



Ship leasing in GIFT IFSC

April 2024



Foreword

India's economy has grown to USD 3.73 trillion.¹ The first trillion was achieved 60 years after independence, and a consistent growth rate has been maintained thereafter. In today's interconnected and dynamic global economy, the role of the financial services sector has become increasingly vital.

As a pioneering initiative in India's financial landscape, the Government of India launched the Gujarat International Finance Tec-City (GIFT City) project in 2007, with an endeavour to develop a smart city that would host an International Financial Services Centre (IFSC) to provide a comprehensive platform for various financial activities, such as banking, insurance, capital markets, asset and wealth management, FinTech, and access to global markets and currencies.

Representing the nation's vision to become a global hub for international finance and commerce, GIFT IFSC offers world-class infrastructure and a regulatory framework to attract leading financial institutions, businesses and investors from around the globe.

This report aims to provide readers with a comprehensive understanding of the unique attributes and business opportunities inherent in this dynamic environment. We invite readers to envision the potential that GIFT City holds, as well as the opportunities it presents for the future.

I extend my sincere gratitude to all the contributors, whose expertise and insights have enriched this publication. I also commend the editorial team for their dedication and diligence in bringing this project to fruition.

May this publication foster continued collaboration, innovation, growth and prosperity of GIFT City and GIFT IFSC.



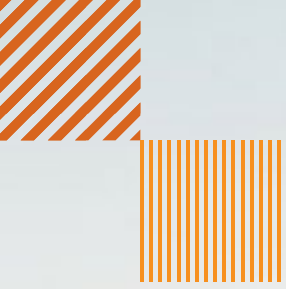
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Global Financial Services Technology Leader
PwC India

1. <https://www.zeebiz.com/economy-infra/news-india-to-become-3rd-largest-economy-with-gdp-of-usd-5-trillion-in-3-years-finmin-273873#:~:text=Today%2C%20it%20is%20the%205th,2024%20review%20of%20the%20economy.>







GIFT City – an introduction

GIFT City, the Government of India's flagship project, aims to boost India's stature on the world map of international finance by fostering a favourable regulatory environment, promoting talent and facilitating capital flow in the Indian economy.

Recognising India's financial prowess, Finance Minister Mr. Arun Jaitley announced the establishment of GIFT City as India's inaugural International Financial Services Centre (IFSC) during the Union Budget for 2015-16.

GIFT City, often labelled the 'smart city of the future', is located in Gujarat, nestled between Ahmedabad and Gandhinagar. This tri-city ecosystem fosters an environment supporting business, industry, international finance, and foreign investment, symbolising both a nostalgic era and a promising future.

Conceived as a vertical city, GIFT City boasts modern infrastructure such as a fully automated district cooling system (DCS), automated waste collection system (AWCS) and underground utility tunnels.

This top-tier infrastructure has played a vital role in establishing GIFT City as a global leader among smart cities.² The urban centre is complemented by contemporary social amenities, such as an international school, healthcare facilities, a five-star hotel, an international exhibition complex, the GIFT City Business Club with both indoor and outdoor sports facilities, diverse dining options, and well-planned residential projects. Collectively, these offerings make GIFT City a truly 'walk-to-work' city.

Government of India operationalised GIFT City as an IFSC in 2015

A greenfield smart city developed on 886 acres of land

Divided into two zones that include a Domestic Tariff Area (DTA) and Special Economic Zone (SEZ)

The financial gateway of India for inbound and outbound investment



- 1 Along National Highway 48 (Delhi-Mumbai Industrial Corridor)
- 2 25 mins from Ahmedabad International Airport
- 3 15 mins from nearest railway station and upcoming high-speed rail

2. <https://www.thehindubusinessline.com/news/national/gifts-ifsc-amongst-the-fastest-growing-globally/article24935538.ece>

GIFT City journey so far...

