Cochin Shipyard Ltd — FY 2024 Annual Report Analysis

Annual Report Analysis (Consolidated)

Investor Snapshot

#	Analytical point	Sentiment
1	**Cochin Shipyard has successfully transitioned to a multi-project maritime powerhouse, leveraging a dominant position in green shipping and high-margin ship repair.**	Positive
2	**Revenue surged 64.3% YoY to □3,830.45 Cr, effectively navigating the "Post-IAC" revenue valley through diversified project execution.**	Positive
3	**The company maintains a massive order book of □23,250 Cr, providing high revenue visibility at approximately 6x FY24 sales.**	Positive
4	***Earnings quality is significantly weakened by a poor cash conversion ratio (CFO/PAT) of 0.29x, driven by severe working capital stress.***	Negative
5	***Inventory exploded 175% to 1,026.09 Cr, signaling potential execution bottlenecks and a substantial lock-up of operational capital.***	Negative
6	***Headline liquidity is deceptive as 77% of bank balances (2,760.92 Cr) are restricted Navy funds, limiting actual free cash availability.***	Negative
7	**The balance sheet remains under-leveraged with a low D/E ratio of 0.11x, providing significant headroom for future scaling.**	Positive
8	**Commissioning of □2,769 Cr in new assets (ISRF and New Dry Dock) doubles addressable vessel size and shifts CWIP to revenue-generating status.**	Positive
9	***Aggressive accounting changes, including a departure from "Lower of Cost or NRV" for inventory and 16.61 Cr in cost capitalization, may mask obsolescence and artificially support PAT.***	Negative
10	Governance remains robust with a 10/10 rating, characterized by 50% board independence, zero promoter pledges, and an upgrade to 'Schedule A' status.	Positive
11	***Opaque "Other Advances" spiked 145% to 1,563.44 Cr, representing a massive cash outflow that requires immediate monitoring.***	Negative
12	**Investment View: ACCUMULATE; structural re-rating is supported by the US Navy MSRA and green tech leadership, provided asset turnover at ISRF improves to 0.60x.**	Positive

1. Business overview (In Bullet Points)

- **Business Segments:** Operates primarily in two segments: **Shipbuilding** (72.4% of revenue) and Ship Repair (27.6% of revenue).
- **Revenue Drivers:** Transitioning from the Indigenous Aircraft Carrier (IAC) project to a ramp-up of the **Anti-Submarine Warfare Shallow Water Crafts (ASWSWC)** and Next Generation Missile Vessels (NGMV). Ship Repair is a high-margin stabilizer, recently bolstered by the Master Shipyard Repair Agreement (MSRA) with the US Navy.
- **Cost Drivers:** Significant raw material consumption (□1,761.54 Cr) and employee benefits (□539.12 Cr). Capital-intensive operations with high depreciation and finance cost capitalization.
- **Industry Position:** India’s leading maritime major with a "Green Shipping" moat, having delivered India’s first Hydrogen Fuel Cell Vessel.

- **Expansion Plans:** Transitioned to a "hub-and-spoke" model with seven units across India (Mumbai, Kolkata, Port Blair, Udupi, Hooghly) to capture the entire coastline's repair market.
- **Acquisitions & Turnarounds: Udupi Cochin Shipyard (UCSL)** achieved profitability (PAT ₹1 Cr) within 4 years; Hooghly Cochin Shipyard (HCSL) remains in the gestation phase but has secured a ₹200 Cr order book.
- **Capacity Additions:** Commissioned a **New Dry Dock (310m)** and the International Ship Repair Facility (ISRF) in 2024, doubling addressable vessel size and repair capacity.
- **Geographical Presence:** Expanding export footprint with European clients (Samskip, Wilson) for Hybrid Service Operation Vessels (SOVs) and dry cargo vessels.

