for starting regular movement of passengers and tourists in water crafts between the two countries. The Cabinet also approved MoU for fairway development of Ashuganj-Zakiganj stretch of Kushiyara river and Sirajganj-Daikhawa stretch of Jamuna river in the Indo-Bangladesh protocol route by undertaking necessary dredging jointly by the two countries. The MoU will considerably reduce the logistics cost of cargo movement to North Eastern India.

### **Allocation of fund for development and maintenance of National Waterways**

The Union Cabinet has accorded its approval to a proposal jointly mooted by the Ministry of Shipping and the Ministry of Road Transport & Highways (MoRTH) for amendment of Central Road Fund Act, 2000 to allocate 2.5% of the proceeds of Central Road Fund (CRF) for development and maintenance of National Waterways (NWs) and a reduction in the share provided for development of National Highways. The Cabinet also directed that while implementing viable National Waterways projects, all such components that can be done on PPP basis, should be explored accordingly and government funding may be used only if private investment is not forthcoming for any component.

### **Outlook**

Shipping continues to remain unchallenged as the world's most efficient means of transportation and there is need to recognize and promote quality within the industry. It is an important indicator of both commodity and service trade of any country and plays an important role in the economy. Globally, India ranked 18th in terms of world tonnage ownership with a share of only 1.21% as on January 1, 2016. In comparison, China ranked 3rd with a share of 8.87%. The global shipping industry has been experiencing turbulent waters since the year 2012 due to the continued economic downturn. The domestic shipping companies faced problems of restricted cash inflows due to very low charter hire and freight rates in all segments of shipping. While India's overseas seaborne trade has been growing exponentially over the years, there is a sharp decline in the share of Indian ships in the carriage of India's overseas trade from about 40% in the late 1980s to 7.45% in 2014-15. Coupled with global downturn, the crucial tax reform may work against domestic shipping companies as tax imposition at the time of asset creation and discrimination between domestic and foreign shipping firms would discourage fresh investments and erode global competitiveness. Additionally, withholding tax on wages, borrowings, will definitely make Indian companies uncompetitive, especially in coastal trade. In order to make the sector competitive on global front, the government should address concerns of rising costs for Indian shipping companies under GST and provide tax treatment in par with their foreign counterparts.

**Companies Financial Data in Industry**

Company Name	CMP	MCAP	BOOK VALUE	DIV. YEILD %	TTM EPS	TTM PE
The Great Eastern Shipping Company Ltd.	406.50	6129.09	342.36	2.48	39.89	10.19
Hariyana Ship Breakers Ltd.	72.00	44.40	185.74	0.00	15.34	4.69
Shipping Corporation Of India Ltd.	84.25	3924.36	147.43	0.00	2.91	28.96
Dredging Corporation Of India Ltd.	624.65	1749.02	543.08	0.48	2.64	236.35
Shreyas Shipping & Logistics Ltd.	329.10	722.62	106.13	0.30	1.86	177.31

Sorted with TTM EPS (High to Low)

Source – Ace Equity

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