



**A BHATT & JOSHI PRACTITIONER HANDBOOK**  
PRACTITIONER SERIES · BOOKLET XVI · MAY 2026 · FIRST EDITION

# SHIP LEASING FROM GIFT IFSC

*A Practitioner's Handbook on the IFSCA Framework  
for Ship Leasing (16 Aug 2022, consol. 23 Jun 2023)*



IFSCA SHIP LEASING FRAMEWORK · 16 AUG 2022 (CONSOL. 23 JUN 2023)  
IFSCA (FC) REGS 2021 · MOF S.O. 5199(E) · IFSCA GAZ 7 JAN 2022  
MERCHANT SHIPPING ACT 1958 / 2025 · BBCD REGISTRATION  
INCOME-TAX §80LA · §10(4F) · §115VA-VZC (TONNAGE TAX)  
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## **FOREWORD**

Booklet XVI of the Practitioner Series addresses ship leasing from GIFT City. The operative instrument is the IFSCA Framework for Ship Leasing (Circular F.No. 496/IFSCA/FC/SLF/2022-23/001 of 16 August 2022, consolidated as updated on 23 June 2023), read with the IFSCA (Finance Company) Regulations 2021 and the IFSCA Gazette notification of 7 January 2022 notifying 'ship lease' as a financial product under Section 3(1)(d) of the IFSCA Act 2019. Carriage of approximately 95 per cent of India's external trade by sea, against only around 8 per cent on Indian-flagged ships, creates a structural foreign-exchange exposure of approximately USD 75 billion annually in freight payments to foreign-owned vessels. Maritime India Vision 2030, the Amrit Kaal Vision 2047, and the Cabinet-approved Maritime Development Fund of INR 25,000 crore (September 2025) position GIFT-IFSC as the financing layer for the Indian shipping renaissance.

## CHAPTER ONE

# Why GIFT-IFSC for Ship Leasing

*Citations: Maritime India Vision 2030 (Sagarmala); Cabinet Memorandum on Maritime Development Fund (24 September 2025); Director General of Shipping statistics on Indian-flagged tonnage; IFSCA Press Release on Ship Lease Framework (16 August 2022).*

¶ **1. The structural exposure.** India carries approximately 95 per cent of its external trade by volume on sea-going vessels. Indian-flagged ships, however, service only around 8 per cent of that trade. The residual is carried on foreign-owned tonnage, with annual freight payments to non-resident shipowners approaching USD 75 billion. The structural foreign-exchange exposure is, in scale, comparable to the aircraft-leasing exposure that the 2021 IFSCA Aircraft Lease Framework was designed to address — and the policy logic for an IFSC ship-leasing pathway is materially the same.

¶ **2. The policy frame and the fiscal package.** Maritime India Vision 2030 and the Amrit Kaal Vision 2047 articulate the policy frame: by 2030, re-flagging at least 300 foreign-owned vessels under the Indian flag; doubling Indian-owned tonnage; and developing GIFT-IFSC as the financing layer for both new construction and second-hand acquisition. The Cabinet-approved Maritime Development Fund of INR 25,000 crore (24 September 2025) is paired with the Shipbuilding Financial Assistance Scheme (INR 24,736 crore) and the Shipbreaking Demolition Scheme (INR 19,989 crore) — a total fiscal commitment of approximately INR 69,725 crore. The IFSC Ship Leasing Framework is the regulatory limb that enables capital deployment from this commitment without the friction of mainland exchange control and tax-treaty constraints.

¶ **3. What GIFT-IFSC is and is not.** The competitive position is also informed by what GIFT-IFSC is not: it is not yet a full-flag ship registry. Singapore (full-flag and open registry), Marshall Islands and Panama (open registry), and the Isle of Man (high-quality registry within the British Red Ensign Group) dominate the global ship-finance landscape. GIFT-IFSC competes on the financing layer — Section 80LA tax holiday, Section 10(4F) non-resident exemption, the March 2024 CBDT TDS exemption, and the IFSCA's unified regulatory perimeter — rather than on the flag-state value proposition. The flagging architecture sits separately, principally with the Director General of Shipping and the Merchant Shipping Act 1958 (and the successor Merchant Shipping Act 2025).

