

## Garden Reach Shipbuilders and Engineers Limited

June 20, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	210.00	CARE AAA; Stable	Assigned
Long-term / Short-term bank facilities	7,103.00	CARE AAA; Stable / CARE A1+	Assigned
Short-term bank facilities	1,205.00	CARE A1+	Assigned

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The ratings assigned to the bank facilities of Garden Reach Shipbuilders and Engineers Limited (GRSE) factor in the well-established operations and long-standing track record of more than seven decades in the shipbuilding industry, majority ownership (74.5% stake as on March 31, 2023) held by Government of India (GoI) and strategic importance of GRSE in strengthening the country's defence capabilities. The company's strategic importance to Indian Defence Sector is reflected in its order book with about 98% of the orders coming from Indian Navy and largest order in the order book (around ₹14,204 crore as on March 31, 2023), for warships, received on nomination basis from the Government. The ratings also derive strength from the growth in the order book with orders in hand at ₹25,111 crore as on March 31, 2023, providing revenue visibility in the long term. GRSE is also likely to get benefit from increased GoI's focus on 'Make-in-India' initiative and favourable industry outlook.

The ratings factor in robust leverage and coverage metrics with absence of external debt, minimal reliance on working capital lines, receipt of milestone advances from defence entities for order execution and large cash built up. CARE Ratings Limited (CARE Ratings) expects the coverage metrics and liquidity profile to remain strong going forward.

Other than the rating strengths, the company remains exposed to fluctuation in profitability with majority orders fixed price contracts. The PBILDT margins stood around 5.82% in FY23, although the margins have seen improvement from FY19-FY20 level. The margins are expected to remain modest around 6%-6.5% in the medium term.

### Rating sensitivities: Factors likely to lead to rating actions

#### Negative factors

- Substantial decline in GoI stake.
- Significant decline in the order book position and PBILDT margin of the company on a continuous basis.
- Any significant change in the policies of GoI resulting in increased competition in the shipbuilding industry, leading to decrease in strategic importance of GRSE.
- Reduction in cash balance to below ₹3,000 crore on a continued basis.

### Analytical approach:

CARE Ratings has adopted the standalone approach while factoring linkages with the parent- GoI.

### Outlook: Stable

Over the medium term, GRSE's robust business and financial risk profiles are expected to persist due to its strategic importance and healthy orderbook position.

### Detailed description of the key rating drivers:

#### Key strengths

##### Majority ownership by the Government of India and strategic importance

GRSE is a Central Public Sector Enterprise (CPSE), with majority ownership (74.5% holding as on March 31, 2023) of GoI under the administrative control of the Ministry of Defence. GRSE is strategically important to the Ministry of Defence (MoD) for strengthening its defence capabilities. The board of directors of GRSE are appointed by MoD and comprises Central Government

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

representative as a Nominee Director. GRSE has been nominated for building stealth frigates P-17A (a type of warship) which comprise almost 56% of the order book.

### **Established operations and strong track record**

GRSE has built around 788 platforms which include 107 warships for Indian Navy, Indian Coast Guard, Govt. of Mauritius & Govt. of Seychelles. GRSE has delivered warships comprising frigates, anti-submarine warfare corvettes, missile corvettes, fleet tanker, landing ship tank (Large), landing craft utility, offshore patrol vessel, fast patrol vessels, inshore patrol vessel, water jet fast attack crafts, etc. GRSE has a proven track record of more than seven decades. Apart from shipbuilding, the company has presence in ship repair and engineering.

### **Healthy order book position**

With continuous inflow of orders from the MoD, the order book remained healthy as on March 31, 2023. As on March 31, 2023, the company had order book of ₹25,111 crore which translates to 13x the FY23 revenue providing long-term revenue visibility. The largest order is for frigates P-17A, which comprise almost 56% of the order book and was awarded to GRSE on nomination basis.

During FY23, GRSE has added additional orders of ₹3,407 crore for construction of next-generation offshore patrol vessels (NGOPV). With GOIs, increased focus on indigenisation and 'Make in India' initiative, GRSE is likely to receive orders on a continuous basis, thereby expected to provide sustained revenue visibility.

### **Satisfactory financial performance**

The revenue profile of the company has been stable over the past three years with FY21 impacted by the COVID-19-related challenges. The revenue hence had declined by 20% from ₹1,433 crore in FY20 to ₹1,141 crore in FY21. However, with increased pace of execution, the revenue grew by 32% from ₹1,754 crore in FY22 to ₹2,561 crore in FY23. The PBILDT margins were significantly low (in range of 3-3.5%) during the period FY19-20. The margins were lower due to the initial phase of execution of the largest order in hand – the P17A. Also, there was impact of cyclone Amphan in 2020 as well as increased employee cost (including technician fees) due to COVID-19 included labour challenges. The margins have thereafter witnessed improvement although have been fluctuating between 5% and 8% over the last three years. The PBILDT margin has reduced from 8.07% in FY22 to 5.82% in FY23 due to lower margin associated with the contracts executed. However, the margins are expected to remain moderate at 6% to 6.5% in the medium term.

### **Robust financial and liquidity position**

GRSE's capital structure is robust, with total debt / PBILDT of 0.08x as on March 31, 2023. GRSE does not have any debt in the books, except some lease liability (₹10.93 crore as on March 31, 2023). It had utilised working capital of ₹300 crore during Q3-Q4FY23 to gain on interest arbitrage. With the company having no major capex plans and sufficient liquidity received in the form of milestone advances, no additional borrowings are envisaged in the medium term. The company has ample liquidity in the form of advances received from clients (without any BG), milestone advances received for orders and other liquid funds maintained, and hence reliance on borrowings is on the lower side.