2. Management commentary & outlook

- Management has shifted from a "cautious transition" in FY23 to "aggressive execution" in FY24, marking the start of the "Post-IAC" era.
- The upgrade to **'Schedule A' CPSE status** provides higher financial autonomy and allows for senior management bandwidth expansion to manage the ₹22,000 Cr+ order book.
- **Order Book Visibility:** Total visibility stands at **₹23,250 Cr** (~6x FY24 turnover), with a focus on "Future Proof" vessels and standardized export designs.
- **Strategic Pivot:** Formation of the **CSL Strategic & Advanced Solutions (C-SAS)** division to ring-fence high-tech R&D (Autonomous Underwater Vehicles, Hydrogen) from legacy operations.
- **Green Energy Strategy:** Implementing a 100% Green Energy Plan (17 MW Wind-Solar Hybrid) to lower long-term OpEx and improve ESG ratings for European contracts.
- **Demand Environment:** Strong demand in the ship repair segment, validated by the MSRA with the US Navy, providing a recurring, high-dollar revenue stream.
- **Competitive Intensity:** CSL is positioning itself as a global maritime engineering player rather than just a domestic defense yard, leveraging its first-mover advantage in zero-emission maritime tech.
- **Management Tone: Disciplined Executionist.** Management has moved past the visionary expansion stage and is now focused on technical milestones and delivery. The tone is professional, technical, and aligned with the "Maritime Amrit Kaal Vision 2047." (LAST bullet point)

3. Financial analysis

3.1 Financial statements

3.2 Financial analysis summary

- **Revenue** from operations surged 64.3% YoY to ₹3,830.45 Cr, driven by a ramp-up in new projects despite a 15.5% decline in annual IAC P-71 Revenue to ₹1,202.70 Cr as it enters the warranty phase; this growth translated into a significant jump in PAT to ₹783.28 Cr, though earnings quality was slightly marred by a ₹33.08 Cr Prior Period Tax Adjustment.
- **EBITDA** margins improved to 32.73% from 26.54%, benefiting from operating leverage as Revenue growth outpaced the 5.4% increase in Employee Benefit Expenses, although PAT was artificially supported by the capitalization of ₹16.61 Cr in Finance Cost and ₹3.64 Cr in employee costs into CWIP.
- **Inventory** levels exploded by 175% to ₹1,026.09 Cr, primarily due to a massive build-up in Raw Materials & Components (₹823.04 Cr) for new contracts like NGMV, which acted as a major drag on CFO, causing it to plummet from ₹1,154.32 Cr to ₹224.12 Cr.

- The **CFO / PAT** ratio deteriorated sharply to 0.29x from 3.79x, signaling that paper profits are not converting to cash due to the Inventory surge and a 110% spike in Other Current Assets to □3,270.11 Cr, which includes □1,563.44 Cr in opaque "Other Advances."
- **Trade Receivables** remained stable at □355.48 Cr despite the revenue jump, improving Receivable Days to 33.88; however, 34% of gross receivables (□121.46 Cr) are flagged for "significant increase in credit risk," indicating persistent collection issues with older disputed debts.
- **Total Debt** remains low with only □23.02 Cr in Tax-Free Bonds remaining after the □100 Cr redemption in Dec 2023, but the Balance Sheet carries □479.18 Cr in total lease liabilities (Current + Non-Current), which represents the primary "hidden" financial obligation.
- **Cash & Bank Balances** of □3,864.01 Cr appear robust, but 71.4% of this (□2,760.92 Cr) is restricted cash held on behalf of the Indian Navy, meaning the company's actual internal liquidity is significantly lower than the headline consolidated figure.
- **Capital Work-in-Progress (CWIP)** increased to □1,452.18 Cr as the company continues its Capex cycle for the New Dry Dock and ISRF projects, which is expected to drive future Revenue but currently suppresses ROCE due to the expanded asset base not yet fully operational.
- **Input Tax Credit (GST)** ballooned to □838.86 Cr from □347.83 Cr, representing a massive non-cash asset linked to the Inventory procurement that will only be realized as output tax liabilities are generated from future project milestones.
- **ROE** and ROCE both saw substantial improvements to 16.99% and 21.68% respectively, driven by the doubling of PAT margins, though the aggressive change in Inventory valuation policy—which no longer compares cost to NRV—could potentially mask future impairments.
- The company's **Operating Cycle** is uniquely defined to include the entire warranty period, which allows for the classification of long-term project assets as "current," potentially overstating the liquidity implied by the current ratio.
- **Other Current Assets** grew by 110% to □3,270.11 Cr, primarily driven by □1,563.44 Cr in "Other Advances" (funds for Pandu Project and supplier advances) and □838.86 Cr in GST Input Tax Credit; this represents a massive cash outflow that has not yet converted to revenue, signaling potential execution bottlenecks.
- **Other Expenses** remained stable at □480.12 Cr, while Other Financial Liabilities include □23.89 Cr in Foreign Exchange Derivative Liabilities, reflecting active hedging of export contracts.
- **Synthesis:** Cochin Shipyard demonstrated a year of high-growth execution and margin expansion, yet the quality of this performance is tempered by a massive **□1,563.44 Cr** outflow into advances and a heavy reliance on restricted Navy funds for its Balance Sheet strength, resulting in a significant divergence between accounting PAT and actual CFO.

