

Garden Reach Shipbuilders And Engineers Limited

July 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	227.00 (Enhanced from 210.00)	CARE AAA; Stable	Reaffirmed
Long-term / short-term bank facilities	7,361.00 (Enhanced from 7,103.00)	CARE AAA; Stable / CARE A1+	Reaffirmed
Short-term bank facilities	1,205.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Garden Reach Shipbuilders and Engineers Limited (GRSE) continue to 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, 2024) 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 96% orders coming from Indian Navy and Coast Guard, and the largest order in the order book (around ₹12,175 crore as on March 31, 2024), being for warships, received on nomination basis from the Government of India. With a large share of revenue derived from defence entities in India, it is viewed as strategically important for executing and strengthening India's defence capabilities. CARE Ratings Limited (CARE Ratings) expects its strategic importance to continue in the long term, supporting business operations. Ratings also derive strength from robust order book of around ₹22,653 crore as on March 31, 2024, which provides strong revenue visibility in the medium term. GRSE is also likely to get benefit from increased GoI's focus on 'Make-in-India' initiative and favourable industry outlook. GRSE has also been trying to increase its exposure in the commercial market segment and has received orders from the European market and Bangladesh recently.

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 expects coverage metrics and liquidity profile to remain strong going forward.

Rating strengths are tempered by profitability susceptible to commodity price fluctuation from fixed price contracts. Profit before interest, lease rentals, depreciation, and taxation (PBILDT) margins stood around 6.77% in FY24, although margins have seen improvement from FY23 level. Margins are expected to improve going forward in the medium term.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors – Not applicable

Negative factors

- Substantial decline in GoI stake.
- Significant decline in order book position and PBILDT margin on a continuous basis.
- Significant change in 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 a standalone approach while factoring linkages with the parent- GoI.

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

Outlook: Stable

In 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 key rating drivers:**Key strengths****Majority ownership by GoI and strategic importance**

GRSE is a Central Public Sector Enterprise (CPSE), with majority ownership (74.5% holding as on March 31, 2024) of GoI under administrative control of the Ministry of Defence. GRSE is strategically important to the Ministry of Defence (MoD) for strengthening its defence capabilities. GRSE's board of directors are appointed by MoD and comprise Central Government representative as a Nominee Director. GRSE has been nominated for building stealth frigates P-17 Alpha (a type of warship), which account for ~54% of the order book.

Established operations and strong track record

GRSE has built around 790 platforms, which include 109 warships for Indian Navy, Indian Coast Guard, Govt. of Mauritius and 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, and water jet fast attack crafts, among others. 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

As on March 31, 2024, the company had order book of ₹22,653 crore, which translates to over 6x of the FY24 revenue, providing revenue visibility in the medium term. The largest order is for frigates P-17A, which accounts for almost 54% of the order book and was awarded to GRSE on nomination basis.

In FY24, GRSE has added additional orders for constructing Ocean Research Vessel for National Centre for Polar and Ocean Research (NCPOR) worth ₹800 crore and has secured orders amounting to ~₹820 crore in Q1FY25. With GOIs increased focus on indigenisation and 'Make in India' initiative, GRSE is likely to receive orders on a continuous basis, which is expected to provide sustained revenue visibility.

Satisfactory financial performance

With increased pace of execution, revenue grew by 40%, from ₹2,561 crore in FY23 to ₹3,593 crore in FY24 mainly led by execution of frigates P-17A. The PBILDT margin improved marginally from 6% in FY23 to 6.77% in FY24, mainly due to improvement in internal efficiencies and improvement in scale of operations. With expected scale in operations, the PBILDT margin is expected to improve to around ~8.5% in the medium term.

Robust financial and liquidity position

GRSE has a favourable capital structure with negative net debt. GRSE does not have term debt on its book, it has working capital borrowings of ₹56 crore (backed by FD) and lease liabilities of ₹10.09 crore as on March 31, 2024. GRSE receives stage payments, of which, some advances are backed by bank guarantees (BGs). This is used for working capital purposes. As on March 31, 2024, mobilisation advances stood at ₹2,265 crore. Against debt of ₹2,331 crore, GRSE has cash and bank balances of ₹3,720 crore as on March 31, 2024.

With the company has no major capex plans and sufficient liquidity received in the form of milestone advances, no additional borrowings are envisaged in the medium term.

Favourable industry outlook

Large spending plan by the Indian Navy is expected to drive the order book of Indian shipbuilding companies, more so for Central PSE shipyards. This is reflected in increased allocation towards defence sector. In the FY25 budget, the government

allocated about ₹6.25 lakhs towards ministry of defence, which is a 5% increase over last year, of which, the Navy has been allocated about ₹32,778 crore a capital expenditure in FY25. Increasing allocation in the last few years and focus on indigenisation has led to Indian PSUs shipyard reporting high orderbooks. Indian Government plans to float a new shipping entity with 1000 ships, which would aid the existing order book of Indian Shipping companies. 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

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

Liquidity: Strong

GRSE has cash and bank balance of ₹3,720 crore as on March 31, 2024 (₹4,328 crore as on March 31, 2023). The company has zero term debt, and cash accruals above ₹398 crore annually will aid liquidity in the medium term.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks

GRSE is exposed to environmental risks emanating from 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, where it has undertaken several welfare projects.

Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Factoring Linkages Government Support](#)

[Manufacturing Companies](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Services	Services	Transport services	Shipping

GRSE was incorporated on February 26, 1934, and operated under the name of Garden Reach Workshops Limited. It was nationalised in 1960, after which the name was changed to its current nomenclature on December 31, 1976. GRSE was listed on 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 construction of commercial vessels and engineering, and engine production activities.

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

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	2,561.15	3,592.64
PBILDT	153.71	243.34
PAT	228.12	357.27
Overall gearing (times)	1.73	1.40
Interest coverage (times)	14.77	14.91

A: Audited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of 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		-	-	-	227.00	CARE AAA; Stable
Non-fund-based - LT/ST-Bank Guarantee		-	-	-	7361.00	CARE AAA; Stable / CARE A1+
Non-fund-based - ST-Letter of credit		-	-	-	1205.00	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	7361.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (20-Jun-23)	-	-
2	Non-fund-based - ST-Letter of credit	ST	1205.00	CARE A1+	-	1)CARE A1+ (20-Jun-23)	-	-
3	Fund-based - LT-Cash Credit	LT	227.00	CARE AAA; Stable	-	1)CARE AAA; Stable (20-Jun-23)	-	-

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

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

Annexure-4: Complexity level of 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 lender-wise details of bank facilities please [click here](#)

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

Contact us

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About us:

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