

Hindustan Shipyard Limited

April 01, 2025

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	176.00	CARE A; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	2,499.00	CARE A; Stable / CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Hindustan Shipyard Limited (HSL) continue to 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 submarine 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 99.71% of the 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. HSL has a robust order book of ₹19,495 crore as on Sept 30, 2024 providing strong revenue visibility in the medium term. The order of the 5 FSS constitutes about 95% of the total outstanding orderbook of ₹19,495 crore as on September 30, 2024. HSL is also likely to 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 operating revenue witnessing a cumulative average growth rate (CAGR) of 36.65% in FY21-24 with a y-o-y revenue growth of 28% in FY24 (from ₹1,073 crore in FY23 to ₹1,373 crore in FY24). HSL is expected to report double digit revenue growth in the medium term with execution of the FSS work order. CARE Ratings Limited (CARE Ratings) takes note of the moderation in EBITDA margins in FY24 considering increased provisions, however, the same is expected to improve in the medium term.

With the receipt of work advances from FSS order, liquidity has remained strong, and the company has maintained balance in fixed deposits, which also yields healthy interest income. Ratings also take cognisance of commencement of repayment of OPF loan in FY24 (with repayment of ₹120 crore) for which deferment from GoI had 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. In FY24, contingent liabilities have seen reduction by 60% from ₹1,955 crore as on March 31, 2023, to ₹745 crore as on March 31, 2024.

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 ratings assigned are available at www.careedge.in and other CARE Ratings Limited'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 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. However, with the receipt of FSS order, the orderbook position has strengthened to ₹19,495 crore as on September 30, 2024, providing revenue strong revenue visibility in the medium term. The FSS work order is to be completed in 88 months. However, the FFS order execution is in initial stages with about ₹406 executed as of September 30, 2024. Timely execution FFS order remains a key rating factor.

HSL is the only CPSE shipyard possessing the capability for repair of sub-marines. HSL is in the process of securing an order of Medium Refit with Life Certification (MRLC) of INS Sindhuvijaya with order value of about ₹3,800 crore. The project is slated for execution over a three-year period following the submarine's docking in August 2025 and the same is expected boost the revenue and well as margins.

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 ₹35,267-crore capex is estimated for the Indian Coast Guard. Indian Navy also witnessed a record high allocation of ₹97,150 crore for the 2025-26 fiscal (19.76% of the overall defence budget). 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 HSL and other shipyards is expected to remain strong.

Growing revenue and scale of operation

HSL reported 28% growth in operating income to Rs.1,373 crore in FY24 as against Rs.1,073 crore during FY23. HSL has continued to report strong performance with the company reporting an income of ₹1052 crore during 9MFY25. Going forward with strong order book the revenue is expected to grow at double digits.

and has reported a profit before interest, lease rental, depreciation, and tax (PBILDT) of over ₹30 crore.

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 ₹3,501 crore as on September 30, 2024. With liquidity augmentation, the company has commenced repayment of OPF loan in FY24 (with repayment of ₹120 crore) for which deferment from GoI had 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 ₹1,955 crore as on March 31, 2023, claims of approximately ₹1,210 crore has been resolved reducing the likelihood of crystallisation of large liabilities and contingent liabilities as on March 31, 2024, stood at ₹745 crore. However, any liability on HSL towards the balance claims would be a key monitorable and important from credit perspective.

Key weaknesses

Historic 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 in FY12-15 with profit reported since FY16 to FY24 (except FY21 due to COVID-19 impact).

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. Considering the loan in perpetuity, grant against Hud Hud cyclone (Rs.200 crore), and RRMI grant (Rs.108 crore) as a part of quasi equity, the net-worth turns to positive ₹9 crore as on March 31, 2024. There are term loan availment plans with the company having strong liquidity. With the advances maintained in the fixed deposits yielding healthy interest income, the company plans to arbitrage the FDs and utilise working capital limits to manage its day-to-day operations.

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 PBILDT margin has contracted from 8.23% in FY23 to 2.19% in FY24 mainly considering provisions towards liquidated damages, bad debts, and certain receivables. The PBILDT margin has also diminished due to the initial fixed overheads related to the order of the 5 Fleet Support Ships owing to initial stage of execution. The provisioning and initial overheads have also led to an operating loss of ₹2 crore in H1FY25. However, the margins are expected to improve going forward as the execution of the order picks up. Also, the management has articulated such provisions are taken with a prudential approach, however, they are reversed back once orders are executed.

Nevertheless, with substantial non-operating income, the PAT has improved from ₹65 crore in FY23 to ₹119 crore in FY24. Going forward, profitability and operating margins are expected to improve with steady progress of work orders. This trend has continued with PAT of ₹107 crore reported in H1FY25.

Concentrated orderbook

Of the total outstanding orderbook size of ₹19,495 crore as on September 30, 2024, the single largest order of building five FSS from Indian Navy constitutes about 95% (₹18,642 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. The expected receipt of the order of ₹3,800 crore for retrofitting of INS Sindhuvijaya on March 25, 2025, would also help with the diversification of the orderbook.

Liquidity: Adequate

As on September 30, 2024, HSL had a cash and bank balance of around ₹3,501 crore (₹129.44 crore as on March 31, 2023 and ₹3,557 as on March 31, 2024). The company receives advances/stage payments for executing orders. As on September 30, 2024, the company had advances from customers to the tune of ₹4,195 crore (₹4,116 crore as on March 31, 2024). As and when the order of the five 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](#)

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About the company and industry**Industry classification**

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Capital Goods	Industrial Manufacturing	Ship Building & 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, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	1,073	1,373	495
PBILDT	88	30	(2)
PAT	65	119	107
Overall gearing (times)	-1.58	25.51	2.66
Interest coverage (times)	4.53	1.31	(0.20)

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
Fund-based - LT-Working Capital Limits		-	-	-	176.00	CARE A; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	2499.00	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-BG/LC	LT/ST	2499.00	CARE A; Stable / CARE A1	1)CARE A; Stable / CARE A1 (26-Jun-24) 2)CARE A; Stable / CARE A1 (08-Apr-24)	-	-	-
2	Fund-based - LT-Working Capital Limits	LT	176.00	CARE A; Stable	1)CARE A; Stable (26-Jun-24)	-	-	-

LT: Long 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-Working Capital Limits	Simple
2	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Lender details

To view the 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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