2007

GIFT City project announced by Gujarat Government

2011

The foundation stone for the GIFT project was laid. Brick and mortar development of GIFT City commenced

2015

Ministry of Finance notifies India's first IFSC

2016

Union Budget provided a competitive tax regime for units in IFSC

2014

GIFT City notified as SEZ for international financial services

2018

RBI notifies IFSC as non-resident zone

2020

IFSC Authority (IFSCA) was established

2023

SGX Nifty begins trading as GIFT Nifty from GIFT City

2021-2022

IFSCA notified key regulations, circulars, notifications

2024

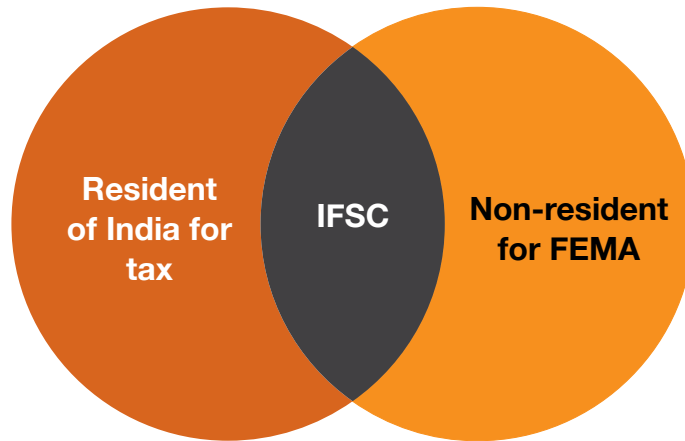
Key announcements:

- Area expansion from 886 acres to over 3,300 acres
- Development of social infrastructure including entertainment, recreational and retail zone
- Operationalisation of metro network in GIFT City by July 2024
- 9-km riverfront along the banks of the Sabarmati River near Gift City to be developed

IFSC

The Government of India launched India's first IFSC in 2015 to accomplish the vision of becoming a significant economic power by fostering the robust growth of international financial services within the nation.

The IFSC is envisioned as a world-class zone dedicated to offering financial services to non-residents and certain residents in a foreign currency (other than the Indian rupee [INR]).



Governing regulator - IFSCA

Established in 2020, the IFSCA plays a role as a statutory body, providing a forward-looking regulatory environment for financial market participants and facilitating ease of doing business. It functions as a unified regulator, combining the powers of the Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority of India (IRDAI), and Pension Fund Regulatory and Development Authority (PFRDA) related to financial services, products and institutions within the IFSC.

In addition to securing approvals from the IFSCA for establishing a unit in IFSC, it is also necessary to obtain approvals from the Development Commissioner, SEZ. With effect from 28 February 2024, certain powers and functions of the Development Commissioner, SEZ are now vested with IFSCA.³

3. Ministry of Finance (Department of Economic Affairs) Notification S.O. 940(E) dated 28th February 2024



GIFT IFSC: In numbers⁴

580+

registered entities as on
31 December 2023

23

banks registered as on
31 December 2023

USD 51.98 billion

total banking asset size
as on 31 December 2023

USD 148 billion

outstanding derivative
transactions booked by
banks till December 2023

2

stock exchanges as on
31 December 2023

USD 66.73 billion

turnover on IFSC
international stock
exchanges in December 2023

USD 52.97 billion

cumulative debt listing
on IFSC exchanges as
on 31 December 2023

USD 10.43 billion

green/ESG/sustainable
debt listing as on 31
December 2023

72

broker dealers registered
as on 31 December 2023

95

alternative investment
funds registered as on
31 December 2023

USD 7.08 billion

total commitments raised
as on 31 December 2023

128

aviation assets leased from
the IFSC till December 2023

7

ship leasing entities
registered as on
December 2023

29

IFSC insurance offices and
intermediary offices as on
31 December 2023

47

FinTech entities registered
as on 31 December 2023

4. IFSCA Bulletin Oct-Dec 2023



Key benefits: GIFT IFSC

**Strategic
location**

**Single window
clearance**

**Unified
regulator**

**World-class
infrastructure**

**Availability of
talent pool**

**Progressive
regulations**

**Competitive
tax regime**

State subsidies





**International
arbitration centre**

Existing business opportunities

Banking	Capital markets
Aircraft leasing	Asset and wealth management
Ship leasing	Bullion
Insurance	FinTech



