



India Shipbuilding Report 2006

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Preface

On March 14, 1948, Pandit Jawaharlal Nehru, the first Prime Minister of India, launched *Jala Usha*, the first vessel to be built in independent India. However, the voyage through the next fifty years brought India to the present scenario, where India is better known internationally for ship breaking rather than shipbuilding. Yet, the very same scenario also points to the fact that India now has the know-how, scale of operations and reputation to occupy a pre-eminent position in the shipbuilding industry as a global player.

During the same period of fifty years, Japan had recovered from the ravages of the World War II and emerged as the undisputed leader in shipbuilding. South Korea was quick to follow in the footsteps of Japan. After the boom of the 1970s, shipbuilding deliveries stagnated in the 1980s. The next decade, which began with a steady increase, ended with a clear indication of accelerated growth in new building output. By 2002, the picture changed dramatically, thanks chiefly to the 'China factor'. Today, China is a major demand-driver as well as supplier of world's shipping capacity.

In respect of the global shipbuilding output, the record output of 1977 was surpassed for the first time in 2003 and then again in 2004. It will not be an exaggeration to assert that the current shipbuilding output is the highest in the world shipping history.

This unprecedented global demand for new tonnage occurs at a time when India seems poised to attain the critical mass required for positioning itself among the leading shipbuilders of the world. Obviously, this scenario would have made Pandit Nehru smile!

Developments that are conducive to the future growth of the share of Indian shipbuilding industry in the global and domestic markets include: Government's policies, India's rising overseas sea-borne trade, changing patterns in ship types and sizes, investments in the offshore sector, growth of the port sector, increasing attention to coastal shipping and inland waterways, maturation of India's manufacturing and

services industries, and clustering of skills, support services and supplies and sub-contracting functions. Given these developments and the new dynamism in the markets, Indian shipping and merchant shipbuilding industry finds itself on the threshold of a sea change.

At i-maritime, we felt that there is an urgent need to closely examine the rapidly changing face of India's shipbuilding industry and the underlying global and domestic factors contributing to these changes.

By sharing our findings with the industry and public through a report, we hope to not only present an update on the industry for the benefit of all the stakeholders, but also draw the attention of the current as well as prospective players, to various growth and investment opportunities that have opened up.

India Shipbuilding Report therefore aims at assessing the emerging international and domestic markets in the new building sector, identifying the capabilities as well as inadequacies of the Indian shipbuilding industry and exploring the focus areas for attaining global competitiveness and strategies for sustaining it.

A substantial segment of India's new building comprises of Naval construction, since the Indian Navy is one of the few navies in the world that design and build their own ships. By and large, Indian shipyards specially earmarked for the purpose and operating under the Ministry of Defence Production, build the Naval and Coastguard ships.

Since this report focuses primarily on commercial shipbuilding, the shipyards functioning under the Ministry of Defence Production have been excluded.

The commercial shipyards engaged in merchant shipbuilding in India are both under the public and private sectors. The public sector yards are under the total control of the Ministry of Shipping. The private yards are also required to function within the policy directives issued by the Ministry.

Preface

India Shipbuilding Report is the latest among a series of reports that have been prepared by i-maritime Consultancy for publication – the previous ones being *India Shipping Report* (2000), *India Port Report* (2002) and *Maritime Investment Report* (2006).

This report is organised into eight chapters. **Chapter-1** gives an overview of the macro factors influencing the shipbuilding industry. In **Chapter-2**, the factors that influence the demand for and supply of shipbuilding capacity are discussed. While **Chapter-3** addresses the current global shipbuilding scenario in terms of the functioning of each major player or region and **Chapter-4** focuses on the Indian shipbuilding scenario.

The road and the challenges ahead are discussed in **Chapter-5**. **Chapter-6** deals with the complex issue of shipbuilding productivity. Although it does not claim to be a detailed technical evaluation of Indian yards, it does examine the issues that have a direct impact on productivity in terms of key processes and sub-processes. It also develops a framework for future development and benchmarking of Indian yards against best international shipbuilding industry practices.

