

Rating Rationale

Garden Reach Shipbuilders & Engineers Ltd.

Brickwork Ratings reaffirms the ratings of both the long- and short-term bank loan facilities of Garden Reach Shipbuilders & Engineers Ltd, along with an enhancement in the total exposure.

Particulars:

Facility@	Amount (₹ Crs)		Tenure	Ratings*	
	Previous	Present		Previous (Sept,2020)	Present
Fund based Limit	105.00	110.00	Long Term	BWR AAA/Stable, Reaffirmed	BWR AAA/Stable, Reaffirmed
Non Fund based Limit	3,455.00	4,565	Short Term	BWR A1+, Reaffirmed	BWR A1+, Reaffirmed
Total	3,560.00	4,675	(INR Four Thousand Six Hundred and Seventy Five Crores Only)		

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings
@Complete details of bank facilities are provided in Annexure-I

RATING ACTION/OUTLOOK

Brickwork Ratings (BWR) has essentially relied on the audited financials of Garden Reach Shipbuilders & Engineers Ltd (GRSEL or the company) for FY20 and FY21, and projections for FY22 and FY23, and other information as available in the public domain, as well as information/clarifications provided by the company and its bankers, to arrive at the present ratings.

BWR has **reaffirmed** the rating for the long-term bank loan facilities of Rs.110.00 Crs (enhanced from Rs.105.00Crs) of GRSEL at **BWR AAA/Stable** and has **reaffirmed** the rating for its short-term bank loan facilities of Rs.4,565 Crs (enhanced from Rs.3,455 Crs) at **BWR A1+** (aggregate rated amount enhanced to Rs.4,675 Crs from Rs.3,560 Crs).

The ratings draw strength from GRSEL's sustained financial and credit profile amid the pandemic, healthy revenue visibility as evidenced by the current outstanding order book position of Rs.25,463 Crs as of 30 June 2021 to be completed within the next 5 years to 6 years, its focus on capacity building and technology adoption, increasing thrust on international markets and the Atma Nirbhar Bharat scheme by the central government, which is likely to create additional opportunities for the shipbuilding industry. The rating also continues to derive strength from the majority ownership of



the Government of India (GOI) (74.50%) in GRSEL and its strategic importance to the Ministry of Defence (MOD), the company's long hands-on experience in warship building, the favourable outlook arising out of the Ministry of Defence orders and the company's adequate liquidity position. The rating is, however, constrained by competition from private shipyards on account of competitive bidding. The rating also factors in liquidated damages in the case of any delay in the delivery of ships, as well as the continued pandemic situation leading to lockdowns, which will adversely affect production activities and impact financial performance.

Going forward, the company's ability to sustain the overall performance at the present level in a competitive environment, while maintaining leadership in warship building and retaining its largely debt-free status, along with comfortable liquidity, will be the key rating sensitivities.

The outlook has been retained at **Stable** as BWR believes that the business risk profile of GRSEL will be maintained over the medium term. The Stable outlook indicates a low likelihood of a rating change over the medium term. The rating outlook may be revised to Negative if there is any substantial decrease in the operating income or if there are material changes to GRSEL's strategic importance, or in the case of a substantial dilution in the GOI's shareholding, which could result in the entity no longer being classified as a public sector entity.

KEY RATING DRIVERS

Credit Strengths:-

Financial profile: GRSEL's operations were impacted due to Covid-19 in Q1FY21 and Q1FY22. Although the total operating income was down 20% y-o-y to Rs.1140 Crs in FY21 and was lower than estimates, GRSEL sustained growth in the topline in Q1FY22. For Q1FY22, the company reported a total operating income of Rs.304 Crs, better than Rs.110 Crs in the same quarter in the previous year on account of the healthy execution of work orders. The EBIDTA margins improved to 6.32% in FY21 (FY20:2.82%). GRSEL benefited from low-cost inventories in Q1FY21 stocked in the previous quarter. GRSEL has also reported Other Income of Rs.187crs in FY21 (FY20:Rs.225crs) mainly comprising interest income from investments in bank deposits. These fixed deposits represents stage payments received from customers. The company launched its biggest ship to the Indian Navy in December 2020, two months ahead of schedule. It has delivered 107 warships as of date. GRSEL is also focussing on capacity building, modernisation and upgrading technology as evidenced in the capex of Rs.154 Crs completed in FY21.

Thrust on international markets: GRSEL's thrust on international markets is visible in the surging export revenues of Rs.84 Crs in FY21(FY20:Rs.1 Crs) (although exports remain below 10% of the total sales). The company has procured export orders from a few countries, a Government of Guyana order for the construction of an Ocean-Going Passenger cum Ferry Vessel and one Fast Patrol Vessel for the Government of Seychelles as well as an order for Patrol Boats from Bangladesh. In FY21, GRSEL also exported seven bridges (five bridges to Bhutan and two bridges to Nepal) and is focussing on the SAARC, ASEAN, African and Latin American countries for export opportunities. Besides, it has also collaborated with international companies for improving technical capabilities, which will not only provide a competitive edge in India, but also visibility in the international market.

