

Cochin Shipyard Limited

April 01, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	2,280.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Long-term/Short-term Bank Facilities	7,205.00	CARE AAA; Stable/CARE A1+ (Triple A; Outlook: Stable/ A One Plus)	Reaffirmed
Short-term Bank Facilities	755.00	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	10,240.00 (Rs. Ten thousand two hundred forty crore only)		
Bonds	100.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Bonds	150.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Total Long-term Instruments	250.00 (Rs. Two hundred fifty crore only)		

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) factor in its well-established operations and long-standing track record of around four decades in the industry, majority ownership by the Government of India (GoI) (72.86% stake as on December 31, 2021), and its strategic importance to the government with CSL involved in defence-building the Indigenous Aircraft Carriers (IACs). CSL derives more than 95% of the income from various defence entities in India, and therefore, it is viewed as strategically important for executing and strengthening India's defence capabilities. CSL has been nominated by the GoI to India's first IAC for the Navy – INS Vikrant and also undertakes repair works for defence ships. The ratings are also driven by the growth in the order book over the past few years resulting in a strong order book position, providing long-term revenue visibility, strong profitability metrics, and a robust financial and liquidity position. The ratings also take note of the various greenfield and brownfield expansion programmes of CSL, which are likely to enhance its capacity and capability in addition to improving the geographical diversification of its operations. Other than the rating strengths, the company remains exposed to forex risk and the cyclical nature of the shipbuilding industry.

Rating Sensitivities

Negative Factors – Factors that could lead to negative rating action/downgrade:

- Substantial decline in the GoI's stake.
- Decline in order book position of the company, with order book coverage falling below 3x on a sustained basis.
- Any significant change in policies of the GoI resulting in increased competition in the shipbuilding industry, leading to decrease in the strategic importance of CSL.

Detailed description of the key rating drivers

Key Rating Strengths

Majority ownership by the GoI and increasing strategic importance to GoI

CSL is a Central Public Sector Enterprise, with majority ownership (72.86% holding as on December 31, 2021) of the GoI, operating under the administrative control of the Ministry of Ports, Shipping and Waterways. CSL was granted the Miniratna status in 2013. The board of directors of CSL has nominee directors from both, the GoI and the Government of Kerala (GoK). Currently, CSL is building India's first IAC for the Navy, thereby becoming the only Indian shipyard having such a distinction. It already possesses the distinction of being the only commercial shipyard in the country that has the ability to repair defence ships and its facilities are routinely used to carry out repairs and maintenance works of various defence ships. Therefore, CSL is of strategic importance to the GoI.

Well-proven operational capabilities and reputed clientele

CSL has built various types of commercial ships for both, international and domestic clients, as well as strategically important ships for the Navy, Coast Guard, and other departments. The company has built and repaired some of the largest ships in India and is presently building the prestigious IAC for the Indian Navy.

CSL has a proven capability to undertake complex and sophisticated repairs for oil rigs and ships of the Navy, Coast Guard and Merchant Navy, besides building merchant ships and offshore vessels for domestic as well as foreign clients. In the past, CSL has also undertaken repair/re-fitting activities for the INS Viraat and INS Vikramaditya Aircraft carriers of the Indian Navy. As on

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

March 31, 2021, the company built and delivered 141 vessels – 16 large vessels, 20 defence vessels, 35 offshore support vessels, and 83 small and medium vessels. Apart from catering to the requirement of the government, CSL also caters to the commercial segment.

The company is strengthening its capabilities with a capex for expansion of dry dock and setting up an international ship repair facility. The entire cost of Rs.2,579 crore is being spent through the existing cash balance (including funds raised during the IPO). The estimated balance capex is around Rs.1,310 crore, to be incurred over the next three years.

Strong order book position

As on December 31, 2021, CSL had an order book position of approximately Rs.10,679 crore, providing revenue visibility for the next 3-4 years. Until FY18, the order book for CSL was below Rs.3,000 crore, translating to moderate order book coverage. However, since FY19, CSL has been securing large-size orders (eight anti-submarine warfare shallow war crafts, IAC) from the Ministry of Defence, which has boosted its order book position. This apart, CSL won the Rs.10,000-crore order for building next generation missile vessels from the Indian Navy in February 2021. The final agreement is expected to be signed by the Indian Navy and CSL by early FY23. Including the L1 order, CSL will have an order book of Rs.20,678 crore, which translates to an order book revenue of 7.34x.

