

Cochin Shipyard Limited

March 04, 2019

Ratings

Facilities	Amount (Rs. Crore)	Rating ¹	Rating Action
Long-term Bank Facilities	800	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	600	CARE A1+ (A One Plus)	Reaffirmed
Long-term / Short-term Bank Facilities	1900	CARE AA+; Stable /CARE A1+ (Double A Plus; Outlook: Stable / A One Plus)	Reaffirmed
Total Facilities	3,300 (Rupees Three Thousand Three Hundred crore only)		
Long-term Bond Issue-I	100	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Long-term Bond Issue-II	150	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and instruments of Cochin Shipyard Ltd (CSL) continue to factor in its well-established operations and long-standing track-record of more than three decades in the industry, Government of India (GoI) ownership, CSL's strong financial position, diversified revenue stream and the potential for CSL to acquire strategic importance on completion of the Indigenous Aircraft Carrier project.

The above ratings, however, continue to be constrained by the operational risk on account of the complex nature of operations due to simultaneous execution of multiple vessels and activities, exposure of CSL to foreign exchange fluctuation risk and cyclical nature of the shipbuilding industry.

In view of the proposed capacity additions for both ship repair and ship building, the ability of CSL to improve its order book position and timely implementation of envisaged projects within estimated cost will be key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Well established operations and strong track record

CSL has longstanding track record of operations spanning over three and a half decades, CSL has been able to develop the capability and expertise to build and repair variety of ships. CSL has built various types of commercial ships for both international and domestic clients and is currently building India's first Indigenous Aircraft Carrier (IAC) for the Navy thereby becoming the only Indian shipyard having such a distinction.

CSL has the capability to undertake complex and sophisticated repairs for Oil Rigs & Ships of Navy, Coast Guard & Merchant Navy besides building merchant ships and offshore vessels for domestic as well as foreign clients. Notable clients of CSL include Navy, Coast Guard, Shipping Corporation of India and ONGC Limited. After the successful execution of assignment with respect to the construction of IAC, CSL has the potential to be a shipbuilding/ship repair yard of strategic importance to the country. It already possesses the distinction of being the only commercial shipyard in the country that has the ability to repair defence ships and its facilities are routinely used to carry out repairs and maintenance work of various defence ships. CSL has till date constructed and delivered vessels including tankers, bulk carriers, platform supply vessels, offshore supply vessels, fast patrol vessels, etc. As on December 31, 2018, GoI own 75.21% of the stake in the company.

Diversified revenue stream to an extent

CSL has diversified revenue stream to certain extent with income being generated from both ship repair and ship building. The company generates revenue from both commercial and government related orders. It also has the capability to build and repair various types of ships.

The contribution of ship repair income has been gradually increasing in the three years ended March, 2018. The same has increased from 26% of gross sales in FY17 to 27% of gross sales in FY18 on account of increased ship repair orders. The company has signed MOU's with various government bodies for carrying out repair activities which will add to the revenues from repair activities going forward. The company has already registered revenue of around Rs.706 crore from

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

ship repair activities in 9MFY19 accounting for 32% of gross sales. Chart below shows the contribution of ship building and ship repair revenues as percentage of gross sales.

Strong financial position characterized by healthy cash accruals and comfortable capital structure

During FY18, the total operating income of CSL grew by 14% to Rs.2,523. CSL reported PBILDT margin of 25.08% and GCA of Rs.416 crore (PY Rs.364 crore) in FY18. With no new debt availed during the year, the capital structure of CSL improved with overall gearing at 0.04 x as on March 31, 2018 as against 0.06 x as on March 31, 2017. The company had surplus funds amounting Rs.3,062 crore in the form of cash and bank balances as on March 31, 2018. During 9MFY19, CSL registered PAT of Rs.384 cr (PY:Rs.305 crore) and GCA of Rs.413 cr (Rs. 334 crore) on total operating income of Rs.2338 crore (PY: Rs.1910 crore). As on December 31, 2018, the company had moderate order book position of Rs.1,607 crore. Including orders in the pipeline (~Rs.5400 crore for eight defense vessels) and Phase III of IAC, order book position is expected to improve, going forward.

Key Rating Weaknesses

High Operational Risk

Complex nature of operations such as simultaneous construction of multiple ships, co-ordination of various stakeholders and multiple departments of yards in typical shipbuilding process, etc. results in high operational risk as compared to other industries in general.

Projects involving large capex

CSL is undertaking capex for developing an International Ship Repair Facility (ISRF) at Cochin Port Trust wherein land is taken on 30 year lease. The company plans to develop the facility by adding ship lifting facility and allied facilities which will enable the company to undertake complex ship repair orders, at an estimated project cost of Rs.970 crore. Further, it is also undertaking capex for setting up additional dry dock in its existing shipyard at an estimated cost of Rs.1,800 crore. This would enable CSL to build larger ships including building large container vessels, drill ships etc. The above proposed capex is planned to be executed in a phased manner over the next few years. The capex is majorly proposed to be funded out of internal sources.

