

## Rating Rationale

1 Sept 2022

### Garden Reach Shipbuilders & Engineers Ltd.

Brickwork Ratings reaffirms the ratings of both the long- and short-term bank loan facilities and simultaneously assigns long term ratings to the non-fund based facilities of Garden Reach Shipbuilders & Engineers Ltd.

#### Particulars:

Facility@	Amount (₹ Crs)		Tenure	Ratings*	
	Previous	Present		Previous (Sept,2021)	Present
<b>Fund based Limit</b>	110.00	<b>110.01</b>	<b>Long Term</b>	BWR AAA/Stable	<b>BWR AAA/Stable, Reaffirmed</b>
<b>Non Fund Based limit</b>	0.00	<b>3,895.00</b>	<b>Long Term/ Short term</b>	BWR A1+	<b>BWR AAA/Stable/ BWR A1+ Assigned/Reaffirmed</b>
<b>Non Fund based Limit</b>	4,565.00	<b>670.00</b>	<b>Short Term</b>	BWR A1+	<b>BWR A1+, Reaffirmed</b>
<b>Total</b>	4,675.00	<b>4,675.01</b>	<b>(INR Four Thousand Six Hundred Seventy Crores and One Lakh Only)</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://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 FY22 and projections for FY23 and FY24, 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 fund based bank loan facilities of Rs.110.01 Crs of GRSEL at BWR AAA/Stable and has reaffirmed the rating for its short-term non fund based bank loan facilities of Rs.670 Crs at BWR A1+. It has also simultaneously assigned ratings of BWR AAA, Stable to its long term non fund based bank facilities of Rs. 3895 Crs earlier rated as a short term facility- which may however be utilized as a short term facility also in full or in part, in which case the existing rating of BWR A1+ would apply. (aggregate rated amount Rs.4,675.01 Crs).

The ratings draw strength from GRSEL's improved financial performance and credit profile in FY22 and 1QFY23, healthy revenue visibility as evidenced by the outstanding order book position of Rs.23,573 Crs as of 30 June 2022 to be completed within the next 5 years to 6 years, its focus

on capacity building and technology adoption, increasing thrust on Research and Development activities, Ship Repair business and focus 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 as well as increase in liquidated damages in the case of any delay in the delivery of ships.

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:-**

- **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.
- **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 is Rs.23,573Cr as of 30 June 2022 to be executed in the next 5-6 years. Overall, 99% 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.

- **Financial profile:** Total Operating Income was up 54% y-o-y in FY22 to Rs.1757Crs and 90.4% y-o-y in the 1QFY23 to Rs.580Crs. The revenues and profitability reported in 1QFY23 is the highest quarterly financials reported in the last 10 years. Operations were in full swing in 1QFY23 in contrast to a 30 days lockdown in 1QFY22 owing to Covid that led to loss of man hours and production. EBIDTA (excluding Interest income and Other Income) was at Rs.33crs in 1QFY23 as against EBIDTA of Rs.1.9crs in 1QFY22. Net profit margins are at 8.09% and 5.98% in 1QFY23 and 1QFY22, respectively. For FY22, in terms of profitability, the company surpassed the previous year's levels as it reported EBITDA (excluding Interest income and Other Income) at Rs.140.8crs (FY21,Recast:Rs.81.18Crs) and PAT of Rs.189.5crs (FY21 Rs.153.5Crs), OPM of 8% (FY21:7.1%) and NPM of 10.8% (FY21:13.5%). As per the management, the growth in revenues and profitability is attributable to the Company's production and sales that are as per the shipbuilding schedule. Also, the Company reported a healthy non-operating income of Rs.40Crs in 1QFY23 and Rs.161Crs in FY22 mainly comprising interest income from investments in bank deposits. These fixed deposits represent stage payments received from customers. For FY23, GRSEL anticipates a 40% to 50% y-o-y jump in total operating income. BWR expects the Company to achieve its topline projections for FY23 based on the strong order book position, timely execution of work orders and a healthy 1QFY23 financial performance.
- **Healthy credit metrics :** GRSEL's credit metrics continued to remain strong, with the ISCR at 181 times in FY22 (FY21,Recast:8.16 times) with a healthy growth in EBIDTA (excluding Interest Income and Other Income). 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 FY22. The company's DSCR also stood comfortable on account of the absence of long-term repayment obligations. The total outside liabilities to tangible net worth, however, turned modest at 5.09 times in FY22 (FY21:5 times). This was on account of an increase in contract liabilities to Rs.5,655 Crs in FY22(FY21,Recast: Rs.4,565 Crs).
- **Thrust on Ship Repair and international markets :** GRSEL has delivered 107 warships as of date. The Company's focus is on its Ship Repair division which has higher margin work orders. Revenues from the segment remained less than 10% of the total sales generated in FY22 but more than doubled as compared with the previous year. GRSEL has signed an agreement with KoPT in Dec. 2021 for ship repair business activity at their premises, and three docks have been made available for GRSEL. The Company is also actively looking for exports in new markets. The company has procured export orders from



a few countries, 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. GRSEL 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. GRSEL is also working towards capacity building, modernisation and upgrading technology through research and development and has done various capex in the recent past to this end.

