

Indian rupee slide sparks bank unease

Breakers are feeling the pinch as banks ask for up to 50% of the Indian rupee value of letters of credit to be booked in US dollars.

Geoff Garfield

London

Risk-averse banks are asking ship-breakers in the Indian subcontinent to hedge against foreign-exchange fluctuations by converting substantial sums into US dollars.

Banks are requiring breakers to book greenbacks for up to 50% of the Indian rupee value of letters of credit (LCs).

The move is in response to the rupee falling to an all-time low against the dollar. The Indian currency has fallen 14% since the start of 2011 and India's finance ministry has said the Reserve Bank of India only has limited ability to halt the fall.

When breakers purchase ships they open an LC with banks to pay the cash buyers, the industry intermediaries between shipowners and recyclers.

Until now, recyclers have typically not hedged their positions

and, according to Steve Wansell, managing director of United Arab Emirates (UAE) and UK-based cash buyer Mideast Shipping & Trading, it has come as a "a bit of a shock to the system".

Wansell said: "The banks are asking for it because they see foreign exchange bouncing around and they don't want the exposure because an LC is technically a loan to the breaker to be able to buy the ship."

The concern is that the rupee could decline further by the time breakers have to repay the money, normally after 180 days.

Until now, the main requirement facing breakers is having to make a down payment of between 10% and 30% at the time of opening an LC.

The latest twist means that recyclers must have up to 50% available on account with their banks.

Wansell, a former banker himself, says the Indian currency decline and new LC requirement has hit the market despite local steel prices holding up. The need to book dollars was one of the biggest factors "slowing demand and desire" for buying ships.

Shashank Agrawal, legal advisor to cash buyer Wirana, said: "Ships in the market are not getting that much response from the end-buyers because they are looking at their financing costs. They are waiting for the dollar to come down."

He added: "You find a situation where, for example, a ship that would previously generate maybe five or six offers locally, you probably won't find a single offer now because everyone is sitting back on their cash."

India has until now been by far the most active market player. Bangladesh has been watching from the sidelines since the import of vessels for scrapping was halted on 12 October, something that is unlikely to change until January 2012 at the earliest.

Cash buyer Global Marketing



RUPEES: Recyclers told to hedge against fluctuations

Photo: Bloomberg News

Systems (GMS) says the "malaise of the Indian currency crisis" has also started filtering through to Pakistan.

Meanwhile, downward pressure on prices, says Wansell, has thrown up some "horror stories" on the Indian subcontinent waterfront with people renegotiating possibly \$50 or \$60 less on some ships.

He says the end of 2011 has been "frustrating" and cautions cash buyers to ensure that end-users are reliable and that they are "paying the right price by the local market".

GMS warns cash buyers that if they do not "snare an end-buyer almost immediately" at today's prices they should expect levels to be even lower looking ahead.

Ships filtering into yards as money men call time

A trickle of distressed ships are filtering into ship-scrapping yards.

Cash buyer Mideast Shipping & Trading confirms it is currently working on two vessels direct from a very large shipping bank.

Mideast managing director Steve Wansell declines to identify the ships or bank but says it is tonnage on which the financier has called time.

Wansell says that so far it is just a "trickle" of ships from banks but more will be recycled going forward as institutions move against non-performing companies. The demolition end of the market inevitably benefits when the going gets tough for owners, he adds.

"An undercurrent of problems has been there for years and... they [banks] are now calling time

on some of these guys," said Wansell.

"When your bankers aren't as flexible and generous in giving breaks on repayments, your business model starts to get stretched."

On the demolition market overall, Wansell added: "I think the next two or three years will be fairly active. It will be good to see Bangladesh back open because that is what the industry needs. It needs that competition."

The Mideast director says an obstacle is that some owners think prices of two to three months ago still exist "but the market has come off considerably".

Wansell spent 24 years in banking working for US, French, German and Indonesian employers before joining Mideast.



STEVE WANSSELL

Photo: Geoff Garfield

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