Cochin Shipyard Limited

September 05, 2024

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	11,905.00 (Enhanced from 11,745.00)	CARE AAA; Stable / CARE A1+	Reaffirmed
Short-term bank facilities	1,055.00 (Reduced from 1,215.00)	CARE A1+	Reaffirmed
Bonds	150.00	CARE AAA; Stable	Reaffirmed
Bonds@	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

@CARE Ratings Limited has withdrawn the rating assigned to the aforementioned Bonds of Cochin Shipyard Limited with immediate effect, as the company has repaid the Bonds in full and there is no amount outstanding under the as on date.

Ratings assigned to bank facilities and debt instruments of Cochin Shipyard Limited (CSL) continue to 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, 2024), 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) which is being currently enhanced to 300,000 DWT. CSL's capability 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 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, supporting the business operations.

Ratings factor in strong financial operations in FY24 and Q1FY25. On consolidated basis, CSL has reported 62% growth in revenue from ₹2,381 crore in FY23 to ₹3,857 crore in FY24, and profit before interest, lease rentals, depreciation and taxation (PBILDT) margin has improved form 11.93% in FY23 to 23.99% in FY24. The same trend continued in Q1FY25 with the company reporting a growth of 62% in operating income to ₹771 crore in Q1FY25 from ₹476 crore in Q1FY24. PBILDT margin has also improved from 16.54% in Q1FY24 to 23.12% in Q1FY25.

Ratings also derive strength from the robust order book of around ₹22,172 crore as on March 31, 2024 (on consolidated basis), 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.

Ratings also consider 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 coverage metrics and liquidity profile to remain strong, going forward.

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

Apart from its rating strengths, the company remains exposed to forex risk, cyclical nature of the shipbuilding industry, and concentration of orders from Defence entities. CARE Ratings notes that there were delays in the execution of the under-implementation capex plans. However, the International Ship-Repair Facility project was completed in August 2024 and the capacity augmentation through building of dry-dock is expected to be completed within FY25.

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 is given as Annexure-6

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 key rating drivers

Key strengths

Majority ownership by GoI and strategic importance

CSL is a CPSE, with majority ownership (72.86% holding as on June 30, 2024) of the GoI, operating under the administrative control of the Ministry of Ports, Shipping and Waterways. CSL was granted the 'Miniratna' status in 2013, and its board of directors has nominee directors from both, the GoI and the Government of Kerala (GoK). CSL has built India's first IAC for the Navy, 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 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. About 69% of the order book is from defined entities. Therefore, CSL is of strategical importance to the GoI.

With GOI's increased focus on indigenisation and 'Make in India' initiative, CSL is likely to receive orders on a continuous basis, which is expected to provide sustained revenue visibility.

Well-proven operational capabilities and reputed clientele

CSL has built various types of commercial ships for both, international and domestic clients, along with strategically important ships for the Navy, Coast Guard, and other departments. The company has built and repaired some of the largest ships in India, including the prestigious IAC for the Indian Navy.

The company has built and delivered 180 vessels – 21 large vessels, 31 defence vessels, 35 offshore support vessels, and 93 small and medium vessels. Apart from catering to the government's requirements, CSL also caters to the commercial segment and is contemplating increased presence in the segment and 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 (ISRF). 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 had witnessed delays due to external factors, viz., COVID-19 challenges, delays at the contractor end, and technical challenges, among others. However, the ISRF project has been completed in August 2024, and the dry dock project is also expected to be completed within FY25 without cost overrun.

Strong order book position

As on March 31, 2024, the company had an order book of around ₹22,172 crore, providing strong revenue visibility in the medium term. Majority of the book is skewed towards defence orders. However, in the recent past, the company has been able to diversify the order book with receipt of orders from Europe. Defence orders which constituted around 88% of the order book as on March 31, 2022, have reduced to 69% as on March 31, 2024. 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 operations with turnover of ₹181 crore in FY24 (₹45 crore in FY23) and order book to around ₹1,335 crore as on June 30, 2024 (₹680 as on June 30, 2023).

Improvement in financial performance in FY24 and Q1FY25

With improved order execution in FY24, the operational income increased by 62%, from ₹2,381 crore in FY23 to ₹3,857 crore. The PBILDT Margin has also improved from 11.93% to 23.99% in FY24. The revenue in Q1FY25 also witnessed a Y-o-Y growth of 62%, from ₹476 crore in Q1FY24 to ₹771 crore in Q1FY25 at a PBILDT Margin of 23.12%. The same trend continued in Q1FY25 with the company reporting a growth of 62% in operating income to ₹771 crore in Q1FY25 from ₹476 crore in Q1FY24. PBILDT margin has also improved from 16.54% in Q1FY24 to 23.12% in Q1FY25. With completion of the IAC project, margins are expected to moderate, but are expected to remain strong compared to other PSU shipyards.

