Udupi Cochin Shipyard Limited

September 07, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	35.00	CARE A+; Stable	Reaffirmed
Long-term / Short-term bank facilities	47.50	CARE A+; Stable / CARE A1	Reaffirmed
Short-term bank facilities	8.50	CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Udupi Cochin Shipyard Limited (UCSL) derive strength from the strong parentage of Cochin Shipyard Limited (CSL; rated 'CARE AAA; Stable/CARE A1+') and the resultant synergies in terms of business linkages with common brand identity, shared infrastructure and treasury function besides management and financial support from the parent entity. Government of India has majority ownership in CSL (72.86% stake as on June 30, 2023) with strategic importance in terms of handling naval shipbuilding requirement. The ratings also take cognisance of investment undertaken by CSL in revival of business operation of UCSL as well as articulation of need-based support. CARE Ratings Limited (CARE Ratings) expects continued support requirement to be extended to UCSL by CSL.

The investment in UCSL is a part of business strategy of CSL to extend its business operation in the commercial segment with foray into small and medium-size vessel market. The subsidiary thereby is expected to complement the business of CSL as an extended arm. Post revival, UCSL has gained business momentum and has secured orders with an order book of size of (₹680 crore as on June 30, 2023 (₹106 crore as on March 31, 2022), providing strong revenue visibility in the medium term.

The rating strengths are, however, tempered by small scale of operations, modest profitability indicators owing to nascent stage of business, post takeover by CSL and average debt coverage metrics with business operations yet to self-sustain.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Timely execution of work orders with subsequent growth in scale of operation and revenue.
- Improvement in PBILDT margin to 8% or above on a sustained basis.

Negative factors

- Dilution in the CSL's stake and/or lower-than-envisaged support from the parent.
- Weakening of the credit profile of CSL.
- Increased debt level with weakening of debt coverage metrics and the total outside liabilities (TOL)/tangible net worth (TNW) increasing to 2.5x or above on a sustained basis.

Analytical approach: Standalone; factoring in the linkages with the parent, CSL.

UCSL is a wholly-owned subsidiary of CSL and has strong management, operational and financial linkages with its parent company. Thus, the assessment of the ratings is based on factoring linkages with the parent company along with standalone financials of UCSL.

Outlook: Stable

CARE Ratings expects the credit profile of the UCSL to remain stable backed by the satisfactory order book and continued benefits derived in the form of business, managerial and financial synergies with the parent.

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

Detailed description of the key rating drivers:

Key strengths

Strong parentage of CSL

CSL is the largest Central Public Sector Enterprise (CPSE) shipyard in terms of capacity (110,000 DWT). The capability of CSL is demonstrated by way of nomination received from Government of India to build India's first Indigenous Aircraft Carrier (IAC) – INS Vikrant. With a large share of revenue derived from various defense entities in India, it is considered strategically important for executing and strengthening India's defense capabilities. 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. As on March 31, 2023, the company had order book of around ₹22,100 crore providing strong revenue visibility in the medium term.

Synergies and linkages with the parent

CSL, formally known as Tebma Shipyard Limited (TSL), has been a key player in Indian shipbuilding industry in 2000s and has delivered more than 150 vessels since inception in 1984. Owing to adverse leverage profile, deterioration in the liquidity and downturn in shipping industry, TSL was admitted to Corporate Insolvency Resolution Process (CIRP) under the, 2016 IBC. Post-acquisition by CSL in September 2020, UCSL operates as a wholly-owned subsidiary of CSL and is of strategic importance as it has been formed as an extended arm to cater to the commercial segment of the ship-building industry. With government planning to make significant investments in inland water sectors, CARE Ratings expects UCSL to provide pathway for entry of CSL into the smaller vessel and mid-size segment.

By virtue of parent-subsidiary relationship, CSL provides management and operational support, and UCSL also has access to common group treasury enabling the company to raise resources at competitive rates from banks and financial institutions. To reflect the common brand name, the name of the company was changed to Udupi Cochin Shipyard Limited from erstwhile Tebma Shipyards Limited, during April 2022. UCSL has all the board members from CSL and has common Chairman-cum-Managing Director. As on March 31, 2023, CSL has invested about ₹105 crore in UCSL and is expected to provide need-based support for smooth operations. Being a wholly-owned subsidiary with common name, CARE Ratings believes that CSL is morally obligated to support UCSL.