3.3 Contingent liabilities & commitments

- **Litigation:** 90.14 Cr in Disputed Trade Receivables (mostly older than 3 years) indicates long-drawn legal battles.
- **Tax Disputes:** Prior period tax adjustments created a 33.08 Cr hit in FY24.
- **Guarantees/Shortfalls:** The company must meet any shortfall in the interest rate declared by the Government for its Provident Fund trust.
- **Capital Commitments:** Significant ongoing commitments for the New Dry Dock and ISRF projects, reflected in the 1,452.18 Cr CWIP.

3.9 Earnings quality & forensic checks

#	Check	Impact	Status	Notes detail
1	PAT vs CFO trend	Profit ↓ — earnings overstate cash; restricted Navy funds of ₹2,760.92 Cr mask actual liquidity.	—	Note 17: 77% of cash is held on behalf of Indian Navy for specific projects.
2	Receivables & channel-stuffing signal	Revenue ↑↓ — execution risk; inventory + receivables grew ₹670 Cr vs declining IAC revenue.	—	Note 14 & 15: Massive raw material build-up vs stagnant/declining core project revenue.
3	Revenue timing (unbilled / contract assets)	Revenue ↑ — aggressive recognition; unbilled contract assets rose 48% to ₹760.12 Cr.	—	Note 20: Significant growth in unbilled revenue suggests aggressive recognition before invoicing.
4	Revenue from related parties %	Neutral — minimal impact; related party transactions primarily involve interest-free advances, not revenue.	—	Note 20: Sharp spike in advances to related parties requires monitoring for value leakage.
5	Inventory vs revenue growth	Profit ↓ — capital lock-up; inventory surged 175% while core IAC revenue declined 15.5%.	—	Note 14: Raw materials jumped from ₹338.40 Cr to ₹823.04 Cr, signaling execution bottlenecks.
6	Inventory valuation method change	Profit ↑ — potential overvaluation; stopped NRV comparison for project-specific items, masking obsolescence.	—	Note 2.6B: Departure from standard accounting rules could hide slow-moving or obsolete stock.
7	Exceptional items in operating profit	Profit ↓ — non-recurring drag; prior period tax adjustments created a ₹33.08 Cr hit.	—	Note 11: Significant tax hit related to previous years reduces current year earnings quality.
8	Depreciation rate vs useful life policy	Profit ↑ — cost deferral; ₹5.45 Cr depreciation and ₹16.61 Cr finance costs capitalized.	—	Note 5: Capitalizing operating/finance costs into CWIP inflates PAT by deferring expenses.
9	Provision reversals boosting PAT	Profit ↑ — credit risk; ₹121.46 Cr receivables flagged for risk but revenue recognition continues.	—	Note 15: High proportion of disputed/ risky debt older than 3 years indicates collection issues.
10	Tax rate consistency	Profit ↓ — tax volatility; prior period adjustments caused a significant deviation in effective tax.	—	Note 11: Non-recurring tax charges impact the consistency of the effective tax rate.
11	CWIP age and stalling projects	Profit ↑ — expense deferral; capitalization of finance costs into CWIP suggests project delays.	—	Note 5: Continued capitalization of interest into CWIP suggests projects are not yet operational.
12	Deferred tax asset recognition adequacy	Neutral — tax credit build-up; GST Input Tax Credit surged to ₹838.86 Cr.	—	Note 20: Massive non-cash asset reflects procurement where tax credit is not yet utilized.
13	RPT quantum and trend	Profit ↓ — cash leakage; interest-free advances to related parties jumped to ₹35.27 Cr.	—	Note 20: Unnamed related party advances represent a new and significant cash outflow.
14	Dividend paid vs FCF adequacy	Profit ↓ — cash constraint; "Other Advances" of ₹1,563 Cr and restricted cash limit FCF.	—	Note 20 & 17: Massive outflows to suppliers and restricted Navy funds squeeze free cash.
15	Auditor Reporting Deficiency	Neutral — compliance risk; C&AG flagged failure to report on SBFA scheme.	—	C&AG Comments: Statutory auditor failed to report on Shipbuilding Financial Assistance Scheme.
16	Revenue Policy Change (Subsidiaries)	Revenue ↑↓ — consistency risk; shift from Input to Output method at HCSL/UCSL.	—	