The top two orders constituted around 90% of the order book as on December 31, 2021, and both these orders are from the Indian Navy. CSL derives about more than 90% of the income from the Indian defence sector. Any change in the government policies on defence spending may impact the financial performance of CSL.

Satisfactory financial performance and profitability

The overall financial performance continued to remain satisfactory in FY21, despite the impact of the COVID pandemic. During FY21, the total income declined by 20%, from Rs.3,599 crore in FY20 to Rs.2,979 crore in FY21. As operations were impacted by the COVID-19 pandemic, CSL has halted operations between March 23, 2020 to May 05, 2020. Post commencement of operations, CSL was not able to be operate at full capacity due to the shortage of labour and non-availability of service engineers and OEM representatives from foreign countries due to international travel restrictions. The ship repair segment witnessed considerable reduction in operations as majority of the shipowners had deferred the repair operations owing to the COVID pandemic. The contribution of ship repair income stood at 13% in FY21 and 22% in 9MFY22.

The PBILDT margin improved to 29.71% in FY21, from 24.74% in FY20, mainly due to higher contribution from the aircraft carrier and specific part of the work that has higher profitability. Aided by the improvement in the PBILDT margins, the PAT margins have also improved, from 17.72% in FY20 to 20.49% in FY21.

During 9MFY22, the total income grew by 16%, from Rs.1,844 crore in 9MFY21 to Rs.2,132 crore in 9MFY22. With lower contribution from the aircraft carrier, which has higher margins, the margin has seen reduction from 31.79% in 9MFY21 to 22.74% in 9MFY22.

Robust financial position

CSL's capital structure continuous to remain comfortable, with overall gearing at 0.14x as on March 31, 2021. As on March 31, 2021, the total debt stood at Rs.521 crore in the form of bonds (Rs.123 crore) and lease liabilities (Rs.409 crore). The company does not have any working capital borrowings. CSL receives advanced stage payments on completion of milestones, like receiving 10% of the contract value on signing the contract, 5% on submission of design, 10% at the time of ordering major raw materials, etc. This aids the company in meeting its working capital requirements. The fund-based working capital utilisation was nil in the last 12-months ended January 2022.

Key Rating Weaknesses

Foreign exchange risk

Given that CSL's shipbuilding/ship repair business is also for international clients and the fact that a large part of components and raw materials for the said business need to be imported, it runs a significant foreign currency risk. The company has foreign exchange rate fluctuation clause in its agreement with some of its clients, wherein any fluctuation due to the same will be passed on to the customers. The company has a formulated Forex Risk Management Policy duly approved by the board and the forex exposures are being hedged depending upon the market conditions. The company opts for forward cover as per the requirements.

Liquidity: Strong

The liquidity profile is comfortable, with sufficient cash accruals, low debt repayment obligation, and healthy cash and bank balance. CSL had cash and bank balance of Rs.1,522 crore (including Rs.849 crore earmarked for capex) as on March 31, 2021 (Rs.1,655 crore as on March 31, 2020). The company has nil debt repayments in FY22 and FY23, and a bullet repayment for bonds of Rs.100 crore in FY24. The working capital utilisation has also been nil.

Analytical approach: Standalone

Applicable Criteria

[Policy on default recognition](#)

[Factoring Linkages Government Support](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non-financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Infrastructure Sector Ratings](#)

About the Company

Incorporated in 1972, Cochin Shipyard Ltd (CSL) operates a shipyard designed and constructed under technical collaboration with Mitsubishi Heavy Industries, Japan. The yard commenced shipbuilding operations in 1978 and ship repair in 1981. CSL has a shipbuilding dry-dock, which is capable of handling ships up to 1,10,000 deadweight tonne (DWT) and a ship repair dry-dock, which can handle ships up to 1,25,000 DWT. CSL is a GoI-owned Miniratna Central Public Sector Enterprise under the administrative control of the Ministry of Ports, Shipping and Waterways. As on December 31, 2021, 72.86% stake is held by the GoI.

