

April 23, 2024

Chowgule SBD Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Non-fund based	500.00	595.00	[ICRA]BBB+ (Stable); reaffirmed
Long term/ Short term – Fund-based/ Non-fund based	200.00	0.00	-
Long term – Fund-based – Others	0.00	100.00	[ICRA]BBB+ (Stable); reaffirmed
Long term/Short term - Unallocated	0.00	5.00	[ICRA]BBB+ (Stable)/ [ICRA]A2; reaffirmed
Total	700.00	700.00	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of the ratings assigned to the bank facilities of Chowgule SBD Private Limited (CSBDPL/the company) factors in the strong parentage of Chowgule & Company Private Limited (CCPL, rated [ICRA]A+ (Stable)/[ICRA]A1) and the significant financial support provided by the parent to the company. CSBDPL also benefits from the established customer relationships and the track record of CCPL in the shipping industry, which has aided the company's healthy 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 the 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 cyclical nature in the shipping industry which can lead to volatility in the order inflow for shipping entities, although the current order book is healthy. 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, the volatility in steel prices can impact the profitability, if the prices vary significantly. Further, a portion of the company's raw material requirement is met through imports from specialised 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 operationalisation of the yard recently and visibility of order inflow 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 credit profile of the entity is expected to remain comfortable as the entire purchase of the yard and the incremental capex are being funded by equity provided by CCPL. The cash generation will also benefit from the financial assistance provided by the GoI to the domestic ship builder.

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 a 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 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 Infrastructure 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 has incurred around Rs. 120 crore of additional capex up to December 31, 2023, for the upgradation of the yard and around Rs. 35 crore of scrap sales have been realised in FY2024. As on March 31, 2024, CCPL had infused around Rs. 200 crore in the form of interest-free unsecured loans. The yard has become operational as on date with steel cutting started for the first order.

Healthy order inflows and outlook for shipbuilding industry, supported by financial incentives from GoI – At present, the yard has the capacity of building six vessels per annum of sizes up to 11,000 DWT. The company has orders in hand of ~Rs. 3,007 crore {inclusive of letter of intent (LoI)} as on December 31, 2023. The total order book includes ~Rs. 1,754 crore from the Splithoff Group for six vessels (2 optional), and Rs. 1,253 crore from Boomsma Shipping and Leonhardt & Blumberg for eight vessels. Going forward, the company may expand the yard's capacity in two phases to 14 vessels of up to 45,000-DWT capacity, although the plan is still at the drawing board stage. The company will also enter into repairs of vessels and oil rigs for the commercial and defence markets.

The company is also 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 a ship is delivered. The company is currently entitled to a subsidy for 14% of the contract value which 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 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 company's cash generation will witness a significant uptick.

Credit challenges

Shipbuilding business remains susceptible to volatility in order receipts - The company has healthy order inquiries and contracts which are in advanced stages of execution, providing revenue visibility in the medium term. However, the division remains susceptible to the volatility in new order receipts and the timely delivery of the orders at hand. Further, a 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 cyclicity 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 operationalisation of the yard recently in March 2024 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 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 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, this risk is mitigated to some extent because of the long and established track record of the Group in the shipbuilding industry and its strong client relationship. Global shipping lines are looking at alternatives to China, at least for the smaller vessels, because of the uncertainty in the Chinese markets. This has benefited the CCPL Group as it has an established track record of supplies with European shipping lines. Further, 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, as the purchase price and incremental capex is being funded entirely by equity from the promoter company and the working capital requirements will be met by advances from customers and sanctioned working capital limits. Moreover, expectation of enhanced promoter support in case 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
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 given that CSBDPL is a wholly owned subsidiary

Analytical Approach	Comments
	of CCPL. Additionally, CCPL has funded the entire purchase and capex through contribution in the form of equity and majorly through unsecured loans which it also intends to convert into equity/quasi equity.
Consolidation/Standalone	Standalone

About the company

The company was incorporated in October 2021 by the promoters 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 – Not Applicable 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	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Apr 23, 2024	Jun 13, 2023	-	-
1 Non-fund based	Long term	595.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-
2 Fund based/Non-fund based – Others	Long term/Short term	0.00	-	-	[ICRA]BBB+ (Stable)/[ICRA]A2	-	-
3 Fund-based – Others	Long term	100.00	-	[ICRA]BBB+ (Stable)	-	-	-
4 Unallocated	Long term/Short term	5.00	-	[ICRA]BBB+ (Stable)/[ICRA]A2	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Non-fund based	Very Simple
Fund based – Others	Simple
Unallocated	Not Applicable

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-BG/LC	NA	NA	NA	595.00	[ICRA]BBB+ (Stable)
NA	Fund-based-CC/WCDL	NA	NA	NA	100.00	[ICRA]BBB+ (Stable)
NA	Unallocated	NA	NA	NA	5.00	[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:

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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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Branches



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