#	Check	Impact	Status	Notes detail
				Note 2.6C: Change from cost-to-cost to physical completion may cause lumpy revenue.

4. Management & governance

A. Auditor Report & Key Audit Matters * **Audit Opinion Type:** Unqualified. * **KAM 1: Revenue Recognition (Output Method):** Significant judgment in physical completion for long-term contracts (IAC, NGMV). Risk: Over/under-estimation impacts revenue timing and margins. * **KAM 2: Inventory Valuation Policy Change:** Management no longer compares cost to NRV for project-specific materials. Risk: Departure from Ind AS 2 could mask obsolescence. * **KAM 3: Capitalization of Costs:** □16.61 Cr finance costs and □3.64 Cr employee benefits capitalized into CWIP. Risk: Inflates current PAT by deferring expenses. * **C&AG Supplementary Audit Deficiency:** The C&AG flagged that the Statutory Auditor failed to report on the "Ship Building Financial Assistance Scheme" (SBFA). The company recognized □30.74 Cr (net) in SBFA, but the auditor's report was "deficient to that extent." * **Auditor Fees:** □0.30 Cr paid to M/s. Anand & Ponnappan.

B. Related Party Transactions | Party | Relationship | Nature | Amount (□Cr) | Concern | | :--- | :--- | :--- | :--- | :--- | | Unspecified Related Party | JV/Associate | Interest-free Advances | 35.27 Cr | ***Aggressive: Sharp spike from zero; potential value leakage*** | | Hooghly Cochin Shipyard (HCSL) | Subsidiary | Equity Investment (Rights) | 44.00 Cr | Neutral: Capital support for expansion | | Udupi Cochin Shipyard (UCSL) | Subsidiary | Equity Investment (Rights) | 18.00 Cr | Neutral: Capital support for turnaround | | Hooghly Cochin Shipyard (HCSL) | Subsidiary | Debenture Redemption | 44.00 Cr | **Positive: Recovery of inter-corporate debt** |

C. Shareholding * **Promoter (Government of India):** 72.86% * **Public:** 27.14% * **Pledged Shares:** 0.00%

D. Board Composition + KMP Compensation * **Total Directors:** 12 | **Independent %:** 50% | **Women Directors:** 1. * **KMP Compensation:** CMD (Madhu S Nair) □0.90 Cr; Dir Finance (Jose V J) □0.59 Cr. * **Analysis:** Total WTD remuneration is □2.72 Cr (0.23% of EBITDA). No KMPs share the same family name. Remuneration includes PRP for FY22 paid in FY24, indicating a lag in variable pay.

F. Capital Allocation & Capex | Action | FY current (□Cr) | FY prior (□Cr) | Signal | | :--- | :--- | :--- | :--- | | Dividends | 257.00 Cr | 223.62 Cr | **Positive** | | Capex (ISRF & Dry Dock) | 2,769.00 Cr | Not disclosed | ***Concern*** | | Investments (Subsidiaries) | 62.00 Cr | 71.00 Cr | — | | Lease Liabilities | 449.26 Cr | 404.46 Cr | ***Concern*** | | Bond Redemption | 100.00 Cr | 0.00 Cr | **Positive** |

CAPEX Analytical Notes: * **CFO Coverage:** Restricted cash of **□2,760.92 Cr** (Navy funds) suggests the company uses customer advances for liquidity rather than pure CFO. * **Nature:** Growth capex for **ISRF** and New Dry Dock (inaugurated Jan 2024). * **Efficiency: 175% surge in Inventory (□1,026.09 Cr)** indicates heavy capital lock-up ahead of execution. * **Takeaways:** Transition is capital-intensive; **□449.26 Cr lease liabilities** act as "hidden debt."

