Cochin Shipyard Ltd — FY 2026 Annual Report Analysis

Annual Report Analysis (Consolidated)

Source: CRORES. All figures Crores. Pipeline: v5-Gemini — W1a → W3 → W1b+W2+W2F (parallel, notes-injected) → Merge.

Investor Snapshot

- **Cash flow from operations plummeted to -₹1,234 Cr, resulting in a negative free cash flow of -₹1,385 Cr.** This collapse in self-funding capability necessitated a 2,239% explosion in short-term debt to ₹1,076 Cr, signaling that the company is currently borrowing to fund both its working capital and its dividend payouts.
- **The board is in a state of governance collapse, with only one independent director (16.7%) against the required 50%.** The lack of a functional Audit Committee or Nomination & Remuneration Committee for the majority of the year creates an unacceptable risk environment for an entity managing a ₹22,125 Cr order book and high-leverage expansion.
- **Earnings quality has severely deteriorated, with 41% of PBT now derived from non-operating treasury income and provision reversals.** While reported revenue grew 4%, trade receivables surged 88% and unbilled contract assets rose 47% to ₹1,359 Cr, indicating that recognized profits are increasingly detached from actual cash collections.
- **A ₹484.12 Cr customs duty dispute (a 280% YoY increase) poses a catastrophic risk to the balance sheet.** This contingent liability represents 67% of current year PAT and 8.2% of total net worth, potentially wiping out a full year of earnings if crystallized.
- **Operating margins contracted to 16.0% from 19.0% as top-line growth failed to offset a 159% surge in maintenance dredging and forex losses.** The incremental ROIC of 4.4% suggests that the massive ₹2,769 Cr infrastructure expansion is not yet yielding adequate returns relative to the cost of capital.
- **The underlying business quality remains high, evidenced by a watershed contract for six LNG-fuelled container vessels for CMA CGM (France).** This validates CSL's transition into high-spec "Green Shipping," while a 115% surge in export revenue and the successful refit of ONGC's *Sagar Kiran* confirm the operational ramp-up of the New Large Dry Dock.
- **Stance: AVOID.** The operational strengths are currently eclipsed by a severe working capital trap and a governance vacuum.
- **Monitorables:** A move toward 50% board independence, CFO turning positive, and short-term debt staying below a ₹1,500 Cr threshold.

Investor Snapshot

#	Analytical Point	Sentiment
1	***Cash flow from operations plummeted to - 1,234 Cr, forcing a 2,239% spike in short-term debt to 1,076 Cr to fund working capital and dividends.***	□Negative
2	***Severe governance non-compliance with only 1 of 6 directors being independent; lack of a functional Audit Committee creates extreme institutional risk.***	□Negative
3	***Earnings quality is low, with 41% of PBT sourced from non-operating treasury income and 1,104 Cr of operating profit trapped in unbilled revenue and receivables.***	□Negative
4	***A 484.12 Cr customs duty dispute (up 280%) represents a significant liquidity threat, potentially consuming 67% of annual Net Profit.***	□Negative
5	***OPM contracted to 16% as maintenance dredging and forex losses outpaced stagnant 4.2% revenue growth, resulting in a 13% decline in PAT.***	□Negative
6	**Order book of □22,125 Cr is high-quality, featuring a landmark "Green Shipping" contract with CMA CGM and a 115% surge in export revenue.**	□Positive
7	**New Large Dry Dock and ISRF are operational, evidenced by the first major rig refit in 17 years and a revenue-contributing subsidiary in Udupi-CSL.**	□Positive
8	***Investment Verdict is AVOID until board independence reaches 50% and cash conversion cycles normalize to positive CFO.***	□Negative

1. BUSINESS OVERVIEW

Cochin Shipyard Ltd (CSL) has completed its transition from a specialized defense contractor to a **diversified maritime technology provider**. The business is no longer just about the "Post-IAC" (Indigenous Aircraft Carrier) recovery; it is now a play on **global maritime decarbonization** and **high-end offshore asset maintenance**.

Segment Performance & Geography

Segment	Revenue (FY26)	Share %	YoY Growth
Ship Building	□3,354.54 Cr	66.80%	+14.03%
Ship Repair	□1,650.06 Cr	32.86%	-10.92%
Other Operating	□17.27 Cr	0.34%	-33.17%
Total Operations	**□5,021.87 Cr**	**100.00%**	**+4.19%**

Geography	Revenue (FY26)	Share %	YoY Growth
Domestic	□3,456.64 Cr	68.83%	-15.52%
Export	□1,565.23 Cr	31.17%	+114.92%

Strategic & Revenue Drivers

- **The "Green" Moat Validation:** The order from CMA CGM (France) for six LNG-fuelled container vessels is a watershed moment. It is the first time a major international carrier has placed such an order with an Indian yard, signaling that CSL has broken the "quality/technology barrier" that previously relegated Indian yards to lower-end vessels.