#### **Credit Weaknesses:-**

- **Competition from private shipyards:** GRSEL faces increasing 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.

#### **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: Superior**

GRSEL's liquidity position is Superior, as reflected by the Zero utilisation of its fund-based limits and moderate average utilisation of the non fund based limits of 60% to 65% as of 30 June 2022. To support the execution of the existing work orders and bid for new orders, the company had availed an enhancement in the BG limits in the recent past. GRSEL does not have any long-term

debt and its interest obligations are low which can be easily met from the projected EBIDTA (excluding Interest income and Other Income). The Company's liquidity is further supported by a robust free cash balance of Rs.2558 Crs in FY22 (FY21: Rs.2281Crs) including balances with the bank in the current account of Rs.9.71crs (FY21:Rs.9.32crs), bank deposits with maturities of 3 months to 12 months of Rs.2118crs (FY21:Rs.1966crs) and Flexi bank deposits of Rs.429.9crs (FY21:Rs.305.83crs). The company's liquidity position is further supported by current investments in mutual funds which generate interest income. Total Non operating income during FY22 was Rs.160.65 Crs (FY21: Rs.187 Crs).

### 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	FY21A (Recast)	FY22A
Total Operating Income*	Rs in Crs	1140.84	1757.51
EBITDA *	Rs in Crs	81.18	140.78
PAT	Rs in Crs	153.47	189.53
Tangible Net worth	Rs in Crs	1132.00	1251.80
Total Debt/TNW	Times	0.00	0.00
Current Ratio	Times	0.99	0.93
ISCR	Times	8.16	181.25
TOL/TNW	Times	5.00	5.09

\*Excluding Interest Income and Other Income of Rs.160.65crs in FY22 and Rs.185.72crs in FY21.

**Note:** As per rating rationale dated 15 September 2021, EBIDTA for FY21 audited is Rs.72.06Crs and ISCR is 26.68x for FY21.

**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 August 2022			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	110.01	BWR AAA/Stable, Reaffirmed	<b>15-September-2021</b> <table border="1"> <tr> <td>FB-LT*</td> <td>110.00</td> <td>BWR AAA/Stable, Reaffirmed</td> </tr> <tr> <td>NF B-S T**</td> <td>4,565.00</td> <td>BWR A1+, Reaffirmed</td> </tr> <tr> <td><b>Total</b></td> <td><b>4,675.00#</b></td> <td></td> </tr> </table>			FB-LT*	110.00	BWR AAA/Stable, Reaffirmed	NF B-S T**	4,565.00	BWR A1+, Reaffirmed	<b>Total</b>	<b>4,675.00#</b>		<b>17-September-2020</b> <table border="1"> <tr> <td>FB-LT*</td> <td>105.00</td> <td>BWR AAA/Stable, Reaffirmed</td> </tr> <tr> <td>NF B-S T**</td> <td>3,455.00</td> <td>BWR A1+, Reaffirmed</td> </tr> <tr> <td><b>Total</b></td> <td><b>3,560.00#</b></td> <td></td> </tr> </table>			FB-LT*	105.00	BWR AAA/Stable, Reaffirmed	NF B-S T**	3,455.00	BWR A1+, Reaffirmed	<b>Total</b>	<b>3,560.00#</b>		<b>26-September-2019</b> <table border="1"> <tr> <td>FB-LT*</td> <td>45.00</td> <td>BWR AAA/Stable, Reaffirmed</td> </tr> <tr> <td>NF B-S T**</td> <td>3,205.00</td> <td>BWR A1+, Reaffirmed</td> </tr> <tr> <td><b>Total</b></td> <td><b>3,250.00#</b></td> <td></td> </tr> </table>			FB-LT*	45.00	BWR AAA/Stable, Reaffirmed	NF B-S T**	3,205.00	BWR A1+, Reaffirmed	<b>Total</b>	<b>3,250.00#</b>	
FB-LT*	110.00	BWR AAA/Stable, Reaffirmed																																						
NF B-S T**	4,565.00	BWR A1+, Reaffirmed																																						
<b>Total</b>	<b>4,675.00#</b>																																							
FB-LT*	105.00	BWR AAA/Stable, Reaffirmed																																						
NF B-S T**	3,455.00	BWR A1+, Reaffirmed																																						
<b>Total</b>	<b>3,560.00#</b>																																							
FB-LT*	45.00	BWR AAA/Stable, Reaffirmed																																						
NF B-S T**	3,205.00	BWR A1+, Reaffirmed																																						
<b>Total</b>	<b>3,250.00#</b>																																							
2		Non-Fund Based - Short Term	670.00	BWR A1+, Reaffirmed	<i>#Reaffirmed with increase in total exposure.</i>																																			
3		Non-Fund Based - Short Term	3,895	BWR AAA/Stable/ BWR A1+, Assigned/Reaffirmed																																				
<b>Total</b>			<b>4,675.01</b>	<b>(Rupees Four Thousand Six Hundred Seventy Five Crores and One Lakh Only)</b>																																				

