CRISIL Ratings

Rating Rationale

December 19, 2023 | Mumbai

Cochin Shipyard Limited

'CRISIL AAA/Stable/CRISIL A1+' assigned to Bank Debt

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Rating Action

Total Bank Loan Facilities Rated	**Rs.15000 Crore**
Long Term Rating	**CRISIL AAA/Stable (Assigned)**
Short Term Rating	**CRISIL A1+ (Assigned)**

Note: None of the Directors on CRISIL Ratings Limitedâ€™s Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its **â€˜CRISIL AAA/Stable/CRISIL A1+â€™** ratings to the bank facilities of Cochin Shipyard Limited (CSL; part of the Cochin Shipyard group).

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The ratings reflect the strategic importance of the company to the Government of India as it is majorly owned by the Ports, Shipping and Waterways and is the only ship building company under the Ministry. The company also benefits from the long-standing presence in the ship building industry with healthy execution track record, strong market position driven by healthy association with Indian navy and sizeable order book. The group has achieved healthy revenues of 2,000-3,500 crore over the few fiscals through 2023. In the current fiscal, CSL has already achieved revenues of Rs. 1488 crore with a PAT of Rs.281 crore till Sep 30, 2023. The groupâ€™s healthy order book of around Rs. 21743crore as on Sept 30, 2023 is also substantial, being around 11 times the fiscal 2023 revenues. Some of the key orders to be executed over the next few months include ASW SCW Corvette and NGMV for Indian Navy, as well as few commercial orders. The group has also benefitted from the execution of the construction and deployment of INS Vikrant (first indigenously developed aircraft carrier) over the past 2 decades through fiscals 2022, leading to it becoming the only shipyard in the country to have done so.

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The ratings also incorporate a strong financial risk profile supported by comfortable capital structure, robust debt protection measures and ample liquidity. The debt outstanding as on Sep 30, 2023 was at Rs.141 crore while the net worth remains comfortable at Rs.4680Â crore, leading to a comfortable gearing of 0.03 times. The debt protection metrics for fiscal 2023 were also comfortable and interest coverage and net cash accruals to debt ratios for H1 fiscal 2024 were at 24 and 2.23 times, respectively. The liquidity of the group also remains comfortable with almost nil utilization on the fund-based bank limits for the past 12 months ending September 2023, while the free cash availability as on Sep 30, 2023 was at Rs. 2150Â crore.

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These strengths are partially offset by the vulnerability of operating margin to fluctuations in raw material prices and foreign exchange (forex) rates. Volatility in the prices of key raw materials such as steel, engines, and pipes, which account for 45-50% of the total operating revenue can impact the operating margins. This is compounded by the absence of escalation clauses in contracts with customers.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of CSL along with its wholly owned subsidiaries, Hooghly Cochin Shipyard Ltd (HCSL) and Udupi Cochin Shipyard Ltd (UCSL), together referred to as the Cochin Shipyard group. For arriving at the ratings of CSL, CRISIL Ratings has also applied its criteria for notching up standalone ratings of entities based on government support as CSL is majority owned by the Government of India and operates under the Ministry of Ports, Shipping and Waterways.

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Please refer Annexure - List of Entities Consolidated, which captures the list ofÂ entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Strategic importance toÂ theÂ Government of India**: CSL is a government-owned shipyard (which holds 72% stake in the company) under the administration of the Ministry of Ports, Shipping and Waterways. Along with its subsidiaries, the company builds and repairs ships, such as indigenous aircraft carrier, bulk carriers, next generation missile vessels, anti-submarine warfare shallow watercrafts, and platform supply vessels used by the Indian Navy. The company is strategically important toÂ the government for strengtheningÂ theÂ naval and coast guard defenceÂ of India.Â CSL built the first indigenous aircraft carrier (IAC-1), INS Vikrant, and successfully delivered the same in Â fiscal 2022, thereby becoming the only shipyard in India with such a distinction. CRISIL Ratings believes that CSL will continue to benefit from being a government held PSU with continued focus on Indian defense projects which currently account for more than 70% of its current orderbook.

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- **Longstanding presence and strong market position:** Incorporated in 1972, CSL has an industry presence of over five decades which has enabled the company to develop strong technical capabilities and market position. Till fiscal 2023, CSL has built 180 ships, including large, small, and medium-sized vessels; offshore support vessels; and defense vessels. Also, geographical presence is diversified, with all the dockyards located strategically (Kerela, Maharashtra, West Bengal, Andaman and Nicobar, Karnataka). Revenue has remained strong at Rs 2,000-3,500 crore over the few fiscals through 2023 driven by strong demand and healthy execution of projects as the company caters to commercial (domestic and export) as well as defense segment. The company achieved sales of Rs 1,488 crore for the first half of fiscal 2024 and are estimated Â to reach Rs 3200-3400 crores for the full year. The scale of operations is expected to sustain over the medium term on the back of capacity expansion, healthy order book and timely execution track record.