Brief Financials (Rs. crore)	FY20(A)	FY21(A)	9MFY22(Provisional)
TOI	3,599	2,979	2132
PBILDT	890	888	485
PAT	638	610	302
Overall gearing (times)	638	610	--
Interest coverage (times)	17.97	15.45	13.85

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Covenants of rated instrument/facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT-Bank Guarantee	-	-	-	-	2280.00	CARE AAA; Stable
Fund-based - ST-PC/Bill Discounting	-	-	-	-	200.00	CARE A1+
Non-fund-based-LT/ST	-	-	-	-	7205.00	CARE AAA; Stable / CARE A1+
Fund-based - ST-Line of Credit	-	-	-	-	50.00	CARE A1+
Fund-based - ST-Bank Overdraft	-	-	-	-	5.00	CARE A1+
Non-fund-based - ST-Letter of credit	-	-	-	-	500.00	CARE A1+
Bonds	INE704P07014	December 02, 2013	8.51%	December 02, 2023	100.00	CARE AAA; Stable
Bonds*	INE704P07030	March 28, 2014	8.72%	March 28, 2029	150.00	CARE AAA; Stable

*issued Rs.23 crore

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Non-fund-based - LT-Bank Guarantee	LT	2280.00	CARE AAA; Stable	1)CARE AAA; Stable (05-Apr-21)	1)CARE AAA; Stable (30-Mar-21) 2)CARE AA+; Stable (01-Apr-20)	-	1)CARE AA+; Stable (04-Mar-19)
2	Fund-based - ST-PC/Bill Discounting	ST	200.00	CARE A1+	1)CARE A1+ (05-Apr-21)	1)CARE A1+ (30-Mar-21) 2)CARE A1+ (01-Apr-20)	-	1)CARE A1+ (04-Mar-19)
3	Non-fund-based-LT/ST	LT/ST*	7205.00	CARE AAA; Stable / CARE A1+	1)CARE AAA / CARE A1+ (05-Apr-21)	1)CARE AAA; Stable / CARE A1+ (30-Mar-21) 2)CARE AA+; Stable / CARE A1+ (01-Apr-20)	-	1)CARE AA+; Stable / CARE A1+ (04-Mar-19)
4	Fund-based - ST-Line of Credit	ST	-	-	-	1)Withdrawn (30-Mar-21) 2)CARE A1+ (01-Apr-20)	-	1)CARE A1+ (04-Mar-19)
5	Bonds	LT	100.00	CARE AAA; Stable	1)CARE AAA; Stable (05-Apr-21)	1)CARE AAA; Stable (30-Mar-21) 2)CARE AA+; Stable (01-Apr-20)	-	1)CARE AA+; Stable (04-Mar-19)
6	Bonds	LT	150.00	CARE AAA; Stable	1)CARE AAA; Stable (05-Apr-21)	1)CARE AAA; Stable (30-Mar-21) 2)CARE AA+; Stable (01-Apr-20)	-	1)CARE AA+; Stable (04-Mar-19)
7	Fund-based - ST-Line of Credit	ST	50.00	CARE A1+	1)CARE A1+ (05-Apr-21)	1)CARE A1+ (30-Mar-21) 2)CARE A1+ (01-Apr-20)	-	1)CARE A1+ (04-Mar-19)
8	Fund-based - ST-Bank Overdraft	ST	5.00	CARE A1+	1)CARE A1+ (05-Apr-21)	-	-	-
9	Non-fund-based - ST-Letter of credit	ST	500.00	CARE A1+	1)CARE A1+ (05-Apr-21)	-	-	-

*Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Bonds	Simple
2	Fund-based - ST-Bank Overdraft	Simple
3	Fund-based - ST-Line of Credit	Simple
4	Fund-based - ST-PC/Bill Discounting	Simple
5	Non-fund-based - LT-Bank Guarantee	Simple
6	Non-fund-based - ST-Letter of credit	Simple
7	Non-fund-based-LT/ST	Simple

Annexure-5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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