Cochin Shipyard Limited

April 01, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating1**	**Rating Action**
Long-term Bank Facilities	2050 (enhanced from 800)	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	350	CARE A1+ (A One Plus)	Reaffirmed
Long-term / Short-term Bank Facilities	2535 (enhanced from 1900)	CARE AA+; Stable / CARE A1+ (Double A Plus; Outlook: Stable / A One Plus)	Reaffirmed
Total Facilities	**4,935 (Rupees Four Thousand Nine Hundred Thirty Five 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 around four 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 rating also takes notes of significant increase in order book position in the past one year period ended February 2020.

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.

Rating Sensitivities

Positive Factors

- Increase in order book providing revenue visibility for the long term on sustained basis
- Improvement in income and accruals on sustained basis

Negative Factors

- Substantial decline in Government Of India stake
- Continuous decline in order book

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 around four 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. In the past, CSL has also undertaken repair/re-fitting activities for 'INS Viraat' and INS Vikramaditya Aircraft carrier of Indian Navy.

---

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

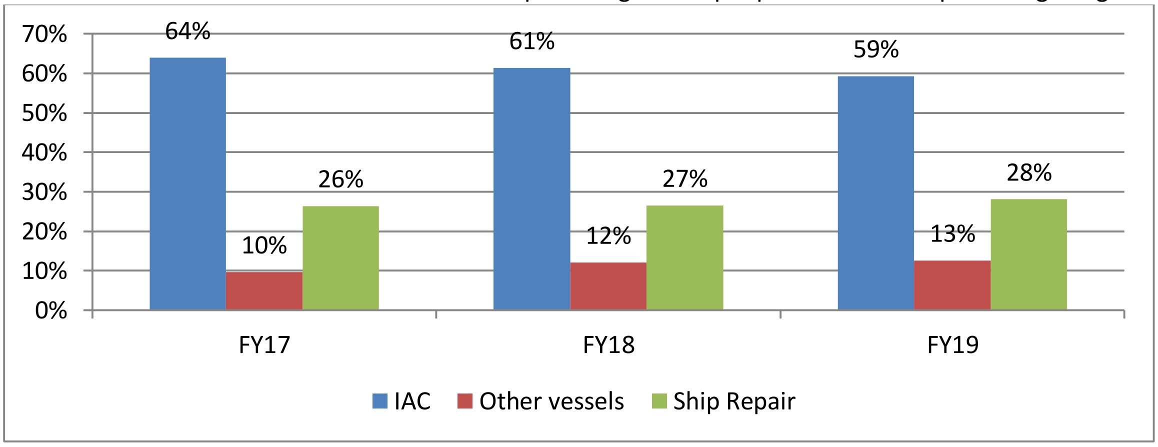
After the successful execution of assignment with respect to the construction of IAC, CSL has the potential to be a shipbuilding/ship repair yard of strategic importance to the country. It already possesses the distinction of being the only commercial shipyard in the country that has the ability to repair 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 February 07, 2020, GoI own 72.86% 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.

CSL has also signed agreement with Mumbai Port Trust, Kolkata Port Trust and Andaman & Nicobar Port for development, management, operations and maintenance of ship repair facilities in respective ports.

The contribution of ship repair income has gradually increased in the four years ended March 2019. Share of ship repair income stood at 28% of gross sales in FY19. The company has signed MOU's with various government bodies for carrying out repair activities of their ships. During 9MFY20, the contribution from ship repair was Rs.466 cr contributing 18% of gross sales. Chart below shows the contribution of ship building and ship repair revenues as percentage of gross sales.