H. Risks * ***Inventory Obsolescence*** (High): 175% YoY surge to □1,026.09 Cr; risk of write-downs if project specs change. * ***Restricted Liquidity*** (High): 77% of bank balances (□2,760.92 Cr) are restricted Navy funds; headline cash is misleading. * ***Credit Risk*** (Medium): □121.46 Cr of receivables (34% of gross) flagged for significant risk; □90.14 Cr is disputed. * ***Revenue Concentration*** (Medium): IAC P-71 revenue fell 15.5%; revenue gap until NGMV reaches peak execution. * ***Accounting Policy Shift*** (Medium): Departure from "Lower of Cost or NRV" for project-specific inventory may hide obsolete stock.

5. Scorecard & verdict

Part a: scorecard

Dimension	Rating (1–5)	Delta	Key evidence	One-line rationale
Business quality	5	↑	MSRA with US Navy; Green Tech leadership	Strong moat via technical competency and zero-emission tech.
Financial health	3	→	D/E 0.11x; CFO/PAT 0.29x; 77% Restricted Cash	Low debt but headline liquidity is masked by restricted Navy funds.
Earnings quality	2	↓	Inventory +175%; Policy change on NRV; Cost capitalization	Aggressive accounting and inventory surge diverge from cash flow.
Management & governance	4	→	Schedule A upgrade; 50% Independent Board	Transparent disclosures despite minor C&AG reporting deficiency.
Capital allocation & earnings visibility	4	↑	₹23,000 Cr Order Book; ISRF Commissioned	Strong visibility, though ROI on massive capex is yet to materialize.

Business positives (for this company this year) * **Revenue Growth:** Surged 64.3% YoY to ₹3,830.45 Cr, successfully navigating the "Post-IAC" revenue valley. * **Strategic Moat:** Signed MSRA with US Navy and delivered India’s first Hydrogen Fuel Cell Vessel. * **Order Visibility:** Massive order book of ₹23,250 Cr provides ~6x revenue visibility. * **Infrastructure:** Commissioned ₹2,769 Cr ISRF and New Dry Dock, doubling addressable vessel size. * **Subsidiary Turnaround:** UCSL turned profitable (PAT ₹1 Cr) and secured major European export orders.

Business negatives / concerns (for this company this year) * **Cash Flow Divergence:** CFO plummeted to ₹224.12 Cr (CFO/PAT 0.29x) due to working capital stress. * **Inventory Surge:** Exploded 175% to ₹1,026.09 Cr, signaling potential execution bottlenecks and capital lock-up. * **Restricted Liquidity:** 77% of bank balances (₹2,760.92 Cr) are restricted Navy funds, not free cash. * **Accounting Policy Change:** Departure from "Lower of Cost or NRV" for inventory masks potential obsolescence. * **Opaque Advances:** "Other Advances" spiked 145% to ₹1,563.44 Cr, representing a massive cash outflow.

Overall scorecard summary Cochin Shipyard is in a high-growth execution phase with a robust order book and a strengthening competitive moat in green maritime technology. While the balance sheet appears strong with low debt, the quality of earnings is currently weakened by a significant divergence between PAT and CFO, driven by a massive inventory build-up and opaque advances. Governance remains stable, but the aggressive shift in inventory valuation and cost capitalization warrants close monitoring. The business is on a stable-to-improving trajectory operationally, but financial discipline regarding working capital is the primary near-term challenge.

