June 13, 2023

Chowgule SBD Private Limited: [ICRA]BBB+ (Stable)/[ICRA]A2 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term - Non-fund based	500.00	[ICRA]BBB+ (Stable); assigned
Long term/Short term – Fund-based/Non-fund based	200.00	[ICRA]BBB+ (Stable)/[ICRA]A2; assigned
Total	**700.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings assigned to the bank facilities of Chowgule SBD Private Limited (CSBDPL/the company) factor in the strong parentage of Chowgule & Company Private Limited (CCPL, rated [ICRA]A+ (Stable)/[ICRA]A1) and the significant financial support provided by the same to the company. CSBDPL also benefits from the established customer relationships and the track record of CCPL in the shipping industry which is expected to aid the company's order inflow. The ratings also factor in the healthy outlook for the Indian shipbuilding industry, supported by financial incentives from the Government of India (GoI). The order inflow of private Indian shipyards is expected to be steady, given the ageing fleet of the global shipping industry and alternatives to Chinese shipyards being explored by the global shipping lines. Additionally, the GoI's thrust on indigenising shipbuilding is also expected to provide tailwinds to the industry in the near to medium term.

The ratings are constrained by the cyclicality in the shipping industry which can lead to volatility in the order inflow for shipping entities, although CSBDPL remains in an advanced stage of discussion for signing orders with some reputed shipping lines. The ratings are also constrained by the volatility in raw material prices as the supply contracts signed by the company are fixed price in nature. The company manages input price risks by signing back-to-back contracts for the supply of a major part of the raw material. However, volatility in steel prices can impact profitability if the prices vary significantly. Further, a portion of the company's raw material requirement is met through imports from specialized foreign suppliers due to high-quality specifications, exposing its profitability to the volatility in foreign exchange prices in the absence of any firm hedging policy. However, the company's euro-denominated revenues for the shipbuilding division help it reduce the net forex exposure to some extent.

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.

With the yard likely to be operational by end of CY2023 and the visibility of order inflows for the next couple of years, ICRA expects the company to ramp up its operations along with healthy revenue and profits in the medium term. As the entire purchase of the yard and the incremental capex is being funded by equity provided by CCPL, the credit profile of the entity is expected to remain comfortable. The cash generation will also benefit from the financial assistance provided by the GoI to the domestic shipbuilders.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company's credit profile will be supported by its long track record and support from the promoter group.

Key rating drivers and their description

Credit strengths

Part of the Chowgule Group which has healthy experience in shipbuilding and strong client relationship – CSBDPL is part of the Chowgule Group which has a long and established track record in the shipbuilding industry. The company's management team has significant experience in the industry, which has led to established relationship with customers and is managed well by a professional team with the active involvement of family members who have experience in the port and infrastructure sectors. CCPL (parent entity) has been engaged in the shipbuilding business for over 50 years. In FY2006, CCPL upgraded its facilities and started targeting more international customers for shipbuilding. CCPL focuses on small-sized dry bulk carriers of 2,000-7,000 dwt, multi-purpose vessels and product tankers. At present, CCPL owns three shipyards in Goa and one shipyard is on lease, with a total capacity of building seven vessels per annum. The Group caters mostly to European customers, who are some of the reputed companies in the shipping industry. CSBDPL is expected to benefit from the established credentials of the Chowgule Group in the European shipping industry.

Enhanced financial support from CCPL in the form of equity to fund purchase of shipyard and incremental capex – CSBDPL was incorporated with an intention to bid for the New Mangalore Shipyard (NMSY), previously owned by Bharti Defence and Instructure Ltd. NMSY had come up for sale under the Indian Bankruptcy Code after the same was taken over by Edelweiss. Deloitte was appointed as the liquidator to oversee the liquidation process. CCPL purchased the shipyard under the NCLT process for a total consideration of Rs. 75 crore. The company is expected to incur around Rs. 125 crore for the upgradation of the yard which will take 6-8 months (expected to get ready by January 2024). Of the total outflow of around Rs. 200 crore to be funded by CCPL, around Rs. 97 crore has already been infused by CCPL till March 31, 2023, and the remaining will be infused in the current fiscal.

Healthy outlook for shipbuilding industry supported by financial incentives from GoI – The company is expected to benefit from the stable outlook for the shipbuilding industry in the medium term, supported by healthy demand and the Shipbuilding Financial Assistance Policy (SFAP) from the Ministry of Ports, Shipping and Waterways (MOPSW). Under the financial aid for the shipbuilding scheme provided by the Centre, the ministry provides 20% (with a 3% reduction yearly) of the order value of the vessels constructed by the industry once the ship is delivered. The company is currently entitled to a subsidy for 14% of the contract value and would go down subsequently by 3% every three years for green shipping. Recently, MoPSW has announced a financial assistance of around 30% of the order value for the green ships, although the finer details of the aid are yet to be released. In case the ships being built by CSBDPL qualify for the enhanced incentive, the cash generation for the company will witness significant uptick.

