SHIPPING AND SHIPBUILDING INDUSTRY

Several revamped laws and provisions in Budget 2025-26 to usher in sea change in shipbuilding

MARCH 2025

Highlights

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India has a negligible share of the global shipbuilding industry and relies heavily on foreign-owned vessels for its maritime trade. Several laws enacted recently and provisions in the Budget of 2025-26 are expected to boost the shipbuilding industry's growth and provide impetus to ship ownership in India.

- India reportedly spends ~$90 billion in shipping-related expenses (majorly freight related) each year, mostly on foreign vessels - a bill that is second only to India's crude oil imports. The maritime sector handles ~95% of the country's trade by volume, which could be severely impacted in case of any sanctions.
- India has a dismal share of 0.06% in the global shipbuilding industry. The top three nations – China, South Korea and Japan - accounted for ~94% for the total market share by gross tonnage.
- Lack of eco-system, weak infrastructure, dependence on foreign suppliers and high cost of financing are some of the reasons for the poor competitive nature of Indian shipyards.
- India's extensive coastline and proximity to major shipping routes provide a natural advantage for shipyards, besides which low labour costs are a positive for the labour-intensive shipbuilding industry.
- Several laws enacted recently, with provisions such as more relaxed usage of vessels, broader criteria for ownership of Indian flagged vessels etc. are expected to boost domestic ownership of vessels.
- Provisions in the Union Budget of 2025-26 for establishment of a Rs. 25,000 maritime fund, introduction of Revamped Shipbuilding Financial Assistance Policy with an outlay of Rs. 18,090 crore, classification of large ships as infrastructure assets etc are expected to boost shipbuilding industry's growth over the long term.

India’s share in global shipbuilding industry is dismal

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Low vessel ownership

Only 1,526 ships with a combined gross tonnage capacity of about 14 million are owned by India. By numbers only 0.77% of the world’s ships are registered under the Indian flag and by carrying capacity only 1.2%

Low market share

With ~0.1% of the worldwide market share, India’s share in the global shipbuilding industry is dismal.

Huge shipping bill

India reportedly spends ~$90 billion* in shipping-related expenses (majorly freight related) each year, mostly on foreign vessels - a bill that is second only to India’s crude imports.

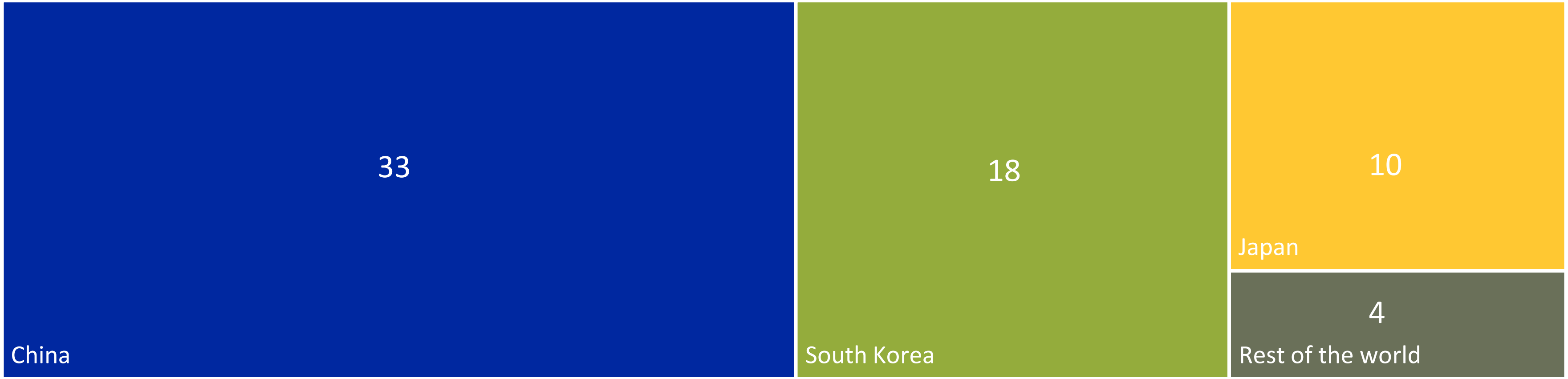
Strategic disadvantage

The maritime sector handles ~95% of the country’s trade by volume and 70% by value. With low domestic ship ownership, trade could be severely impacted in case of any sanctions