Emerging business segments

 Global in-house centres	 Payment service providers	 Foreign universities	 Global and regional treasury centres
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Proposed business segments in GIFT IFSC

Remote broker dealers in IFSC

Book-keeping, accounting, taxation and financial crime compliance services from the IFSC

Shipping in India

7,517 km

of coastline

12

major ports

200

minor ports

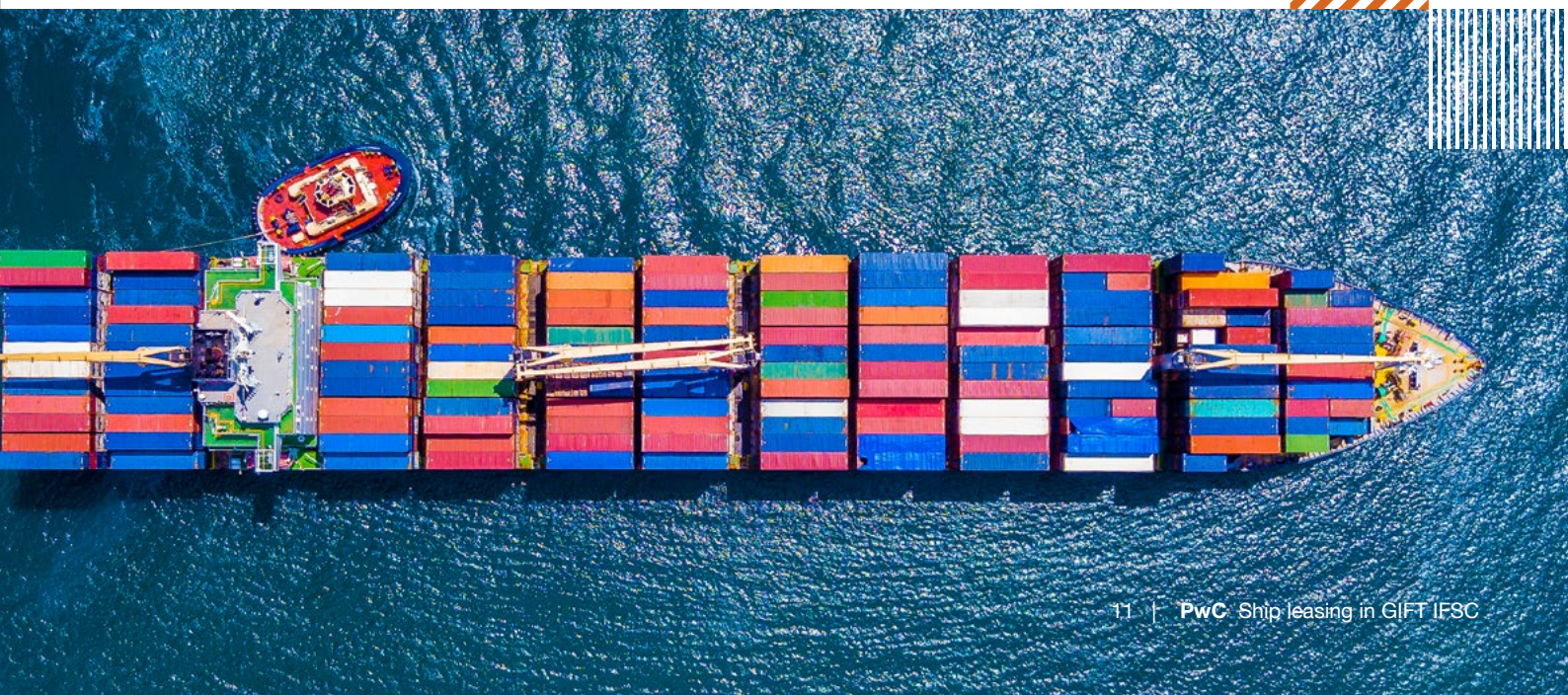
16th

largest maritime
country in the world

Source: Maritime Amrit Kaal Vision 2047 Report

Background

- India has a long maritime history and a vast coastline that offers immense opportunities for the development of the ship industry.
- The industry comprises shipbuilding, ship repair, shipbreaking and ship leasing and financing segments, which cater to various domestic and international markets.
- The ship industry is vital for India's trade, national security and blue economy. It contributes to employment generation, skill development and technological innovation in the country. The industry also supports the growth of ancillary sectors such as steel, engineering and logistics.
- India's ship industry faces several challenges such as high costs, low productivity, and lack of scale and competition from global players. However, the industry also has several strengths such as availability of skilled manpower, strategic location and strong domestic demand.
- The government has taken various initiatives to support the ship industry such as providing subsidies, tax incentives, infrastructure development and policy reforms.
