Cash buyer GMS plugs finance gap

EXCLUSIVE

**Operators seeking capital take business proposals to Sharma**

**U M Creavin**

The boom in ship recycling over the last four years has transformed cash buyer GMS from a low-profile intermediary in shipping’s so-called dirty niche into a capital investor that helps struggling companies plug the financing gap.

GMS founder, president and chief executive Anil Sharma says his company is receiving at least one business proposal a fortnight from major operators looking for cash.

“There is a lack of capital in the business and, in the last year or so, cash buyers have been playing a different role in the shipping business,” he tells Lloyd’s List. “What we’re bringing now is a source of capital.

“If someone is buying a vessel and they’re short of a amount of money, if you know the guy you can set up a joint venture in terms of equity – bring this extra money, and let’s buy this vessel together.

“I can’t give you names but even some of the major operators – which is really surprising – send us proposals saying they’ll give us their ship for three to four years with a bareboat charter back and other kinds of options, because people are looking at different ways to find financing.

“I would say we get about one a week, or one every two weeks, from pretty substantial, well-known groups asking if we would like to buy three ships on bloc.”

Although he could not confirm details, Dr Sharma said GMS was involved in owning a handful of existing ships and a handful of newbuildings under construction.

“At least one of those names, you would be shocked by,” he says.

“It’s not like I believe in building up a fleet of, say, 20 vessels at this stage. If it happens, it happens; if it doesn’t happen, it doesn’t.”

Ironically, over the last four years, Dr Sharma has held the unofficial title of world’s largest shipowner.

Under the International Maritime Organization’s Hong Kong Convention for the Safe and Environmentally Sound Recycling of Ships, adopted in 2009, cash buyers that own the ship for only a few hours or days in the demolition process are deemed to be shipowners.

With around 1,000 ships sold for demolition annually over the last four years and GMS claiming to handle around a third of global volumes, it can thus claim to be one of the world’s largest shipowners.

The sheer volume of scrapping has seen business boom since 2009, creating diverse opportunities.

Dr Sharma, ranked the 49th most influential person in shipping in the Lloyd’s List 2012 Top 100 list, and his team have crossed paths with hundreds of companies. “Ship recycling remains our core business and I think that’s very important, but it also helps that we have a dialogue,” says Dr Sharma.

“I think that’s what cash buying has done over the years – you speak with so many owners and after a while you get to know them. It’s not really a threat, we’re not a competitor, we don’t have a clash of ego.”

Sharma: “What we’re bringing now is a source of capital.”

“Ship recycling has moved into the mainstream so everyone, from banks to major owners, is talking. I meet so many people who say, I’ve never recycled ships in my life but now I have to because there is no second-hand market.”

So what started out in two years ago as a small operation in the US, where India-born Dr Sharma lived and worked, has expanded since 2009 to several global offices.

The headcount has risen from a handful of staff, pre-boom, to around 300, 23 of them in Dubai, including crew and agents, the number of people employed by GMS rises to 60-70 people, at a time when most companies in shipping are cutting costs.

Diversification into other shipping areas prompted GMS to hire a manager in the US to work with a business development team of two to three people analysing potential projects.

“They make recommendations about what we should take to the next level,” Dr Sharma says.

“We have had at least three proposals now from the capesize area where people are saying that now is a good time to buy secondhand vessels because the values have been so depressed and, should the market turn in two years, this is going to be a great sector to be investing in.”

Although he was unaware of other cash buyers being approached, Dr Sharma says it is very possible as players looking investment, particularly capesize operators, tend to keep very quiet about it. “These are not guys who want to go out and tell the market that they are looking,” he says. “Capesize is a very specific business, though, and I like to invest in an area where there is some flexibility for the ship.”

Asked the age of the ships for which GMS is receiving proposals, Dr Sharma says they are generally in the 10-15 years bracket.

GMS works with outside ship managers on vessels. “We picked up three tug, which was a natural extension for the business because they not only cater for our own ships’ needs but they can also be used for salvage by third-party managers,” he says.

“As we say in business schools, stick to your knitting. If you get into shipowning, it’s better to work with a team or group that has been doing it for the last 20-30 years than starting from scratch.”

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Ship recycling special issue 2012 was a record year for ship recycling and, although not expected to top last year, 2013 is set to have the second largest ever volumes as shipowners manage overcapacity and offset uneconomical tonnage. In this special issue of Lloyd’s List, deputy editor Liz McCarthy assesses trends in demolition and their impact on shipping. For more scrapping and S&P news and analysis go to: www.lloydslist.com/sales-and-purchases

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Lloyd’s List special issue

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Ship recycling special issue

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LloydsList.com | No. 60,872 | Thursday February 28th, 2013

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Recycling Expenses

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