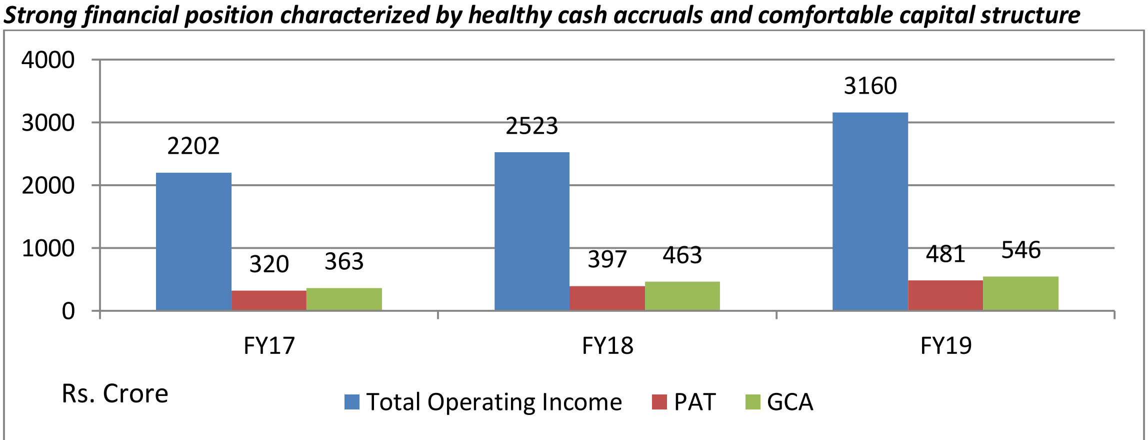


Significant increase in order book position providing revenue visibility for medium term; However, highly concentrated orderbook

As on November 26, 2019, the company had order book of Rs.11,481 crore (including ship repair orders of around Rs. 500 crore) as against Rs.1,607 crore as on December 31, 2018. Same translates into 3.88 times of FY19 revenue.

Order book of CSL is highly concentrated with top 2 orders accounting for 82% of total order book. The major orders include order for phase-III of IAC with contract value of Rs.3,235 crore and order for eight defense vessels with an order value of around Rs.6,311 crore. This apart the company has cost plus margin to be booked for raw materials for IAC, which will add to the top line of the company. Including cost plus value of Rs.4600 crore, the total order book value is Rs.16,081 crore as on Nov 26, 2019. The total order book (including cost plus margin) stood at Rs. 15,253 crore as on February 15, 2020.

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



During FY19, the total operating income of CSL grew by 26% to Rs.3,160 crore. CSL reported PBILDT margin of 24.40% and GCA of Rs.546 crore (PY:Rs.463 crore) in FY19. With no debt availed during the year, the capital structure of CSL remained low with overall gearing at 0.04 x as on March 31, 2019 as against 0.04 x as on March 31, 2018. It is to be noted that the company has spent Rs.200 crore on share buyback in FY19. The outstanding short term borrowings was nil as on March 31,

2019. CSL receives advance/stage payments on completion of milestones, this aids the company in meeting its working capital requirements.
The fund based working capital utilization was nil in the last twelve months ended January 2020. The company had surplus funds amounting Rs.2,411 crore in the form of cash and bank balances as on March 31, 2019 (Rs.3,062 crore as on March 31, 2018) and Rs.1,917 cr as on Sep 30, 2019. During 9MFY20, CSL registered PAT of Rs.499 cr (PY:Rs.384 cr) and GCA of Rs.553 cr (Rs. 413 cr) on total operating income of Rs.2,808 cr (PY: Rs.2,340 cr)

Key Rating Weaknesses

Large size Capex programs under implementation

CSL is undertaking capex for developing an International Ship Repair Facility (ISRF) at Cochin Port Trust at an estimated cost of Rs.750 crore. The land is taken on 30 year lease. The company plans to develop ISRF 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 around Rs.750 crore (revised from earlier estimate of Rs.970 crore due to reduction in civil and design works) spread across FY18-FY22. This ISRF facility for ship repair is expected to further enhance income from ship repair in the long term.
Additionally, CSL plans to augment the capacity by building a dry-dock in its premises at an estimated cost of around Rs.1,600 crore (revised from earlier estimate of Rs.1800 cr, due to reduction in number of cranes purchased) . 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 from FY19-FY22. At present, entire capex is proposed to be funded through internal accruals and using surplus funds present in the form of free cash and bank balance. During FY19, CSL incurred capex of Rs.492 crore as against GCA of Rs.546 crore. Capex planned for FY20 is Rs.620 crore and capex for FY21 is projected to be around Rs.600 crore per annum.
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 of Salkia and Nazirgunge in Kolkata apart fromplans to lease port facilities at various other locations across India to set up ship repair facilities in view of good potential for the same.

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.

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 where in any fluctuation due to the same will be passed on to the customers. However the company shall opt for forward cover as per requirement.

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' programme, 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: Strong

CSL had free cash and bank balance of Rs.2,411 crore as on March 31, 2019 (Rs.3,062 crore as on March 31, 2018) and Rs.1,682 cr as on December 31, 2019. The working capital of the company is managed by the advances received from customers (including Navy) and the utilization of fund based working capital limits has been nil the same has been confirmed by the bankers. CSL does not have any long term debt repayment in FY20. CSL reported GCA of Rs.546 crore in FY19 and Rs.553 crore in 9mFY20.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' 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.

