Cochin Shipyard Limited

September 07, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	2,280.00	CARE AAA; Stable	Reaffirmed
Long-term/Short-term bank facilities	11,745.00 (Enhanced from 7,179.00)	CARE AAA; Stable/CARE A1+	Reaffirmed
Short-term bank facilities	360.00	CARE A1+	Assigned
Short-term bank facilities	855.00 (Enhanced from 781.00)	CARE A1+	Reaffirmed
Bonds	100.00	CARE AAA; Stable	Reaffirmed
Bonds	150.00	CARE AAA; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities and debt instruments of Cochin Shipyard Limited (CSL) factor in its well-established operations and long-standing track record of around four decades in the industry, the majority ownership by the Government of India (GoI; 72.86% stake as on June 30, 2023), and its strategic importance to the government in strengthening the country's defence capabilities.

CSL is the largest central public sector enterprise (CPSE) shipyard in terms of capacity and can build ships up to 110,000 deadweight tonnage (DWT). The capability of CSL is demonstrated by way of nomination received from the GoI to build India's first indigenous aircraft carrier (IAC) – INS Vikrant. With a large share of revenue derived from various defence entities in India, it is viewed as strategically important for executing and strengthening India's defence capabilities. CARE Ratings Limited (CARE Ratings) expects the strategic importance to continue in the long term, thereby supporting the business operations.

The ratings also derive strength from the robust order book of around ₹22,100 crore as on March 31, 2023, which provides strong revenue visibility in the medium term. CSL has also been trying to increase its exposure in the commercial market segment and has received orders from the European market. It has invested in subsidiaries, Udupi Cochin Shipyard Limited (UCSL) and Hooghly Cochin Shipyard Limited (HCSL), for tapping the mid-sized shipbuilding segment.

The ratings factor in the robust leverage and coverage metrics with minimal external debt, the receipt of milestone advances from defence entities for order execution, and the large cash build-up. CARE Ratings expects the coverage metrics and liquidity profile to remain strong, going forward.

Other than the rating strengths, the company remains exposed to forex risk and the cyclical nature of the shipbuilding industry. The rating also factors in the moderation in margins during FY23, which is expected to rebound during the current fiscal, as reflected in the Q1FY24 performance. The profit before interest, lease rentals, depreciation and taxation (PBILDT) margin reduced to 11.76% during FY23 from 20.02% in FY22 and rebounded to 16.54% during Q1FY24. CARE Ratings notes that there has been delays in the execution of the under-implementation capex plans, however, the sufficient contingency built-up is unlikely to impact the cost and funding plans.

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

Rating sensitivities: Factors likely to lead to rating actions

Positive factors
Not applicable

Negative factors
- Substantial decline in the GoI's stake.
- Significant decline in the order book position and the PBILDT margin of the company on a continued basis.
- Any significant changes in the policies of the GoI, resulting in an increased competition in the shipbuilding industry, leading to a decrease in the strategic importance of CSL.

Analytical approach
CARE Ratings has adopted the consolidated approach while factoring in the linkages with the parent – GoI.

The list of subsidiaries and joint ventures (JVs) that have been consolidated are as under:

Sr. No.	Particulars	Shareholding
	Subsidiaries	
1	Udupi Cochin Shipyard Limited	100%
2	Hooghly Cochin Shipyard Limited	100%

Outlook: Stable
The business and financial risk profile of CSL is expected to remain robust, given its strategic importance to the GoI and its healthy order book position.

Detailed description of the key rating drivers
Key strengths
Majority ownership by the GoI
CSL is a Central public sector enterprise (CPSE), with majority ownership (72.86% holding as on June 30, 2023) 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). CSL has built India's first IAC for the Navy, thereby becoming the only Indian shipyard having such a distinction. CSL has been nominated to build IAC among the six GoI-owned shipyards, as only CSL has the capability to build such large vessels. Moreover, CSL has the ability to repair defence ships and its facilities are routinely used to carry out repairs and maintenance works of various defence ships. In the past, CSL has also undertaken repair and re-fitting activities for the INS Viraat and INS Vikramaditya Aircraft carriers of the Indian Navy. Therefore, CSL is of strategical 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 has built the prestigious IAC for the Indian Navy.

