

Shipbuilding Sector update

ANSec Research**1st July 2010**

New Shipbuilding subsidy

Shipyard subsidy has expired in August 2007, a new subsidy scheme has been drafted by the shipping ministry. Unlike the earlier subsidy of 30% incentive for export order for all types of vessels and merchant vessels longer than 80 meter sold to Indian companies the new scheme is expected to provide 12% incentive on the price of the ocean going merchant ships sold to overseas buyers and 16% for domestic companies. The shipping ministry is to discuss the proposed redraft scheme with the committee on non plan expenditure in the finance ministry soon and on approval the new scheme will be in effect for five years.

Global and Domestic shipbuilding industry

Global shipyards which had seen lot of order cancellation during the slowdown have recovered significantly during calendar year 2010 with most of the new order going to Korean yards.

Pipavav Shipyard has bagged Rs 2,600-crore contract to build offshore patrol vessels for the Indian Navy. In April 2010 ABG shipyard also bagged an order of worth \$85.5 million for building 3 cement carriers of 20000 DWT each.

Bharati Shipyard which focuses largely on niche vessels especially offshore vessels, defence orders etc, the ordering is yet to pick up in these segments. Bharati Shipyard which acquired 49% stake in Great Offshore has achieved management control with 3 appointing Board of Directors of the latter. Great Offshore has plans to raise funds to the tune of Rs 1750 crore to part fund modernization of its existing fleet. About two third of the fleet of Great offshore numbering about 40 floating assets are to be replaced with modern one within next three years. This gives strong visibility of orders from its associate company.

Improvement in the new ship prices

New Ship prices that hit 18 month low during CY09 have significantly improved now. VLCC, which touched a low of \$95 million in December 2009 from high of \$137 million in CY2009 has now recovered to close at \$100 million and on the dry bulker side the capsize which touched a low of \$55 million from its CY 2009 peak of \$76 million has marginally recovered to \$57 million as on June 2010.

Outlook

Going forward we believe that the growth of the Indian shipbuilding industry should largely be driven by domestic orders. Due to long government procedure, order from the defence sector requires a lot of time for finalizing new orders. But recent order announcement from the navy gives us a hope that in the coming days we should see a good flow of order from the Indian defence sector. Defence sector is likely to announce Rs 10000-15000 crore of order in the next 3-5 years.

We provide a neutral outlook for the shipbuilding industry as a whole but maintain a buy on Bharati Shipyard.

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