

Hindustan Shipyard Limited

April 08, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term / Short-term Bank Facilities	100.00	CARE A; Stable / CARE A1	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Hindustan Shipyard Limited (HSL) factor in its well-established operations and long-standing track record of more than seven decades in the shipbuilding industry, its strategic importance in strengthening the country's defence capabilities, and absolute ownership held by Government of India (GoI). HSL has been receiving support from GoI, over the years, in the form of advances, loans, and grants among others. HSL is one of the few shipyards in India with sub-marine retrofitting abilities and the only shipyard in the east-coast with submarine-repair facilities. The company's strategic importance to Indian Defence Sector is reflected with complete order book being from the Indian Navy and the largest order in the order book (₹19,048 crore), for Fleet Support ships (FSS), received on nomination basis from the Government in August 2023. With addition of FSS order, the orderbook grew significantly to ₹20,368 crore as on September 30, 2023, from ₹1,550 crore as on March 31, 2023, providing strong revenue visibility for seven to eight years. HSL is also likely benefit from increased GoI's focus on 'Make-in-India' initiative and favourable industry outlook.

Ratings also factor in the improvement in financial performance over the last few years with revenue witnessing a cumulative average growth rate (CAGR) of 39.67% in FY21-23 with a y-o-y revenue growth of 47% in FY23 (from ₹728 crore in FY22 to ₹1,073 crore in FY23). HSL is expected to report double digit revenue growth in the medium term with execution of the FSS work order. Profitability has also been improving with profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin of 8.2% in FY23 as against operational loss in FY21.

The liquidity and financial profiles have also improved post receipt of the FSS work order and associated milestone advances from defence entities for order execution. With the receipt of work advances, liquidity has augmented and CARE Ratings Limited (CARE Ratings) thus expects the reliance on working capital loans to remain lower. Ratings also take cognisance of commencement of repayment of OPF loan in FY24 (with repayment of ₹60 crore) for which deferment from GoI has been sought under Financial Restructuring Package. Liquidity is also supported by resolution of substantial portion of contingent liabilities for claims for delayed ship delivery and liquidated damages claimed. Out of claims of around ₹2,000 crore as on March 31, 2023, approximately 60% has been resolved reducing the likelihood of crystallisation of large liabilities.

However, rating strengths are tempered by the exposure to fluctuation in profitability with majority orders fixed price contracts, execution risk associated with receipt of large-sized work order after a long time period, continued negative net worth due to past losses, unresolved contingent liabilities, and intense competition both from PSU-owned shipyards and private players.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors:

- Increased order book position with growth in revenue and profit thereby improving the financial position
- Improvement in liquidity profile

Negative Factors:

- Dilution of Government of India shareholding in the company
- Delayed execution of work order impacting the profitability/and or levy of liquidated damages.

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

- Unfavourable judgements of pending legal cases / crystallisation of contingent liabilities impacting liquidity.

Analytical approach: Standalone, factoring in linkages with parent – GoI.

Outlook: Stable

Over the medium term, HSL's business and financial risk profiles are expected to persist due to its strategic importance and healthy orderbook position with expectation of timely orderbook execution.

Detailed description of the key rating drivers:

Key strengths

Absolute ownership of GoI and strategic importance to the Defence

HSL is a defence public sector undertaking (PSU) under the administrative control of the Ministry of Defence (MoD), with 100% of its shareholding held by the President of India. The Board of Directors also consists of one Government Nominee Director. The company derives over 97% of its income from various defence entities in India and has received a large-sized work order of ₹19,048 crore on nomination basis. Therefore, HSL is strategically important for executing and strengthening India's defence capabilities. HSL had also received loans and grants from the GoI which augments HSL's strategic importance.

Strong orderbook position

HSL has a capacity of 80,000 DWT and 70,000 DWT for shipbuilding and ship-repairs, respectively, which is only the second highest capacity in India. The company had reported losses in the past which eroded the net worth, and thereby restricted the capability to bid for orders. The orderbook position has strengthened to ₹20,368 crore as on September 30, 2023, providing revenue visibility for seven to eight years. The company received orders of ₹19,048 crore in August 2023, on nomination basis, from Indian navy for building five FSSs, which has boosted the order book. The work order is to be completed in 88 months. HSL is the only CPSE shipyard possessing the capability for repair of sub-marines. The shipyard has also signed a contract for normal refitting of INS Sindhukriti for 22 months ending January 2025.

Favourable industry outlook

The large spending plan by the Indian Navy is expected to drive order books of Indian shipbuilding companies, and more so, CPSE shipyards. The capital budget for the Indian Navy has been forecasted at about ₹4.5 lakh crore (until 2027), comprising a mix of vessel categories such as submarines (₹2.2 lakh crore), destroyers and frigates (about ₹90,000 crore), aircraft carriers (about ₹45,000 crore), corvettes, and landing platforms, among others. This apart, a ₹32,000-crore capex is estimated for the Indian Coast Guard. With large-sized capex plans by the government, CARE Ratings expects HSL as well as other shipyards' order book and other shipyards to be strong.

Growing revenue and scale of operation

There was a dip in revenue in FY19, FY20, and FY21 due to the pandemic-related execution challenge and decline in revenue from the submarine refit segment. However, there has been substantial growth in revenue in FY22 (58%) and FY23 (45%) backed by improved execution. HSL has also booked revenue of about ₹602 crore in 8MFY24, with a profit before interest and tax (PBIT) of over ₹75 crore for the period. CARE Ratings observes, revenue is expected to grow in double digit with execution of FSS orders.

