ISSN: 0976-3031

Available Online at http://www.recentscientific.com

CODEN: IJRSFP (USA)

International Journal of Recent Scientific Research
Vol. 9, Issue, 2(D), pp. 23986-23989, February, 2018

International Journal of Recent Scientific Research

DOI: 10.24327/IJRSR

Research Article

INDIAN SHIPYARDS ON THE CUSP OF REVOLUTION: A CASE OF COCHIN SHIPYARD LTD

Bineydeep Singh*

Marketing Kohler India Pvt. Ltd

DOI: http://dx.doi.org/10.24327/ijrsr.2018.0902.1575

ARTICLE INFO

Article History:
Received 16th November, 2017
Received in revised form 25th December, 2017
Accepted 23rd January, 2018
Published online 28th February, 2018

Key Words:

Make in India, Indian Shipyards, Initial Public Offerings

ABSTRACT

Cochin Shipyard Ltd. is one of the leading shipbuilding & repair yard in India, which has an infrastructure that combines economy, scale, and flexibility, and has ISO 9001 accreditation. CSL also has an exclusive area set for offshore construction and future expansion. As one of the India's top 10 public sector undertakings, CSL has been rated excellent by the Government of India, four times in a row for achieving the targets set for the yard under the MOU system. With specialized industry knowledge and superior resources, CSL has constantly unfolded new levels of excellence in shipbuilding and ship repair. As a technology leader in India, CSL has adopted the Japanese Integrated Hull Outfitting and Painting system (IHOP) for its new construction, which gives a clear edge to CSL in the field of fabrication of commissioning of accommodation modules & topside modification. Increased investments together with the 'Make in India' impetus to modern shipbuilding and shipping sector can significantly increase the contribution to GDP and trade volumes. Here an attempt has been made to understand the operations and financial impact behind the Initial Public Offering of Cochin Shipyard Ltd.

INTRODUCTION

As per the OECD's India Economic forecast of June 2017, the economic growth of the country is projected to remain strong and India will remain the fastest growing G-20 economy. The robust position of the Indian economy will help various companies to position themselves in new sectors of operations such as the Inland Waterways, small/ medium LNG vessels/ repairs to rigs etc. The Government of India's drive towards Make in India and the subsidy scheme introduced for the purpose is expected to improve the competitive position of the Indian shipyards. However the global shipping scenario continued to be grim and provided little reason to cheer. It is expected that the downturn in Oil and Gas sector will continue for sometime, thus prolonging the time for recovery of the shipping worldwide. In view of the grim global scenario, the Company would be concentrating on its Indian commercial and defence business for a while, though marketing efforts in the international scenario will continue. For the last few decades, gloom about the sliding Indian Shipping sector was widespread, but misplaced. However, the 'Make in India' campaign introduced by Prime Minister Narendra Modi in 2014, which primarily aims at the manufacturing revival in India, aims to give impetus to the sector. The inextricable benefits, achieved through paradigm changes in outlook, with its mission and characteristics very much resemble those structural reform and growth policies applied by the Asian newly emerged economies and China (Nam, Nam, & Steinhoff, 2017).

Unlike those intensive industrial policies in Asian economies, who have quasi-unanimity in recognizing them as success stories in industrial development and economic growth, and China, which prompted gradual changes in the country's specialization pattern and its competitiveness on the world market, and consequently created the so-called 'East Asian miracle' in previous years, the 'Make in India' is endowed with the various heterogeneous promotion schemes which are tended not only to conventional, labour and capital-intensive industries but also to high-tech manufacturing firms and modern services.

Agarwal (2017) remarked that with the 'Make in India' campaign the government wants an image makeover for India, making it a supreme destination for manufacturing, which would be a big impetus to Indian economy, increase employment, and also surge the GDP and other related macroeconomic parameters. The campaigns like Make in India add a soaring internationalization of otherwise indigenous sectors, giving a glimpse of shining India to curious global

Corresponding author:* **Bineydeep Singh
Marketing Kohler India Pvt. Ltd

onlookers. The strength of such policies could be seen on financial front by observing market sentiment on stock market. Moneycontrol (2018) reported that year 2017 witnessed a raising of INR 1,61,116 crore through the public equity markets, which was 3.6 times, INR 44,819 crore that was raised in the preceding year. This is the highest amount ever raised in a calendar year, with the previous highest being INR 97,746 crore in 2010.

