Cochin Shipyard Limited

March 14, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	800	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	600	CARE A1+ (A One Plus)	Reaffirmed
Long-term / Short-term Bank Facilities	1900	CARE AA+; Stable /CARE A1+ (Double A Plus; Outlook: Stable / A One Plus)	Reaffirmed
Total Facilities	**3,300 (Rupees Three thousand Three hundred crore only)**		
Long-term Bond Issue-I	100	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Long-term Bond Issue-II	150	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and instruments of Cochin Shipyard Ltd (CSL) continue to factor in its well-established operations and long-standing track-record of more than three decades in the industry, Government of India (GoI) ownership, CSL's strong financial position, diversified revenue stream and the potential for CSL to acquire strategic importance on completion of the Indigenous Aircraft Carrier project.

The above ratings, however, continue to be constrained by the operational risk on account of the complex nature of operations due to simultaneous execution of multiple vessels and activities, exposure of CSL to foreign exchange fluctuation risk and cyclical nature of the shipbuilding industry. The rating also takes note of mobilisation of fresh equity and dilution of GoI stake through Initial Public Offer (IPO).

In view of the downtrend in the shipbuilding industry for a longer period and proposed capacity additions for both ship repair and ship building, the ability of CSL to improve its order book position and timely implementation of envisaged projects within estimated cost will be key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Well established operations and strong track record

CSL has longstanding track record of operations spanning over three and a half decades, CSL has been able to develop the capability and expertise to build and repair variety of ships. CSL has built various types of commercial ships for both international and domestic clients and is currently building India's first Indigenous Aircraft Carrier (IAC) for the Navy thereby becoming the only Indian shipyard having such a distinction.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

CSL has the capability to undertake complex and sophisticated repairs for Oil Rigs & ships of Navy, Coast Guard & Merchant Navy besides building merchant ships and offshore vessels for domestic as well as foreign clients. CSL has till date constructed and delivered vessels including tankers, bulk carriers, platform supply vessels, offshore supply vessels, fast patrol vessels, etc.

As on June 30, 2017, entire stake in CSL was held by GoI. During Q2FY18, the company went for IPO. As the result of the IPO, CSL raised equity funds to the tune of Rs.962 crore. As on December 31, 2017, GoI own 75% of the stake in the company.

Diversified revenue stream

CSL has diversified revenue stream to certain extent with income being generated from both ship repair and ship building.

The company generates revenue from both commercial and government related orders. It also has the capability to build and repair various types of ships.

The contribution of ship repairing income has been gradually increasing in the two years ended March 2017. The same has increased from 18% of gross sales in FY16 to 26% of gross sales in FY17 on account of increased ship repair orders. The company has signed MOU's with various government bodies for carrying out repair activities of their ships which will add to the revenues from repair activities going forward. The company has already registered revenue of around Rs.526 crore (Rs.543 crore in FY17) from ship repair activities in 9MFY18 accounting for 30% of gross sales.

Strong financial position characterized by healthy cash accruals and comfortable capital structure

During FY17, the total operating income of CSL grew by 3% to Rs.2,201 Crore. CSL reported PBILDT margin of 23.96% and GCA of Rs.366 crore (PY Rs.291 crore) in FY17. With no debt availed during the year, the capital structure of CSL improved with overall gearing at 0.06 x as on March 31, 2017 as against 0.07 x as on March 31, 2016. The company had surplus funds amounting Rs.1,884 crore in the form of cash and bank balances as on March 31, 2017. With mobilization of fresh equity funds through IPO, surplus position of the company has improved further. During 9MFY18, CSL registered PAT of Rs.305 crore and GCA of Rs.334 crore on total operating income of Rs.1910 crore. As on December 31, 2017, the company had moderate order book position of Rs.2,374 crore. Including orders in the pipeline (Rs.5400 crore for eight defense vessels) and Phase III of IAC, order book position is expected to improve significantly, going forward.

Key Rating Weaknesses

High Operational Risk

Complex nature of operations such as simultaneous construction of multiple ships, co-ordination of various stakeholders and multiple departments of yards in typical shipbuilding process, etc results in high operational risk as compared to other industries in general.

Projects involving large capex

The company plans to develop International Ship Repair Facility (ISRF) by taking it on lease from CoPT for a period of 30 years, by adding ship lifting facility and allied facilities at an estimated project cost of Rs.970

crore. Majority of the capex for the project is expected to be incurred from FY19 onwards. Additionally, CSL plans to augment the capacity by building a dry-dock at an estimated cost of Rs.1,800 crore. This would enable CSL to build larger ships including building large container vessels, drill ships etc. For the above proposed capex the company has received required statutory approvals and the same is at a nascent stage which is planned to be executed in a phased manner over a three to four year period. The capex is majorly proposed to be funded out of internal sources. Timely completion of the above two projects within estimated cost while maintaining comfortable capital structure is critical. Also, in the long-term, the ability of CSL to secure new orders and optimally use proposed capacity additions are key to its credit risk profile.