Robust financial and liquidity position

CSL's capital structure continues to remain comfortable, with the overall gearing standing at 0.10x as on March 31, 2024. CSL receives interest-free advance stage payments on completion of milestones, such as receiving 10% of the contract value on signing the contract, 5% on submission of design, and 10% at the time of ordering major raw materials, among others, which aids the company in meeting its working capital requirements. The fund-based working capital utilisation was nil in the last 12 months ended July 31, 2024. Although there are borrowing plans at the subsidiary level, no term debt is proposed to be availed and the company will be availing only working capital limits at its 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 CPSU shipyards. Indian Navy's capital budget has been forecasted at about ₹4.5 lakh crore (until 2027), which comprises a mix of vessel categories, including submarines (₹2.2 lakh crore), destroyers and frigates (around ₹90,000 crore), aircraft carriers (around ₹45,000 crore), corvettes, and landing platforms, among others. Besides this, a capex of ₹32,000 crore is estimated for the Indian Coast Guard. The defence ministry also announced the plan to approve ₹70,000 crore contracts for the construction of new stealth warships in July 2024. 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 fluctuation due to the same will be passed on to customers. The company has a formulated Forex Risk Management Policy duly approved by the board and the forex exposures are being hedged depending upon market conditions. The company opts for forward cover per requirements.

Liquidity: Strong

CSL's liquidity profile is comfortable with sufficient cash accruals, no debt repayment obligations, and a healthy cash and bank balance. In FY24 and Q1FY25, CSL reported gross cash accruals (GCA) of ₹868 crore and ₹194 crore, respectively, and is expected to report strong accruals going forward. While majority of the cap-ex activities have been completed, the company would be funding the remaining capex through internal accruals.

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

Consolidation
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
Withdrawal Policy
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic 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 (Consolidated): **(Rs. crore)**

	March 31, 2023 (A)	March 31, 2024 (UA)	Q1FY25 (UA)
Total operating income	2,381	3,857	771
PBILDT	284	925	178
PAT	305	783	174
Overall gearing (times)	0.13	0.10	-
Interest coverage (times)	6.56	20.02	27.02

A: Audited UA: Unaudited; 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

Detailed explanation of 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 and Rating Outlook
Bonds	INE704P07014	02-Dec-2013	8.51%	December 02, 2023	0.00	Withdrawn
Bonds*	INE704P07030	28-Mar-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		-	-	-	200.00	CARE A1+
Non-fund-based - ST-Letter of credit		-	-	-	500.00	CARE A1+
Non-fund-based-LT/ST		-	-	-	11905.00	CARE AAA; Stable / CARE A1+

*issued ₹23 crore.

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-Bank guarantee	LT	2280.00	CARE AAA; Stable	-	1)CARE AAA; Stable (07-Sep-23)	1)CARE AAA; Stable (22-Nov-22) 2)CARE AAA; Stable (01-Apr-22)	1)CARE AAA; Stable (05-Apr-21)
2	Fund-based - ST-PC/Bill discounting	ST	200.00	CARE A1+	-	1)CARE A1+ (07-Sep-23)	1)CARE A1+ (22-Nov-22) 2)CARE A1+ (01-Apr-22)	1)CARE A1+ (05-Apr-21)
3	Non-fund-based-LT/ST	LT/ST	11905.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (07-Sep-23)	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)
4	Bonds	LT	-	-	-	1)CARE AAA; Stable (07-Sep-23)	1)CARE AAA; Stable (22-Nov-22) 2)CARE AAA; Stable (01-Apr-22)	1)CARE AAA; Stable (05-Apr-21)

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
5	Bonds	LT	150.00	CARE AAA; Stable	-	1)CARE AAA; Stable (07-Sep-23)	1)CARE AAA; Stable (22-Nov-22) 2)CARE AAA; Stable (01-Apr-22)	1)CARE AAA; Stable (05-Apr-21)
6	Fund-based - ST-Line of credit	ST	50.00	CARE A1+	-	1)CARE A1+ (07-Sep-23)	1)CARE A1+ (22-Nov-22) 2)CARE A1+ (01-Apr-22)	1)CARE A1+ (05-Apr-21)
7	Fund-based - ST-Bank overdraft	ST	25.00	CARE A1+	-	1)CARE A1+ (07-Sep-23)	1)CARE A1+ (22-Nov-22) 2)CARE A1+ (01-Apr-22)	1)CARE A1+ (05-Apr-21)
8	Non-fund-based - ST-Letter of credit	ST	500.00	CARE A1+	-	1)CARE A1+ (07-Sep-23)	1)CARE A1+ (22-Nov-22) 2)CARE A1+ (01-Apr-22)	1)CARE A1+ (05-Apr-21)
9	Non-fund-based - ST-Credit exposure limit	ST	80.00	CARE A1+	-	1)CARE A1+ (07-Sep-23)	1)CARE A1+ (22-Nov-22)	-
10	Non-fund-based - ST-Forward contract	ST	200.00	CARE A1+	-	1)CARE A1+ (07-Sep-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	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 lender-wise details of bank facilities please click here

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1.	Hooghly Cochin Shipyard Limited	Full	Wholly owned subsidiary
2.	Udupi Cochin Shipyard Limited	Full	Wholly owned subsidiary

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.

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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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