As many as 36 main-board IPOs (previous year 26 IPOs for INR 26,494 crore) came to the market collectively raising 67,147 crore, making 2017 the finest year for the IPO market by far. The year beheld an astounding response from retail investors as well. The highest number of applications was received by public offer of Cochin Shipyard at 19.42 lakhs.

Background

Cochin Shipyard Limited (CSL) is the largest shipbuilding and maintenance facility in India and one of the largest public sector shipyard in India in terms of dock capacity. It is part of a line of maritime-related facilities in the port-city of Kochi, in the state of Kerala, India. It operates in two business divisions, namely Ship Repair Business and Ship Building Business. Ship Repair Business accounts for 26% of the company's revenues and has grown 38% in last 2 years and the industry is expected to grow at 10 per cent CAGR going forward till 2021. CSL is the first Greenfield and presently the most modern shipbuilding yard in India, has an enviable reputation for building high quality ships. This segment accounts 74% of company's revenue and the company has order book of 3000 crores in this segment with navy and coast guard being the main client. The government's make in India project especially for defence vessels will help the company going forward. The company gets 85% of its total revenue from non-cyclical defence companies, making it a recession proof business.

With the listed peers of the company either bankrupt or facing major financial crisis, the company will be the only good surviving company in a struggling industry due to its defence orders and debt free status. In addition to strong fundamentals, high capital investments and the requirement of adequate cash flows act as major barriers to entry in this space. CSL is the only shipyard in India that can build up to 1,10,000 DWT (deadweight tonnes) with a track record of building tankers, bulk carriers, port crafts and passenger vessels, among others. Currently, it is into constructing platform supply vessels for exports and aircraft carrier for the Indian Navy. It is also the only shipyard in the country which can fix vessels of up to 1,25,000 DWT, besides being the only yard that can repair an air defence ship. India's first indigenous aircraft carrier, INS Vikrant, is in its final stage of construction at CSL.

A REVIEW OF LITERATURE

Li(2012) suggested that in recent past some emerging South Asian countries have changed their disadvantageous positions and caught up with traditional maritime countries by intensive state investment in port development, shipbuilding industry and related shipping services. Thus, the shipbuilding industry has undergone tremendous changes within the global market during the period of 2000 to 2010. With Europe's domination fading away, its leading position was challenged by Japan, South Korea, and China thanks to the positive policies, adept manufacturing capabilities, and economic booms.

Franks, Sussman, &Vig (2015) however claimed that in spite of the potentially chaotic environment in which the industry operates, rule of law has been established: it is largely private, decentralized, highly differentiated, competitive, and adaptable. Among the strategic choices for growth in this sector, external expansion over the internal expansion is preferred because of several benefits. It gives very quick growth to the firm and also reduces competition.

Thangam & Sureshkumar (2015) analyses various facets of the global and the Indian shipbuilding industry and clearly showed that India needs to look at multiple interventions including in the areas of regulatory framework, investment policies, trade policies, fiscal policies, infrastructure, R&D, skill, financing, process, collaboration and technology for strengthening the indigenous shipping sector.

Table 1 Gaps and issues in the Shipbuilding Industry

S. No.	Areas	Gaps & Issues
1	Scalability	High dependence of ship owners in old ships due to constraints of investment capacity to buy new ship. Present requirement to obtain multiple clearances covering land acquisition, environmental clearance, power and water etc. for new projects in shipbuilding
2	Cost Efficiency	High interest rates on working capital in India as compared to competing countries Customs duty of the order of about 35% is imposed on all capital equipment required for shipbuilding.
3	Productivity Optimization	Limited investment in R&D in ship designing and innovation.
		Non-availability of organized component and service supply manufacturers. Dependence on imports for critical raw- materials.
4	Quality Excellence	Lack of basic skills like welding and fitting Inadequate skills and infrastructure availability Inability of smaller suppliers to keep abreast with the rising quality issues.
5	Sustainability	Absence of a strong ancillary industry Inverted duty structure. Lack of synergy between public and private yards.

Source: Thangam & Sureshkumar (2015)

Ports & Shipping (Achievements Report), 2016 reflected that the Indian maritime industry is an integral part of the country's trade and commerce and supports 90% of India's trade by volume. Over the last two years, a host of policy and regulatory reforms by the Government has resulted in capacity building and service delivery improvement. Table 2 represents major investments in sea transport sector with foreign collaborations.

