April 23, 2024

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
Long-term/ Short-term - 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/ the company) strong liquidity position, its healthy track record in the mining segment and a robust order book position in shipbuilding. The company's performance in FY2023 and 9M FY2024 was supported by healthy realisations on the sale of iron ore from the Goa and Karnataka mines. The operations at the Karnataka mine came to an end in September 2023 and the remaining iron ore inventory at the Goa mines is expected to be liquidated in FY2025. Hence, the share of revenue and profits from the mining segment will moderate significantly. However, the company's ship-building operations have picked up at a healthy pace with a strong order book position which provides revenue visibility for the near to medium term. The company recently delivered two ships from its Goa shipyard and the revenue from this segment will witness a major uptick over the next couple of years as regular delivery of ships is scheduled during the period.

The availability of financial assistance from the GoI for shipbuilding operations under the Shipbuilding Financial Assistance Policy (SFAP) will also support the profitability, going forward. The company's revenue growth will also be supported by the sale of iron ore dumps for which it recently received approvals and healthy profitability is expected over the next couple of years. ICRA notes that the company had sold its pelletisation operations in FY2023 owing to significant headwinds witnessed in FY2022 and FY2023.

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 risks related to ore mining, however, will have a less impact on the credit profile with the moderation in the scale of mining operations. The shipbuilding segment is also exposed to the 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, the credit profile moderated in FY2023 owing to a moderation in the operating profitability. Going forward, the coverage indicators are likely to gradually improve 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 Ms. 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 housed under CCPL as a subsidiary. As confirmed by the CCPL management, the division of the 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 the transfer of assets/shares held by the 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 an expected uptick in the cash accruals from the shipbuilding segment and improved profitability from the sale of iron ore dumps, while maintaining a healthy liquidity position.

Key rating drivers and their description

Credit strengths

Established track record in mining - CCPL has an established track record in the mining sector. For the mining segment, the lease for the Karnataka mines has expired and there is uncertainty over the operations of the Goa mines. However, in the near term, the company is expected to generate cash from the liquidation of the already mined inventory at Goa. Hence, the performance of the mining segment may be subdued, although the company can engage in ore trading, dump mining activities etc. Recently, in September 2023, the Goa cabinet approved a policy to extract 'value ore' from mining dumps post a Supreme court approval in December 2022. Further, once the local government approves the sale, the company will start exporting the dump by incurring the processing and transportation costs and it can carry out these activity for the next 5-8 years. The approval for the sale of the dumps is expected to be received within a couple of months.

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 had orders in hand of ~Rs. 3,138 crore as on December 31, 2023 {inclusive of letter of intent (LoI) for vessels worth Rs. 1,612 crore}. Of the total LoI received for 18 vessels, the company has signed contracts for 12 vessels. The first vessel was delivered in December 2023 and the second ship in the first week of April 2024. Going forward, one ship will be delivered every three months.

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, rated [ICRA]BBB+ (Stable) - which has acquired a yard near Mangalore under the National Company Law Tribunal (NCLT) process. The acquisition cost was Rs. 75 crore and around Rs. 120 crore of additional capex has been incurred till December 31, 2023, for the upgradation of the yard; the acquisition and upgradation costs have been funded through unsecured loans from CCPL which the company plans to convert into equity/quasi equity.

Comfortable capital structure and healthy liquid investments – On a standalone basis, CCPL's capital structure remains comfortable, reflected in a gearing of 0.14 times in FY2023-end. However, the subdued operating profits have moderated the company's credit profile in FY2023. The interest coverage stood at 4.64 times and total debt/OPBITDA was 3.24 times as on March 31, 2023, although the company remains net debt-free. Going forward, the coverage indicators are likely to gradually improve with an 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. 650 crore (parked in fixed deposits and mutual funds) as on December 31, 2023 (~Rs. 690 crore as on March 31, 2023), which provides additional comfort. ICRA notes that around 50% of the cash and investments are currently provided as lien to the banks for availing non-fund based limits in the interim till fresh limits are sanctioned by the banks, which is under process.

Credit challenges

Profitability and cash flows susceptible 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, 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 in reducing the net forex exposure to some extent.

Mining operations vulnerable to adverse development in regulatory framework - CCPL's operations remain vulnerable to the 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 by the ban on mining operations. While the Government has allowed mining activity, the company is yet to resume mining operations in Goa.

Shipbuilding constrained by 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 execution of ship building orders and sale of iron ores, healthy unencumbered cash balances and investments (~Rs. 506.0 crore as on March 31, 2023 and ~Rs. 391.8 crore as of Dec 31, 2023) and availability of unutilised working capital limits (average utilisation of 62% of fund-based limits in the last 12 months). The total long-term debt outstanding as on March 31, 2023 is Rs. 45.3 crore against which CCPL has repayment obligations of ~Rs. 8-9 crore in FY2024 and ~Rs. 13-14 crore in FY2025, with no major capex plans during this period.

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 the cash accruals are healthy on a sustained basis and the working capital intensity is maintained, leading to an 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 Rating Methodology-Mining
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 1965 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 (audited)

CCPL – Standalone	FY2022	FY2023	9M FY2024*
Operating income	579.0	403.4	384.3
PAT	173.4	74.1	46.5
OPBDIT/OI	38.7%	12.6%	17.8%
PAT/OI	30.0%	18.4%	12.1%
Total outside liabilities/Tangible net worth (times)	0.3	0.4	-
Total debt/OPBDIT (times)	0.9	3.2	-
Interest coverage (times)	54.9	4.6	5.3

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2023 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Apr 23, 2024	Jun 09,2023	Jan 31, 2023	Nov 12, 2021
1	Term loan	Long term	87.68	38.50	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Non-fund Based	Long term	440.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	Fund Based	Short term	205.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
4	Non-fund Based	Short term	72.03	-	[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+ (Stable)/ [ICRA]A1

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	**Proposed Term Loans**	NA	NA	NA	40.00	[ICRA]A+ (Stable)
NA	**Fund Based limits**	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

Company Name	Ownership	Consolidation Approach
Chowgule and Company Private Limited	100%	Full Consolidation
Chowgule and Company (Salt) Private Limited	Subsidiary	Full Consolidation
Chowgule SBD Private Limited	Subsidiary	Full Consolidation

Source: Company

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