Cochin Shipyard Ltd — FY 2026 Annual Report Analysis

Annual Report Analysis (Consolidated)

Watch because a severe working capital lock-up has driven operational cash flows to a five-year low and forced a heavy reliance on short-term debt despite a robust ₹18,900 Cr order book.

Key findings

- Combined trade receivables and unbilled contract assets ballooned to ₹**1,782.55 Cr**, representing 12.27% of total assets and indicating severe milestone certification and collection delays.
- The company generated cash from operations of **-₹1,234 Cr** due to a ₹1,905 Cr working capital drain, marking a five-year low.
- Short-term borrowings rose by ₹**1,029.85 Cr** to a total of ₹1,076 Cr to cover cash deficits, which dropped the debt service coverage ratio to 1.05.
- The board contains only **one** independent director against the statutory requirement of six, suspending the Audit Committee's operations and incurring ₹0.84 Cr in exchange fines.
- Contract disputes over two abated passenger vessels expose the company to potential liquidated damages and ₹**1,124.12 Cr** in bank guarantee revalidation exposure if commercial terms remain unresolved.
- Contingent liabilities include customs duty show-cause notices of ₹**484.12 Cr** following a new ₹352.54 Cr demand that will bite if concessional import status is canceled.
- The unexecuted order book provides long-term visibility at ₹**18,900 Cr**, which exceeds total assets of ₹14,531 Cr and contains 12 defence vessels valued at ₹12,150 Cr.
- Core earnings rely on non-operational items, as other income of ₹**409 Cr** and non-cash provision reversals of ₹207.62 Cr accounted for 41.02% of profit before tax.
- Total dividend distributions of ₹**256 Cr** were maintained despite a negative free cash flow of -₹1,385 Cr, requiring the company to use debt to fund shareholder payouts.
- Tax liquidity remains restricted with ₹**1,523.87 Cr** locked in GST Input Tax Credits, representing 10.49% of total assets in non-earning balances.
- Operational capacity expanded via the new International Ship Repair Facility, which allows the shipyard to refit **82** additional vessels annually to drive high-margin repair revenues.
- Incremental return on invested capital fell to **3.51%** because ₹2,597 Cr of additional capital deployed since 2022 generated only ₹91 Cr in extra operating profit.

What to watch

Monitorable	Current level	Threshold to change view
Combined trade receivables and contract assets	₹1,782.55 Cr	Below ₹1,200 Cr
Number of independent directors on the board	1 director	6 directors
Short-term borrowings outstanding	₹1,076 Cr	Below ₹300 Cr
Debt Service Coverage Ratio (DSCR)	1.05	Above 3.00
Bank guarantee revalidation exposure on suspended yards	₹1,124.12 Cr	₹0 Cr (dispute resolved)

1. Business overview

Cochin Shipyard Ltd (CSL) is a government-controlled shipyard providing design, construction, and life-cycle maintenance for naval and commercial vessels. The company operates as a primary contractor for the Indian Navy—having delivered the nation's first indigenous aircraft carrier—and is increasingly positioning itself as a global hub for "green" shipping and complex ship repairs.

Segment	Revenue (□ Cr)	Share of total	YoY	What drove it
Shipbuilding	3,365.57	61.96%	+13.88%	Delivery of ASW Shallow Water Crafts and export of ECO Freighters.
Ship Repair	1,656.30	30.5%	-11.17%	"Changing project mix" and return to rig refit work after 17 years.
Unallocated	409.82	7.54%	+5.33%	Not disclosed.

Shipbuilding revenue of 3,365.57 Cr currently represents 17.81% of the 18,900 Cr total order book. The Ship Repair segment, while contributing less to revenue, utilizes 3,689.50 Cr in segment assets, accounting for 25.39% of the company's total assets of 14,530.65 Cr.

Cost base

Material consumption is the primary cost driver, accounting for 48.10% of total costs in FY 2025-26. Within this, steel is the dominant physical input, representing "up to 80% of a ship's material." The company is heavily reliant on external vendors, as "bought out components" (including engines, propellers, and pumps) accounted for 93.17% of total raw material costs.

Fluctuations in the prices of aluminum and copper also impact margins. The company notes that "supply-side constraints in relation to steel in India" and significant import duties on Chinese steel can adversely affect the ability to source materials economically. Additionally, "salaries are up," but price hikes from equipment suppliers driven by global inflation are a more significant pressure point.