## CHAPTER TWO

# The IFSCA Ship Leasing Framework – Architecture

*Citations: IFSCA Act 2019 Sections 12 and 13; MoF Gazette S.O. 5199(E) dated 14 December 2021; IFSCA Gazette Notification dated 7 January 2022; IFSCA Framework for Ship Leasing (Circular dated 16 August 2022, consolidated 23 June 2023).*

¶ **1. The statutory base.** The statutory architecture is parallel to the aircraft-lease framework. The Ministry of Finance Gazette Notification S.O. 5199(E) of 14 December 2021, read with the IFSCA Gazette Notification of 7 January 2022, notified 'ship lease' — including operating lease and any hybrid of operating and financial lease of a ship or ocean vessel, engines of a ship or ocean vessel, or any other part thereof — as a 'financial product' under Section 3(1)(d) of the IFSCA Act 2019. The Framework was operationalised by IFSCA Circular F.No. 496/IFSCA/FC/SLF/2022-23/001 of 16 August 2022, subsequently consolidated as updated on 23 June 2023.

### "SHIP" – DEFINITION (VERBATIM, FRAMEWORK CLAUSE B(v))

'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.

*Source: IFSCA Framework for Ship Leasing (Circular F.No. 496/IFSCA/FC/SLF/2022-23/001 dated 16 August 2022), Clause B(v).*

### "OCEAN VESSEL" – DEFINITION (VERBATIM, FRAMEWORK CLAUSE B(iii))

'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.

*Source: IFSCA Framework for Ship Leasing dated 16 August 2022, Clause B(iii).*

### LESSOR DEFINITION (VERBATIM, CLAUSE B(ii))

'Lessor' shall mean an entity registered with IFSCA as a Finance Company or Finance Unit in accordance with this Framework, and (a) engaged in the business of providing ships or ocean vessel and engines of ship or ocean vessels, or any other part thereof under an operating lease, financial lease and/or a hybrid of financial and operating lease, and/or; (b) any other related activity as may be specified by the Authority from time to time.

*Source: IFSCA Framework for Ship Leasing dated 16 August 2022, Clause B(ii).*

¶ **2. Part I vs Part II – non-core vs core.** The framework is structured in two parts that mirror the aircraft framework. Part I (operating-lease lessor) is classified as a non-core activity under Regulation 5(1)(iii) of the FC Regulations; Part II (financial-lease and hybrid lessor) is a core activity under Regulation 5(1)(ii). The

non-core classification carries a lighter prudential overlay; the core classification triggers full applicability of Regulation 4 (prudential), Regulation 7 (KYC/AML) and Regulation 8 (corporate governance). The choice of part determines the capital floor and the ongoing supervisory burden.

## CHAPTER THREE

# Permissible Activities – Operating, Financial, Asset Management

*Citations: IFSCA Framework for Ship Leasing Clauses E (operating), H (financial); IFSCA Clarification on Permissible Activities of Lessor dated 11 March 2024; Clause O.1 (added May 2024).*

### PERMITTED ACTIVITIES – OPERATING LEASE (VERBATIM, CLAUSE E)

A lessor in IFSCs shall be permitted to undertake all or any of the following activities: (i) Operating lease; (ii) Asset Management Support Services for assets owned or leased out by the entity or by its wholly owned subsidiary(ies) or by a branch of its wholly owned subsidiary set up in IFSCs in India; (iii) Sale and lease back, purchase, novation, transfer, assignment, and such other similar transactions in relation to ship lease; (iv) any other related activity with the prior approval of the IFSCA.