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

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	2,523	3,160
PBILDT	633	771
PAT	397	481
Overall gearing (times)	0.04	0.04
Interest coverage (times)	53.33	49.98

A: Audited
Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	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	-	-	-	-	2050.00	CARE AA+; Stable
Fund-based - ST-PC/Bill Discounting	-	-	-	-	200.00	CARE A1+
Non-fund-based-LT/ST	-	-	-	-	2535.00	CARE AA+; Stable / CARE A1+
Fund-based - ST-Line of Credit	-	-	-	-	100.00	CARE A1+
Fund-based - ST-Line of Credit	-	-	-	-	50.00	CARE A1+
Bonds	INE704P07014	December 02, 2013	8.51%	December 02, 2023	100.00	CARE AA+; Stable
Bonds	INE704P07030	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Non-fund-based - LT-Bank Guarantees	LT	2050.00	CARE AA+; Stable	-	1)CARE AA+; Stable (04-Mar-19)	1)CARE AA+; Stable (14-Mar-18) 2)CARE AA+; Stable (17-Apr-17)	-
2.	Fund-based - ST-PC/Bill	ST	200.00	CARE	-	1)CARE A1+	1)CARE A1+	-

	Discounting			A1+		(04-Mar-19)	(14-Mar-18) 2)CARE A1+ (17-Apr-17)	
3.	Non-fund-based-LT/ST	LT/ST	2535.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (04-Mar-19)	1)CARE AA+; Stable / CARE A1+ (14-Mar-18) 2)CARE AA+; Stable / CARE A1+ (17-Apr-17)	-
4.	Fund-based - ST-Line of Credit	ST	100.00	CARE A1+	-	1)CARE A1+ (04-Mar-19)	1)CARE A1+ (14-Mar-18) 2)CARE A1+ (17-Apr-17)	-
5.	Bonds	LT	100.00	CARE AA+; Stable	-	1)CARE AA+; Stable (04-Mar-19)	1)CARE AA+; Stable (14-Mar-18) 2)CARE AA+; Stable (17-Apr-17)	-
6.	Bonds	LT	150.00	CARE AA+; Stable	-	1)CARE AA+; Stable (04-Mar-19)	1)CARE AA+; Stable (14-Mar-18) 2)CARE AA+; Stable (17-Apr-17)	-
7.	Fund-based - ST-Line of Credit	ST	50.00	CARE A1+	-	1)CARE A1+ (04-Mar-19)	1)CARE A1+ (14-Mar-18) 2)CARE A1+ (17-Apr-17)	-

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

Indusind Bank credit facilities	Detailed explanation
A. Key Non financial covenants	-
B. Undertaking that the funds will be utilized for purpose for which it has been sanctioned and will not be diverted to capital markets / real estate or utilized for any long term purpose.	-
C. Working capital Banks should be informed of the limits sanctioned by our Bank.	-

SBI credit facilities	Detailed explanation
D. Key financial covenants	
E. The Company shall be permitted to undertake any New project or Scheme of expansion at Acquisition of fixed assets, without any prior notice, subject to Company's following parameters are within the Banks Standard quantitative parameters: Current Ratio=>1.00, TOL/ Adj TNW<=4.00, Long term Debt/EB IDTA<=3.60	-
F. Key Non financial covenants	-
G. The borrower should maintain adequate books of accounts, as per applicable accounting practices and standards, which should correctly reflect its financial position and scale of operations and should not radically change its accounting system without notice to the Bank	-
H. The Bank will have the right to share credit information as deemed appropriate with credit Information companies (ClCs) or any other institution as approved by RBI from time to time.	-
I. The borrower will utilize the funds for the purpose they have been lent. Any deviation will be dealt with as per RBI guidelines and terms of sanction.	

IDBI credit facilities	Detailed explanation
A. Key Non financial covenants	-
B. Company shall intimate any alterations in your controlling ownership or any other material change in your management or in the nature of your business or operations during the period of subsistence of facilities.	-
A. No Bank guarantee shall be issued favoring associate concerns.	-

Axis Bank credit facilities	Detailed explanation
C. Key Non financial covenants	-
D. The borrower will place its proportionate banking business with the Bank, based on the internal approval of the company	-
B. Borrower/Obligor shall not, without the prior written approval of the Bank make any amendments to it's constitutional documents	-

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.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact:
Name: Mr P Sudhakar
Tel: 044-28501000
Email: p.sudhakar@careratings.com

Relationship Contact
Name: Mr. V Pradeep Kumar
Contact no. : 044-28501000
Email ID : pradeep.kumar@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.

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