

January 31, 2023

Chowgule and Company Private Limited: Ratings reaffirmed and assigned for enhanced amount

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based-Term Loan	83.24	87.68	[ICRA]A+(Stable); reaffirmed and assigned for enhanced amount
Long-term non-fund based	150.00	440.00	[ICRA]A+(Stable); reaffirmed and assigned for enhanced amount
Short-term fund-based	145.00	205.00	[ICRA]A1; reaffirmed and assigned for enhanced amount
Short-term non-fund based	22.03	72.03	[ICRA]A1; reaffirmed and assigned for enhanced amount
Unallocated limits	75.00	195.29	[ICRA]A+(Stable)/[ICRA]A1; reaffirmed and assigned for enhanced amount
Total	475.27	1,000.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation considers Chowgule and Company Private Limited's (CCPL) healthy liquidity position, supported by strong cash accruals in the last two years, its track record in the mining segment and healthy orders in the ship building segment. ICRA, however, notes that the company's financial performance was adversely impacted by the subdued performance of the pellet segment since H2 FY2022 due to unfavourable prices, necessitating the shutdown of operations; the pressure on the segment continued in the current fiscal due to the export duty imposed. This resulted in operating losses from the pellet segment in FY2022 and in the current fiscal. However, the company has sold the pellet unit on slump-sale basis in the current fiscal, which has resulted in cash accruals. Further, while the mining segment has resulted in healthy cash accruals in the last two years, in the current fiscal the performance during the first half was adversely impacted by the imposition of export duty. However, the company has witnessed healthy order flows in the ship building segment, which will drive the revenue growth and profits in the medium term.

Going forward, there is continued uncertainty over the resumption of operations in the Goa mines even as the lease for the Karnataka mines will expire in the next fiscal. However, in the near term, the company is expected to generate cash from the liquidation of the already mined inventory at Goa and the sale of ore from Karnataka. Hence, the performance of the mining segment may be subdued, although the company can engage in ore trading, mine dumping activities etc. The export duties, which had adversely impacted the performance in H1 FY2023, have been removed from November 2022. Apart from these, the company is also looking at other options to monetise some of the mining assets and the developments of the mining division remain key monitorable.

On the shipbuilding division, while the company will be exposed to input cost fluctuations due to the fixed-cost contracts, the risk is partly mitigated by the back-to-back contracts with suppliers. Significant order flows in FY2022 and in the current fiscal are expected to aid a sharp growth in revenue from the segment in the medium term. Further, while the operating margin remains moderate for the segment, the incentives under the Shipbuilding Financial Assistance Policy (SFAP) from Ministry of Ports, Shipping and Waterways (MOPSW), will support healthy cash accruals. However, timely execution of the orders and cost management will be crucial for the segment and will be monitored. The cash accruals from the segment can also be lumpy depending on the delivery of vessels and receipt of incentives.

The ratings, however, continue to be constrained by the vulnerability of the company's profitability to the volatility in iron ore prices and foreign exchange rates, and its susceptibility to the adverse developments in the regulatory framework, such as changes in Government policies on royalty rates, or export duty, or ban on the export of fines/lumps. The shipbuilding segment is also exposed to volatility in order flows, although the current order book is healthy. ICRA also takes cognisance of CCPL's sizeable contingent liabilities, primarily towards disputed tax claims, which if crystallised, could adversely impact its financial risk profile.

The company's capital structure and coverage indicators have remained healthy. However, there is some stretch in the coverage indicators due to the moderation in operating profits in the current fiscal. Going forward, the coverage indicators are likely to witness a gradual improvement with the expected improvement in profitability and no major debt-funded capex plans. Any large debt-funded capex plan or acquisition, apart from the ones mentioned above, leading to a significant moderation in cash and investments and liquidity profile, remains a sensitivity factor.

On January 11, 2021, the Chowgule Group announced the restructuring of its businesses into two separate groups by signing a memorandum of family settlement (MoFS). As per the restructuring, the family business has been split into two—one headed by Mr. Padma Chowgule (Group A) and the other by Mr. Vijay Chowgule (Group B), with CCPL being the flagship entity of Group A, retaining the mining, shipbuilding and pellet businesses, while the salt business is retained under a subsidiary. As confirmed by the CCPL management, the division of businesses is final between the groups, although there is an ongoing arbitration between the groups on minor issues, whose outcome would not materially impact the split or the operation of the businesses. As part of the restructuring, the investments and loans extended to the entities under Group B, including Angre Port Private Limited (APPL), are expected to be written off, in lieu of transfer of assets/shares held by Group B shareholders in Group A entities. Nevertheless, ICRA would continue to closely monitor the developments concerning the restructuring and any changes in the proposed terms that may have a material impact on the credit profile of CCPL would remain a key rating sensitivity.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that the company will continue to maintain its credit profile in the medium term, supported by expected cash accruals from mining operations in the near term and expected growth in accruals from the shipbuilding segment, while maintaining healthy cash and investments.