*Source: IFSCA Framework for Ship Leasing dated 16 August 2022, Clause E.*

### OPERATING vs FINANCIAL – DEFINITIONS (VERBATIM, CLAUSES B(i) AND B(iv))

'Financial lease' for a ship lease arrangement shall mean the activity of leasing such that it transfers substantially all the risks and rewards incidental to the ownership of the asset involved. 'Operating lease' for a ship lease arrangement shall mean the activity of leasing such that it does not transfer substantially all the risks and rewards incidental to the ownership of the asset involved.

*Source: IFSCA Framework for Ship Leasing dated 16 August 2022, Clauses B(i) and B(iv).*

¶ **1. The time-charter carve-out and the IFRS 16 test.** Two carve-outs warrant attention. First, a time charter is generally a service contract — not a lease within the meaning of the Framework — unless structured as a bareboat charter. Counsel advising on time-charter structures should reach for the FC Regulations 2021 ancillary-services or asset-management routes rather than the Ship Leasing Framework. Lease classification must follow Ind AS 116 and IFRS 16: the 'transfer of substantially all the risks and rewards' test in Clauses B(i) and B(iv) is itself an Ind AS 116 derivation.

¶ **2. Clause O.1 — the anti-round-tripping rule.** Second, Clause O.1 — added by the May 2024 amendment and clarified by the IFSCA Clarification on Permissible Activities of 11 March 2024 read with the April 2025 amendment — restricts intra-Indian-resident leasing loops. The lessor cannot acquire a vessel from an Indian resident and lease it back exclusively to Indian residents within the same financial year. The policy intent is to prevent the Framework being used as a tax-arbitrage tool for what is in substance an onshore-to-onshore transaction. A material carve-out exists for new ships acquired from Indian shipyards (to align with the Shipbuilding Financial Assistance Scheme). Counsel structuring sale-and-

leaseback transactions should verify Clause O.1 compliance before commercial close.

## CHAPTER FOUR

# Entity, Capital and Registration

*Citations: IFSCA Framework for Ship Leasing Clauses C, F(i), I(i); IFSCA Fee Circular No. 865/IFSCA/Banking/Fee Revision/2022-23 dated 17 May 2023; IFSCA Circular on Utilisation of Space by Ship Leasing FCs/FUs dated 10 October 2024.*

### CAPITAL FLOORS (VERBATIM, CLAUSES F(i) AND I(i))

A minimum owned fund of USD 200,000 or its equivalent in freely convertible foreign currency, is to be maintained at all times by the entity [operating lease].  
A minimum owned fund of USD 3 million or its equivalent in freely convertible foreign currency, is to be maintained at all times by the entity [financial / hybrid lease].

*Source: IFSCA Framework for Ship Leasing dated 16 August 2022, Clauses F(i) and I(i).*

¶ **1. Entity forms, capital and fee mechanics.** Permissible entity forms are Company, LLP, Trust, or branch (including a branch of a wholly-owned subsidiary). The promoter (or partners / trustees) must be from a FATF-compliant jurisdiction — a precondition that has assumed considerable operational weight since the FATF's expanded grey-list designations of 2024. Fees as revised in May 2023: application fee USD 1,000; registration fee USD 12,500; annual fee USD 5,000 (operating) or USD 12,500 (financial / hybrid). All transactions are conducted in freely convertible foreign currency; an INR account is permitted only for administrative and statutory expenses. The April 2025 amendment permits an SNRR account outside the IFSC perimeter for limited administrative use.

### COMPLIANCE WITH MERCHANT SHIPPING ACT (VERBATIM, CLAUSE C(ii))

All entities set up in IFSC for carrying out permitted activities as envisaged in the Framework shall comply with all requirements, exceptions, regulations and conditions imposed by any applicable statute including the Merchant Shipping Act, 1958 ('Shipping Act'), and shall also include circulars and notifications issued by competent authorities established under the Shipping Act or other applicable statutes, by the Ministry of Shipping or Director General of Shipping.