- The industry is also expected to benefit from flagship programmes such as Sagarmala, Make in India and Atmanirbhar Bharat.
- GIFT City is emerging as a favourable location for ship acquisition financing and leasing as well as for other related activities.



Shipping ecosystem in GIFT

GIFT City provides a conducive and competitive environment for maritime and shipping businesses to operate, collaborate and innovate, with access to world-class infrastructure, facilities, services and incentives.

The Gujarat Maritime Board, Cluster, University and Arbitration Centre are four initiatives of the Gujarat government to promote and regulate the maritime and shipping sector in the state. They aim to provide a comprehensive and integrated platform for various stakeholders, services and activities related to the maritime domain.

The Gujarat Maritime Board is a government agency of the Government of Gujarat, a state of India, founded to control, manage and operate the minor ports of Gujarat.

The Gujarat Maritime Cluster is a dedicated, single-location ecosystem of maritime and shipping industry players and service providers, along with relevant government regulatory agencies, at GIFT City.

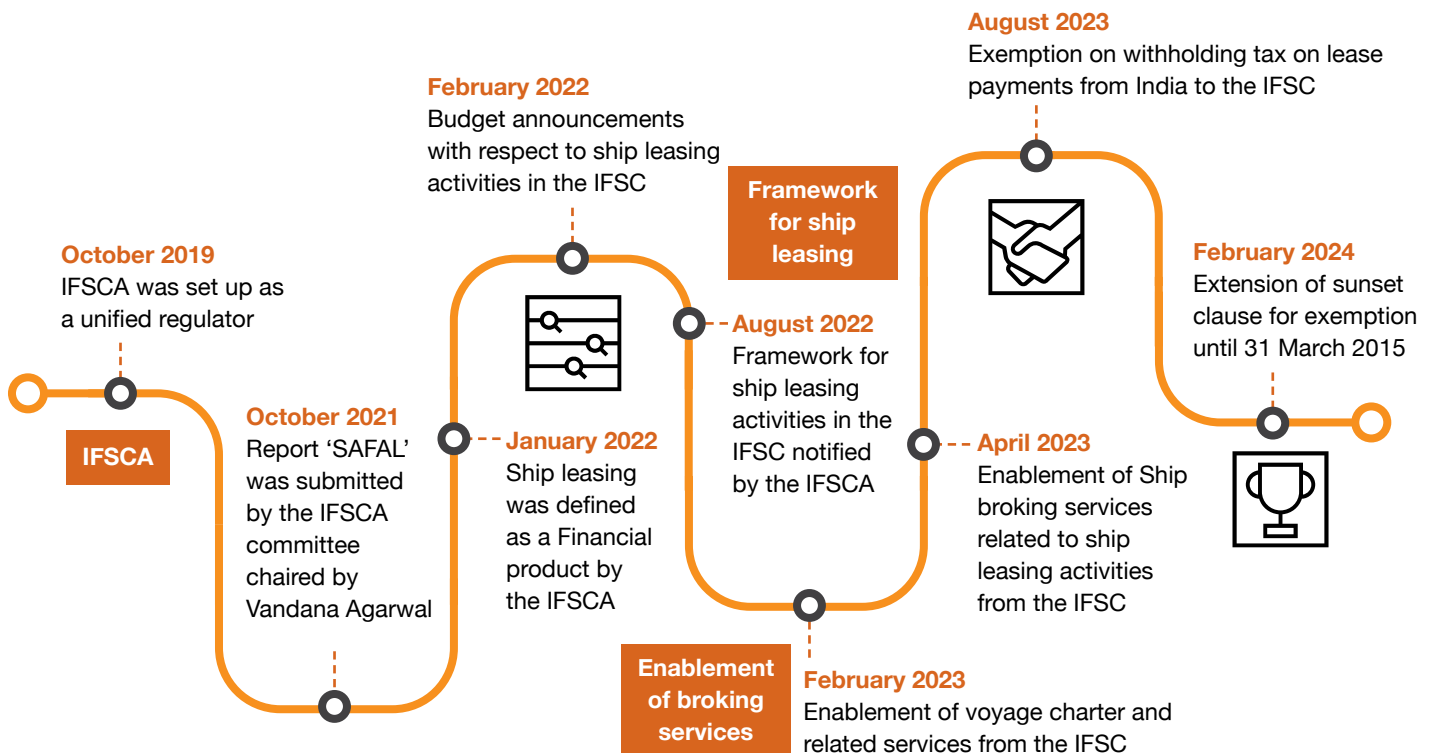
The Gujarat Maritime Cluster also hosts the Gujarat International Maritime Arbitration Centre to organise and manage arbitration proceedings in disputes pertaining to different sectors, with a special focus on commercial disputes pertaining to the maritime and shipping sector.

