Cochin Shipyard Limited (Revised)

November 22, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	2,280.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Long-term / Short-term bank facilities	7,179.00 (Reduced from 7,205.00)	CARE AAA; Stable / CARE A1+ (Triple A; Outlook: Stable/ A One Plus)	Reaffirmed
Short-term bank facilities	6.00	CARE A1+ (A One Plus)	Assigned
Short-term bank facilities	775.00 (Enhanced from 755.00)	CARE A1+ (A One Plus)	Reaffirmed
Total bank facilities	**10,240.00 (₹ Ten thousand two hundred forty crore only)**		
Bonds	100.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Bonds	150.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Total Long-term instruments	**250.00 (₹ Two hundred fifty crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale & key rating drivers

The ratings assigned to the bank facilities and debt instruments of Cochin Shipyard Ltd (CSL) factor in its well-established operations and long-standing track record of around four decades in the industry, majority ownership by the Government of India (GoI) (72.86% stake as on September 30, 2022), and its strategic importance to the Government. 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 defence entities in India, it is viewed as strategically important for executing and strengthening India's defence capabilities. With the completion of IAC, the share of revenue from Defence segment is expected to moderate over the next few years; nevertheless, it is likely to continue as the largest revenue contributor.

The ratings are also driven by the growth in the order book over the past few years resulting in a strong order book position, providing long-term revenue visibility. As on March 31, 2022, CSL has order book of around ₹11,260 crore as on March 31, 2022. This apart, CSL has won the tender of ₹10,000 crore for building Next Generation Missile Vessels (NGMV) from Indian Navy for which Letter of Agreement (LOA) is pending. CSL has also been trying to increase exposure in the commercial market segment and has received orders from Europe. For tapping the mid-sized shipbuilding segment, it has invested in subsidiaries Udupi Cochin Shipyard Limited (UCSL) and Hooghly Cochin Shipyard Limited (HCSL).

The rating also factors in the strong profitability metrics with margins expected to remain tad tepid in the near term with the completion of IAC work orders. On an overall basis profitability, financial and liquidity position are expected to continue to remain robust. CARE Ratings Limited (CARE Ratings) notes that there has been delays in execution of the under-implementation capex plans; however sufficient contingency built up is not likely to impact the cost and funding plans.

Other than the rating strengths, the company remains exposed to forex risk and the cyclical nature of the shipbuilding industry.

Rating sensitivities

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

- Substantial decline in the GoI's stake.

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

- Order book coverage falling below 3x on a sustained basis.
- Any significant change in policies of the GoI resulting in increased competition in the shipbuilding industry, leading to decrease in the strategic importance of CSL.

Detailed description of the key rating drivers
Key rating strengths

Majority ownership by the GoI:
CSL is a Central Public Sector Enterprise, with majority ownership (72.86% holding as on September 30, 2022) of the GoI, operating under the administrative control of the Ministry of Ports, Shipping and Waterways. CSL was granted the Miniratna status in 2013. The board of directors of CSL has nominee directors from both, the GoI and the Government of Kerala (GoK). CSL has built India's first IAC for the Navy, thereby 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 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 work of various defence ships. In the past, CSL has also undertaken repair/re-fitting activities for the INS Viraat and INS Vikramaditya Aircraft carriers of the Indian Navy. Therefore, CSL is of strategical importance to the GoI.

Well-proven operational capabilities and reputed clientele:
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. The company has built and repaired some of the largest ships in India and has built the prestigious IAC for the Indian Navy.
CSL has a proven capability to undertake complex and sophisticated repairs for oil rigs and ships of the Navy, Coast Guard and Merchant Navy, besides building merchant ships and offshore vessels for domestic as well as foreign clients.
As of March 31, 2022, the company has built and delivered 166 vessels – 20 large vessels, 27 defence vessels, 35 offshore support vessels and 84 small & medium vessels. Apart from catering to the requirement of the government, CSL also caters to the commercial segment and is contemplating increased presence in the segment along with 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. The entire cost of around ₹2,770 crore is being spent through the existing cash balance (including funds raised during the IPO). The project milestone has witnessed delays due to external factors viz. covid challenges, delays at contractor end, technical challenges etc. The projects have sufficient contingency built up and hence no cost overrun is contemplated. CSL has terminated the contract and has now invited fresh bids for the work execution. The estimated balance capex is around ₹1,033 crore, to be incurred over the next three years.