- **Infrastructure Monetization Phase:** The ₹2,769 Cr investment in the New Large Dry Dock (NDD) and ISRF has moved from "Capex Drain" to "Operational Ramp-up."
    - **Strategic Return to Rig Refits:** Dry-docking ONGC's *Sagar Kiran* (first 3-legged rig refit in 17 years) confirms CSL is successfully clawing back market share from Middle Eastern yards (DP World/Oman) for high-value offshore assets.
    - **Throughput Efficiency:** The ISRF delivered 35 refit projects in its first full year. The capacity to handle 82 additional vessels annually suggests significant latent operating leverage if utilization crosses 70%.
- **Subsidiary Maturity (Udupi-CSL):** U-CSL has emerged as a "material subsidiary" with a ₹2,000 Cr+ order book and ₹630 Cr revenue. It acts as a release valve for smaller/mid-sized vessels, allowing the Kochi main yard to focus exclusively on high-margin, large-tonnage projects.
- **Order Book Quality:** Total Consolidated Order Book stands at ₹22,125 Cr. While Defence remains 55%, **Commercial Export (27%)** is the primary growth engine. 90% of the commercial book is Export, and 40% is "Green," typically high-spec contracts with lower competition from China.
- **Cost Drivers:** Bought-out components account for **93.17% of raw material costs**, making CSL an assembly and engineering integrator. CSL has limited control over margins if global marine component prices spike.

2. MANAGEMENT COMMENTARY & OUTLOOK

- Management is leaning heavily into the "Green Tug Transition Programme" (GTTP) and "Harit Nauka" (Green Boat) guidelines, viewing CSL as an extension of the National Green Hydrogen Mission.
- The development of the 'SWAYAT' Autonomous Surface Vessel and High Endurance AUVs indicates an intent to move up the value chain into high-margin unmanned naval systems.
- MoUs with **Drydocks World (Dubai)** and **Seatrium (Singapore)** for "Ship Repair Clusters" suggest a move toward becoming a nodal agency for a global MRO hub in Kochi and Vadinar.
- Management abandoned a US$ 50M Blue Bond issuance in favor of domestic borrowing to optimize interest costs over ESG-branded financing.
- The workforce expanded by 1,477 personnel in a single year; zero man-hours were lost to labor unrest, proving operational stability in Kerala.
- Succession planning is prioritized via internal continuity, evidenced by the appointments of 30-year veterans Dr. Harikrishnan S (Ops) and Rajesh Gopalakrishnan (Tech).
- Management treats the severe non-compliance with SEBI LODR regarding board vacancies as a "bureaucratic inevitability," stating they have forwarded necessary requests to the Government of India.
- The absence of a functional Audit Committee or Nomination & Remuneration Committee for the majority of FY26 is deflected as a promoter-level (GOI) responsibility.
- The management tone is "Operationally Aggressive, Governally Passive"—highly confident regarding execution and technology (launching 3 vessels in one day) but defensive and dismissive regarding critical governance lapses and the 64% drop in Interest Coverage Ratio.

3. FINANCIAL ANALYSIS

3.1 Financial Statements

Source: Screener.in — all monetary values in Crores. Use these numbers directly.

Basis: CONSOLIDATED.

P&L Statement (□Crores)

Line Item	Mar 2026	Mar 2025
Sales -	5,022.00	4,820.00
Sales Growth %	4.19	25.83
Expenses -	4,210.00	3,925.00
Material Cost % -	43.87	44.16
Raw material cost	2,196.00	2,134.00
Change in inventory	7.00	-5.00
Manufacturing Cost %	0.00	21.29
Employee Cost %	9.41	8.85
Other Cost %	30.57	7.13
Operating Profit	811.00	895.00
OPM %	16.00	19.00
Other Income -	410.00	389.00
Exceptional items	0.00	0.00
Other income normal	410.00	389.00
Interest	92.00	55.00
Depreciation	130.00	103.00
Profit before tax	999.00	1,125.00
Tax %	28.00	26.00
Net Profit -	717.00	827.00
Minority share	0.00	0.00
Exceptional items AT	0.00	0.00
Profit excl Excep	717.00	827.00
Profit for PE	717.00	827.00
Profit for EPS	717.00	827.00
Profit Growth %	-13.00	6.00
EPS in Rs	27.24	31.45
Dividend Payout %	6.00	31.00

Balance Sheet (₹Crores)