The Gujarat Maritime University has been established as a global centre of excellence in maritime education, research and development and professional training.

Ship leasing and financing from the IFSC

To tap the opportunity in aircraft leasing and financing and to realise the vision of the Ship Acquisition Financing and Leasing (SAFAL) report, in January 2022, the IFSCA notified 'ship lease' as a financial product. The notification also stated that 'ship lease' shall include the operating lease, and the hybrid of the operating and financial lease, of a ship or ocean vessel, engines of a ship or ocean vessel, or any other part thereof.⁵

To facilitate setting up ship-leasing businesses in the IFSC, the IFSCA provided a framework for enabling ship finance and operating leases on 16 August 2022.⁶



5. Notification F. No. IFSCA/2021-22/GN/021 dated 07 January 2022

6. Circular no. 496 dated August 16 2022 - Framework for Ship Leasing by IFSCA

Eligibility and registration

Pursuant to notifying ship lease as the financial product, the IFSCA introduced the necessary regulatory framework to enable ship finance and operating leases in India. The IFSC Authority (Finance Company) Regulations, 2021 (FC Regulations), permit companies to undertake leasing as an activity.

An entity desirous of undertaking permissible activities as a lessor is required to obtain a certificate of registration under the FC Regulations.

Regulatory framework

The entity can be set up as a company. Additionally, branch, LLP or trust forms are also permitted for an operating lease.

An operating lease transaction for a ship lease is classified as a 'permitted non-core activity', whereas a financial lease transaction for a ship lease is classified as a 'permitted core activity'.⁷

Asset management support services and ship broking services are permitted under the Framework for Enabling Ancillary Services.⁸

The service providers under the IFSCA's Ancillary Services Framework will be able to provide services to the following entities:

- entity(ies) set up in the IFSC
- entities from foreign jurisdictions for various permissible ancillary services in the IFSCs in India or overseas
- Indian entities who propose to open, set up or carry out operations in IFSCs or foreign jurisdictions, provided consideration is received in freely convertible foreign currency.