Strong order book position:
As on March 31, 2022, the company had order book of around ₹11,000 crore providing revenue visibility for the next 3.5 years. This apart, CSL won tender of ₹10,000 crore order for building next-generation missile vessels from the Indian Navy in February 2021. Including the L1 order, CSL will have revenue visibility for the next 5-6 years. Until FY18, the order book for CSL was below ₹3,000 crore, translating to moderate order book coverage. However, since FY19, CSL has been securing large-size orders (eight anti-submarine warfare shallow war crafts, IAC) from the Ministry of Defence, which has boosted its order book position. CSL has been securing few orders from commercial clients from Europe. CSL also plans to foray into small-midsized commercial segment vessels through the wholly-owned subsidiaries Udupi Cochin Shipyard Limited and Hooghly Cochin Shipyard Limited and has made significant investments towards the same.

Strong profitability:
During FY22, the operating income grew by 13% from ₹2,825 crore in FY21 to ₹3,204 crore in FY22. PBILDT margins has reduced by from 25.80% in FY21 to 20.02% in FY22 mainly on the account of lower contribution from IAC. Contribution of IAC to total revenue reduced from around 71% in FY21 to around 56% in FY22. Going forward, the PBILDT margin is expected to moderate by close to 200 bps with the execution of IAC work order and slower growth expected in the subsidiaries. During H1FY23, the

total income grew by 10%, from ₹1,026 crore in H1FY21 to ₹1,124 crore in H1FY22. On the account of lower revenue booking, lower contribution from IAF and higher fixed over heads, the PBILDT margins have moderated during H1FY23.

CSL has acquired UCSL from NCLT in September 2020 and has invested towards reviving the manufacturing unit. While the company has strong technical capabilities and has commenced securing work orders, meaningful profit from operations is not expected in the near term. CSL has articulated extending need-based support to subsidiaries. On an overall basis, the profitability although expected to moderate would continue to remain at superior level.

Robust financial and liquidity position:

CSL's capital structure continues to remain comfortable, with TOL/TNW at at 0.13x as on March 31, 2022. On this date, the total debt stood at ₹521 crore in the form of bonds (₹123 crore) and lease liabilities (₹428 crore). CSL receives advance stage payments on completion of milestones, like receiving 10% of the contract value on signing the contract, 5% on submission of design, 10% at the time of ordering major raw materials, etc. This aids the company in meeting its working capital requirements. The fund-based working capital utilisation was nil in the last 12 months ended January 2022.

There are borrowing plans at subsidiary level; however no term debt is proposed with working capital of approximately ₹35 crore proposed at the subsidiary level. While consolidated debt position would increase, the financial position is expected to remain strong.

Liquidity: Strong

The liquidity profile is comfortable with sufficient cash accruals, low debt repayment obligation, and healthy cash and bank balance. The company has nil debt repayments in FY23 and a bullet repayment for bonds of ₹100 crore in FY24. During FY22 and H1FY23, CSL has reported GCA of ₹637 crore and ₹194 crore respectively and is expected to report strong accruals going forward.

Key rating weaknesses

Foreign exchange risk:

Given that CSL's shipbuilding/ship repair business is also for international clients and the fact that a large part of components and raw materials for the said business need to be imported, it runs a significant foreign currency risk. The company has foreign exchange rate fluctuation clause in its agreement with some of its clients, wherein any fluctuation due to the same will be passed on to the customers. The company has a formulated Forex Risk Management Policy duly approved by the board and the forex exposures are being hedged depending upon the market conditions. The company opts for forward cover as per the requirements.

Higher dependence of defence order and concentrated order book:

CSL derives majority of the income from the Indian defence sector primarily Indian Navy. The top two orders constituted around 78% of the order book as on March 31, 2022, and both these orders are from the Indian Navy. Any change in the government policies on defence spending may impact the financial performance of CSL.

However, CSL has been able to diversify the order book to extent. CSL has secured orders to build vessels from the European client, building dredger for Dredging Corporation of India, passenger boats for Andaman & Nicobar Administration and Kochi Metro in the recent past.

Strong order book position of the global ship building industry:

The shipbuilding industry is directly linked to the shipping industry and hence is cyclical. The international shipbuilding industry is witnessing strong orders with most of the shipyards expected to operate at 100% capacity till CY25. Indian Shipbuilding contributes about 1% of the global shipping order book and it is mainly dominated by orders from defence segment. The ship-building industry was conferred infrastructure status in 2016 but has not picked up due to significant cost advantages provided by countries such as China and Korea. However, Indian shipbuilding has seen small traction in the recent past and has seen order inflow from European countries.