Chapter-7 provides the relevant information on financing in Indian shipbuilding and **Chapter-8** contains the conclusions drawn.

There are four annexures providing background information and updates on various connected issues, services and markets.

Majority of the figures and tables used in this report have been generated from i-maritime's in-house research. Information taken from other sources is gratefully acknowledged and has been duly indicated against each figure/table.

The yards considered for detailed study include most of the public sector yards, e.g., Hindustan Shipyard Limited (HSL), Cochin Shipyard Limited (CSL), Alcock Ashdown Gujarat Limited (AAGL) and some of the major yards in the private sector, such as ABG

Shipyard and Bharati Shipyard.

There are, of course, a number of other yards, the total according to the Ministry of Shipping being 32; and some of them such as Dempo Shipbuilding & Engineering Limited, Chowgule's Shipbuilding Division and Tebma Shipyards Limited are of considerable size, experience and promise. We wish to point out that we have not included all the yards in the present study; the reason for this is the fact that our focus is on issues rather than yards.

We believe that the issues which this report raises and discusses are of significance for all the shipyards in India that are engaged in building merchant ships. They are also of relevance for all the stakeholders in the Indian shipbuilding industry, researchers, individuals and other interested parties to shipping and shipbuilding.

Considering the dynamic environment that the shipbuilding industry is in today, we feel that this report will generate ideas and suggestions for improvements and also serves as a basis for future studies; not only by i-maritime but by others as well.

Having made this effort, we realise that there is a tremendous scope for further refinement and future studies. We welcome suggestions and improvements from our readers and will be glad to incorporate them in our subsequent reports in the marine transport sector.

At this stage, we are sure that the industry managers would find that the information in our report to be very handy, useful and timely. As the report serves the purpose of our readers, so it fills us with a sense of achievement.

i-maritime Consultancy

September 2006

Contents

Preface	i
Acknowledgments	iii
Contents	
Tables	vi
Figures	vii
Boxes	viii
Abbreviations	ix
Glossary	x
Milestone Events	xiii
Executive Summary	xv
1 Introduction	1
1.1 Shipbuilding Industry Today: Riding a Crest	2
1.2 Asia takes the Lead	4
1.3 India Shipbuilding Report: Objective and Scope	5
2 Shipbuilding Dynamics	7
2.1 Industrial Processes in Modern Shipbuilding	8
2.2 Shipbuilding Management	8
2.3 IT as an Integrating Tool	10
2.4 Shipping Markets & Impact on Shipbuilding	11
2.5 Costs Incurred in Shipbuilding	12
2.6 Shipbuilding Prices	13
2.7 Supply and Demand in Shipbuilding	13
2.8 Risks in Shipbuilding Industry	15
2.9 Factors Affecting Shipbuilding Dynamics	16
2.10 India's Maritime Policy & it's implications for Indian shipbuilding	23
2.11 Measuring Shipbuilding Output	19
2.12 India's Maritime Policy and its implications for Indian Shipbuilding	23
3 Global Shipbuilding Scenario	25
3.1 Global Shipbuilding Output In The Recent Past	26
3.2 Industrialisation And Shipbuilding	26
3.3 Leading Shipbuilding Nations	27
3.4 Shipbuilding Output In Recent Years	30
4 Indian Shipbuilding Scenario	35
4.1 Indian Shipping	36
4.2 Implications for Shipbuilding	39
4.3 Changing Industry Dynamics	43
4.4 Financial Performance of Major Yards	44