Part b: governance check matrix

#	Check	Status
1	Audit opinion clean?	—
2	Promoter pledge = 0?	—
3	KMP pay < 5% of PAT?	—
4	RPT quantum < 5% of revenue?	—
5	Board > 50% independent?	—
6	At least 1 woman director?	—
7	No statutory dues outstanding?	—
8	No fraud reported?	—
9	Audit trail enabled?	—
10	Frequent Auditor change	—

Total: 10/10 — Governance Rating: 5

Part c: investor verdict

Thesis: CSL is transitioning from a single-project defense yard to a global maritime engineering powerhouse with a dominant position in green shipping and high-margin ship repair.

Overall stance: ACCUMULATE

Rationale: Massive order book visibility and new capacity commissioning outweigh temporary working capital stress. Re-evaluate when: Inventory/Revenue ratio exceeds 40% or if ISRF fails to generate positive EBIT by FY26. BULL CASE: US Navy repair volumes exceed ₹500 Cr/year, driving EBITDA margins toward 35%. BEAR CASE: Execution delays in NGMV project lead to material inventory write-downs under the new valuation policy. Key monitorable: Asset turnover of ISRF: Current 0.35x → Watch for 0.60x.

7. Year-over-year analysis

7.1 Changes

Metric / theme	Summary a status	Summary b status	Forensic takeaway
Revenue Trajectory	Contraction of 25.9% as the major IAC project concluded.	Surge of 64.3% driven by ramp-up in ASWSWC and NGMV projects.	The company has successfully navigated the "revenue valley" transition between major naval contracts.
Working Capital (Inventory)	Lean inventory levels at □372.99 Cr.	Explosion of 175% to □1,026.09 Cr.	Massive raw material stockpiling for new contracts has severely constrained cash flow conversion despite record profits.
Cash Flow Quality (CFO/ PAT)	High conversion (3.79x) due to massive influx of customer advances.	Deteriorated to 0.29x as profits were locked in inventory and advances.	Earnings quality has weakened significantly as accounting profits are not translating into realized cash.
Capital Allocation (CWIP)	High CWIP (□1,602 Cr) with 36% stalled for >3 years.	Commissioning of □2,769 Cr in assets (Dry Dock & ISRF).	The multi-year capex cycle has transitioned from a capital-drain phase to an operational, revenue-generating phase.
Management Tone	Cautious and defensive, focused on "funded transition" and board restoration.	Aggressive and execution-oriented, focused on "Post-IAC" growth and global green tech.	Management has pivoted to a high-growth stance backed by a record □23,250 Cr order book and upgraded 'Schedule A' autonomy.
Accounting Conservatism	Standard valuation; focus on provision reversals to boost PAT.	Aggressive policy shift; stopped NRV comparison for project inventory and capitalized finance costs.	A shift toward more aggressive accounting treatments suggests a desire to protect headline margins during a period of high working capital stress.
Opaque Outflows	Low RPT volume and standard supplier advances.	"Other Advances" spiked 145% to □1,563.44 Cr.	The sudden surge in opaque advances represents a significant forensic risk regarding potential value leakage or execution bottlenecks.

7.2 Persistent patterns

- **Restricted Liquidity Dependency:** The balance sheet remains structurally dependent on interest-free advances from the Indian Navy, with **77% of total cash (□2,760 Cr) being restricted funds** that cannot be used for general corporate purposes.
- **Stagnant Disputed Receivables:** A legacy pool of **disputed trade receivables (~□90 Cr) remains locked in litigation** across both periods, indicating a chronic inability to resolve old contract conflicts.
- **Subjective Revenue Recognition:** Both periods identify the "Output Method" and "Percentage of Completion" as Key Audit Matters, highlighting **sustained high management judgment in booking revenue** for long-term naval contracts.
- **Hidden Lease Leverage:** The company consistently carries **substantial "off-balance sheet" style leverage through lease liabilities (~□450 Cr)** to Port Trusts, which significantly exceeds its formal bond debt.
- **Ultra-Low Formal Debt: A structural commitment to minimal formal borrowing (Debt/Equity < 0.12x)** remains a core pillar of the financial strategy across both years.
- **Rigid Cost Structure:** Employee benefit expenses remain inelastic and high relative to operational volatility, acting as a permanent drag on margins during transition phases.

- **Reliance on Non-Core Income:** Headline PAT continues to be **materially supported by non-operating items**, including interest income on the "advance float" and accounting provision reversals.