Key rating drivers and their description

Credit strengths

Established track record in mining - CCPL has an established track record in the mining sector. While the company has mining leases for 10 mines at Goa and two in Karnataka, the closure of mining operations at Goa due to the ban since March 2018 has impacted revenues. Further, while the mining segment has resulted in healthy cash accruals in the last two years, the performance during the first half of the current fiscal was adversely impacted by the imposition of export duty. Going forward, while there is continued uncertainty over the resumption of operations of the Goa mines and the renewal of lease for the Karnataka mines which will expire in the next fiscal, the company is expected to generate cash in the near term from the liquidation of the already mined inventory at Goa and sale of ore from Karnataka. The export duties, which had adversely impacted the performance in H1 FY2023, have been removed from Nov 2022. In the absence of resumption of mining in Goa and the expiry of the Karnataka mine licence, the mining segment's performance may be subdued, although the company can engage in ore trading, mine dumping activities etc.

The company is also looking at options to monetise some of the mining assets and the developments of the mining division remain a key monitorable. The company had also won a bid for a coal mine in Madhya Pradesh in November 2020. However, the timeline for the capex has not yet been firmed up and will depend on market conditions and other factors. The company is also exploring several options, which may entail no capex and generate income on a revenue-share basis. ICRA will be monitoring the developments on the MP mine.

Healthy order book position of shipbuilding division - The company has three shipyards in Goa of which two are owned and one is on lease with total capacity of building seven vessels per annum. The company focuses on small-sized ships, ranging 2,000-7,000 DWT dry bulk carriers, multi-purpose vessels and product tankers. The division has orders in hand, including letter of intent (LOI) of ~Rs. 1,893 crore (as on November 30, 2022). Of the total LOI received for 18 vessels, the company has signed contract for 10 vessels. With significant order flows in FY2022 and in the current fiscal, the revenue from the segment is expected to witness sharp growth in the medium term. Going forward, the company is expected to execute the orders in hand from the existing facilities and has no major capex plans. However, it has floated a subsidiary, which has acquired a yard near Mangalore under the NCLT process. A net capex (including acquisition cost) of ~Rs. 150 crore is estimated for the acquisition, which will be funded through internal sources by the company.

Comfortable capital structure and healthy liquid investments – CCPL's capital structure remains comfortable, as reflected from gearing levels of 0.2 times in FY2022-end. The interest coverage stood at 11.9 times and debt/OPBITDA was 1.0 times as on March 31, 2022. However, there is some stretch in the coverage indicators due to the moderation in operating profits in the current fiscal. Going forward, the coverage indicators are likely to witness a gradual improvement with the expected improvement in profitability and no major debt-funded capex plans. Moreover, the company is net debt free with healthy cash and investments worth over ~Rs. 798 crore (a major portion of which is parked in liquid investments/fixed deposits) as on November 30, 2022, which provides an additional comfort.

Credit challenges

Vulnerability of profitability and cash flows to volatility in iron ore prices and forex rates – The company's profitability continues to be vulnerable to the volatility in iron ore prices, which impacts the revenue and margin of the mining segment. In addition, CCPL's profitability remains vulnerable to fluctuations in international and domestic iron ore prices and deterioration in the iron content of its reserves. Also, the majority of CCPL's revenues are denominated in dollar or euro, exposing the company's profitability to the volatility in foreign exchange (forex) rates. However, the company's euro-denominated imports for the shipbuilding division help it in reducing the net forex exposure to some extent.

Mining operations vulnerable to adverse development in regulatory framework - CCPL's operations remain vulnerable to adverse developments in the regulatory framework for iron ore operations such as changes in Government policies regarding increase in royalty rates/export duty or ban on exports. The company's operations were significantly impacted during FY2013-FY2015 due to the ban on mining operations. While the mining activity subsequently resumed, the Supreme Court order in March 2018 cancelling the licences for mining iron ore in Goa has once again impacted the operations of the company.