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- **Sizeable order pipeline and execution track record**: CSL and its subsidiaries had outstanding orders of RsÂ 21,043 crore and around Rs 700 crore for shipbuilding and ship repair, respectively, asÂ ofÂ September 2023. ThisÂ includes orders from the Indian Navy as well as commercial orders from both in the domestic and overseas markets. The company also has orders worth Rs 12,550-13,000 crore in the pipeline, with plans to add more over the medium term. Track record of timely execution willÂ continue to aid business risk profile.

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- **Strong financial risk profile:** The group has a strong financial profile marked by a strong networth of Rs 4402 crore as on March 31, 2023 and increased further to Rs 4,680 crore as of September 2023. Lower reliance on external debt for working capital requirement and capex has led to comfortable gearing and total outside liabilities to adjusted networth ratio of 0.03 time and 1.2 times, respectively, as on March 31, 2023. This, along with high profitability, led to robust debt protection metrics, with interest coverage and net cash accrual to total debt ratios of 9.7 times and 1.12 times, respectively, for fiscal 2023. The financial risk profile is expected to remain stable over the medium term, driven by steady accretion to reserves, low leverage and strong profitability.

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Weaknesses:

- **Vulnerability of operating margin to fluctuations in raw material prices and forex rates:** Operating margin remains exposed to volatility in the prices of key raw materials such as steel, engines, and pipes, which account for 45-50% of the total operating revenue. This is compounded by absence of escalation clauses in contracts with customers. Furthermore, CSL procures raw materials and components from the international market, which exposes margin to any sharp fluctuation in forex rates. However, this risk is mitigated by forward contracts.

Liquidity: Superior

Utilisation of fund-basedÂ limitsÂ was minimal overÂ theÂ 12Â monthsÂ throughÂ September 2023. Cash accruals,Â expectedÂ atÂ overÂ RsÂ 360-380 croreÂ per annum,Â will be sufficient to meet debt obligations of Rs 100 crore in fiscal 2024; the company has no debt obligations in fiscal 2025. This willÂ further provide cushion to the liquidity of the company over the medium term.Â Current ratioÂ wasÂ healthy at 1.42Â timesÂ andÂ unencumbered cash and balanceÂ stood atÂ around RsÂ 2,114 crore, asÂ on MarchÂ 31, 2023,Â thereby providingÂ financialÂ flexibilityÂ in case ofÂ exigencies.Â Strong gearing and networth support financial flexibility and provide cushion in case of any adverse condition or downturn in the business.

Outlook: Stable

Business and financial risk profiles will remain strong over the medium term, underpinned by the companyâ€™s strategic importance to the Ministry of Ports, Shipping and Waterways, and continued business support from the Indian Navy and the Indian Coast Guard.

Rating Sensitivity Factors

Downward factors

- Lower-than-expected revenue or sustained decline in operating margin below 12% leading to lower cash accruals.
- AnyÂ change inÂ government policy resulting in dilution ofÂ theÂ strategic importanceÂ ofÂ CSLÂ to theÂ Indian Navy.

About the Group

CSL was incorporated in March 1972 in Cochin, Kerala. The Government of India holds 72.86% stake in the company, which is listed on the Bombay Stock Exchange and the National Stock Exchange. The company was conferred with Schedule â€˜Aâ€™, Category-I Miniratna status by Ministry of Port, Shippings and Waterways. The company is engaged in shipbuilding and ship repair for both the domestic and international markets. The operations are headed by Mr Madhu Sankunny Nair (Chairman & Managing Director), Mr Bejoy Bhasker (whole-time director), Mr Valiyaparambil Jacob Jose (whole-time director & CFO), along with other directors.

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HCSL was set up as a joint venture between CSL and Hooghly Dock & Port Engineers Ltd (HDPEL) on October 23, 2017. Pursuant to the approval of the Union Cabinet, CSL acquired the shares held by HDPEL and, with effect November 01, 2019, made HCSL its wholly owned subsidiary. HCSL manufactures and repairs commercial ships, barges and tugs for domestic and international clients.

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UCSL was incorporated as Tebma Engineering Pvt Ltd in July 1984. CSL acquired the company through a National Company Law Tribunal, Chennai, order in September 2020 and renamed it UCSL in April 2022. The company manufactures and repairs tugs and coastal vessels, auxiliary vessels for defence, and mid-sized commercial fishing vessels for the Middle East and European markets. Main facility is in Udupi, Karnataka.