### **Favourable industry outlook**

Large spending plan by the Indian Navy is expected to drive the order book of the Indian shipbuilding companies and more so for the Central PSE shipyards. The capital budget for the Indian Navy has been forecasted at about ₹4.5 lakh crore (till 2027) which comprises mix of various vessel categories, viz., submarines (₹2.2 lakh crore), destroyers / frigates (around ₹90,000 crore), aircraft carriers (around ₹45,000 crore), Corvettes, landing platform, etc. Besides this, capex of ₹32,000 crore is estimated for the Indian Coast Guard. With large-sized capex plans by the Government, the order book of GRSE and other shipyards is expected to remain strong.

### **Key weakness**

#### **Fixed-price contracts with fluctuating margins**

The work contracts are mostly fixed price in nature thereby resulting in profitability susceptible to any unprecedented input price increase. While the company builds in sufficient contingencies to mitigate the impact of any input price rise, there exists risk associated with volatility in the profit margins.

### **Liquidity: Strong**

GRSE has cash and bank balance of ₹4,328 crore as on March 31, 2023 (₹2,558 crore as on March 31, 2022). The company has zero term debt, and cash accruals above ₹271 crore annually will aid liquidity in the medium term.

## Environment, social, and governance (ESG) risks

GRSE is exposed to the environmental risk emanating from the disruption of economic resources while construction activities are under progress. However, the company has taken certain mitigating measures such as installation of renewable power, installation of energy saving devices, and frequent energy audits. GRSE has formulated a CSR policy wherein it has taken several welfare projects.

### Applicable criteria

[Policy on default recognition](#)  
[Factoring Linkages Government Support](#)  
[Financial Ratios – Non financial Sector](#)  
[Liquidity Analysis of Non-financial sector entities](#)  
[Rating Outlook and Credit Watch](#)  
[Short Term Instruments](#)  
[Manufacturing Companies](#)  
[Policy on Withdrawal of Ratings](#)

## About the company and industry

### Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Services	Services	Transport Services	Shipping

Garden Reach Shipbuilders & Engineers Limited (GRSE) was incorporated on February 26, 1934. The company operated by the name of Garden Reach Workshops Limited and was nationalised in 1960, after which the name was changed to current nomenclature on December 31, 1976. GRSE got listed on both NSE and BSE in October 2018. The company is a Central Public Sector Undertaking (CPSU) with President of India holding 74.5% shareholding and balance held by public. Being a Defence PSU, GRSE is primarily engaged in the construction of warships for Indian Navy and Indian Coast Guard. It is also engaged in the construction of commercial vessels and engineering & engine production activities.

GRSE has three major shipbuilding capabilities, which are main works, fitting out jetty, and Rajabagan dockyard, all of them based in Kolkata.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (Published)
Total operating income	1,757.96	2,561.15
PBILDT	141.86	142.90
PAT	189.53	228.12
Overall gearing (times)	0.01	0.22
Interest coverage (times)	123.03	408.28

A: Audited Note: 'the above results are latest financial results available'

**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:** Annexure-4

**Lender details:** Annexure-5

**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	210.00	CARE AAA; Stable
Non-fund-based - LT/ ST-Bank Guarantee	-	-	-	-	7103.00	CARE AAA; Stable / CARE A1+
Non-fund-based - ST-Letter of credit	-	-	-	-	1205.00	CARE A1+

**Annexure-2: Rating history for the last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	7103.00	CARE AAA; Stable / CARE A1+				
2	Non-fund-based - ST-Letter of credit	ST	1205.00	CARE A1+				
3	Fund-based - LT-Cash Credit	LT	210.00	CARE AAA; Stable				

\*Long term/Short term.

**Annexure-3: Detailed explanation of covenants of the rated instruments/facilities:** Not applicable**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - LT/ ST-Bank Guarantee	Simple
3	Non-fund-based - ST-Letter of credit	Simple

**Annexure-5: Lender details**

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

**Note on the complexity levels of the rated instruments:** CARE Ratings 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.

## Contact us

<p><b>Media Contact</b></p> <p>Mradul Mishra Director <b>CARE Ratings Limited</b> Phone: +91-22-6754 3596 E-mail: <a href="mailto:mradul.mishra@careedge.in">mradul.mishra@careedge.in</a></p> <p><b>Relationship Contact</b></p> <p>Lalit Sikaria Director <b>CARE Ratings Limited</b> Phone: + 91-033- 40181600 E-mail: <a href="mailto:lalit.sikaria@careedge.in">lalit.sikaria@careedge.in</a></p>	<p><b>Analytical Contacts</b></p> <p>Rajashree Murkute Senior Director <b>CARE Ratings Limited</b> Phone: +91-22-6837 4474 E-mail: <a href="mailto:rajashree.murkute@careedge.in">rajashree.murkute@careedge.in</a></p> <p>Maulesh Desai Director <b>CARE Ratings Limited</b> Phone: +91-79-4026 5605 E-mail: <a href="mailto:maulesh.desai@careedge.in">maulesh.desai@careedge.in</a></p> <p>Puja Jalan Associate Director <b>CARE Ratings Limited</b> Phone: 9160001511 E-mail: <a href="mailto:puja.jalan@careedge.in">puja.jalan@careedge.in</a></p>
--	--

## About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

## Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

**For the detailed Rationale Report and subscription information,  
please visit [www.careedge.in](http://www.careedge.in)**