

June 09, 2023

Chowgule and Company Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based - Term loan	87.68	87.68	[ICRA]A+(Stable); reaffirmed
Long-term non-fund based	440.00	440.00	[ICRA]A+(Stable); reaffirmed
Short-term fund-based	205.00	205.00	[ICRA]A1; reaffirmed
Short-term non-fund based	72.03	72.03	[ICRA]A1; reaffirmed
Unallocated limits	195.29	195.29	[ICRA]A+(Stable)/[ICRA]A1; reaffirmed
Total	1,000.00	1,000.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation considers Chowgule and Company Private Limited's (CCPL) strong liquidity position, its healthy track record in the mining segment and a robust orderbook position in shipbuilding. The pellet division's performance remained under pressure in FY2022 and FY2023, posting operating losses due to adverse market conditions and the unit was sold in FY2023. Further, while there were healthy cash accruals from mining in FY2021 and FY2022, the performance moderated in FY2023 owing to the imposition of export duty in H1 FY2023. However, the company witnessed healthy order flows in shipbuilding, which will drive revenue growth and profits in the medium term.

Going forward, there is uncertainty over the operations of 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 company is also looking at other options to monetise some of the mining assets and the developments of the mining division remain a key monitorable.

On the shipbuilding division, while the company will be exposed to input cost fluctuations due to the fixed-price contracts, the risk is partly mitigated by the back-to-back contracts with suppliers. ICRA notes that the current order book in shipbuilding provides revenue visibility till FY2026 and will aid healthy revenue growth in the medium term. 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.

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 FY2023, as per the provisional results. 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, leading to a significant moderation in the liquidity profile will remain a key monitorable.

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). CCPL is 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. As part of the restructuring, the investments and loans extended to the entities under Group B, including Angre Port Private Limited (APPL), are already 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 CCPL's 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 uncertainty of mining operations in Goa since March 2018 has impacted revenues. Further, while there were healthy cash accruals from mining in the last two years, the performance during the first half of FY2023 was adversely impacted by the imposition of export duty. Going forward, while there is uncertainty over the mining operations in Goa and the renewal of lease for the Karnataka mines which will expire in the current fiscal, the company is expected to generate cash in the near term from the liquidation of the already mined inventory at Goa and the sale of ore from Karnataka. The export duties, which had adversely impacted the performance in H1 FY2023, have been removed from November 2022. In the absence of the mining operations 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 a total capacity of building seven vessels per annum. The company focuses on sea going vessels, ranging from 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. 1,900 crore (as on March 31, 2023). Of the total LOI received for 18 vessels, the company has signed contracts for 10 vessels. With significant order flows in the last two years, the revenue from the segment is expected to witness a 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 (Chowgule SBD Private Limited), which has acquired a yard near Mangalore under the NCLT process. The acquisition cost of Rs. 75 crore and the incremental capex of Rs. 125 crore to be undertaken by CSBDPL will be funded from equity funding by CCPL. The company infused ~Rs. 97 crore in CSBDPL in FY2023 as unsecured, interest-free promoter loan which will be converted to equity/preference share capital in FY2024 along with incremental investments.

Comfortable capital structure and healthy liquid investments – On a standalone basis, CCPL's capital structure remains comfortable, reflected in gearing levels of 0.13 times in FY2023-end (provisional). However, the subdued operating profits have moderated the company's credit profile. The interest coverage stood at 4.7 times and total debt/OPBITDA was 3.2 times as on March 31, 2023, although the company remains net cash positive (net cash of ~Rs.425 crore as on March 31, 2023 provisional). 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. 580 crore (a major portion of which is parked in fixed deposits) as on March 31, 2023, 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 in the recent pasts due to the ban on mining operations. While mining activity was recently allowed by the Government, the company is yet to resume the mining operations in Goa.

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 the 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. 580 crore as of March 31, 2023). The total long-term debt O/s as on March 31, 2023 was Rs. 64.7 crore against which CCPL has repayment obligations of ~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 infuse funds in CSBDPL for a capex of around Rs. 125 crore from internal accruals/cash and cash equivalents in FY2024.

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 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 consolidated financials for CCPL including CSBDPL and Chowgule and Company (Salt) Private Limited from FY2024 onwards.

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	FY2022	FY2023*
Operating income	579.0	404.0
PAT	173.4	144.3
OPBDIT/OI	38.7%	12.8%
PAT/OI	30.0%	35.7%
Total outside liabilities/Tangible net worth (times)	0.3	0.4
Total debt/OPBDIT (times)	0.9	3.2
Interest coverage (times)	54.9	4.7

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, *Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					Jun 09,2023	Jan 31, 2023	Nov 12, 2021	Jan 25, 2021	Oct 6, 2020
1	Term loan	Long term	87.68	62.50	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A&	[ICRA]A (Stable)
2	Non-fund based	Long term	440.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A&	[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+ (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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