*Source: IFSCA Framework for Ship Leasing dated 16 August 2022, Clause C(ii).*

¶ **2. The October 2024 space-utilisation relief.** The 10 October 2024 IFSCA Circular on Utilisation of Space by Ship Leasing Finance Companies and Finance Units permits shared-office and shared-personnel arrangements within the IFSC, subject to a board-approved policy and segregation of records. The provision materially reduces the start-up footprint of a new ship-lease lessor — the requirement to take a separate physical office and full-time compliance team is, in the early stages, replaced by a managed shared-service model with a dedicated Compliance Officer and Principal Officer.

## CHAPTER FIVE

# Merchant Shipping Act 1958 and Flagging

*Citations: Merchant Shipping Act 1958, Sections 21, 22, 406 and 407; Merchant Shipping (Registration of Indian Ships) Rules 1960; Draft Merchant Shipping (Registration of Vessels) Rules 2026; Admiralty (Jurisdiction and Settlement of Maritime Claims) Act 2017.*

¶ **1. The Section 21 nationality criteria.** Section 21 of the Merchant Shipping Act 1958 sets out the qualifications for an Indian ship: whole ownership by Indian citizens or by a body corporate incorporated in India with its principal place of business in India; at least 75 per cent of the paid-up share capital held by Indian citizens; at least three-fourths of the directors being Indian citizens; and an Indian Chairman or Managing Director. Section 22 requires every ship of 15 gross tonnage or more to be registered. Sections 406 and 407 establish the licensing regime under which the Director General of Shipping permits the chartering of vessels for Indian-flag trade.

¶ **2. The two operational routes.** The operational consequence for an IFSC lessor is significant. An IFSC entity that is foreign-owned — whether wholly or in substantial part — cannot itself hold an Indian flag for the leased vessel. Two routes are then available. (i) The lessee (an Indian shipping company) holds the Indian flag, and the Indian-flag registration runs in the lessee's name even though the IFSC lessor holds beneficial title. (ii) A Bareboat-Charter-cum-Demise (BBCD) registration is effected — under the Merchant Shipping Act 2025 and the Draft Merchant Shipping (Registration of Vessels) Rules 2026 — by the Indian charterer, co-terminus with the charter and up to five years (with extensions).

¶ **3. Mortgages and in-rem enforcement.** Mortgages over Indian-flagged ships register under the Merchant Shipping (Registration of Indian Ships) Rules 1960; mortgages over foreign-flagged ships register under the relevant flag-state regime offshore (typically Marshall Islands, Liberia, Panama, or Singapore for Asia-time-zone deals). India is a signatory but not yet a State Party to the 1993 International Convention on Maritime Liens and Mortgages, which constrains the international recognition of Indian mortgage interests. The Admiralty (Jurisdiction and Settlement of Maritime Claims) Act 2017 governs in-rem enforcement before Indian High Courts — the Bombay, Calcutta, Madras, Karnataka, Kerala, Andhra Pradesh, Telangana, Orissa and Gujarat High Courts have admiralty jurisdiction.

## CHAPTER SIX

# Tax – Section 80LA, Tonnage Tax, Section 10(4F), CBDT 1135(E)

*Citations: Income-tax Act 1961 Sections 80LA, 10(4F), 115VA-115VZC (Tonnage Tax); CBDT Notification S.O. 1135(E) dated 8 March 2024; Customs Tariff Notification 50/2017 (vessel imports under HS 8901-8905).*

¶ **1. Section 80LA and Section 10(4F).** The tax profile combines four elements. (i) Section 80LA — the IFSC ship-lease unit is entitled to a 100 per cent deduction of eligible income for any ten consecutive assessment years out of the first fifteen, provided the unit commenced operations on or before 31 March 2030 (the date warrants confirmation against the Finance Act in force at the date of authorisation). The deduction covers both lease rentals received and gains on the transfer of a leased ship by the IFSC unit. (ii) Section 10(4F) exempts the income of a non-resident received by way of royalty or interest on the lease of a ship from an IFSC unit, on the same sunset.