Shipbuilding remains susceptible to volatility in orders - CCPL has been engaged in the shipbuilding business for over 25 years. While the segment has a healthy outstanding order book that provides revenue visibility in the medium term, the division remains susceptible to volatility in new orders. Further, while the company will be exposed to input cost fluctuations due to the fixed-cost contracts, the risk is partly mitigated by the back-to-back contracts with suppliers. Further, while the operating margin remains moderate for the segment, the incentives under the Shipbuilding Financial Assistance Policy (SFAP) from the Ministry of Ports, Shipping and Waterways (MOPSW) will support healthy cash accruals. However, timely execution of the orders and cost management will be crucial for the segment and will be monitored. The cash accruals from the segment can also be lumpy depending on the delivery of vessels and receipt of incentives.

Liquidity position - Strong

The liquidity profile is strong, supported by expected cash accruals from the sale of the Karnataka mines and the execution of the shipbuilding orders and healthy unencumbered cash balances and investments (~Rs. 656 crore as of March 31, 2022 and ~Rs. 798 crore as of November 30, 2022). The total long term debt O/s as on September 30, 2022, was Rs. 66.3 crore against which CCPL has repayment obligations of ~Rs. 26-27 crore in FY2023, ~Rs. 21-22 crore in FY2024 and ~Rs. 13-14 crore in FY2025,

with no major capex plans during this period. However, the company plans to incur a capex of around Rs. 150 crore for Chowgule SBD Private Ltd. from internal accruals/cash and cash equivalents.

Rating sensitivities

Positive factors – The ratings are unlikely to be upgraded in the near term. Over the medium term, the ratings could be revised upwards if there are healthy cash accruals on a sustained basis, while maintaining working capital intensity, leading to improvement in the credit metrics and liquidity profile.

Negative factors – Pressure on CCPL's ratings could arise if any decline in revenue or profitability leads to lower-than-expected cash accruals on a sustained basis, or if a larger-than-expected debt-funded capex or a stretch in the working capital intensity weakens the liquidity. A specific credit metric for a downgrade is interest coverage ratio of less than 6.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Mining entities
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of CCPL.

About the company

CCPL is part of the more than 100-year-old Goa-based Chowgule Group. The company was established in 1943 for mining and exporting iron ore in Goa. Over the years, the company has forayed into shipbuilding, ship repair, shipping and material handling equipment, with a mining lease in Karnataka. On January 11, 2021, the Chowgule Group (of which CCPL is the flagship company) announced the restructuring of its businesses into two separate groups. Post the restructuring, CCPL will have only the mining and shipbuilding businesses, while the salt business will be operated under the subsidiary, Chowgule & Co (Salt) Private Limited.

Key financial indicators

CCPL	FY2021	FY2022*
Operating income	872.8	579.0
PAT	-396.3	173.4
OPBDIT/OI	28.8%	38.7%
PAT/OI	-45.4%	30.0%
Total outside liabilities/Tangible net worth (times)	0.3	0.3
Total debt/OPBDIT (times)	1.1	0.9
Interest coverage (times)	12.2	54.9

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore, *Group B and pellet operations are classified under discontinued operations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2023)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020
					Jan 31, 2023	Nov 12, 2021	Jan 25, 2021	Oct 6, 2020	Oct 7, 2019
1	Term loan	Long term	87.68	62.50	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A&	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Non-fund based	Long term	440.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A&	[ICRA]A (Stable)	[ICRA]A (Stable)
3	Cash credit	Short term	205.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1&	[ICRA]A1	[ICRA]A1
4	Non-fund based	Short term	72.03		[ICRA]A1	[ICRA]A1	[ICRA]A1&	[ICRA]A1	[ICRA]A1
5	Unallocated limits	Long term/ Short term	195.29		[ICRA]A+ (Stable)/[ICRA]A1	[ICRA]A+ (Stable)/[ICRA]A1	[ICRA]A&/[ICRA]A1&	[ICRA]A (Stable)/[ICRA]A1	-

& under watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple
Long term – Non-fund based	Very Simple
Short term - Fund based	Simple
Short term – Non-fund based	Very Simple
Unallocated limits	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan- 1	April 2021	NA	March 2026	47.68	[ICRA]A+ (Stable)
NA	Term Loan- 2	September 2020	NA	August 2023	40.00	[ICRA]A+ (Stable)
NA	Cash credit	NA	NA	NA	205.00	[ICRA]A1
NA	Long term: non-fund-based limits	NA	NA	NA	440.00	[ICRA]A+ (Stable)
NA	Short term: Non-fund-based limits	NA	NA	NA	72.03	[ICRA]A1
NA	Unallocated Limits	NA	NA	NA	195.29	[ICRA]A+ (Stable)/[ICRA]A1

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis- Not applicable

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Branches



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