Key Financial IndicatorsÂ (Consolidated)

As on/for the period ended March 31	UnitÂ	2023	2022
Operating income	Rs.Crore	2,388	3,229
Reported profit after tax (PAT)	Rs.Crore	305	564
PAT margin	%	12.8	17.5
Adjusted debt/adjusted networth	Times	0.03	0.03
Interest coverage	Times	6.73	13.01

Any other information: Not Applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure -Â Details of Instrument'Â in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities -Â including those that are yet to be placed -Â based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	IssueÂ size (Rs.Crore)	Complexity level	Rating assigned and outlook
NA	Bank Guarantee	NA	NA	NA	9109.45	NA	CRISIL A1+
NA	Foreign Letter of Credit	NA	NA	NA	550	NA	CRISIL A1+
NA	Inland/Import Letter of Credit	NA	NA	NA	2080	NA	CRISIL A1+
NA	Letter of Credit	NA	NA	NA	1885	NA	CRISIL A1+
NA	Line of Credit	NA	NA	NA	375	NA	CRISIL A1+
NA	Overdraft Facility	NA	NA	NA	5	NA	CRISIL AAA/Stable
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	915.55	NA	CRISIL AAA/Stable
NA	Working Capital Demand Loan	NA	NA	NA	80	NA	CRISIL AAA/Stable

Annexure - List of Entities Consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Cochin Shipyard Limited	Full	Parent company
Hooghly Cochin Shipyard Limited	Full	Subsidiary company
Udupi Cochin Shipyard Limited	Full	Subsidiary company

Annexure - Rating History for last 3 Years

Â	Current			2023 (History)		2022Â		2021Â		2020Â		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT/ST	1375.55	CRISIL A1+/ CRISIL AAA/Stable	Â	--	Â	--	Â	--	Â	--	--
Non-Fund Based Facilities	ST	13624.45	CRISIL A1+	Â	--	Â	--	Â	--	Â	--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bank Guarantee	**139.45**	**IndusInd Bank Limited**	**CRISIL A1+**
Bank Guarantee	**6150**	**State Bank of India**	**CRISIL A1+**
Bank Guarantee	**325**	**Axis Bank Limited**	**CRISIL A1+**
Bank Guarantee	**2495**	**Bank of Baroda**	**CRISIL A1+**
Foreign Letter of Credit	**550**	**Union Bank of India**	**CRISIL A1+**
Inland/Import Letter of Credit	**2080**	**Union Bank of India**	**CRISIL A1+**
Letter of Credit	**885**	**ICICI Bank Limited**	**CRISIL A1+**
Letter of Credit	**350**	**State Bank of India**	**CRISIL A1+**
Letter of Credit	**500**	**Axis Bank Limited**	**CRISIL A1+**
Letter of Credit	**150**	**IDBI Bank Limited**	**CRISIL A1+**
Line of Credit	**375**	**Axis Bank Limited**	**CRISIL A1+**
Overdraft Facility	**5**	**Bank of Baroda**	**CRISIL AAA/Stable**
Proposed Long Term Bank Loan Facility	**915.55**	**Not Applicable**	**CRISIL AAA/Stable**
Working Capital Demand Loan	**80**	**State Bank of India**	**CRISIL AAA/Stable**

Criteria Details

Links to related criteria
CRISILs Bank Loan Ratings - process, scale and default recognition
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
CRISILs Criteria for Consolidation

Media Relations	Analytical Contacts	Customer Service Helpdesk
Aveek Datta	Himank Sharma	Timings: 10.00 amÂ to 7.00 pm

Media Relations **CRISIL Limited** M: +91 99204 93912 B: +91 22 3342 3000 AVEEK.DATTA@crisil.com **Prakruti Jani** Media Relations **CRISIL Limited** M: +91 98678 68976 B: +91 22 3342 3000 PRAKRUTI.JANI@crisil.com **Rutuja GaikwadÂ** Media Relations **CRISIL Limited** B: +91 22 3342 3000 **Rutuja.Gaikwad@ext-crisil.com**	Director **CRISIL Ratings Limited** D:+91 124 672 2152 himank.sharma@crisil.com Shalaka Singh Associate Director **CRISIL Ratings Limited** B:+91 22 3342 3000 Shalaka.Singh@crisil.com Nishita Kalpesh Vora Senior Rating Analyst **CRISIL Ratings Limited** B:+91 22 3342 3000 Nishita.Vora@crisil.com	Toll free Number:1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com Â For Analytical queries: ratingsinvestordesk@crisil.com

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