Capacity

Capacity is currently being aggressively expanded to capture a "massive newbuilding boom." CSL operates the New Dry Dock (NDD), which is fully operational and capable of handling vessels up to 2,25,000 DWT, including LNG carriers and jack-up rigs. The International Ship Repair Facility (ISRF) commissioned in 2025 adds capacity to repair approximately 82 additional vessels annually using a 6,000-tonne ship lift.

Geographic diversification is a core strategy to alleviate local constraints. The company now operates five dedicated ship repair units across Kochi, Mumbai, Kolkata, and the Andaman & Nicobar Islands. Furthermore, a new brownfield facility at Vadinar is planned with an investment of 1,570 Cr to handle vessels up to 300 meters in length.

Forward visibility

Visibility is high, underpinned by an unexecuted order book of 18,900 Cr as of March 31, 2026. The book is dominated by 12 defence vessels valued at 12,150 Cr, providing a stable long-term baseline. The commercial segment consists of 39 vessels (6,750 Cr), of which 90% are for export and 40% are "green" vessels, such as LNG-fuelled and electric tugs.

Management has signaled an ambitious growth trajectory through its "CRUISE 2030 2.0" roadmap. The stated objective is to scale CSL into a "□12,000 Cr company by FY31." This visibility is further supported by government

demand aggregation, with plans for 437 domestic vessels involving a projected investment of 2.2 Lakhs Cr through 2041-42.

What must stay true

For this trajectory to hold, the "Government’s strategy relating to acquisition of naval platforms" must remain consistent with current indigenization goals. The company’s competitiveness in the commercial sector depends on the extension of the "Shipbuilding Financial Assistance Policy (SBFAP 2.0)," which provides subsidies of 15% to 25% for domestic construction.

Externally, the global "fleet renewal" cycle and "decarbonisation mandates" from the International Maritime Organisation must continue to drive demand for green-fuel replacements. Management believes these factors have created a "perfect storm for growth," positioning CSL as the "primary engine" for India's maritime maintenance and repair ambitions.

2. Management commentary & outlook

Management reported a consolidated turnover of □5,022 Cr for the year. This reflects a period of "strategic realignment" and leadership transition, as the Chairman and Managing Director (Additional Charge) took over in February 2026. While shipbuilding remains the dominant driver, providing □3,365.57 Cr in segment revenue, management is aggressively pivoting toward "green" technology and autonomous vessels to sustain the order book, which currently stands at □18,900 Cr.

Topic	What they claimed	Their words
Revenue Target	Long-term revenue goal for the group	"Scaling CSL to a □12,000 Cr company"
Order Backlog	Total value of unexecuted contracts	"Unexecuted order book of the Company... stands at around"
Green Transition	Share of green vessels in the commercial order book	"Around 40% comprises of green vessels"
Infrastructure Capacity	Additional repair volume enabled by the new ISRF facility	"Undertake repairs of around 82 additional vessels annually"
Renewable Energy	Future target for internal solar power generation	"Expand the renewable energy capacity... to 4,000 kWp"
Energy Self-sufficiency	Target share of operations powered by green energy	"Meet approximately 60-70% of its energy requirements through green energy sources"
Energy Storage	Completion of the first phase of battery storage systems	"Complete the implementation of the first phase of BESS"
Defence Growth	Projected growth rate for naval shipbuilding backlog	"Defence shipbuilding order book is expected to grow by 8–9%"
Asset Utilization	Actual output of the International Ship Repair Facility in FY26	"Successfully executed around 35 refit projects"
Start-up Investment	Funds committed to maritime innovation via the USHUS scheme	"□12.50 Cr has been committed to 24 start-ups"

Outlook

- **Demand:** Management COMMITTED to a specific 8-9% growth range for the defence shipbuilding order book and identified a government-aggregated vessel demand of approximately □220,000 Cr through 2041-42.

- **Capacity:** Management COMMITTED to a phased expansion of solar capacity to 4,000 kWp by December 2028 and the development of a new ₹1,570 Cr ship repair cluster at Vadinar.
- **Costs:** Management DESCRIBED rising construction costs, particularly steel (which accounts for up to 80% of material) and inflation-driven supplier hikes, as factors currently outpacing newbuilding price increases.
- **Balance sheet:** Management DESCRIBED the current debt-equity ratio of 0.19x as a "strong financial position" but made no commitment to specific leverage or return targets for the coming year.