Credit challenges

Shipbuilding business remains susceptible to volatility in order receipts - The company has healthy order inquiries and contracts which are in a very advanced stage of execution, providing revenue visibility in the medium term. However, the division remains susceptible to volatility in new order receipts and the timely delivery of the orders at hand. Further, 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. Additionally, the shipbuilding industry remains exposed to the cyclicality inherent in the shipping industry. During periods of downturns, the orders can get delayed or even cancelled, leading to stress on the shipbuilding players.

Modest scale of operations expected in near to medium term – With the yard likely to be operational by FY2024 and the visibility of order inflows for the next couple of years, ICRA expects the company to ramp up its operations along with healthy revenue and profits in the medium term. The company is currently in project stage and expected to start generating revenue from FY2025.As the company's yard will be able to construct around six vessels, the scale of operations is expected to remain modest in the near to medium term.

Exposure to raw material price and foreign exchange fluctuations due to fixed-price supply contracts - 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. Further, a portion of the company's raw material requirement is met through imports from reputed suppliers due to high-quality specifications, exposing its profitability to the volatility in foreign exchange prices in the absence of any firm hedging policy. However, the company's euro-denominated imports for the shipbuilding division help it reduce the net forex exposure to some extent. 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.

Competition from global players – The Group caters mostly to European customers, which are some of the reputed companies in the shipping industry. Hence, the company faces intense competition globally, especially from other shipbuilding majors e.g., China and European shipyards. However, with a long and established track record of the Group in the shipbuilding industry and its well-established client relationship, the risk is mitigated to some extent. Given that the global shipping lines are looking at alternatives to China, at least for the smaller vessels, given the uncertainty associated with the Chinese markets, the CCPL Group has benefited owing to its established track record of supplies with European shipping lines. Further, the domestic competition has moderated, to some extent, as some of the larger private sector yards are facing financial trouble.

Liquidity position: Adequate

CSBDPL's credit profile is expected to remain adequate, going forward, given the purchase price and incremental capex being funded entirely by equity from the promoter company and the working capital requirements will be largely met by advances from customers. The company is also tying up fund-based working capital limits to overcome any liquidity event, which along with expectation of enhanced promoter support in a scenario of liquidity mismatches is expected to keep the liquidity profile adequate.

Rating sensitivities

Positive factors – ICRA could upgrade CSBDPL's ratings if the credit profile of the parent improves. The ratings may also be upgraded if the company can demonstrate timely execution of the upcoming orders, and a healthy revenue growth and profitability while keeping the credit profile healthy.

Negative factors – Pressure on CSBDPL's ratings could arise if the parent company's credit profile weakens and/or the linkages between the parent and the company deteriorate. The company's inability to fully operationalise the shipyard in a timely manner, and/or weaker-than-expected revenue and profitability, and/or higher-than-anticipated debt adversely impacting the company's overall credit profile may result in a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Rating Approach- Implicit parent or group Support](#)
Parent/Group support	Group company: Chowgule & Company Private Limited The ratings consider the likelihood of the parent CCPL extending support to CSBDPL, should the need arise. The analyst has followed a parent support uplift approach while rating CSBDPL's bank lines with CCPL as the parent. CSBDPL is a wholly owned subsidiary of CCPL and has also funded the entire purchase consideration as well as incremental capex of CSBDPL through equity contribution.
Consolidation/Standalone	Standalone

About the company

The company was incorporated in October 2021 by the promotors of the Chowgule Group with an intention to bid for New Mangalore Shipyard (NMSY), previously owned by Bharti Defence and Instructure Ltd. NMSY had come up for sale under the Indian Bankruptcy Code (IBC) after it was taken over by Edelweiss Asset Reconstruction Company. Deloitte was appointed as the liquidator to oversee the liquidation process. CSBDPL is a wholly-owned subsidiary of CCPL. The company acquired the assets of NMSY under the IBC route in February 2023 and will be undertaking shipbuilding at the new facility, going forward.

Key financial indicators (audited) – NA, as it is a project company

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 of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Jun 13, 2023			
1	Non-fund based	Long term	500.00	-	[ICRA]BBB+ (Stable)	-	-	-
2	Fund based/Non-fund based - Others	Long term/ short term	200.00	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Non-fund based	Very Simple
Long term/Short term – Fund-based/Non-fund based - Others	Simple

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	**Non-fund based**	NA	NA	NA	500.00	[ICRA]BBB+ (Stable)
NA	**Fund-based/Non-fund based**	NA	NA	NA	200.00	[ICRA]BBB+ (Stable)/ [ICRA]A2

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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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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