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INDIAN SHIP-BREAKING INDUSTRY

Ship-breaking industry continues to sail in turbulent waters

August 2023

Key Highlights

Higher procurement cost exacerbated by sharp rupee depreciation and softening in steel scrap prices adversely impacted the viability of the ship-breaking business in the last 24 months

Dismantling volumes and margins are expected to remain subdued in FY2024

- Favourable demand for shipping trade and increase in freight rates pulled down the number of vessels being offered for scrapping globally in FY2023. India witnessed the lowest tonnage dismantled in a decade at 1.1 million light displacement tonnage (LDT) in FY2023 compared with 1.4 million LDT in FY2022.
- Sharp rupee depreciation in FY2023 further elevated the already high procurement cost of vessels. The problem was compounded by the softening in realisations affecting the viability of the ship-breaking operations.
- ICRA's sample set[1] witnessed a sharp revenue decline in FY2023, which is likely to persist in FY2024 due to lower ship purchases by domestic players, driven by volatile scrap prices and high procurement costs.
- ICRA foresees a gradual improvement in domestic ship-breaking volumes from Q4 FY2024, driven by an anticipated increase in ship supply with freight rates seen to remain at a lower level. The freight rates sharply declined in the recent past due to slowing global trade and improved supply chain conditions.
- With stable foreign exchange rates and scrap prices, a minimal correction of 5% in vessel procurement prices is expected to turn the industry's operations viable from Q4 FY2024. Nevertheless, ship-breaking players remain exposed to adverse forex movements, as only a limited number of these engage in foreign exchange hedging. Timely dismantling and liquidation of inventory at favourable prices to service maturing letters of credit will remain the key credit monitorable for the industry players.

[1] *Aggregate of ICRA-rated entities and listed entities – Somnath Ship Recycling, VMS industries Limited and Hariyana Ship Breakers Limited*

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Thank You!