Tone

The commentary is highly specific and falsifiable, anchored by the "CRUISE 2030 2.0" roadmap which sets a hard revenue target for FY31 and explicit completion dates for energy infrastructure. While the report acknowledges macro tailwinds like "Maritime Amrit Kaal Vision 2047," it balances this with candid admissions regarding the "virtually non-existent" domestic ancillary industry and the pressure of rising material costs. The management appears transparent about its transition phase, clearly distinguishing between operational achievements and long-term strategic investments in autonomy and green hydrogen.

3. Financial analysis

3.1 Financial statements

P&L statement (□Cr)

Line item	Mar 2026	Mar 2025
Sales	5,022	4,820
Sales Growth %	4.19	25.83
Expenses	4,190	3,925
Material Cost %	43.87	44.16
Raw material cost	2,196	2,134
Change in inventory	7	-5
Manufacturing Cost %	24.80	21.29
Employee Cost %	9.41	8.85
Other Cost %	5.37	7.13
Operating Profit	831	895
OPM %	17	19
Other Income	409	389
Exceptional items	-1	0
Other income normal	410	389
Interest	111	55
Depreciation	130	103
Profit before tax	999	1,125
Tax %	28	26
Net Profit	717	827
Minority share	0	0
Exceptional items AT	-1	0
Profit excl Excep	718	827
Profit for PE	718	827
Profit for EPS	717	827
Profit Growth %	-13	6
EPS (□)	27.24	31.45
Dividend Payout %	33	31

Balance sheet (□Cr)

Line item	Mar 2026	Mar 2025
Equity Capital	132	132
Reserves	5,741	5,448
Borrowings	1,672	560
Long term Borrowings	23	23
Short term Borrowings	1,076	46
Lease Liabilities	573	491
Other Borrowings	0	0
Other Liabilities	6,986	7,253
Non controlling int	0	0
Trade Payables	962	494
Advance from Customers	343	298
Other liability items	5,680	6,461
Total Liabilities	14,531	13,393
Fixed Assets	3,164	3,047
Land	542	467
Building	159	149
Plant Machinery	1,543	1,443
Ships Vessels	1	1
Equipments	12	11
Computers	41	38
Furniture n fittings	55	49
Railway sidings	0	0
Vehicles	10	10
Other fixed assets	1,497	1,459
Gross Block	3,860	3,626
Accumulated Depreciation	697	579
CWIP	587	516
Investments	113	0
Other Assets	10,667	9,830
Inventories	2,288	1,896
Trade receivables	423	225
Receivables over 6m	97	64
Receivables under 6m	332	187
Prov for Doubtful	-5	-26
Cash Equivalents	2,406	3,113
Loans n Advances	3,670	3,176

Line item	Mar 2026	Mar 2025
Other asset items	1,879	1,420
Total Assets	14,531	13,393

Cash flow statement (□Cr)

Line item	Mar 2026	Mar 2025
Cash from Operating Activity	-1,234	-284
Profit from operations	801	1,145
Receivables	-1,300	-978
Inventory	-392	-870
Payables	-212	565
Working capital changes	-1,905	-1,283
Direct taxes	-130	-146
Cash from Investing Activity	327	538
Fixed assets purchased	-70	-165
Fixed assets sold	0	1
Capital WIP	-81	-93
Investments purchased	0	0
Investments sold	0	0
Interest received	188	227
Dividends received	1	1
Investment in group cos	-111	0
Acquisition of companies	0	0
Other investing items	400	566
Cash from Financing Activity	696	-243
Proceeds from shares	0	0
Redemption of debentures	0	0
Proceeds from borrowings	4,070	46
Repayment of borrowings	-3,040	0
Interest paid fin	-42	-3
Dividends paid	-256	-256
Financial liabilities	-36	-30
Other financing items	0	0
Net Cash Flow	-211	10
Free Cash Flow	-1,385	-541
CFO/OP	-133	-15

Key ratios

Line item	Mar 2026	Mar 2025
Debtor Days	31	17
Days Payable	159	85
ROCE %	16	20

3.2 Financial analysis summary

The business produces accounting profits that are increasingly reliant on non-operational boosters.

Cochin Shipyard reported a Net Profit of □717 Cr for FY 2025-26, but this figure masks a three-year deterioration in core performance. The EBITDA margin has slid from 23.03% to 16.55% over the last three years, while PAT margins hit a five-year low of 14.28%.

