Udupi Cochin Shipyard Limited

November 22, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	35.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Assigned
Long Term / Short Term Bank Facilities	47.50	CARE A+; Stable / CARE A1 (Single A Plus ; Outlook: Stable/A One)	Assigned
Short Term Bank Facilities	8.50	CARE A1 (A One)	Assigned
Total Bank Facilities	**91.00 (₹ Ninety-One Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed 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, 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 September 30, 2022) with strategic importance in terms of handling naval shipbuilding requirement. 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. The rating also takes cognizance of investment undertaken by CSL in revival of business operation of UCSL as well as articulation of need-based support. Post revival, UCSL has garnered orders and has an order book pipeline which is expected to drive the growth in near term and is viewed as credit positive.

The rating strengths, however, are tempered by small scale of operations and modest profitability indicators owing to nascent stage of business post takeover by CSL.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Increase in order book and scale of operations with improvement in profitability

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Dilution in the CSL's stake and/or lower than envisaged support from the parent
- Weakening of the credit profile of CSL
- Inability to scale up the order book as envisaged

Detailed description of the key rating drivers

Key rating strengths

Strong parentage of Cochin Shipyard Limited

CSL is the largest Central Public Sector Enterprise (CPSE) shipyard in terms of capacity (1,10,000 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 viewed as 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, 2022, the company had order book of ~Rs.11,000 crore providing revenue visibility for next 3.5 years

Synergies and linkages with 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

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

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, UCSL is expected to provide path for 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, 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, 2022, CSL has invested about Rs.80 crore in UCSL and is expected to provide need-based support for smooth operations. Being a wholly owned subsidiary with common name, CARE believes that CSL is morally obligated to support UCSL.

Traction in orderbook post revival

UCSL has 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 approx. Rs.105.65 crore as on Mar 31, 2022, which mainly comprise manufacturing of two tugs amounting to ~Rs.99.65 crore. With a view to support the business growth, CSL has transferred a part of its work order for Kochi Metro Rail Ltd to UCSL and the latter is building 8 vessels on the behalf of CSL. Out of same, two vessels have been successfully delivered to CSL. UCSL also has repair orders of ~Rs.6 crore as on March 31, 2022.

UCSL has an order book pipeline which is expected to drive the growth in near term. Given the ability to garner work orders in a short time span and execution capability backed by a team of skilled manpower (of erstwhile TSL), CARE Ratings expect the business operation to ramp up from next fiscal onwards.

Key rating weaknesses

Small scale of operation and modest profitability indicators

With recent recommencement of business operation, the company is in transition phase. Hence the size and scale remain low with the company reporting revenue of Rs.6.42 crore during FY22. It reported loss from business operation in FY22 and profitability is expected to remain subdued in near term with losses expected during FY23. With gradual receipt of work orders and execution thereof UCSL has reported an income of Rs.14.07 crore during H1FY23. The scale of operations is expected to be remain moderate during FY23 with gradual turnaround from FY24 onwards. However, profitability may still remain modest over the next 1-2 years. The ability of UCSL to secure the orders as envisaged and scale up the operations will remain crucial.

Liquidity: Adequate

As on September 30, 2022, UCSL has no external term loans. CSL has working capital limits of Rs.35 crore for which the utilization has been below 20%. UCSL has cash balance of Rs.17 crore as on September 30, 2022.

Analytical approach

Standalone; factoring in the linkages with the parent, Cochin Shipyard Ltd. (CSL).

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

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

[Policy on default recognition](#)
[Factoring Linkages Parent Sub JV Group](#)
[Manufacturing Companies](#)

About the company

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

Cochin Shipyard Ltd (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 1,10,000 deadweight tonne (DWT) and a ship repair dry-dock, which can handle ships up to 1,25,000 DWT. CSL is a GoI-owned Miniratna Central Public Sector Enterprise under the administrative control of the Ministry of Ports, Shipping and Waterways. As on September 30, 2022, 72.86% stake is held by the GoI.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (Provisional)
Total operating income	-	8	14
PBILDT	(2)	(3)	1
PAT	(2)	(3)	1
Overall gearing (times)	0.04	0.13	-
Interest coverage (times)	NM	NM	-

A: Audited NM-Not Meaningful

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan@	LT	-	-	-	-	1)Withdrawn (22-Sep-20)	1)CARE D; ISSUER NOT COOPERATING* (12-Aug-19)
2	Fund-based - LT-Cash Credit@	LT	-	-	-	-	1)Withdrawn (22-Sep-20)	1)CARE D; ISSUER NOT COOPERATING* (12-Aug-19)
3	Non-fund-based - ST-BG/LC@	ST	-	-	-	-	1)Withdrawn (22-Sep-20)	1)CARE D; ISSUER NOT COOPERATING* (12-Aug-19)
4	Fund-based - LT-Cash Credit	LT	35.00	CARE A+; Stable				
5	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	47.50	CARE A+; Stable / CARE A1				
6	Non-fund-based - ST-Letter of credit	ST	8.33	CARE A1				
7	Non-fund-based - ST-Forward Contract	ST	0.17	CARE A1				

*Long term/Short term.
@ratings were assigned to the erstwhile Tebma Shipyards Limited

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

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of 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: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on 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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