7. Circular no. 496 dated August 16 2022 - Framework for Ship Leasing by IFSCA

8. Ibid.



Permissible activities

A ship lessor in the IFSC is permitted to undertake all or any of the following activities:

- lease (including financial lease or hybrid of financial or operating, i.e. a bareboat charter cum demise, bareboat charter or a time charter) for a ship lease arrangement (includes ship or an ocean vessel) including sale and lease back, purchase, novation, transfer, assignment, and such other similar transactions in relation to a ship lease
- voyage charters, contract of affreightments, employment in shipping pools and all other legal commercial transactions for employment of ships
- asset management support services for assets owned or leased out by the entity or by any of its group entities set up in the IFSC in India
- any other related activity with the prior approval of the IFSCA
- in addition to the above, third-party asset management services and ship broking services can be performed by registering separately under the IFSCA's Ancillary Services Framework.⁹

A transaction shall be classified as a lease if it is in accordance with the Indian Accounting Standard 116 on leases.

'Ship' shall include any watercraft, used or capable of being used in navigation by its own propulsion, in, above, or under the water but does not include fishing or sailing watercraft.¹⁰

'Ocean vessel' shall include every description of watercraft used or capable of being used in the marine environment, such as ship, boat, sailing vessel, fishing vessel, submersible, semi-submersible, hydrofoils, non-displacement crafts, amphibious crafts, wing-in-ground crafts, pleasure crafts, barges, lighters, mobile offshore drilling units, mobile offshore units, or of any other description, or any part thereof, and shall include inland water vessels and coasting vessels, but does not include fishing or sailing watercraft.¹¹

9. Circular no. 206 dated 10 February 2021 - Framework for enabling Ancillary services at International Financial Services Centres

10. Circular no. 496 dated August 16 2022 - Framework for Ship Leasing by IFSCA

11. Ibid.





Targeted segments

Ship owners	Ship lessors	Ship operators	Ship asset managers
Ship brokers	Cruise owners	Oil and gas rigs	Dredging companies
Mobile offshore vessel owners and lessors	Mobile offshore unit owners and lessors	Public sector units: Chartering division	

Capital requirement

Operating lease

A minimum-owned fund of USD 200,000 or its equivalent in freely convertible foreign currency is to be maintained at all times for an operating lease.

Financial lease

A minimum-owned fund of USD 3,000,000 or its equivalent in freely convertible foreign currency is to be maintained at all times for a financial lease.¹²

12. Circular no. 496 dated August 16 2022 - Framework for Ship Leasing by IFSCA

Prudential norms

- **Capital ratio:** A finance company (FC) or finance unit (FU) shall maintain a minimum capital ratio at 8% of its regulatory capital to its risk-weighted assets or at such percentage as may be specified by the IFSCA.¹³
- **Liquidity coverage ratio (LCR):** An FC or FU shall maintain an LCR on a stand-alone basis at all times, as may be determined by the IFSCA. Further, in the case of an FU, the LCR may be allowed to be maintained by the parent entity, with specific approval of the IFSCA.¹⁴
- **Exposure ceiling (EC):** The sum of all the exposures of an FC or FU, as the case may be, to a single counterparty or group of connected counterparties shall not exceed 25% of its available eligible capital base without the approval of the IFSCA.¹⁵

The IFSCA shall issue operational guidelines with respect to the implementation of the applicable prudential regulations as specified above.

Exemption from prudential regulatory requirements apply to entities engaged only in operating lease transactions.

Currency for operations

All transactions undertaken by the unit in the IFSC shall be in a freely convertible foreign currency only. However, the unit in the IFSC may defray their administrative expenses in Indian rupees by maintaining a separate special non-resident rupee account.

Maintenance of books of accounts

The books of accounts and their financial information shall be maintained in any freely convertible currency. Parallel accounts in Indian rupees shall be maintained for other compliance purposes.¹⁶

Submission of report or information

The unit in the IFSC shall furnish audited annual financial statements, confirmation of compliance with applicable regulations, circulars, guidelines and directions, confirmation of compliance with capital requirement and details of material regulatory action within 15 days from the finalisation of annual financial statements.

The financial information submitted to the IFSCA shall be expressed in US dollars.

Allied laws

The provisions of the Merchant Shipping Act, 1958, and allied regulations shall continue to be applicable to the entity set up in IFSC.