The company has built and delivered 166 vessels – 20 large vessels, 27 defence vessels, 35 offshore support vessels, and 84 small and medium vessels. Apart from catering to the requirement of the government, CSL also caters to the commercial segment and is contemplating increased presence in the segment along with its two subsidiaries. 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 around ₹2,770 crore is being spent through the existing cash balance (including funds raised during the initial public offering [IPO]). The project milestone has witnessed delays due to external factors, viz., COVID challenges, delays at the contractor end, and technical challenges, among others. The projects have sufficient contingency built up, and hence, no cost overrun is contemplated. The estimated balance capex is around ₹1,137 crore, to be incurred over the next three years.

Strong order book position

As on March 31, 2023, the company had an order book of around ₹22,100 crore, providing strong revenue visibility in the medium term. Up to FY18, the order book for CSL was below ₹3,000 crore, translating to a moderate order book coverage. However, since FY19, CSL has been securing large-sized orders (eight anti-submarine warfare shallow war crafts, IAC, next generation missile carrier) from the Ministry of Defence, which has boosted its order book position. CSL has been securing a few orders from commercial clients from Europe. CSL also plans to foray into the small and mid-sized commercial segment vessels through its wholly owned subsidiaries, UCSL and HCSL, and has made significant investments towards the same. UCSL has been able to secure orders from the market post the takeover by CSL. The company has scaled up its order book to around ₹680 as on June 30, 2023.

Strong profitability, albeit moderation during F23

The overall financial performance and profitability metrics have remained satisfactory for CSL, despite moderation witnessed in FY23. During FY23 (consolidated), the operating income declined by 26% from ₹3,204 crore in FY22 to ₹2,381 crore in FY23. The lower-than-expected income is mainly due to delays in the execution of a few orders and due to the revision of the accounting estimate for the ASW order. The company changed the revenue recognition for the ASW project, wherein the revenue for hull: components was earlier fixed as 80:20. However, the execution progress did not reflect the recognition norms, and hence, the revenue was revised to 10:90. The impact was accounted for in Q4FY23, which impacted the margin and revenue for the entire year. The PBILDT margin reduced to 11.76% during FY23 from 20.02% in FY22.

CARE Ratings expects the margins to bounce back during the current fiscal, as reflected in the performance during Q1FY24, wherein the PBIDLT margin improved to 16.54%.

Robust financial and liquidity position

CSL's capital structure continues to remain comfortable, with the net total outside liabilities (TOL)/tangible net worth (TNW) at 0.19x as on March 31, 2023. CSL receives advance 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 June 30, 2023. There are borrowing plans at the subsidiary level, however, no term debt is proposed to be availed and the company will be availing only working capital limits at the subsidiaries.

Favourable industry outlook

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

Key weakness

Foreign exchange risk

Given that CSL's shipbuilding and ship repair business is also for international clients and the fact that a large part of the components and raw materials for the said business need to be imported, it runs a significant foreign currency risk. The company has a 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 obligations, and a healthy cash and bank balance. The company has a bullet repayment for bonds of ₹100 crore in FY24. During FY23 and Q1FY24, CSL reported gross cash accruals (GCA) of ₹322 crore and ₹144 crore, respectively, and is expected to report strong accruals going forward.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks

CSL is exposed to the environmental risk emanating from the disruption of economic resources while construction activities are under progress. However, the company has taken measures and formulated a policy for the effective implementation of the environmental policy under ISO 14001 2015 standards. Besides, CSL has formulated a corporate social responsibility (CSR) policy, wherein it has taken several welfare projects.

Applicable criteria

Policy on default recognition
Consolidation
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
Factoring Linkages Government Support

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Industrial Manufacturing	Ship Building & Allied Services

Incorporated in 1972, 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 110,000 DWT and a ship repair dry-dock, which can handle ships up to 125,000 DWT. CSL is a GoI-owned Miniratna CPSE under the administrative control of the Ministry of Ports, Shipping and Waterways.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (Abridged)	Q1FY24(UA)
Total operating income	3,204	2,381	476
PBILDT	642	280	79
PAT	564	305	137
Overall gearing (times)	0.54	1.01	-
Interest coverage (times)	12.07	6.47	8.96

A: Audited; UA: Unaudited. Note: The above results are the latest financial results available.