Operating earnings are heavily supplemented by "Other Income," which reached □409 Cr this year, accounting for 40.94% of the total Profit Before Tax. This includes □207.62 Cr from "provisions no longer required," a non-cash accounting reversal that contributed 20.7% of the pre-tax profit. Furthermore, the company regrouped □230.01 Cr of government subsidies (Ship Building Financial Assistance) directly into sales, inflating the core manufacturing top-line.

Reported profits are also helped by aggressive depreciation policies. The company uses an estimated useful life of 60 years for its New Dry Dock and up to 55 years for platform steel work, double the 30-year standard for such assets. This lowers the annual depreciation charge, currently □130 Cr, effectively boosting the current year's profit at the expense of future periods.

Profit is not arriving as cash; the company is currently in a deep cash-burn cycle.

The company reported its worst operating cash flow in five years at -□1,234 Cr. Free cash flow has been negative for three consecutive years, totaling a cumulative burn of □1,955 Cr against an order book of □18,900 Cr. While the company bills against milestones, the speed of recognition is significantly outpacing collections. Trade receivables nearly doubled to □423 Cr (+88%) despite revenue growing only 4.19%, and unbilled "Contract Assets" jumped 47% to □1,359.33 Cr.

Liquidity is further throttled by a massive □1,523.87 Cr stuck in GST Input Tax Credits, representing 10.49% of the company's total assets of □14,531 Cr. Combined with a □2,288 Cr inventory build—where turnover has slowed to 2.40—the company has nearly 26% of its total asset base tied up in slow-moving project inputs and tax stuck with the government.

The quality of cash conversion is further questioned by the tax gap. Over the last five profitable years, the company charged □1,173 Cr in tax to its P&L but paid only □729 Cr in cash (0.62x), indicating significant tax deferrals or shelters.

Cash is being consumed by working capital, with short-term debt and the government taking what remains.

To bridge the □1,905 Cr working capital gap, the company has pivoted from a net-cash position to heavy borrowing. Short-term debt exploded from □46 Cr to □1,076 Cr in a single year, primarily through working capital demand loans. This spike has collapsed the Debt Service Coverage Ratio from 13.85 to 1.05, meaning operating earnings now barely cover debt obligations.

The primary beneficiaries of the company's remaining liquidity are:

- **The Government of India:** As the 67.91% promoter, the state received ₹174.20 Cr in dividends this year. Notably, the total dividend payout of ₹256 Cr was not covered by free cash flow, meaning the company effectively borrowed money to pay its shareholders.
- **External Lenders:** Interest expenses doubled to ₹111 Cr as the company drew down loans to fund operations.
- **Vendors and Sub-contractors:** While material costs (₹2,196 Cr) remained the dominant expense, sub-contracting costs rose 20.9% to ₹1,063.24 Cr, significantly outpacing revenue growth.

The company’s capital allocation is under strain; incremental ROIC between 2022 and 2026 was just 3.51%, as ₹2,597 Cr in additional capital produced only ₹91 Cr in additional operating profit. With cumulative dividends of ₹1,186 Cr exceeding cumulative free cash flow of ₹1,112 Cr, the current distribution model is being sustained by rising leverage.

3.3 Contingent liabilities & commitments

contingent item	FY 2026 (Cr)	FY 2025 (Cr)	Severity
Bank Guarantees Outstanding	2332.02 Cr	2016.14 Cr	High
Customs Duty Show Cause Notices	484.12 Cr	127.27 Cr	***Critical***
Claims from Sub-contractors/Suppliers	240.36 Cr	273.13 Cr	Material
Capital Commitments (Unexecuted)	175.10 Cr	315.09 Cr	Moderate

• **:** Total Bank Guarantees (BG) of ₹2332.02 Cr represent nearly 40% of the company's equity. In shipbuilding, BG calls due to project delays are a primary solvency risk. • **:** Customs duty disputes saw a massive jump due to a new Show Cause Notice of ₹352.54 Cr alleging non-compliance with "Import of Goods at Concessional Rate of Duty" rules. • **:** A long-standing agency commission dispute with M/s Vigil Marine (dating back to 1993) remains a risk; the company has been ordered to deposit a BG of ₹18.69 Cr covering the award and interest. • **:** Stock exchanges (BSE/NSE) have levied fines of ₹0.84 Cr for non-compliance with Independent Director requirements, highlighting a governance lapse in board composition.

3.9 Earnings quality & forensic checks

Is the growth real?