13. IFSCA (Finance Company) Regulations, 2021 dated 25 March 2021

14. Ibid

15. Ibid

16. Circular no. 496 dated August 16 2022 - Framework for Ship Leasing by IFSCA



Registration of ships

Any ship owned by the incorporated unit in IFSC shall be required to be registered under the Merchant Shipping Act, 1958.

Licensing of ships

Indian ships and ships chartered by citizens of India or a company or a co-operative society shall be taken to sea from a port or place within or outside India only after obtaining a licence granted by the Directorate General of Shipping (DG Shipping) under section 406 of the Merchant Shipping Act, 1958.¹⁷

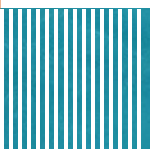
A licence under section 407 of the Merchant Shipping Act, 1958, is required to engage in coasting trade.

Right of first refusal

- In the context of Indian shipping, the DG Shipping has implemented the right of first refusal (RoFR) policy to bolster the domestic maritime industry. This policy grants Indian shipping companies preferential treatment when bidding for contracts, especially those related to public sector undertakings (PSUs).
- Under this policy, when PSUs in India float tenders for shipping contracts, be it for transporting goods, crude oil or any other commodities, Indian shipping lines have the right to match the lowest bid made by a foreign competitor. If an Indian company exercises this right and matches the lowest bid, it is awarded the contract even if that bid was not the lowest initially submitted.
- This policy is designed to support and promote the growth of the Indian shipping industry, ensuring that national companies are given priority in securing significant contracts. It aims to enhance the competitiveness of Indian shipping companies in the global market, encourage the retention and expansion of the Indian merchant fleet, and ultimately contribute to the country's economic development.
- The order or priority in RoFR for ships owned by IFSC entities is as under:¹⁸
 - a. Indian built, Indian flagged and Indian owned
 - b. Indian built, Indian flagged and Indian IFSCA owned
 - c. foreign built, Indian flagged and Indian owned
 - d. foreign built, Indian flagged and Indian IFSCA owned
 - e. Indian built, foreign flagged and foreign owned.

17. The Merchant Shipping Act, 1958

18. ADDENDUM No. 1 TO THE DGS CIRCULAR NO. 02 of 2021 dated 05.10.2023 reg Guidelines for exercise of Right of First Refusal - grant of license to foreign flag vessels for your information