Status of non-cooperation with previous CRA: Not applicable

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

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

Complexity level of the 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
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
Fund-based - ST-Bank Overdraft		-	-	-	25.00	CARE A1+
Fund-based - ST-Line of Credit		-	-	-	50.00	CARE A1+
Fund-based - ST-PC/Bill Discounting		-	-	-	200.00	CARE A1+
Non-fund-based - LT-Bank Guarantee		-	-	-	2280.00	CARE AAA; Stable
Non-fund-based - ST-Credit Exposure Limit		-	-	-	80.00	CARE A1+
Non-fund-based - ST-Forward Contract		-	-	-	360.00	CARE A1+
Non-fund-based - ST-Letter of credit		-	-	-	500.00	CARE A1+
Non-fund-based-LT/ST		-	-	-	11745.00	CARE AAA; Stable / CARE A1+

*issued ₹23 crore.

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-Bank Guarantee	LT	2280.00	CARE AAA; Stable	-	1)CARE AAA; Stable (22-Nov-22) 2)CARE AAA; Stable (01-Apr-22)	1)CARE AAA; Stable (05-Apr-21)	1)CARE AAA; Stable (30-Mar-21) 2)CARE AA+; Stable (01-Apr-20)
2	Fund-based - ST-PC/Bill Discounting	ST	200.00	CARE A1+	-	1)CARE A1+ (22-Nov-22) 2)CARE A1+ (01-Apr-22)	1)CARE A1+ (05-Apr-21)	1)CARE A1+ (30-Mar-21) 2)CARE A1+ (01-Apr-20)
3	Non-fund-based-LT/ST	LT/ST*	11745.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (22-Nov-22) 2)CARE AAA; Stable / CARE A1+ (01-Apr-22)	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)
4	Fund-based - ST-Line of Credit	ST	-	-	-	-	-	1)Withdrawn (30-Mar-21) 2)CARE A1+ (01-Apr-20)
5	Bonds	LT	100.00	CARE AAA; Stable	-	1)CARE AAA; Stable (22-Nov-22) 2)CARE AAA; Stable	1)CARE AAA; Stable (05-Apr-21)	1)CARE AAA; Stable (30-Mar-21) 2)CARE AA+; Stable (01-Apr-20)

						(01-Apr-22)		
6	Bonds	LT	150.00	CARE AAA; Stable	-	1)CARE AAA; Stable (22-Nov-22) 2)CARE AAA; Stable (01-Apr-22)	1)CARE AAA; Stable (05-Apr-21)	1)CARE AAA; Stable (30-Mar-21) 2)CARE AA+; Stable (01-Apr-20)
7	Fund-based - ST-Line of Credit	ST	50.00	CARE A1+	-	1)CARE A1+ (22-Nov-22) 2)CARE A1+ (01-Apr-22)	1)CARE A1+ (05-Apr-21)	1)CARE A1+ (30-Mar-21) 2)CARE A1+ (01-Apr-20)
8	Fund-based - ST-Bank Overdraft	ST	25.00	CARE A1+	-	1)CARE A1+ (22-Nov-22) 2)CARE A1+ (01-Apr-22)	1)CARE A1+ (05-Apr-21)	-
9	Non-fund-based - ST-Letter of credit	ST	500.00	CARE A1+	-	1)CARE A1+ (22-Nov-22) 2)CARE A1+ (01-Apr-22)	1)CARE A1+ (05-Apr-21)	-
10	Non-fund-based - ST-Credit Exposure Limit	ST	80.00	CARE A1+	-	1)CARE A1+ (22-Nov-22)	-	-
11	Non-fund-based - ST-Forward Contract	ST	360.00	CARE A1+				

*Long term/Short term.

Annexure-3: Detailed explanation of the 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	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-Credit Exposure Limit	Simple
7	Non-fund-based - ST-Forward Contract	Simple
8	Non-fund-based - ST-Letter of credit	Simple
9	Non-fund-based-LT/ST	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.

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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.

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