**Source: As per media reports*

Only three countries dominate shipbuilding industry

Exhibit: Global shipbuilding market share in gross tonnage (million)



Source: UNCTAD, ICRA Research

- China built more than half of all the world's merchant ships by gross tonnage (33 million gross tonne) in CY2023.
- South Korea (18 million gross tonne) and Japan (10 million gross tonne) are also major players in the shipbuilding industry. The top three countries account for 95% of the entire industry.
- India does not feature in the top 15 ship building countries of the world and has a market share of 0.06%.

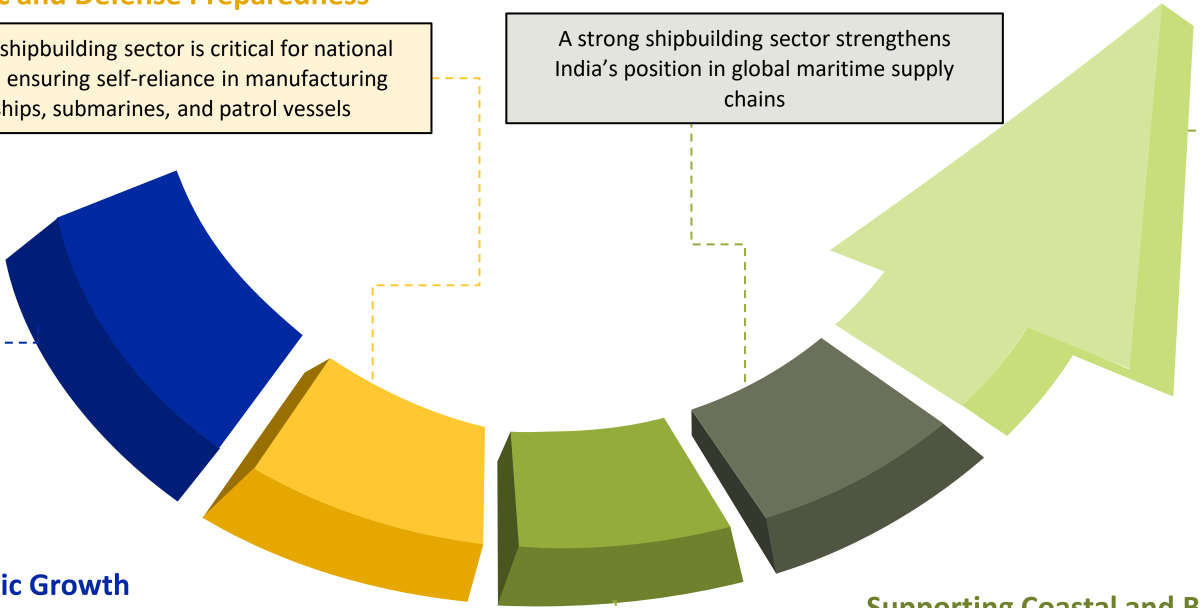
Shipbuilding industry is crucial for strategic preparedness

Strategic and Defense Preparedness

A strong shipbuilding sector is critical for national security, ensuring self-reliance in manufacturing warships, submarines, and patrol vessels

Enhancing India's Role in Global Supply Chains

A strong shipbuilding sector strengthens India's position in global maritime supply chains



Improve Energy Security

A strong shipbuilding sector can help tap into deep-sea exploration for minerals and hydrocarbons improving energy security

Economic Growth

Investing in shipbuilding creates a multiplier effect by boosting manufacturing, generating employment and strengthening ancillary industries like steel and electronics

Supporting Coastal and Blue Economy Development

A strong shipbuilding industry enhances inland and coastal shipping, reducing logistics costs and decongesting road and rail networks

Lack of ecosystem ails the sector

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Lack of shipping clusters

Unlike China, South Korea, and Japan, India lacks a well-integrated maritime cluster with shipyards, component suppliers, and advanced R&D facilities