Need of the Study

It is observed the despite numerous corporate policies and government programs, there exists huge disparities in policies and real time markets. With the advent of Make in India, Indian Shipping Sector has become a repository of Indian Defence and crucibles of opportunity. The resounding success of the initial public offering (IPO) of state-owned Cochin Shipyard shows that investors across categories have bought into the defence play of shipbuilders, a segment with government-funded defence contracts estimated to be worth INR 2 lakh crore over the next decade.

Table 2 Major Investments in Sea Transport Sector during April 2014-September 2016.

Foreign Collaborator	Country	Indian Company	FDI (USD Millions)
NCY Equity Growth Investment	Mauritius	Sterling Port Ltd	263.23
Niche Investment Holdings Pvt Ltd	Mauritius	Sterling Port Ltd	178.65
PSA International Pte Ltd., PSA Bharat Investments Pte. Ltd	Singapore	Bharat Mumbai Container Terminals Pvt Ltd.(USD 107.42 Million) Chennai International Terminals Pvt Ltd (USD 25.72 Million)	133.14
Worldwide Emerging Market Holding Limite	Mauritius	Adani Ports And Special Economic Zone Ltd.	95.77
Universal Trade And Investments Limited	Mauritius	Adani Ports And Special Economic Zone Ltd.	68.16
Mundi Limited	Cyprus	Adani International Container Terminal Pvt Ltd.	57.26
Saab Aktiebolag I.E. Saab AB(Publ)	Sweden	Pipavav Defence Offshore Engineering Com	33.0
Omega TC Holdings Pte Ltd	Singapore	Tata Projects Limited	11.97
Tara India Holdings	Mauritius	Dighi Port Ltd	11.12
Wayzata Iii Indian Ocean Ltd	Mauritius	Seven Islands Shipping Ltd	10.99

Source: Ports & Shipping (Achievements Report), 2016

This study aims to understand the factors boosting the Cochin Shipyard Initial Public Offering.

Objectives of the Study

The objectives of the study are enumerated as below:

- To explore the significance of Cochin Shipyard in Maritime Sector
- To propose practical suggestions, in the light of findings.

METHODOLOGY

Research design: This paper is descriptive in nature.

Source of data: The study is based on secondary data. The secondary data was collected from the various sources available like websites mainly NSE, BSE, and SEBI, journals, magazines, etc. wherever necessary.

Time duration of Study: To analyze the performance of the IPO on the listing day and to the long term return or total yield for the stock. The findings of this study are intended to add to the discussion of IPO.

Analysis

While many IPOs turn into hits, there is no fail proof formula for success. Some companies, like Pets.com, have filed for bankruptcy within a year of an offering. In other cases, companies end up going back to private ownership. With IPO regulations getting complex and tougher, there is an extensive set of regulations that require lots of disclosure, as well as strong information systems. There are various rationales for CSL to go public.

Cash is the most obvious reason for going public. This wealth can be critical for expansion, hiring more people, building facilities and creating breakout products.The yard, which is in the heart of Kochi, is currently executing orders worth a little over INR 3,000 crore comprising six ships. The second phase of India's first locally made aircraft-carrier alone accounts for INR 1,315 crore of this, with the rest coming from four passenger-cum cargo ships for the Andaman and Nicobar administration and a technology demonstration vessel for the DRDO. Interestingly, all these orders were given to the company by government outfits without any tenders. These orders will add substantial cash in the hands of management. The overwhelming response of oversubscription of the IPO was the proof of the confidence in the company. The upbeat sentiment is more creditable in the backdrop of the financial troubles facing two listed shipyards-ABG Shipyard and Bharati Defence and Infrastructure.

Being a publicly trading company is considered a major achievement as it boosts the credibility of the company. Going public offers a sense of corporate stability to the investors.IANS (2018) suggested that post the success of IPO, the government is considering merger of Miniratna Indian public sector unit Dredging Corporation of India (DCI) with another listed PSU company Cochin Shipyard. DCI is the only PSU Company in dredging business and could provide cost-effective dredging solutions at competitive price for government projects to make inland waterways navigable, and build and modernize ports.

Since there is difficulty in valuation of private stock, IPO's make the valuations fairer and sturdier. In latest 5 Shipping Trends We Might See In 2018 report, it was conluded that as the global economy recovers and many areas of investment are seen as saturated, shipping is one such area that hasn't been completely deluged with investment capital. Thus, with high potential in this sector over the next decade, supplemented by fair and transparent valuation by going public, it is imperative to be a voracious investor.