Analytical approach: Consolidated -factoring in linkages with parent- GoI

CSL has two wholly-owned subsidiaries Udupi Cochin Shipyard Limited (UCSL) and Hooghly Cochin Shipyard Limited (HCSL). CARE Ratings has changed its analytical approach to Consolidated from Standalone as these subsidiaries share common, business, managerial, operational and financial linkages.

The list of subsidiaries/JVs which have been consolidated are as under

S.No.	Particulars	Shareholding
	Subsidiaries	
1	Udupi Cochin Shipyard Limited	100%
2	Hooghly Cochin Shipyard Limited	100%

Applicable criteria

Policy on default recognition
Consolidation
Factoring Linkages Government Support
Financial Ratios – Non-financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Manufacturing Companies
Short-term Instruments

About the company

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 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) – Consolidated	FY21(A)	FY22(A)	H1FY23(UA)
Total operating income	2,825	3,204	1,124
PBILDT	729	642	167
PAT	609	564	155
Overall gearing (times)	0.14	0.13	NA
Interest coverage (times)	12.51	12.07	13.76

A: Audited; U/A – Unaudited , NA – Not available

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
Bonds	INE704P07014	December 02, 2013	8.51%	December 02, 2023	100.00	CARE AAA; Stable
Bonds*	INE704P07030	March 28, 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+

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 - 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		-	-	-	6.00	CARE A1+
Non-fund-based - ST-Letter of credit		-	-	-	500.00	CARE A1+
Non-fund-based-LT/ST		-	-	-	7179.00	CARE AAA; Stable / CARE A1+

issued Rs.23 crore

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	Non-fund-based - LT-Bank guarantee	LT	2280.00	CARE AAA; Stable	1)CARE AAA; Stable (01-Apr-22)	1)CARE AAA; Stable (05-Apr-21)	1)CARE AAA; Stable (30-Mar-21) 2)CARE AA+; Stable (01-Apr-20)	-
2	Fund-based - ST-PC/Bill discounting	ST	200.00	CARE A1+	1)CARE A1+ (01-Apr-22)	1)CARE A1+ (05-Apr-21)	1)CARE A1+ (30-Mar-21) 2)CARE A1+ (01-Apr-20)	-
3	Non-fund-based-LT/ST	LT/ST*	7179.00	CARE AAA; Stable / CARE A1+	1)CARE AAA; Stable / CARE A1+ (01-Apr-22)	1)CARE AAA / CARE A1+ (05-Apr-21)	1)CARE AAA; Stable / CARE A1+ (30-Mar-21) 2)CARE AA+; Stable / CARE A1+ (01-Apr-20)	-
4	Fund-based - ST-Line of credit	ST	-	-	-	-	1)Withdrawn (30-Mar-21) 2)CARE A1+ (01-Apr-20)	-
5	Bonds	LT	100.00	CARE AAA; Stable	1)CARE AAA; Stable (01-Apr-22)	1)CARE AAA; Stable (05-Apr-21)	1)CARE AAA; Stable (30-Mar-21) 2)CARE AA+; Stable (01-Apr-20)	-
6	Bonds	LT	150.00	CARE AAA; Stable	1)CARE AAA; Stable (01-Apr-22)	1)CARE AAA; Stable (05-Apr-21)	1)CARE AAA; Stable (30-Mar-21)	-

							2)CARE AA+; Stable (01-Apr-20)	
7	Fund-based - ST-Line of credit	ST	50.00	CARE A1+	1)CARE A1+ (01-Apr-22)	1)CARE A1+ (05-Apr-21)	1)CARE A1+ (30-Mar-21) 2)CARE A1+ (01-Apr-20)	-
8	Fund-based - ST-Bank overdraft	ST	25.00	CARE A1+	1)CARE A1+ (01-Apr-22)	1)CARE A1+ (05-Apr-21)	-	-
9	Non-fund-based - ST-Letter of credit	ST	500.00	CARE A1+	1)CARE A1+ (01-Apr-22)	1)CARE A1+ (05-Apr-21)	-	-
10	Non-fund-based - ST-Credit exposure limit	ST	6.00	CARE A1+				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: NA

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

Sr. No.	Name of 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-Letter of credit	Simple
8	Non-fund-based-LT/ST	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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About us:
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