Foreign exchange risk

As a large part of CSL's shipbuilding business is for international clients and the fact that a large part of components and raw materials for the said business need to be imported, CSL is subject to risk of volatility in foreign exchange rates.

Cyclical nature of the shipbuilding industry

The shipbuilding (non offshore) industry is directly linked to the shipping industry and hence is cyclical. The shipping industry was under pressure for the past few years which is reflected from the low freight rates compared to the peaks enjoyed prior to June, 2008. However, the GOI's thrust on shipbuilding industry with 'Make in India' programme, and other sector specific initiatives are expected to aid the industry. The above measures would prove beneficial to the prospects of the Indian Shipbuilding and shiprepair Industry.

CSL has established track record of building and delivering vessels to both domestic and international clients. CSL having successfully executed assignments for the Indian Navy, Coast Guard and other departments, it has been able to de-risk from the downtrend faced by the commercial shipbuilding industry to some extent. With track record of repairing defence ships, building Aircraft Carrier and other type of defence vessels, CSL expects to secure further orders from the defence sector in the future.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector

About the Company

Incorporated in 1972, CSL operates a shipyard designed and constructed under technical collaboration with M/s Mitsubishi Heavy Industries, Japan. The yard commenced the shipbuilding operations in 1978 and the company is a Category I Mini Ratna (since July 2008). As on December 31, 2017, Government of India owns 75% stake in the company and rest is held by public/financial institutions.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	2,099	2,201
PBILDT	462	527
PAT	273	322
Overall gearing (times)	0.07	0.06
Interest coverage (times)	39.93	43.39

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT-Bank Guarantees	-	-	-	800.00	CARE AA+; Stable
Fund-based - ST-PC/Bill Discounting	-	-	-	200.00	CARE A1+
Fund-based/Non-fund-based-LT/ST	-	-	-	1900.00	CARE AA+; Stable / CARE A1+
Fund-based - ST-Line of Credit	-	-	-	300.00	CARE A1+
Fund-based/Non-fund-based-Short Term	-	-	-	100.00	CARE A1+
Bonds	December 2013	8.51%	December 2023	100.00	CARE AA+; Stable
Bonds	March 2014	8.72%	March 2029	150.00	CARE AA+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Non-fund-based - LT-Bank Guarantees	LT	800.00	CARE AA+; Stable	1)CARE AA+; Stable (17-Apr-17)	-	1)CARE AA+ (10-Mar-16) 2)CARE AA+ (22-Apr-15)	1)CARE AA+ (22-Jan-15)
2.	Fund-based - ST-PC/Bill Discounting	ST	200.00	CARE A1+	1)CARE A1+ (17-Apr-17)	-	1)CARE A1+ (10-Mar-16) 2)CARE A1+ (22-Apr-15)	1)CARE A1+ (22-Jan-15)
3.	Fund-based/Non-fund-based-LT/ST	LT/ST	1900.00	CARE AA+; Stable / CARE A1+	1)CARE AA+; Stable / CARE A1+ (17-Apr-17)	-	1)CARE AA+ / CARE A1+ (10-Mar-16) 2)CARE AA+ / CARE A1+ (22-Apr-15)	1)CARE AA+ / CARE A1+ (22-Jan-15)
4.	Fund-based - ST-Line of Credit	ST	300.00	CARE A1+	1)CARE A1+ (17-Apr-17)	-	1)CARE A1+ (10-Mar-16) 2)CARE A1+ (22-Apr-15)	1)CARE A1+ (22-Jan-15)
5.	Bonds	LT	100.00	CARE AA+; Stable	1)CARE AA+; Stable (17-Apr-17)	-	1)CARE AA+ (10-Mar-16)	1)CARE AA+ (22-Jan-15)
6.	Bonds	LT	150.00	CARE AA+; Stable	1)CARE AA+; Stable (17-Apr-17)	-	1)CARE AA+ (10-Mar-16)	1)CARE AA+ (22-Jan-15)
7.	Fund-based/Non-fund-based-Short Term	ST	100.00	CARE A1+	1)CARE A1+ (17-Apr-17)	-	1)CARE A1+ (10-Mar-16) 2)CARE A1+ (22-Apr-15)	-

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