Bureaucratic hurdles

Delays in project execution due to bureaucratic hurdles further reduce competitiveness

Inconsistent quality

India's shipbuilding industry suffers from inconsistent quality standards, making Indian-built ships less competitive in the global market

Weak infrastructure

India's shipyards are smaller and less automated compared to global leaders, leading to higher production costs and longer construction times

Lack of long-term financing dents competitiveness

High-cost financing

Indian shipbuilders struggle to secure low-cost financing and rely on expensive commercial bank loans. Shipbuilding demands high working capital, ~20-25% of the ship's construction cost. In India, interest rates for these loans are ~9-10%, significantly higher than the 4-8% rates in major shipbuilding nations

Lack of long-term credit

The absence of long-term shipbuilding credit facilities and a dedicated maritime financing institution weakens India's competitive edge

Lack of infrastructure status

The shipbuilding industry did not have "infrastructure" status till recently, due to which long-term financing was not extended by banks

Lack of subsidies

China heavily subsidises its shipbuilding industry while imposing restrictions on foreign competitors while there is limited support from the Government in India

Heavy dependence on imported raw materials and components

Supply chain vulnerabilities

India's shipbuilders depend on foreign suppliers for critical components like marine-grade steel, navigation systems, and propulsion equipment, leading to high costs and supply chain vulnerabilities

Absence of domestic market

Unlike China, which has a large domestic demand for new vessels, India's shipping companies prefer to buy second-hand foreign ships rather than ordering new ones from Indian shipyards. This is due to high costs, longer delivery times, and lack of financing options for Indian built vessels

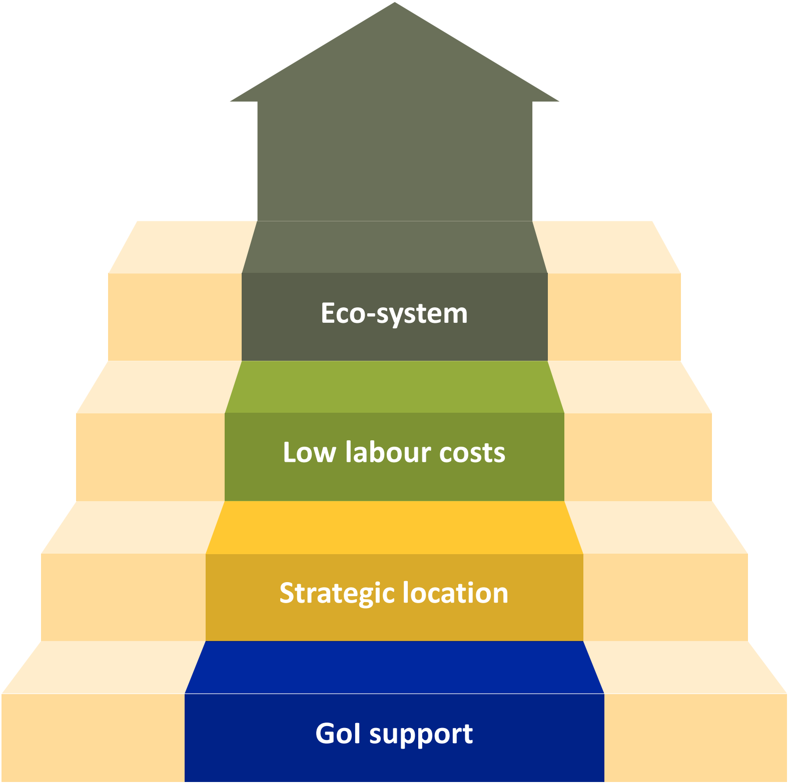
Weak repair ecosystem

India's share in global ship repair market is less than 1%. Indian shipowners prefer sending vessels to Singapore, China or the UAE for repairs due to cost and quality concerns. The lack of state-of-the-art dry docks and repair infrastructure limits India's ability to capture the lucrative ship repair market

Poor logistics

Port congestion and poor logistics add to the inefficiencies in the shipbuilding supply chain

