Cochin Shipyard Limited
April 17, 2017

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 above ratings continue to factor in the well-established operations and long-standing track-record of more than three decades of Cochin Shipyard Ltd (CSL), Government of India (GoI) ownership, comfortable capital structure, diversified revenue stream to an extent 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 downtrend in the shipbuilding industry for a longer period and 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 while maintaining its comfortable capital structure are key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Well-established operations and strong track record

CSL has well-established track record of operations spanning over three and a half decades. CSL has developed 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. CSL has till date constructed and delivered vessels including tankers, bulk carriers, platform supply vessels, offshore supply vessels, fast patrol vessels, etc.

Diversified revenue stream to an extent

CSL has diversified revenue stream to certain extent. 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 repairing income has increased in FY16 on account of increased ship repair orders during the period. The company has signed MOU's with various government bodies for carrying out repair activities of their ships which will add to the revenues from repair activities going forward.

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

During FY16, the total operating income of CSL grew by 8% to Rs.2,102 crore backed by 12% y-o-y increase in income from ship building and 88% y-o-y increase in income from ship repair activity. Income from ship repair activity increased during FY16 with increased ship repair orders. CSL reported PBILDT margin of 23.33% and GCA of Rs.294 crore (PY Rs.256 crore) in FY16. The capital structure of CSL continued to be comfortable with overall gearing at 0.07x as on March 31, 2016. The outstanding short term borrowings was nil as on March 31, 2016. During H1FY17, CSL registered PAT of Rs.188 crore and GCA of Rs.207 crore on total operating income of Rs.955 crore.

[2]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications*

As on January 31, 2017, the company had order book position of Rs.2,979 crore (1.42 times of operating income in FY16).

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

The company plans to develop International Ship Repair Facility (ISRF) by taking it on lease from CoPT for a period of 30 years, by adding ship lifting facility and allied facilities at an estimated project cost of Rs.1000 crore. Majority of the capex for the project is expected to be incurred from FY18 onwards. Additionally, CSL plans to augment the capacity by building a dry-dock 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. For the above proposed capex the company has received required statutory approvals in H2FY17 and the same is at a nascent stage. The capex is majorly proposed to be funded out of internal accruals. It is to be noted that as on March 31, 2016, CSL had free cash and bank balance of Rs.1,648 crore.

Foreign exchange risk

As a large part of CSL's shipbuilding business is 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.

Cyclical nature of the shipbuilding industry

The shipbuilding (non-offshore) 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 sector specific initiatives are expected to aid the industry. The measures would prove beneficial to the prospects of the Indian Shipbuilding and shiprepair 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.

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 is wholly-owned by the GoI and 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).

CSL reported a PAT of Rs.275 crore on a total operating income of Rs.2,102 crore in FY16 and PAT of Rs.188 crore on a total operating income of Rs.955 crore in H1FY17.

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.*

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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	CARE AA+; Stable
Fund-based - ST-PC/Bill Discounting	-	-	-	200	CARE A1+
Fund-based/Non-fund-based-LT/ST	-	-	-	1900	CARE AA+; Stable / CARE A1+
Fund-based - ST-Line of Credit	-	-	-	300	CARE A1+
Fund-based/Non-fund-based-Short-term	-	-	-	100	CARE A1+
Bonds	December 2013	8.51%	December 2023	100	CARE AA+; Stable
Bonds	March 2014	8.72%	March 2029	150	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Non-fund-based - LT-Bank Guarantees	LT	800	CARE AA+; Stable	-	-	1)CARE AA+ (10-Mar-16) 2)CARE AA+ (22-Apr-15)	1)CARE AA+ (22-Jan-15)
2.	Fund-based - ST-PC/Bill Discounting	ST	200	CARE A1+	-	-	1)CARE A1+ (10-Mar-16) 2)CARE A1+ (22-Apr-15)	1)CARE A1+ (22-Jan-15)
3.	Fund-based/Non-fund-based-LT/ST	LT/ST	1900	CARE AA+; Stable / CARE A1+	-	-	1)CARE AA+ / CARE A1+ (10-Mar-16) 2)CARE AA+ / CARE A1+ (22-Apr-15)	1)CARE AA+ / CARE A1+ (22-Jan-15)
4.	Fund-based - ST-Line of Credit	ST	300	CARE A1+	-	-	1)CARE A1+ (10-Mar-16)	1)CARE A1+ (22-Jan-15)

							2)CARE A1+ (22-Apr-15)	
5.	Bonds	LT	100	CARE AA+; Stable	-	-	1)CARE AA+ (10-Mar-16)	1)CARE AA+ (22-Jan-15)
6.	Bonds	LT	150	CARE AA+; Stable	-	-	1)CARE AA+ (10-Mar-16)	1)CARE AA+ (22-Jan-15)
7.	Fund-based/Non-fund-based-Short-term	ST	100	CARE A1+	-	-	1)CARE A1+ (10-Mar-16) 2)CARE A1+ (22-Apr-15)	-

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