**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](http://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

Analytical Contacts	
<b>Madhu Sonthalia</b> Senior Rating Analyst-Ratings Board:91 80 4040 9940 <a href="mailto:madhusonthalia@brickworkratings.com">madhusonthalia@brickworkratings.com</a>	<b>Anuradha Gupta</b> Director-Ratings Mobile: Contact-9073918943 <a href="mailto:anuradha.g@brickworkratings.com">anuradha.g@brickworkratings.com</a>
1-860-425-2742	<a href="mailto:media@brickworkratings.com">media@brickworkratings.com</a>

**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	Yes Bank	Total
<b>Fund Based</b>									
Cash Credit	100.00	(5.00)	(1.00)	5.00	0.00	(100.00)	(1.00)	-	105.00
WC DL	--	--	--	--	--	(100.00)	5.00	0.01	5.01
<b>Non Fund Based</b>									
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
<b>Total Limits</b>	<b>1000.00</b>	<b>500.00</b>	<b>250.00</b>	<b>2220.00</b>	<b>205.00</b>	<b>300.00</b>	<b>200.00</b>	<b>0.01</b>	<b>4675.01</b>



**For print and digital media** The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

### **About Brickwork Ratings**

Brickwork Ratings (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by Reserve Bank of India [RBI], offers credit ratings of Bank Loan, Non- convertible / convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitisation Products, Municipal Bonds, etc. BWR has rated over 11,400 medium and large corporates and financial institutions' instruments. BWR has also rated NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations. BWR has Canara Bank, a leading public sector bank, as one of the promoters and strategic partner. BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

**DISCLAIMER :** Brickwork Ratings India Pvt. Ltd. (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by the Reserve Bank of India [RBI], offers credit ratings of Bank Loan facilities, Non- convertible / convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitisation Products, Municipal Bonds, etc. [hereafter referred to as "Instruments"]. BWR also rates NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations.

BWR wishes to inform all persons who may come across Rating Rationales and Rating Reports provided by BWR that the ratings assigned by BWR are based on information obtained from the issuer of the instrument and other reliable sources, which in BWR's best judgement are considered reliable. The Rating Rationale / Rating Report & other rating communications are intended for the jurisdiction of India only. The reports should not be the sole or primary basis for any investment decision within the meaning of any law or regulation (including the laws and regulations applicable in Europe and also the USA).

BWR also wishes to inform that access or use of the said documents does not create a client relationship between the user and BWR.

The ratings assigned by BWR are only an expression of BWR's opinion on the entity / instrument and should not in any manner be construed as being a recommendation to either, purchase, hold or sell the instrument.

BWR also wishes to abundantly clarify that these ratings are not to be considered as an investment advice in any jurisdiction nor are they to be used as a basis for or as an alternative to independent financial advice and judgement obtained from the user's financial advisors. BWR shall not be liable to any losses incurred by the users of these Rating Rationales, Rating Reports or its contents. BWR reserves the right to vary, modify, suspend or withdraw the ratings at any time without assigning reasons for the same.

BWR's ratings reflect BWR's opinion on the day the ratings are published and are not reflective of factual circumstances that may have arisen on a later date. BWR is not obliged to update its opinion based on any public notification, in any form or format although BWR may disseminate its opinion and analysis when deemed fit.

Neither BWR nor its affiliates, third party providers, as well as the directors, officers, shareholders, employees or agents (collectively, "BWR Party") guarantee the accuracy, completeness or adequacy of the Ratings, and no BWR Party shall have any liability for any errors, omissions, or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the Rating Rationales or Rating Reports. Each BWR Party disclaims all express or implied warranties, including, but not limited to, any warranties of merchantability, suitability or fitness for a particular purpose or use. In no event shall any BWR Party be liable to any one for any direct, indirect, incidental,





exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the Rating Rationales and/or Rating Reports even if advised of the possibility of such damages. However, BWR or its associates may have other commercial transactions with the company/entity. BWR and its affiliates do not act as a fiduciary.

BWR keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of the respective activity. As a result, certain business units of BWR may have information that is not available to other BWR business units. BWR has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

BWR clarifies that it may have been paid a fee by the issuers or underwriters of the instruments, facilities, securities etc., or from obligors. BWR's public ratings and analysis are made available on its web site, [www.brickworkratings.com](http://www.brickworkratings.com). More detailed information may be provided for a fee. BWR's rating criteria are also generally made available without charge on BWR's website.

This disclaimer forms an integral part of the Ratings Rationales / Rating Reports or other press releases, advisories, communications issued by BWR and circulation of the ratings without this disclaimer is prohibited.

BWR is bound by the Code of Conduct for Credit Rating Agencies issued by the Securities and Exchange Board of India and is governed by the applicable regulations issued by the Securities and Exchange Board of India as amended from time to time.