Flag · 6 of 6 signals flagged · confidence high · 6/6 checked

Signal	FY25 (□ Cr)	FY26 (□ Cr)	Status	What it means
Receivables growth vs sales growth	224.85	423.22	Flag · medium impact	Increases working capital lockup by □198.37 Cr as receivables vastly outpace the 4.19% top-line growth.
Unbilled revenue, contract assets, deferred revenue	924.83	1359.33	Flag · medium impact	Locks up □434.50 Cr of unrecognized cash into contract assets, pointing to widening milestone certification gaps.
Revenue from related parties as % of revenue	Not disclosed	3166.79	Watch · high impact	Sovereign concentration is significant, with 63.06% of turnover stemming from government-controlled entities.
Customer concentration	Not disclosed	3166.79	Watch · high impact	Exposes the company to high single-client sector dependencies via state-backed infrastructure projects.
Advances from customers trend	5051.28	4525.43	Watch · high impact	A net reduction of □525.85 Cr in contract liabilities removes significant non-interest operating liquidity.
Receivables ageing / ECL provisioning	25.7	5.37	Watch · low impact	Lowers the balance sheet provision buffer by □20.33 Cr despite the sharp increase in total outstanding trade receivables.

Does revenue track certified work and collections?

Flag · 2 of 5 signals flagged · confidence medium · 5/5 checked

Signal	FY25 (□ Cr)	FY26 (□ Cr)	Status	What it means
Unbilled revenue against receivables and against cash collected	924.83	1359.33	Flag · medium impact	Unbilled contract assets (□1359.33 Cr) are 3.2 times larger than billed receivables (□423.22 Cr), indicating lengthy lags before contract works translate into formal milestones, driving operating cash flow down to -□1234 Cr.
Bank guarantees outstanding as non-fund-based exposure	2016.14	2332.02	Watch · high impact	Expands off-balance sheet operational commitments to □2332.02 Cr, representing a material contingent call option on capital.
Retention money outstanding and its ageing	—	Not disclosed	Unresolved	—
Mobilisation advances held, and what they are restricted to	—	Not disclosed	Unresolved	—
Claims recognised as revenue before final settlement	—	Not disclosed	Clean	No explicit revenue from un-settled disputed claims is highlighted, though Note 35.5 points to significant risk over two abated passenger vessels carrying □341.03 Cr of cumulative revenue recognition.

Is the P&L being manufactured?

Watch · 4 of 6 signals flagged · confidence high · 6/6 checked

Signal	FY25 (□ Cr)	FY26 (□ Cr)	Status	What it means
Non-operating / other income as % of PBT	389.07	409.82	Watch · high impact	Exposes core profit frailty; non-operating items contribute 41.02% of total reported PBT.
Deferred tax movement and cash-vs-book tax	-6.42	213.27	Watch · medium impact	Creates a wide divergence between P&L tax charges (□282.29 Cr) and cash taxes paid (□130.39 Cr).
Provision reversals credited to income	140.54	207.62	Watch · medium impact	Non-cash provision reversals of □207.62 Cr directly cushion PBT, representing 20.78% of the pre-tax total.
Valuation-method or accounting-policy change	—	230.01	Watch · medium impact	Regrouping Ship Building Financial Assistance (SBFA) subsidy into core product sales inflates headline manufacturing performance.
Exceptional items and their effect on PBT	0	-1	Clean	Negligible structural distortion on reported profit before tax.
Depreciation policy / useful-life change	—	Not disclosed	Clean	No formal direct baseline change, though extended lives (up to 60 years for docks) structurally limit depreciation drag.

Is value leaving to insiders?

Clean · 2 of 8 signals flagged · confidence high · 8/8 checked

Signal	FY25	FY26	Status	What it means
Related-party transaction quantum and trend	□41.30 Cr	□141.82 Cr	Watch · low impact	Reflects expansion in transactions with sovereign-related departments under standard operational mandates.
Loans, advances or guarantees to group entities	□60.94 Cr	□78.14 Cr	Watch · low impact	Outstanding execution guarantee exposure on behalf of the Udupi subsidiary increased by □17.20 Cr.
New related-party counterparties this year	—	1	Clean	Incorporation of India Ship Technology Centre as a Section 8 entity had nil financial transaction impact.
KMP / director remuneration vs cumulative EBITDA	□4.63 Cr	□6.92 Cr	Clean	Remuneration remains tightly managed and small relative to the five-year cumulative EBITDA pool of □3497 Cr.
Interest earned on loans/advances to related parties, against the company's own cost of debt	□0 Cr	□0.02 Cr	Clean	Negligible interest of □0.02 Cr recorded on minor staff housing/personal advances.
Interest paid on loans taken FROM promoters or directors, against the company's own cost of debt	—	Not disclosed	Clean	No interest-bearing promoter loan lines are utilized.
Promoter pledge / encumbrance	—	Not disclosed	Clean	Sovereign promoter equity (67.91% stake) carries zero recorded marketplace pledge restrictions.
CSR spend and shortfall	□0 Cr	□0 Cr	Clean	Statutory CSR mandates were fully met with zero spending shortfalls at year-end.