Healthy revenue visibility and hands-on experience in warship building: GRSEL is primarily dependent on government spending and the government's existing security policies. The outstanding order book position was Rs.25463.12 Crs as of 30 June 2021 to be executed in the next 5-6 years. Overall, 98% of these outstanding orders are from the Indian Navy. A strong order book for the construction of 17 warships concurrently for the Indian Navy at this juncture bodes well for GRSEL. Defence spending is largely dependent on government investment in national security, which cannot be compromised. The Atamnirbhar Bharat policy by the central government is likely to create opportunities in the shipbuilding industry, as 64% of the Indian Defence modernisation funds have been earmarked under the capital acquisition budget for 2021-22 and the allocation of Rs.33,000 Crs as capital outlay to the Indian Navy for acquisitions and repairs. A number of RFPs for various shipbuilding projects have been floated by the Ministry of Defence during the last couple of years, and some more are expected to be rolled-out in the near future. Furthermore, the Ministry of Defence's plan to increase the export of defence products to USD 5 Bn by 2024 augurs well for all shipbuilding companies.

Healthy credit metrics: GRSEL's credit metrics continued to remain strong, with the ISCR at 26.68 times in FY21 (FY20: 30.25 times). The company's net financial leverage continued to remain negative with a net cash position on account of zero debt and healthy cash balance at the end of FY21. The company's DSCR also stood comfortable at 68.59 times during FY21 (FY20:145.93 times) on account of the absence of long-term repayment obligations. The total outside liabilities to tangible net worth, however, turned modest at 5 times in FY21 (FY20:4.19 times). This was on account of an increase in contract liabilities to Rs.4565 Crs in FY21(FY20: Rs.3520.75 Crs).

GOI ownership, Mini Ratna status and strategic importance to the defence ministry: GRSEL is a premier warship building company in India and is one among the four public sector undertakings for shipbuilding, under the administrative control of the Ministry of Defence. Currently, 74.50% shares are with the GOI, following the dilution of 25.50% shares to the public in October 2018. It is also listed with the National Stock Exchange and Bombay Stock Exchange. A substantial portion of its turnover (~ 98 %) is on account of the construction of warships for the Indian Navy and Coast Guard, and therefore, it is a strategically important entity. GRSEL is a mini Ratna, Category-1 status Company.

Credit Weaknesses-:

Competition from private shipyards: GRSEL faces competition from private players. However, GRSEL continues to maintain its edge over new emerging competitors by way of capacity, design, technology, processes and cost advantages. Moreover, the company continues to improve its competitive advantages through the augmentation of its own infrastructure, as well as the adoption of the latest process management tools and technologies in various areas of operations.

Liquidated damage: Since contracts are time-bound, any delay in project execution and the repair of ships during the guarantee period will result in cost overruns and liquidated damages, as per the



contract. This may have an adverse impact on the company's profitability margin; however, this is offset by the provisions made by the company for liquidated damages.

Impact of continued pandemic on financials: The dip in revenues in FY21 was on account of the nationwide lockdown due to the COVID-19 pandemic. As per the clarification provided by the company in its audit report, it was under lockdown for 75 days in FY21 upto the first week of June 2020 due to the pandemic, as per government directives. Operations resumed almost after 2 and a ½ months, which significantly affected the company's revenue and financial performance for Q1FY21. In Q1FY22, production activities were stalled for 30 days. Operations may get impacted by the expected third wave, resulting in further lockdowns. However, the management has assessed the potential impact of COVID-19 based on the current circumstances and expects no significant impact on the continuity of business operations on a long-term basis.

ANALYTICAL APPROACH

To arrive at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria given below (hyperlinks provided at the end of this rationale). BWR has considered the standalone financials of GRSEL.

RATING SENSITIVITIES

Going forward, the company's ability to sustain the overall performance at the present level in a competitive environment, while maintaining leadership in warship building and retaining its largely debt-free status with comfortable liquidity, will be key rating sensitivities.

Negative: The rating outlook, or the rating itself, may be revised if there is any substantial decrease in the operating income or if there are material changes to GRSEL's strategic importance, or a substantial dilution in the government shareholding, which could result in the entity no longer being classified as a public sector entity, in which case its credit rating will no longer be linked to the sovereign.