Tax framework¹⁹

Direct taxes

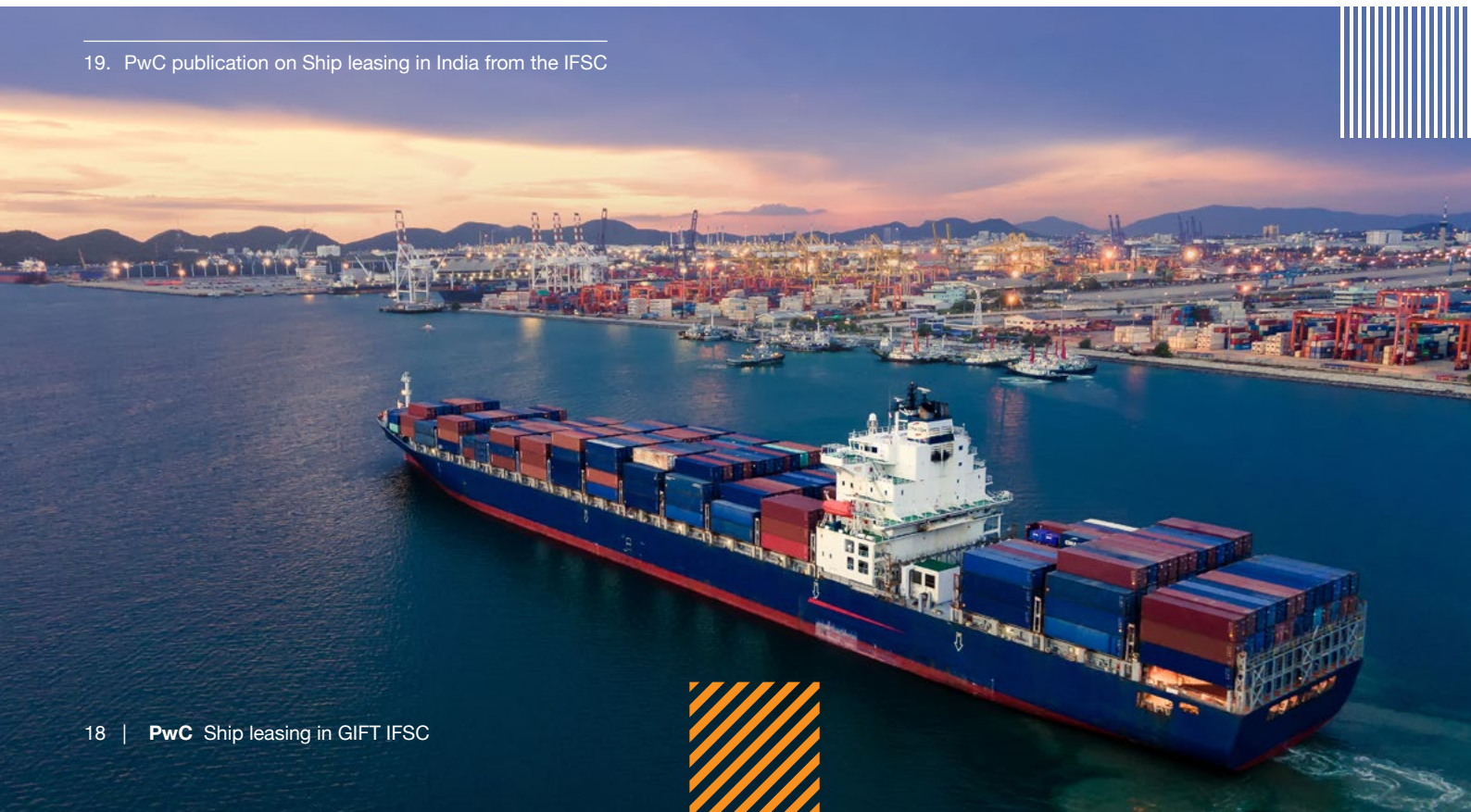
- Tax holiday for any 10 consecutive years out of the first 15 years.
- Unabsorbed depreciation can be carried forward to the subsequent years to be set off against future profits, without any time limit.
- Minimum alternate tax (MAT) or alternate minimum tax at 9% of the book profits.
 - MAT is not applicable to companies in the IFSC opting for the new tax regime.
- No tax withholding on the payment of interest or royalty on account of lease payments to non-residents by a unit in the IFSC.
- No capital gains on sale of ship during the tax holiday period.
- Tonnage tax can be opted for post the tax holiday period.
- No tax withholding on lease payments (including supplemental lease) from India to an IFSC unit during the tax holiday period.
- Interest income exempt in the hands of non-resident lenders where such interest payments are made by a unit in the IFSC.
- Withholding of tax at the reduced rate of 10% on payments of dividend from units in the IFSC to non-residents.

Indirect taxes

- The import of a ship or ocean vessel into the IFSC is not subject to basic custom duty (BCD) subject to conditions.
- The import of a ship or ocean vessel on lease or an outright basis by an Indian operator from an Indian lessor located in the IFSC is not subject to BCD.
- Leasing a ship or ocean vessel in the IFSC is not subject to IGST, if the services are procured for authorised operations.
- Leasing a ship or ocean vessel by a unit in the IFSC to an Indian company is subject to IGST under forward charge on lease rental payments.
- Leasing a ship or ocean vessel by a unit in the IFSC to a unit in the IFSC or SEZ or outside India is not subject to GST.
- No stamp duty is leviable on certain transactions for 5 years commencing from December 2021.

Subject to prescribed documentation and conditions.

19. PwC publication on Ship leasing in India from the IFSC





Why lease ships from the IFSC?

Unified regulatory regime

Deemed foreign jurisdiction

Liberal policies

State-of-the-art infrastructure

Skilled talent

Tax benefits

Maritime cluster

Maritime university

Maritime ecosystem

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