Can the balance sheet take a hit?

Flag · 5 of 5 signals flagged · confidence high · 5/5 checked

Signal	FY25	FY26	Status	What it means
Dividend vs free cash flow	-□541 Cr	-□1385 Cr	Flag · high impact	The company distributed □256.50 Cr in dividends despite a severe free cash flow deficit of -□1385 Cr, effectively relying on debt additions to sustain payouts.
Borrowing terms, security, covenants	□45.99 Cr	□1075.84 Cr	Flag · medium impact	Short-term debt rose by □1029.85 Cr to support working capital gaps. This occurred alongside governance gaps, as the company lacked independent directors, leaving the Audit Committee improperly constituted and unable to formally review the financial reports.
Contingent liabilities vs net worth	□2016.14 Cr	□2332.02 Cr	Watch · high impact	Bank guarantees alone account for 39.71% of net worth (□5872.76 Cr), leaving the company exposed to any significant project delays.
CWIP ageing and stalled projects	□516 Cr	□587 Cr	Watch · medium impact	Capital work-in-progress expands to □587 Cr, reflecting continuous yard expansion commitments; no projects are classified as suspended.
Encumbered assets / title deeds not in company name	Disclosed	Disclosed	Watch · low impact	Certain acquired subsidiary land parcels remain in previous names, and Hooghly yard buildings sit on leased land.

4. Management & governance

Governance check matrix

Check	Status	Detail
Audit opinion (type)	Clean	Unmodified
Fraud reported by the auditor	Clean	None reported
Audit trail (edit log) in the accounting software	Watch	SAP S/4HANA enabled during year; database table changes not logged
Statutory dues unpaid	Clean	Nil material defaults
Promoter pledge (% of promoter holding)	Clean	0%
Independent directors (% of board)	Flag	16.67% (1 of 6 directors)
Woman director	Clean	Dr. Seema Suri
KMP pay against the statutory ceiling	Clean	Govt company; ceiling not applicable
Related-party transactions (% of revenue)	Clean	2.82% of revenue

A. Auditor report & key audit matters

The auditor issued an unmodified opinion but included an Emphasis of Matter regarding the suspension of construction for two passenger vessels (Yard SH.0023/24). While the company has recognized revenue of □341.03 Cr to date, delivery dates have expired and commercial terms for requested reconfigurations remain unfinalized. This creates significant uncertainty regarding potential liquidated damages and the recovery of bank guarantee revalidation costs amounting to □1,124.12 Cr.

Key Audit Matters (KAM): 1. **Measurement of Physical Completion:** Shipyard revenue relies on internal technical estimates of progress. **Management Response:** Assessments are based on internal planning and design inputs. **Auditor Action:** Tested internal controls, milestone certifications, and M-Book records, relying on management's technical evaluations. 2. **Revenue Recognition (Ind AS 115):** The complexity of contract accounting, including variable considerations like change orders and claims. **Management Response:** Identification of performance obligations is handled through technical assessment. **Auditor Action:** Reviewed contract terms, amendments, and compared actual outcomes against prior cost-to-complete estimates.

The auditor noted control weaknesses at subsidiary Hooghly Cochin Shipyard (HCSL) regarding lease accounting, where the lease term used for Ind AS 116 did not match the Deed of Declaration. HCSL also failed to provide for interest on delayed lease rent for the period January 2018 to February 2019. Furthermore, a project for a Caisson Gate at HCSL has remained stalled at 98.75% completion since March 2023, leading to cost escalations.

Auditor Fees: * **Audit Fees:** □0.26 Cr * **Non-Audit Fees (Tax/Certs):** □0.16 Cr

B. Related party transactions

Money leaving the company primarily flows to the Promoter (Government of India) via dividends. While the company operates heavily within the government ecosystem, transactions are conducted through standardized procurement and dividend frameworks.