5 Challenges Ahead	47
5.1 Future Growth of Indian Fleet	48
5.2 Capacity Utilisation	50
5.3 Factors in Favour of the Indian Shipbuilding Industry	51
5.4 Global Shipbuilding Competitiveness Index	52
5.5 Gujarat as a Shipbuilding Cluster	54
6 Productivity & Benchmarking Issues in Shipbuilding	57
6.1 High-cost Advanced Technology versus Low-cost Labour	58
6.2 Measuring and Benchmarking Shipyard Productivity	59
6.3 Productivity and Performance in Terms of CGT	60
6.4 A Framework for Appraising Shipyard Productivity	61
6.5 A Qualitative Comparison	62
6.6 Steel Production: A Quantitative Comparison	71
6.7 Indian Shipbuilding: Future Outlook	73
7 Financing in Shipbuilding	77
7.1 Introduction	78
7.2 Financing Shipyards	78
7.3 Funding During Pre- and Post- Delivery Phase of the Vessel Construction	81
7.4 Financing New Building: The Ship Owner's Perspective	82
7.5 Shipbuilding Finance: The Indian Practices	82
7.6 Need for Change in Financing New Building	83
8 Conclusions	85
Transcript of Focus Group Discussion on Indian Shipbuilding Industry	89
Annexures	111
I. A brief history of Indian shipbuilding	112
II. Facilities at major Indian commercial shipyards	116
III. Shipbuilding contracts	119
IV. Orderbooks of Major Indian Yards	125
Bibliography	126
About our sponsors	127

Tables

Table E-1	Finished steel consumption of select countries and world (million tonnes)	xv
Table E-2	New orders by ship type in recent years (million GT)	xv
Table E-3	Increasing average waiting time for ship deliveries (months)	xvi
Table E-4	Growth in the Indian tonnage	xvii
Table E-5	Share of the Indian fleet in overseas trade	xvii
Table E-6	Orderbook of Indian shipping companies (Jan 06)	xvii
Table E-7	Phase-out of India's single-hull tankers	xviii
Table E-8	Indian Shipyards - Order book	xviii
Table E-9	Changing proportion of domestic and export orders by percentage	xix
Table E-10	Relative labour rates in select countries	xx
Table E-11	Pointer from automobile industry	xxii
Table E-12	Taking modular construction to the next level	xxii
Table 1-1	GDP Growth rates of select countries	2
Table 1-2	New orders by ship type (1999-2005)	3
Table 1-3	World order book by country/region	4
Table 1-4	Coping strategies of leading shipbuilding nations	5
Table 2-1	Demand and supply influences	14
Table 2-2	Phase-out of India's single-hull tankers	17
Table 2-3	Shipyard output: vessel types	19
Table 2-4	Standard parcel sizes	19
Table 2-5	DWT to CGT: Conversion table	20
Table 2-6	Increasing average waiting time for ship deliveries	21
Table 3-1	Finished steel consumption of select countries and world (in Million Tons)	26
Table 3-2	Shipbuilding orderbooks of Japan and Korea	27
Table 3-3	Shipbuilding output of major nations	31
Table 4-1	Growth in the Indian fleet	37
Table 4-2	Share of the Indian fleet in overseas trade	38
Table 4-3	Coastal fleet by type and GT	39
Table 4-4	Orderbook of Indian shipping companies	39
Table 4-5	ONGC investment plan	40
Table 4-6	Domestic commercial shipbuilding output - total (Indian + Foreign orders)	40
Table 4-7	Indian fleet by numbers and age	40
Table 4-8	India's ranking in terms of orderbook - globally	41
Table 4-9	Indian Shipyards - orderbook	41
Table 4-10	OSV Fleet by ownership and average age	42
Table 4-11	Age profile of India's AHTS fleet	42
Table 4-12	Age profile of world's AHTS fleet	43
Table 4-13	Changing proportion of domestic and export orders by percentage	43
Table 4-14	Foreign commercial shipbuilding output of the Indian yards	44
Table 4-15	India Shipyards - orderbook (value)	44
Table 5-1	DWT output of major Indian yards	50
Table 5-2	Capacity utilisation of HSL & CSL	50
Table 5-3	Comparison of automobile and shipbuilding industries	52
Table 5-4	Factors influencing competitiveness	53
Table 5-5	Global shipbuilding competitiveness index - in the past	53
Table 5-6	Global shipbuilding competitiveness index - in the present	54
Table 5-7	Global shipbuilding competitiveness index - in the future	54
Table 5-8	Industrial cluster Gujarat & Maharashtra	55
Table 6-1	Relative labour rates in select countries	58
Table 6-2	Criteria for benchmarking Indian shipbuilding industry	61
Table 6-3	Steel output and labour productivity	72
Table 6-4	Taking modular construction to the next level	74
Table 7-1	Stage payments in shipbuilding	81