Timely completion of the above two projects within estimated cost while maintaining comfortable capital structure is critical. Also, in the long-term, the ability of CSL to secure new orders and optimally use proposed capacity additions is critical. The company has also incorporated a JV with Hooghly Dock & Port Engineers Ltd for upgrading and modernization of shipbuilding infrastructure at two shipyard sites in Kolkata.

Foreign exchange risk

CSL's shipbuilding/shiprepaid 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, CSL is subject to risk of volatility in foreign exchange rates. As per the policy, the company takes forward cover for the net inflow at the time of entering a contract, using the natural hedge to maximum possible extent.

Cyclical nature of the shipbuilding industry

The shipbuilding (non-off-shore) industry is directly linked to the shipping industry and hence is cyclical. The shipping industry was under pressure for the past few years which is reflected from the low freight rates compared to the peaks enjoyed prior to June, 2008. However, the GOI's thrust on shipbuilding industry with 'Make in India' program, and other sector specific initiatives are expected to aid the industry. The above measures would prove beneficial to the prospects of the Indian Shipbuilding and ship repair Industry.

CSL has established track record of building and delivering vessels to both domestic and international clients. CSL having successfully executed assignments for the Indian Navy, Coast Guard and other departments, it has been able to de-risk from the downtrend faced by the commercial shipbuilding industry to some extent. With track record of repairing defence ships, building Aircraft Carrier and other type of defence vessels, CSL expects to secure further orders from the defence sector in the future.

Liquidity

CSL had free cash and bank balance of Rs.3,062 crore as on March 31, 2018. The working capital of the company is managed by the advances received from customers and the utilization of fund based working capital limits has been negligible.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)
[Rating Methodology-Manufacturing Companies](#)
[Financial ratios – Non-Financial Sector](#)

About the Company

Incorporated in 1972, CSL operates a shipyard designed and constructed under technical collaboration with M/s Mitsubishi Heavy Industries, Japan. The yard commenced the shipbuilding operations in 1978 and the company is a Category I Mini Ratna (since July 2008). As on December 31, 2017, Government of India owns 75% stake in the company and rest is held by public/financial institutions.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	2,202	2,523
PBILDT	532	633
PAT	320	397
Overall gearing (times)	0.06	0.04
Interest coverage (times)	43.75	53.33

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Analyst Contact:

Name: Mr. Vidhyashankar C

Tel: 044-28501017

Email: vidhyashankar.c@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT-Bank Guarantees	-	-	-	800.00	CARE AA+; Stable
Fund-based - ST-PC/Bill Discounting	-	-	-	200.00	CARE A1+
Fund-based/Non-fund-based-LT/ST	-	-	-	1900.00	CARE AA+; Stable / CARE A1+
Fund-based - ST-Line of Credit	-	-	-	300.00	CARE A1+
Fund-based/Non-fund-based Short-term	-	-	-	100.00	CARE A1+
Bonds	December 02, 2013	8.51%	December 02, 2023	100.00	CARE AA+; Stable
Bonds	March 28, 2014	8.72%	March 28, 2029	150.00	CARE AA+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-fund-based - LT-Bank Guarantees	LT	800.00	CARE AA+; Stable	-	1)CARE AA+; Stable (14-March-2018) 2)CARE AA+; Stable (17-April-2017)	-	1)CARE AA+ (10-March-2016) 2)CARE AA+ (22-April-2015)
2.	Fund-based - ST-PC/Bill Discounting	ST	200.00	CARE A1+	-	1)CARE A1+ (14-March-2018) 2)CARE A1+ (17-April-2017)	-	1)CARE A1+ (10-March-2016) 2)CARE A1+ (22-April-2015)
3.	Fund-based/Non-fund-based-LT/ST	LT/ST	1900.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (14-March-2018) 2)CARE AA+; Stable / CARE A1+ (17-April-2017)	-	1)CARE AA+ / CARE A1+ (10-March-2016) 2)CARE AA+ / CARE A1+ (22-April-2015)
4.	Fund-based - ST-Line of Credit	ST	300.00	CARE A1+	-	1)CARE A1+ (14-March-2018) 2)CARE A1+	-	1)CARE A1+ (10-March-2016) 2)CARE A1+

						(17-April-2017)		(22-April-2015)
5.	Bonds	LT	100.00	CARE AA+; Stable	-	1)CARE AA+; Stable (14-March-2018) 2)CARE AA+; Stable (17-April-2017)	-	1)CARE AA+ (10-March-2016)
6.	Bonds	LT	150.00	CARE AA+; Stable	-	1)CARE AA+; Stable (14-March-2018) 2)CARE AA+; Stable (17-April-2017)	-	1)CARE AA+ (10-March-2016)
7.	Fund-based/Non-fund-based-Short Term	ST	100.00	CARE A1+	-	1)CARE A1+ (14-March-2018) 2)CARE A1+ (17-April-2017)	-	1)CARE A1+ (10-March-2016) 2)CARE A1+ (22-April-2015)

CONTACT**Head Office Mumbai**

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD

Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

JAIPUR

Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

BENGALURU

Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

KOLKATA

Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

CHANDIGARH

Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

NEW DELHI

Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

CHENNAI

Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

PUNE

Mr. Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

COIMBATORE

Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

CIN - L67190MH1993PLC071691

HYDERABAD

Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com