Counterparty	Relationship	Nature	FY26 (□Cr)	FY25 (□Cr)	Assessment
Government of India	Promoter	Dividend Paid	174.20	188.58	Routine
Govt. Related Entities	Govt Control	Revenue	141.82	Not disclosed	Arm's length
Post-Employment Trusts	Benefit Funds	Contributions	22.42	21.80	Routine
Key Managerial Personnel	KMP	Loans/Advances	0.05	0.04	Below cost of borrowing
Total	—	—	**338.49**	**210.42**	—

The reporting does not explicitly detail the interest rates for KMP advances, though the amounts are immaterial to the asset base. There were no write-offs or provisions recognized against the promoter or government-related entities during the year.

C. Shareholding

The Government of India maintains absolute control, though there is a diversified institutional base.

Category	FY26 (%)	FY25 (%)	Change (pp)
Promoter (Govt of India)	67.92	72.86	-4.94
Public	20.38	17.50	2.88
Insurance Companies	3.96	3.50	0.46
Foreign Portfolio Investors	3.10	2.80	0.30
Mutual Funds	2.07	1.90	0.17
Others	2.57	1.44	1.13

The 0% promoter pledge is consistent with its status as a Central Public Sector Enterprise. The decrease in promoter holding reflects a steady divestment or rebalancing rather than an encumbrance-driven change.

D. Board composition

The board is currently in a state of transition and regulatory non-compliance. Chairman Madhu S. Nair retired in January 2026, with Director (Finance) Jose V. J. taking additional charge as CMD. Two other executive directors retired in May 2025, replaced by internal promotions. The most critical finding is the lack of independence; the board has only one Independent Director against the statutory requirement of six. This has led to the effective suspension of the Audit Committee and Nomination & Remuneration Committee, which were not functional for the majority of the year. The company incurred □0.84 Cr in stock exchange fines for these governance lapses.

E. KMP compensation

KMP pay is strictly regulated by Department of Public Enterprises (DPE) guidelines, resulting in compensation that is exceptionally low relative to the scale of the business.

Name	Role	FY26 (□Cr)	FY25 (□Cr)	Change
Madhu S. Nair	Former CMD	1.26	1.18	6.78%
Jose V. J.	CMD (Addl) / CFO	0.79	0.72	9.72%
Harikrishnan S	Director (Ops)	0.64	0.58	10.34%
Rajesh Gopalakrishnan	Director (Tech)	0.65	0.59	10.17%
Bejoy Bhasker	Former Dir Tech	0.61	0.55	10.91%
Sreejith K Narayanan	Former Dir Ops	0.57	0.52	9.62%
Total	—	**4.52**	**4.14**	**9.18%**
Pay as % of Basis	—	**0.18%**	—	—

Pay is measured against cumulative EBITDA of □2,488 Cr over the two-year window. KMP compensation represents just 0.18% of this figure, which is well below the 5% threshold for concern. The direction of pay was upward (9.18%) despite a 13% fall in reported consolidated Net Profit, though this is primarily due to the timing of Performance Related Pay (PRP) disbursements from prior years.

F. Capital allocation & capex

Cochin Shipyard generated cumulative Operating Cash Flow (CFO) of □1,597 Cr over the analysis window, which comfortably funded its cumulative capex of □485 Cr. However, the company returned □1,186 Cr to shareholders via dividends, meaning it distributed 106% of its Free Cash Flow (□1,112 Cr). This gap, combined with a significant buildup in inventory (□2,288 Cr) and unbilled contract assets (□1,359 Cr), forced a massive reliance on debt. Net borrowing spiked by □1,073 Cr, primarily through short-term working capital loans which exploded from □46 Cr to □1,076 Cr in a single year. While returns on capital (ROCE) held at 16%, the Debt Service Coverage Ratio collapsed from 13.85x to 1.05x, indicating that the business is now consuming nearly all operating earnings to service debt. The expansion was funded not by operating cash, but by leverage.

G. Revenue recognition policy

Revenue is recognized using the "Output Method" based on the physical completion of milestones. This policy leaves a high degree of judgment to management, particularly for work performed but not yet certified, which is why the auditor flagged it as a Key Audit Matter. For the Indigenous Aircraft Carrier (IAC), revenue is a hybrid of fixed-price (physical progress) and cost-plus (margin on materials). The quality of revenue is currently under pressure: Contract Assets (unbilled revenue) rose 47% to □1,359.33 Cr, and the company has begun including government subsidies (□230.01 Cr) directly in "Sale of Products" rather than "Other Operating Revenue," which masks core manufacturing performance.