Figures

Figure E-1	Tonnage delivered annually - 1970-2005 (till Sep 2005)	xvi
Figure E-2	Westward movement of world's maritime centre	xx
Figure 1-1	Factors driving the shipbuilding orders	2
Figure 1-2	GDP and world trade: Recent growth trends	2
Figure 1-3	Tonnage delivered annually - 1970-2005 (till March 2005)	3
Figure 1-4	Annual net tonnage on the building berths	3
Figure 1-5	Fluctuations in new build prices	4
Figure 1-6	Westward movement of world's maritime centre	5
Figure 2-1	An aerial view and the lay-out plan of Hindustan Shipyard Ltd., Visakhapatnam	6
Figure 2-2	Managerial challenges in shipbuilding	10
Figure 2-3	World tonnage and the four shipping markets	11
Figure 2-4	Opposite movement of new build orders & demolition	12
Figure 2-5	Second-hand price overtakes new build price for Suezmax vessels	12
Figure 2-6	Impact of freight rates on new build prices of Suezmax vessels	12
Figure 2-7	Generalised cost structure in shipbuilding	12
Figure 2-8	Steel price and newbuild price	13
Figure 2-9	Fluctuation in world shipbuilding orders	13
Figure 2-10	Short-term equilibrium & adjustment of shipping capacity	13
Figure 2-11	Long-term equilibrium & adjustment of shipping capacity	14
Figure 2-12	Age profile of world fleet	17
Figure 2-13	Age profile by world merchant fleet	17
Figure 2-14	Age profile by vessel size (in DWT)	17
Figure 2-15	Liberty class ship at sea	20
Figure 3-1	Global net tonnage	26
Figure 3-2	Shipping demand & supply	26
Figure 3-3	Shipbuilding order book in 2004 in percentage CGT	30
Figure 3-4	Asian shipbuilding clusters	31
Figure 3-5	Shipbuilding output from select regions - by vessel type	32
Figure 3-6	Year-wise CGT to DWT ratios of major shipbuilding nations	32
Figure 4-1	Major world fleet (DWT) by flag	36
Figure 4-2	Net Operating Tonnage of Indian fleet (in Million GT)	37
Figure 4-3	Composition of foreign-going fleet by vessel type and GT (as on 31 Dec. 2004)	38
Figure 4-4	The share of Indian shipping in overseas trade: Widening gap	38
Figure 4-5	Composition of foreign-going fleet by vessel type and numbers (31 Dec. 2004)	38
Figure 4-6	Net Operating Tonnage in coastal fleet ('000 GT)	38
Figure 4-7	Financial performance of major yards	44
Figure 4-8	Indian shipbuilding: An overview of segmentation	45
Figure 5-1	Recent trends in tonnage growth (GT) - Indian and global	48
Figure 5-2	Growth projections for Indian fleet (GT): Different scenarios	48
Figure 5-3	Growth projections for Indian fleet (DWT): Different scenarios	49
Figure 5-4	The DWT output of HSL	50
Figure 5-5	The DWT output of CSL	51
Figure 5-6	The deadweight output of ABG Shipyard	51
Figure 5-7	The deadweight output of Bharati Shipyard	51
Figure 5-8	Gujarat region - Emerging shipbuilding cluster	55
Figure 5-9	Mormugao - Existing shipbuilding/repair cluster	56
Figure 7-1	Financing options in shipbuilding	79