Significant growth in order book of the company

UCSL restarted the business operations in FY22, post CSL taking over the company and investing in reviving the existing manufacturing facilities. UCSL has been able to secure orders in a quick timeframe and has an order book of approximately ₹680 crore as on June 30, 2023. Post restarting the operations in July 2021, UCSL has received orders amounting to ₹84 crore in FY22, ₹106 crore in FY23 and ₹513 crore in Q1FY24 providing strong revenue visibility. With the company receiving significant orders and execution capability backed by a team of skilled manpower (of erstwhile TSL and as well as CSL), CARE Ratings expects the business operation to ramp-up from next fiscal onwards.

Key weaknesses

Small scale of operation and modest profitability indicators

CSL took over UCSL in September 2020 and commenced the operations from June 30, 2023. UCSL has re-commenced operations with revival of manufacturing facilities from FY22. UCSL has reported a significant jump in the income during FY23 to ₹45 crore (from ₹8 crore during FY22) and revenue of ₹29 crore during Q1FY24. Nevertheless, the overall scale and profitability remains moderate, and the company has reported operational loss during FY23. CARE Ratings expects the PBIDLT margin to remain weak during FY24 and to improve from FY25 as the scale improves.

Moderate debt coverage

With UCSL reporting loss at PBILDT level during FY23 and Q1FY24, the debt coverage indicators are moderate and expected to remain subdued during FY24 due to lower scale and moderate profitability indicators. As on March 31, 2023, TOL/TNW stood comfortable at 0.57x; however, CARE Ratings expects UCSL to take mobilization advances for funding its working capital requirements and envisages TOL/TNW to moderate to 1.5x-2.0x going forward in the medium term.

Liquidity: Adequate

As on June 30, 2023, UCSL has no external term loans. UCSL has working capital limits of ₹35 crore for which the utilisation has been below 50%. UCSL has cash balance of ₹89 crore as on June 30, 2023, and is expected to manage its liquidity with existing cash balances along with need-based support from CSL.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
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
Industrials	Capital Goods	Industrial Manufacturing	Ship Building & Allied Services

Incorporated in the year 1984, Udupi Cochin Shipyard Limited (erstwhile Tebma Shipayard Limited; TSL) is a wholly-owned subsidiary company of Cochin Shipyard Limited (CSL; rated 'CARE AAA; Stable/CARE A1+'). CSL acquired UCSL through the Insolvency and Bankruptcy Code (IBC) process, turning it into its wholly-owned subsidiary w.e.f September 2020. UCSL is mainly into construction of tugs, coastal vessels and small-mid size fishing vessels.

CSL, incorporated in 1972, 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 deadweight tonne (DWT) and a ship repair dry-dock, which can handle ships up to 125,000 DWT. CSL is a Government of India (GoI)-owned Miniratna Central Public Sector Enterprise under the administrative control of the Ministry of Ports, Shipping and Waterways. As on June 30, 2023, 72.86% stake is held by the GoI.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24(UA)
Total operating income	8	45	29
PBILDT	(3)	(2)	(1)
PAT	(13)	(9)	(1)
Overall gearing (times)	0.14	0.29	-
Interest coverage (times)	NM	NM	NM

A: Audited UA: Unaudited; NM: Not Meaningful 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		-	-	-	35.00	CARE A+; Stable
Non-fund-based - LT/ ST-Bank guarantee		-	-	-	47.50	CARE A+; Stable / CARE A1
Non-fund-based - ST-Forward contract		-	-	-	0.17	CARE A1
Non-fund-based - ST-Letter of credit		-	-	-	8.33	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	Fund-based - LT-Term loan	LT	-	-	-	-	-	1)Withdrawn (22-Sep-20)
2	Fund-based - LT-Cash credit	LT	-	-	-	-	-	1)Withdrawn (22-Sep-20)
3	Non-fund-based - ST-BG/LC	ST	-	-	-	-	-	1)Withdrawn (22-Sep-20)
4	Fund-based - LT-Cash credit	LT	35.00	CARE A+; Stable	-	1)CARE A+; Stable (22-Nov-22)	-	-
5	Non-fund-based - LT/ ST-Bank guarantee	LT/ST*	47.50	CARE A+; Stable / CARE A1	-	1)CARE A+; Stable / CARE A1 (22-Nov-22)	-	-
6	Non-fund-based - ST-Letter of credit	ST	8.33	CARE A1	-	1)CARE A1 (22-Nov-22)	-	-
7	Non-fund-based - ST-Forward contract	ST	0.17	CARE A1	-	1)CARE A1 (22-Nov-22)	-	-

*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-Forward contract	Simple
4	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.

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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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