

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
Fund based Limit	110.00	110.01	Long Term	BWR AAA/Stable	BWR AAA/Stable, Reaffirmed
Non Fund Based limit	0.00	3,895.00	Long Term/ Short term	BWR A1+	BWR AAA/Stable/ BWR A1+ Assigned/Reaffirmed
Non Fund based Limit	4,565.00	670.00	Short Term	BWR A1+	BWR A1+, Reaffirmed
Total	4,675.00	4,675.01	INR Four Thousand Six Hundred Seventy Five Crores and One Lakh 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 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	15-September-2021 <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>Total</td> <td>4,675.00#</td> <td></td> </tr> </table>			FB-LT*	110.00	BWR AAA/Stable, Reaffirmed	NF B-S T**	4,565.00	BWR A1+, Reaffirmed	Total	4,675.00#		17-September-2020 <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>Total</td> <td>3,560.00#</td> <td></td> </tr> </table>			FB-LT*	105.00	BWR AAA/Stable, Reaffirmed	NF B-S T**	3,455.00	BWR A1+, Reaffirmed	Total	3,560.00#		26-September-2019 <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>Total</td> <td>3,250.00#</td> <td></td> </tr> </table>			FB-LT*	45.00	BWR AAA/Stable, Reaffirmed	NF B-S T**	3,205.00	BWR A1+, Reaffirmed	Total	3,250.00#	
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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	<i>#Reaffirmed with increase in total exposure.</i>																																			
	Total		4,675.01	(Rupees Four Thousand Six Hundred Seventy Five Crores and One Lakh Only)																																				

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	Yes 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	0.01	5.01
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	0.01	4675.01



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