Boxes

Box E-1	Upcoming major shipyards	xix
Box E-2	Global competitiveness: A road map for Indian Shipbuilding?	xxiii
Box 1-1	Asian Tigers, the Red Dragon & the Sauntering Elephant	6
Box 2-1	Key industrial processes in a shipbuilding yard	9
Box 2-2	MARPOL Regulations	16
Box 4-1	Increase in India's GRT raises the country's GDP	36
Box 4-2	Upcoming major shipyards	46
Box 6-1	Global competitiveness through enhanced productivity: A road map for India's Shipbuilding	75

India Shipbuilding Report 2006 is the first comprehensive report on the shipbuilding industry in India. This report deals extensively with the underlying factors that impact the Indian Shipbuilding industry including the recent changes in the economic and policy environment in the context of global developments and trends.

The report provides an analytical overview and makes an in-depth assessment of the conditions required for the Indian shipbuilding industry to take off.

Global investors today are keenly observing two main destinations, China and India. While China has capitalised on its resources, India is yet to harness its potential. The report identifies the challenges that the Indian shipbuilding industry would need to overcome, in order to become a global leader.

The international scenario has also been discussed so as to draw benchmarks that indicate ways in which the Indian shipbuilding industry can enhance their competitiveness in the global markets. It also indicates the differential advantages that the Indian industry has vis-à-vis shipbuilding industry of other countries.

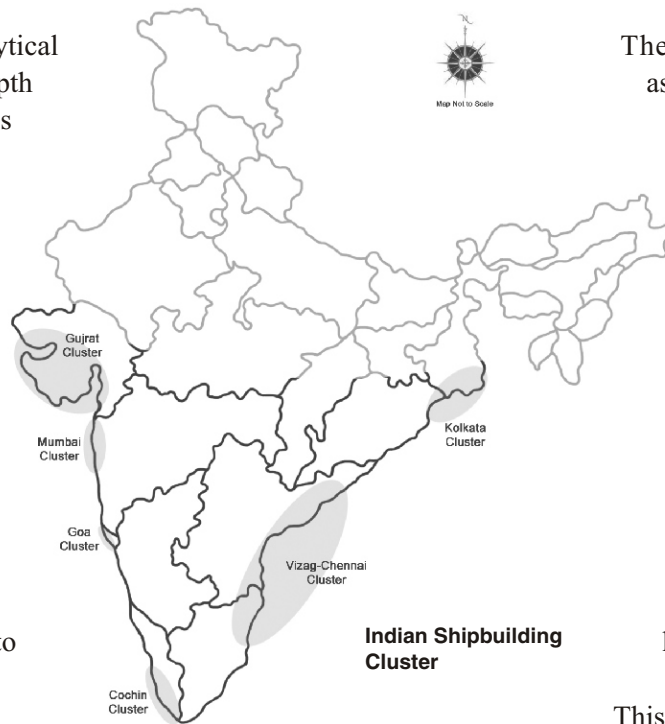
The exercise was undertaken with extensive involvement of experienced consultants and industry leaders and various experts who have taken deep interest in the various growth aspects of the Indian Shipbuilding Industry.

About i-maritime

i-maritime Consultancy is a leading business consultancy firm in the maritime sector. Over the last 13 years, the firm has handled numerous projects related to Ports, Logistics, Containers, Shipyards & Shipping.

The firm undertakes consulting assignments such as traffic studies, feasibility studies, market surveys, syndication of funds, business plans, joint ventures, Detailed Project Reports & Human Resources Consulting.

The i-maritime research division publishes several sector-specific reports, white papers and articles. Some of these have been pioneering efforts, as reports on such topics and intensive treatment have not hitherto been available.



This includes the India Port Report, Maritime Investment Report, Shipping Equity Research Reports and India Shipping Industry Report

India Shipbuilding Report 2006 is a continuation of our interest in making the Indian maritime industry not only better informed and well researched but also more visible in India as well as internationally.