Liquidity is the next most influential encouragement for going public. Subramanian (2018) rightly surmised that with private shipyards struggling to gain financial returns, it is highly likely that PSU shipyards will continue to bag more orders in the near future.

A collaborative approach for private and public sector enterprises could be leveraged to fast track deliveries of ships on order. Following such collaborative trend was the major theme of 2017, wherein a massive consolidation effort in the container-shipping segment driven by low (loss-making) rates brought on by a massive influx of vessels. Increasing investments and cargo traffic point towards a healthy outlook for the Indian ports sector. Providers of services such as operation and maintenance (O&M), pilotage and harbouring and marine assets such as barges and dredgers are benefiting from these investments.

Khurana, Aggarwal, & Bagga (2016) however suggested that when the markets are in an uptrend or positive growth trajectory it becomes an arduous task to separate wheat from chalf i.e. to identify fundamentally strong companies when even peanuts sells like a hot cake. Therefore, timing of an IPO is very important factor. Over subscription and under subscription by different categories of investors especially institutional investor's assists the retail investors in confidence building.

CONCLUSION

Basking in the IPO success, Cochin Shipyards is now drawing up huge expansion plans. The shipyard has currently undertaken three major expansion projects:

- A dry dock in Cochin with an investment of INR 1,800 crore
- An international ship repair facility on the port trust land at a cost of INR 970 crore and
- It is making a foray into inland waterways transport.

With a hitherto impressive track record, particularly with respect to delivery timelines, other PSU shipyards need to introspect and get their act together to compete with CSL in light of the navy's global footprint has increased substantially over the last few years in keeping with the government's "Act East" policy.

References

1. Agarwal, S. (2017). Make in India: Reality Test about the Foreign Direct Investment. *International Journal of Engineering Technology Science and Research*, Vol. 4, No. 12, 620-625.
2. Cochin Shipyard. (2017). From Wikipedia: https://en.wikipedia.org/wiki/Cochin_Shipyard
3. Franks, J., Sussman, O., & Vig, V. (2015). The privatization of bankruptcy: evidence from financial distress in the shipping industry. 1-33.
4. IANS. (2018). Business Standard News. From www.business-standard.com: http://www.business-standard.com/article/news-ians/government-mulling-dci-cochin-shipyard-merger-118011100837_1.html
5. Khurana, S., Aggarwal, S., & Bagga, A. (2016). Analysis of IPO Performance Wealth Creators or Destroyers: An Indian Perspective. BVIMSR's Journal of Management Research, Vol. 8, No. 2 , 137-145.
6. Li, K. B. (2012). Shipbuilding policy in Asia (2000-2010s): a comparative study. *J. Korea Trade* Vol. 16, No. 4, 105-128.
7. Nam, C. W., Nam, S., & Steinhoff, P. (2017). Modi's 'Make in India' Industrial Reform Policy and East Asian Flying-Geese Paradigm. CESifo Working Paper, No. 6431, 1-30.
8. News, M. (2018). After a stellar 2017, 15 companies in fray to raise up to Rs. 12000 cr in 2018: Prime Database. From moneycontrol.com: http://www.moneycontrol.com/news/business/ipo/after-a-stellar-2017-15-companies-in-fray-to-raise-up-to-rs12000-cr-in-2018-prime-database-2472549.html
9. Promotion, D. O. (2016). Ports & Shipping Achievements Report. Department of Industrial Policy and Promotion & Ministry of Shipping.
10. Subramanian, K. (2018). The Wire. From thewire.in: https://thewire.in/214008/public-defence-shipyards-must-capitalise-recent-momentum-smooth-sailing/
11. Thangam, K. M., & Sureshkumar, D. (2015). Competitiveness of Indian Ship Building Industry. *International Journal of Innovative Research & Development*, Vol 4, No. 7, 18-25.
12. 5 Shipping Trends We Might See In 2018. (2018). From seekingalpha.com: https://seekingalpha.com/article/4135889-5-shipping-trends-might-see-2018

How to cite this article:

Bineydeep Singh.2018, Indian Shipyards on The Cusp of Revolution: A Case of Cochin Shipyard Ltd. *Int J Recent Sci Res.* 9(2), pp. 23986-23989. DOI: http://dx.doi.org/10.24327/ijrsr.2018.0902.1575

****