5. Scorecard

Dimension	Rating	Vs last year	What decided it
Business quality	4	Same	Return on capital employed remained at or above 16% in four out of five years, but the EBITDA margin contracted from 23.03% to 16.55% over the last three years.
Financial health	5	Up	Net debt is well below 1x EBITDA at -0.88x, interest coverage is comfortable at 6.32x, and outstanding bank guarantees are limited to 39.71% of net worth.
Earnings quality	2	Same	Combined trade receivables and contract assets grew significantly faster than the allowed 1.5x multiple of revenue growth, while five-year cumulative operating cash flow was just 50% of net profit.
Management & governance	3	Up	Remuneration is small at 0.18% of cumulative EBITDA with no promoter pledge, but the board operates with only one independent director instead of six, leaving committees non-functional.
Capital allocation	2	—	Annual dividends of ₹256 Cr were distributed despite a free cash flow deficit of -₹1,385 Cr, causing short-term borrowings to spike by ₹1,029.85 Cr.

6. How it has been doing

6.1 The multi-year picture

Metric	5-yr mean	FY25	FY26	Low ‹ band › high	Vs trend	Why it moved	Durable?
Revenue growth %	20.64	25.85	4.19	-25.89 `[---#-o-----]` 61.95	**Worse than trend**	Core shipbuilding execution slowed and Ship Repair segment revenues fell 11.17%.	—
EBITDA margin %	18.08	18.57	16.55	11.08 `[----#-o----]` 23.03	**In line with trend**	—	—
PAT margin %	17.04	17.16	14.28	12.9 `[-#----o----]` 20.44	**Worse than trend**	Compressed by higher sub-contracting expenses and a near-doubling of interest costs to ₹111 Cr.	—
ROCE %	16.5	20	16	8 `[------#o---]` 21	**In line with trend**	—	—
Debtor days	37	17	31	17 `[----#-o----]` 52	**Better than trend**	Outperformed historical mean, but collection cycles are masked by delayed milestone certifications on unbilled revenue.	—
Net debt / EBITDA	-6.71	-2.85	-0.88	-15.92 `[------o--]` # -2.85	**Worse than trend** (worst in window)	Short-term borrowings exploded from ₹46 Cr to ₹1,076 Cr to support severe working capital demands.	Structural
Interest coverage	11.74	14.4	6.32	4.49 `[-#----o----]` 17.54	**Worse than trend**	Finance charges doubled to ₹111 Cr due to heavy drawdown of short-term loans.	—
Other income % of PBT	40.45	34.58	40.94	28.94 `[---#-------]` 64.35	**In line with trend**	—	—
Cash from operations	707.75	-284	-1,234	-284 `# [--o----]` 1889	**Worse than trend** (worst in window)	Massive working capital cash drain of ₹1,905 Cr locked up in inventory builds and unbilled contract loops.	Structural

6.2 Management: said versus delivered

No prior-year summary of specific management commitments was supplied, so the comparative commitments table is skipped.

The severe shifts in cash from operations to -₹1,234 Cr and the compression of net debt to EBITDA to -0.88x are partially linked to the company's structural model as an EPC contractor operating via percentage-of-completion accounting. However, a critical operational change has occurred within this framework: combined trade receivables and unbilled contract assets escalated to an absolute total of ₹1,782.55 Cr (comprising ₹423.22 Cr trade receivables and ₹1,359.33 Cr unbilled contract assets), which represents 12.27% of total assets (₹14,531 Cr) and 9.43% of the unexecuted order book (₹18,900 Cr). This milestone certification backup was aggravated by a net reduction of ₹525.85 Cr in customer advances, which removed vital interest-free operating liquidity and forced short-term debt to expand to ₹1,076 Cr to fund a ₹1,905 Cr working capital deficit.

What has not changed

- The business remains structurally exposed to extreme sovereign customer concentration, with state-backed entities consistently generating the clear majority of its operational turnover.
- Reported profitability continues to be heavily supported by non-operating income, with other income and non-cash provision reversals consistently contributing over 30% of profit before tax across the five-year window.
- Substantial lease liabilities to Port Trusts act as a persistent source of off-balance-sheet leverage, expanding to ₹573 Cr in the current year.