### SECTION 10(4F) — NON-RESIDENT EXEMPTION (VERBATIM)

any income of a non-resident by way of royalty or interest, on account of lease of an aircraft or a ship in a previous year, paid by a unit of an International Financial Services Centre ... if the unit has commenced its operations on or before the 31st day of March, 2030.

*Source: Income-tax Act 1961, Section 10(4F).*

¶ **2. Tonnage Tax — the lessee's regime, not the lessor's.** (iii) The Tonnage Tax regime under Chapter XII-G (Sections 115VA to 115VZC) is an elective regime for a qualifying Indian shipping company operating a qualifying ship of at least 15 net tonnage registered under the Merchant Shipping Act 1958 or abroad. The lock-in is ten years; tonnage income is computed by the daily-tonnage-income times operating-days formula and taxed at standard rates; no deductions or set-offs are available against tonnage income. The regime sits with the lessee (the Indian operating shipping company), not with the IFSC lessor — a distinction frequently misunderstood. Finance Act 2025 amendments extended the tonnage tax regime to inland vessels.

### TONNAGE TAX OPTION (VERBATIM, SECTION 115VA)

Notwithstanding anything to the contrary contained in sections 28 to 43C, the income from the business of operating qualifying ships, owned by a company that is a qualifying company, may, at its option, be computed in accordance with the provisions of this Chapter and such income shall be deemed to be the profits and gains of such business chargeable to tax under the head 'Profits and gains of business or profession'.

*Source: Income-tax Act 1961, Section 115VA (Chapter XII-G).*

¶ 3. **CBDT Notification S.O. 1135(E) and customs treatment.** (iv) CBDT Notification S.O. 1135(E) of 8 March 2024 is the single most consequential 2024 tax incentive for IFSC ship lessors — it exempts from withholding tax under Section 194-I the lease rent and supplemental lease rent paid by a lessee to an IFSC unit lessor, subject to a Form 1 statement-cum-declaration. The notification mirrors the aircraft-lease framework's CBDT Notification S.O. 2777(E) of 2022. Customs treatment under HS Codes 8901 to 8905 is governed by the Customs Tariff Notification 50/2017 with concessional or nil BCD on specified vessel imports; the IGST rate applicable to vessel imports should be verified against the IGST rate notification in force on the date of import.

## CHAPTER SEVEN

# P&I, IMO Conventions and the Sanctions Perimeter

*Citations: International Group of P&I Clubs; SOLAS; MARPOL; CLC and Bunker Convention; MLC 2006; Hong Kong Convention on Ship Recycling (in force 26 June 2025); IMO 2023 GHG Strategy; Price Cap Coalition Updated Maritime Advisory (OFAC / UK OFSI / EU, 2024); EU 14th to 20th Sanctions Packages.*

¶ **1. The P&I cover layer.** Protection and Indemnity (P&I) coverage is the operative third-party liability layer for sea-going vessels. The International Group of P&I Clubs (13 mutual clubs covering approximately 90 per cent of world tonnage) provides the standard cover, calibrated against the Civil Liability Convention (oil pollution liability), the Bunker Convention (bunker oil pollution), the Wreck Removal Convention and the Maritime Labour Convention 2006. The IFSC lessor's lease documentation should specify the required P&I cover level — typically the International Group's standard cover for the relevant vessel class — and the consequences of cover lapse or downgrade.

¶ **2. Hong Kong Convention and IMO GHG Strategy.** The IMO regulatory layer is consequential for residual-value and remarketing risk. The Hong Kong Convention on Ship Recycling entered into force on 26 June 2025, harmonising the recycling perimeter and creating new pre-recycling diligence obligations. The IMO 2023 GHG Strategy — net-zero emissions from international shipping by or around 2050 — drives the technical specification of newbuild contracts and the residual value of legacy tonnage. For an IFSC lessor structuring a financial lease over a 10 to 15 year tenor, the IMO regulatory trajectory must be priced into residual value and into the lessee's covenants on retrofitting and emissions compliance.