Potential for competitive advantage exists



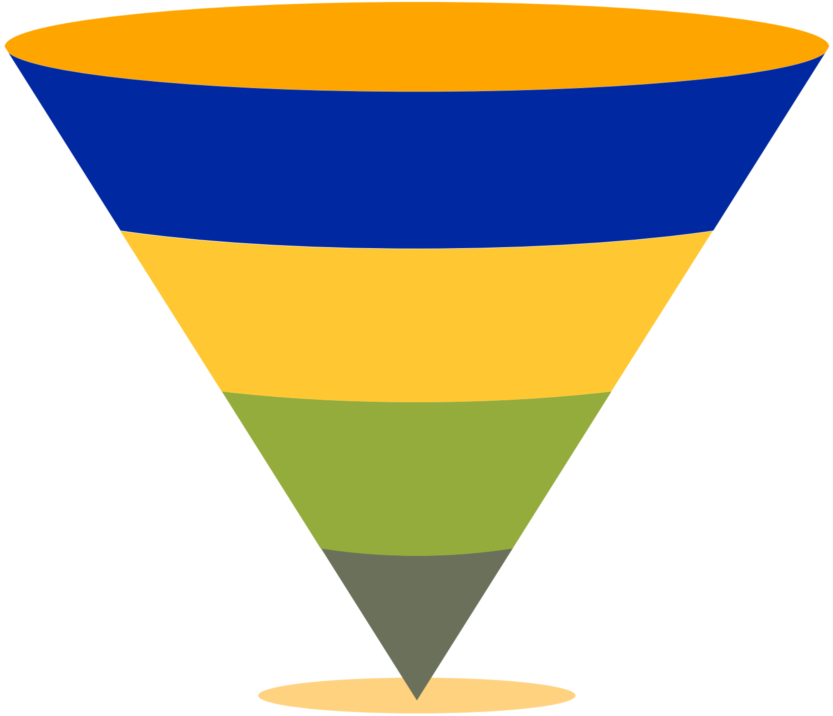
India has been developing indigenous manufacturing ecosystem that can support heavy manufacturing sectors such as shipbuilding.

India offers a competitive edge with lower labour costs for this labor-intensive industry compared to other shipbuilding nations

India's extensive coastline and proximity to major shipping routes provide a natural advantage for shipyards, helping reduce transportation costs and turnaround time

Policy initiatives such as the Scheme for Financial Assistance to Shipyards in India, Maritime Vision 2047, Grant of Infrastructure status provide support to sector.

New Bill #1: The Coastal Shipping Bill of 2024 removes differentiation of coastal and riverine vessels



The key provision of this Bill is to allow riverine vessels to operate in coastal waters and vice versa. This integration reduces the need for costly transshipment between different types of vessels

This Bill removes the requirement for a general trading licence for Indian-flagged vessels engaged in coastal trade, which reduces bureaucratic hurdles

The Bill gives the Director-General of Shipping the authority to provide licenses to ships flying foreign flags, considering the nationality of the crew, the vessel's construction requirements, and other pertinent variables, thereby easing supply of vessels

The Bill simplifies regulatory compliance and makes doing business easier by compounding a variety of offenses

New Bill #2: The Merchant Shipping Bill of 2024 allows broader ownership of vessels

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The new Bill allows non-resident Indians (NRIs), overseas citizens of India (OCIs), Indian-registered businesses, and other Government-designated entities to own Indian vessels in addition to Indian citizens

Under the new law, ships can be purchased with a part upfront payment and the remaining amount paid over time by registering under the Bare Boat-cum-Demise Charter (BBCD) system. When funding a costly, long-term asset, this is essential. Up until recently, the law demanded full payment upfront.