LIQUIDITY INDICATORS: Adequate

The company's liquidity position stands adequate, as reflected from the Zero utilisation of its fund-based limits. To support the execution of the existing work orders and bid for new orders, the company availed an enhancement in the BG limits in Q1FY22 since the existing limits were 85% utilised. The company also does not have any long-term debt. Its liquidity is further supported by a robust cash balance of Rs.3721 Crs during FY21 (FY20:Rs.2665.45Crs) including free cash balance of Rs.932 Crs, along with bank deposits with maturities of 3-12 months of Rs.1966 Crs and Flexi deposits of Rs.305.84 Crs in FY21. The company's liquidity position is further supported by current investments in mutual funds of Rs.825 Crs in FY2.

ABOUT THE COMPANY

Garden Reach Shipbuilders & Engineers Ltd (GRSEL) is the premier warship building company in India, under the administrative control of the Ministry of Defence. GRSEL, since 1960, has built

more than 107 warships for various roles, starting from state-of-the-art frigates and corvettes to fast patrol boats. The main businesses of GRSEL include shipbuilding and ship repairing, engine assembling and testing, and engineering products. The company has a total of eight units, of which seven (shipbuilding and repair, engineering and training) are located in and around Kolkata, and one (engine division – assembles and tests new diesel engines and repairs and reconditions old engines of Naval and Coast Guard Ships) is in Ranchi, Jharkhand.

COMPANY FINANCIAL PERFORMANCE

Particulars	Units	FY20A	FY21A
Total Operating Income*	Rs in Crs	1433.3	1140.84
EBITDA	Rs in Crs	40.40	72.06
PAT	Rs in Crs	163.48	153.47
Tangible Net worth	Rs in Crs	1040.23	1132.00
Total Debt/TNW	Times	0.00	0.00
Current Ratio	Times	1.13	0.99
ISCR	Times	30.25	26.68
TOL/TNW	Times	4.19	5.00

*Excluding Interest Income and Other Income of Rs.187crs in FY21 and Rs.225.5crs in FY20.

NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY: Nil

RATING HISTORY FOR LAST THREE YEARS (including withdrawn and suspended ratings)

S. No	Name of Instrument (NCD/Bank Loan /Non-Fund Based facilities/Commercial Paper etc.)	Current Rating September 2021			Chronology of Rating History for the past 3 years (Rating Assigned and Press Release date) along with outlook/ Watch, if applicable					
		Type (Long Term/Short Term)	Amount Outstanding (Rs. Crores)	Rating	Date(s) & Rating(s) assigned in 2020		Date(s) & Rating(s) assigned in 2019		Date(s) & Rating(s) assigned in 2018	
1	Bank Loan Facility	Fund Based-Long Term	110.00	BWR AAA/Stable, Reaffirmed	17-September-2020 FB-L T* 105.00 BWR AAA/Stable, Reaffirmed, NFB-ST** 3,455.00 BWR A1+, Reaffirmed Total 3,560.00#		26-September-2019 FB-L T* 45.00 BWR AAA/Stable, Reaffirmed, NFB-ST** 3,205.00 BWR A1+, Reaffirmed Total 3,250.00#		4-October-2018 FB-L T* 45.00 BWR AAA/Stable, Reaffirmed, NFB-ST** 660.00 BWR A1+, Reaffirmed Total 705.00	
2		Non-Fund Based-Short Term	4,565.00	BWR A1+, Reaffirmed	#Reaffirmed with increase in total exposure.		#Reaffirmed with increase in total exposure.		#Reaffirmed with increase in total exposure.	
Total			4,675.00	(Rupees Four Thousand Six Hundred and Seventy Five Crores)						

Note: GRSEL was initially rated on 26 April 2013, and the rating assigned was BWR AAA/Stable and BWR A1+

*FB- Fund Based-Long Term

**NFB- Non Fund Based-Short Term

COMPLEXITY LEVELS OF THE INSTRUMENTS :Simple

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Infrastructure Sector](#)
- [Short Term Debt](#)

For any other criteria obtain hyperlinks from website

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**ANNEXURE 1-
Garden Reach Shipbuilders & Engineers Ltd
Details of Bank Facilities Rated by BWR**

(Rs. in Crs)

Particulars	Axis Bank	ICICI Bank	IDBI Bank	SBI	HDFC Bank	RBL Bank	Federal Bank	Total
Fund Based								
Cash Credit	100.00	(5.00)	(1.00)	5.00	0.00	(100.00)	(1.00)	105.00
WC DL	--	--	--	--	--	(100.00)	5.00	5.00
Non Fund Based								
LC	250.00	100.00	(220.00)	115.00	205.00	(300.00)	(195.00)	670.00
BG	650.00	400.00	250.00	2100.00	(205.00)	300.00	195.00	3895.00
Total Limits	1000.00	500.00	250.00	2220.00	205.00	300.00	200.00	4675.00

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