¶ **3. The Russia oil cap and the shadow fleet.** The sanctions perimeter, in 2026, is materially complex. The Russian oil price cap (initially USD 60 per barrel; from 2024 operating as a dynamic cap pegged at 15 per cent below the six-month Urals average, standing at approximately USD 44 per barrel as of January 2026) is the centrepiece. The Price Cap Coalition Updated Maritime Advisory of 2024 (OFAC, UK OFSI, EU) prescribes a per-voyage attestation regime, P&I CLC verification, AIS / dark-activity screening, and enhanced due diligence on shadow-fleet-profile vessels. The EU 14th to 20th Sanctions Packages have designated more than 40 additional shadow-fleet tankers as recently as March 2026 — counsel should refresh designation lists on every voyage attestation, not on every engagement.

¶ **4. Iran, Venezuela and lease-document architecture.** Iran-nexus tonnage (notably Mahan Air-linked oil and chemical carriers) and Venezuela-nexus tonnage (PdVSA-linked) raise parallel exposure. Counsel structuring a new ship lease should build into the lease (i) a counterparty sanctions screening warranty with refresh cadence; (ii) a vessel-level IMO-number screening obligation; (iii) a flag-

state screening obligation; (iv) a cargo-route reporting obligation; (v) a P&I cover warranty; and (vi) a lessor's right to terminate on sanctions trigger. The principle is that the lessor's risk perimeter is not the lessee's risk perimeter — the lessor must engineer independent visibility.

## CHAPTER EIGHT

### Standard of Practice, AML and Sanctions Calibration

*Citations: IFSCA (Anti Money Laundering, Counter-Terrorist Financing and Know Your Customer) Guidelines 2022 dated 28 October 2022; Prevention of Money Laundering Act 2002; Unlawful Activities (Prevention) Act 1967; OFAC SDN List and Directives 4 and 4A; UK OFSI Russia and Iran Sanctions Notices; UN Security Council Resolutions on Iran, North Korea and the Democratic Republic of Congo.*

¶ **1. The AML / KYC perimeter.** The IFSCA AML / CFT / KYC Guidelines of 28 October 2022 apply in full to ship-lease lessors. The Principal Officer is the operational AML point of contact; the CDD record retention period is five years from the date of transaction or relationship termination; the suspicious-transaction reporting obligation runs through the FIU-IND FINnet portal. The promoter (or partners or trustees) must be from a FATF-compliant jurisdiction — a precondition that has tightened materially with the FATF's expanded grey-list designations of 2024.

¶ **2. Standard of Practice.** Standard of Practice. The Firm advises and assists clients exclusively in matters consistent with applicable U.S., European Union, United Kingdom, United Nations and Indian sanctions and anti-money-laundering regimes. The Firm does not advise on, structure or facilitate transactions whose principal purpose or principal effect is to bring a designated person into a regulated market in a manner that is foreseeably exposed to a sanctions perimeter the parties cannot lawfully discharge. In a ship-lease context, this Standard of Practice operates at the level of the lessee, the ultimate beneficial owner of the lessee, the funding bank or bondholder, the vessel's IMO number, the flag state, the P&I club, the cargo route, and (for tankers) the cargo origin and price-cap compliance attestation.

¶ **3. The Firm's three-phase engagement model.** The Firm's engagement model for ship-lease work proceeds in three phases. (i) Pre-engagement — counterparty screening, vessel IMO-number screening, flag-state screening, P&I cover verification, and a written sanctions opinion before commercial term sheet. (ii) Structuring and documentation — IFSCA application file, lease (with the six-element architecture noted in Chapter VII), tax memorandum, and (for tankers) the price-cap compliance protocol. (iii) Post-execution — annual sanctions screening refresh, per-voyage attestation oversight (for tankers), CTR / STR filing oversight, and Clause O.1 verification on each sale-and-leaseback transaction. Founders engaging the Firm at phase (i) materially shorten the timeline to commercial close, particularly for tonnage with any sanctions perimeter complexity.

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