The Bill contains provisions to minimise the cost of compliance and facilitate commercial operations, such as enabling vessel registration without the need to travel to Indian ports and bolstering the adjudication procedure

New Bill #3: Carriage of the Goods by Sea Bill, 2024 limits carrier responsibility

The Bill mandates the inclusion of specific details in bills of lading and sets limitations on carrier liability, incorporating exceptions and indemnities. It defines carrier responsibilities, liabilities, and rights, emphasising that carriers are not implicitly bound to provide seaworthiness

The Bill aims to modernise and enforce rules regarding the carriage of goods by sea, incorporating international standards. The Bill aligns with the 1922 Brussels Convention and subsequent amendments, including the 1968 and 1979 Protocols

New bill #4: Bills of Lading Bill, 2024 updates bill of lading legal framework

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The Bills of Lading Bill 2024 aims to update the legal framework governing bills of lading by transferring all rights and liabilities to consignees and endorses of the bill upon consignment or endorsement

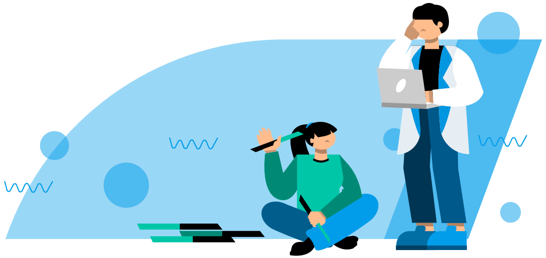
The new Bill ensures that a bill of lading in the hands of a bona fide holder represents conclusive evidence of shipment, even if the goods were not actually loaded

The Bill empowers the Central Government to issue necessary directions for its implementation and is expected to streamline the transfer of rights and liabilities in the shipping industry in line with current practices

Maritime Development Fund to provide impetus to sector

Budget 2026

- Establishment of Rs. 25,000 crore Maritime Development Fund to support long-term investments in the sector, with the Government contributing 49% and the remaining 51% mobilised from ports and private sector investments.
- Introduction of the Revamped Shipbuilding Financial Assistance Policy with an outlay of Rs. 18,090 crore, will strengthen domestic shipyards and enhance their global competitiveness.
- Large ships are classified as infrastructure assets to facilitate long-term, low-cost financing.
- Exemption of Basic Customs Duty on raw materials, components, consumables or parts for the manufacture of ships for another 10 years.



Financing

- Inclusion in the harmonised master list of infrastructure sectors will allow developers in the sector access to infrastructure lending at easier terms with enhanced limits, to larger amounts of funds as External Commercial Borrowing and to longer tenor funds from insurance companies and pension funds. It will also make them eligible to borrow from India Infrastructure Financing Company Limited etc.

Unresolved issues

Financial incentives

The Government's proposal to prioritise India-built ships for inland waterways and coastal operations must also be accompanied by higher financial incentives. Currently, the incentives provided are low compared to what other nations provide

Tax breaks

Financial and tax burdens continue to impede growth. Key among these is the need for relief in goods and services tax for overseas ship repairs, which remains a significant cost for Indian shipowners. Also tax breaks on salaries paid to seafarers could help improve cash flows and make the sector more attractive to skilled professionals

Conclusion

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- India owns just 1,526 ships i.e. about 1.2% of the global shipping fleet and has just 0.06% market share in the global shipbuilding market. The top three countries – China, South Korea and Japan account for 94% of the entire shipbuilding industry.

- The maritime sector handles ~95% of the country's trade by volume, which is a geo-strategic risk with such low ship ownership.

- India lacks a well-integrated maritime cluster with shipyards, component suppliers, and advanced R&D facilities. Additionally, absence of long-term and low-cost financing are hindering the development of the shipbuilding industry.

- However, India has the potential to develop as a shipbuilding hub due to its expertise in heavy engineering, its long coastline, proximity to major trading routes and low-cost labour.

- Several bills have been introduced in the Parliament such as The Coastal Shipping Bill 2024, The Merchant Shipping Bill 2024 etc. to revitalise the shipbuilding sector

- Besides the aforementioned bills, the Budget 2025-26 has provisions for establishment of a Rs. 25,000-crore Maritime Development Fund, classifying large ships as infrastructure assets to facilitate long-term, low-cost financing.

- These laws enacted recently and provisions in Budget 2025-26 are expected to boost the shipbuilding industry's growth and provide impetus to ship ownership in India. Despite these GoI initiatives – a lot more needs to be done such as higher financial assistance in line with what the other nations provide and tax breaks.

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Thank You!