Improvement in liquidity

The liquidity and financial profile have also improved post receipt of the FSS work order and associated milestone advances from defence entities for order execution. With the receipt of work advances, the liquidity has augmented and thus reliance on working capital loans is expected to remain lower. HSL has received work advances of ₹4,500 crore with liquid funds at close to ₹3,500 crore as on March 31, 2024. With liquidity augmentation, the company has commenced repayment of OPF loan in FY24 (with repayment of ₹60 crore) for which deferment from GoI has been sought under Financial Restructuring Package. HSL further plans

to repay the remaining amount ahead of its schedule. Liquidity is also supported by resolution of substantial portion of contingent liabilities for claims for delayed ship delivery, rejection of vessels, and liquidated damages claimed by the counterparties. Out of claims of around ₹2,000 crore as on March 31, 2023, approximately 60% has been resolved reducing the likelihood of crystallisation of large liabilities. However, any liability on HSL towards the balance claims would be a key monitorable and important from credit perspective.

Key weaknesses

Negative net worth and FRP proposal to GoI

The company has incurred losses in the past due to lower work order receipt, delayed project execution and levy of liquidated damages resulting in net worth erosion. There were continued losses during the period FY12-15 with profit reported since FY16 to FY23 (except FY21 due to COVID-19 impact). While HSL has been reporting positive profit after tax (PAT) since FY22, net worth continues to remain negative.

HSL has applied to MoD for financial restructuring package (FRP) in 2013 which has been since pending. According to the proposal, the company has requested conversion of ₹372.21 crore of loan in perpetuity to capital grant and waiver of interest of ₹92.60 crore for Refurbishment & Replacement of Machinery and Infrastructure (RRMI) funds. The OPF loan of ₹169 crore sanctioned by the GoI for liquidation of legacy liabilities was also a part of the original FRP. However, repayment of same has already commenced.

Moderate profitability

Profitability has been moderate as most of the contracts are fixed price in nature thereby exposing HSL to raw material price volatility. The company incurred loss in the past due to liquidated damages and provisions on various claims for delayed execution. Thereafter, slower work execution due to COVID-19 impacted the business operation in FY20-21. The profitability witnessed improvement in FY23 with PBILDT margin in FY23 at 8.23% (4.31% in FY22). With increased execution, the PAT also improved from ₹51 crore in FY22 to ₹65 crore in FY23. Going forward, profitability is expected to improve with steady progress of work orders.

Highly concentrated orderbook

Of the total orderbook size of ₹20,368 crore as on September 30, 2023, the single largest order of building 5 FSS from Indian Navy constituents about 93.5% (₹19,048 crore). Therefore, medium-term revenue is highly dependent on the execution of the said order. HSL is also dependent on receiving orders on nomination basis as majority of projects up for bidding require the company to have a positive net worth. However, with the proposed FRP and anticipated high execution in the projected period, the net worth is expected to improve.

Liquidity: Adequate

As on January 09, 2024, HSL had a cash and bank balance of around ₹3,500 crore (₹129.44 crore as on March 31, 2023). The company receives advances/stage payments for executing orders. As on January 09, 2024, the company had advances from customers to the tune of ₹4,500 crore (₹343.80 crore as on March 31, 2023). As and when the order of the 5 FSS gets executed, the Indian Navy will start making further stage payments in phases, to facilitate buying of materials and bearing other expenses.

Assumptions/Covenants: Not applicable

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

Applicable criteria

- [Definition of Default](#)
- [Factoring Linkages Government Support](#)
- [Liquidity Analysis of Non-financial sector entities](#)
- [Rating Outlook and Rating Watch](#)
- [Manufacturing Companies](#)
- [Financial Ratios – Non financial Sector](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital goods	Industrial manufacturing	Ship building and allied services

Founded in 1941, HSL became a fully owned GoI undertaking in 1961. Till 2009, the company operated under Ministry of Shipping, and in 2010, it was designated as a defence shipyard and functions under the administrative control of the MoD wherein 100% of the shares are held by the President of India. The company has three segments — ship building, ship repair, and submarine refits.

HSL is capable of building all types of vessels up to 80,000 deadweight tonnes (DWT). Being the only CPSE shipyard with ship-repair capabilities in the East Coast of India, HSL can cater ships for repairs upto 70,000 DWT.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	727.81	1,072.94
PBILDT	31.38	88.27
PAT	50.78	65.24
Overall gearing (times)	NM	NM
Interest coverage (times)	1.33	4.55

A: Audited; NM – Not meaningful Note: 'these 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 to 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
Non-fund-based - LT/ ST-Bank guarantee		-	-	-	100.00	CARE A; Stable / CARE A1

Annexure-2: Rating history for 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 2024-2025	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
1	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	100.00	CARE A; Stable / CARE A1				

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Non-fund-based - LT/ ST-Bank guarantee	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>Media Contact</p> <p>Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in</p> <p>Relationship Contact</p> <p>Saikat Roy Senior Director CARE Ratings Limited Phone: 91 22 6754 3404 E-mail: saikat.roy@careedge.in</p>	<p>Analytical Contacts</p> <p>Maulesh Desai Director CARE Ratings Limited Phone: +91-79-40265605 E-mail: maulesh.desai@careedge.in</p> <p>Puja Jalan Associate Director CARE Ratings Limited Phone: 914040020131 E-mail: puja.jalan@careedge.in</p> <p>Chirag Ronak Das Rating Analyst CARE Ratings Limited E-mail: Chirag.Das@careedge.in</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**