Line Item	Mar 2026	Mar 2025
Equity Capital	132.00	132.00
Reserves	5,741.00	5,448.00
Borrowings -	1,672.00	560.00
Long term Borrowings	23.00	23.00
Short term Borrowings	1,076.00	46.00
Lease Liabilities	573.00	491.00
Other Borrowings	0.00	0.00
Other Liabilities -	6,986.00	7,253.00
Non controlling int	0.00	0.00
Trade Payables	962.00	501.00
Advance from Customers	0.00	298.00
Other liability items	6,024.00	6,454.00
Total Liabilities	14,531.00	13,393.00
Fixed Assets -	3,164.00	3,047.00
Land	0.00	467.43
Building	0.00	149.21
Plant Machinery	0.00	1,442.53
Ships Vessels	0.00	0.95
Equipments	0.00	10.54
Computers	0.00	37.86
Furniture n fittings	0.00	49.20
Railway sidings	0.00	0.01
Vehicles	0.00	9.54
Intangible Assets	7.93	0.00
Other fixed assets	0.00	1,458.40
Gross Block	0.00	3,625.67
Accumulated Depreciation	0.00	578.64
CWIP	586.00	516.00
Investments	113.00	0.00
Other Assets -	10,667.00	9,830.00
Inventories	2,288.00	1,885.00
Trade receivables -	423.00	229.00
Receivables over 6m	0.00	64.00
Receivables under 6m	0.00	191.00
Prov for Doubtful	0.00	-26.00
Cash Equivalents	2,406.00	3,113.00

Line Item	Mar 2026	Mar 2025
Loans n Advances	10.00	3,176.00
Other asset items	5,540.00	1,427.00
Total Assets	14,531.00	13,393.00

Cash Flow Statement (□Crores)

Line Item	Mar 2026	Mar 2025
Cash from Operating Activity -	-1,234.00	-297.00
Profit from operations	801.00	1,139.00
Receivables	-1,300.00	-989.00
Inventory	-392.00	-859.00
Payables	-212.00	559.00
Working capital changes	-1,905.00	-1,289.00
Direct taxes	-130.00	-146.00
Cash from Investing Activity -	327.00	538.00
Fixed assets purchased	-70.00	-403.00
Fixed assets sold	0.00	1.00
Capital WIP	-81.00	-93.00
Investments purchased	-111.00	0.00
Investments sold	0.00	0.00
Interest received	188.00	227.00
Dividends received	1.00	1.00
Acquisition of companies	0.00	0.00
Other investing items	400.00	805.00
Cash from Financing Activity -	696.00	-277.00
Proceeds from shares	0.00	0.00
Redemption of debentures	0.00	0.00
Proceeds from borrowings	4,070.00	0.00
Repayment of borrowings	-3,040.00	0.00
Interest paid fin	-42.00	-3.00
Dividends paid	-256.00	-256.00
Financial liabilities	-36.00	-30.00
Other financing items	0.00	12.00
Net Cash Flow	-211.00	-36.00
Free Cash Flow	-1,385.00	-792.00
CFO/OP	-136.00	-17.00

Key Ratios (₹Crores)

Line Item	Mar 2026	Mar 2025
Debtor Days	31.00	17.00
Inventory Days	379.00	323.00
Days Payable	159.00	86.00
Cash Conversion Cycle	250.00	255.00
Working Capital Days	17.00	-55.00
ROCE %	16.00	20.00

3.2 Financial Analysis Summary

- **Revenue** from operations grew by 4.19% to **₹5,022.00 Cr**, a significant slowdown from the 25.83% growth in FY25, while **PAT** declined by 13.00% to **₹717.00 Cr**, indicating that top-line growth is no longer translating into bottom-line expansion due to a sharp increase in **Other Cost %** from 7.13% to 30.57%.
- The **OPM %** contracted to 16.00% from 19.00%, driven by rising **Other Expenses** including a 159% surge in **Maintenance Dredging** to **₹23.69 Cr** and a sharp spike in **Loss on Forex Derivative Transactions** to **₹36.75 Cr**, directly impacting the **Operating Profit** of **₹811.00 Cr**.
- **Other Income** of **₹410.00 Cr** now constitutes 41.04% of **Profit Before Tax (PBT)**, signaling that earnings quality is increasingly dependent on treasury income rather than core shipbuilding, which saw a 13.00% decline in **Profit Growth %**.
- **Inventory** bloated to **₹2,288.00 Cr** (20.7% increase), severely outpacing **Revenue** growth and leading to a **-₹392.00 Cr** drain in the **Cash Flow Statement**; project-specific material risks are highlighted by a surge in provision for obsolescence to **₹15.41 Cr**.
- **Trade Receivables** surged 84.7% to **₹423.00 Cr**, creating a **-₹1,300.00 Cr** impact on **CFO**, although a reversal of **₹23.30 Cr** in Expected Credit Loss (ECL) provisions optically boosted **Net Profit** despite the deterioration in the collection cycle to 31.00 **Debtor Days**.
- **Working Capital** changes of **-₹1,905.00 Cr** forced the company to bridge the liquidity gap through a 2,239% explosion in **Short term Borrowings** to **₹1,076.00 Cr**, causing **Interest** expense to jump to **₹92.00 Cr** and weakening **Interest Coverage** to 7.40 from 14.40.
- **Cash from Operating Activity (CFO)** plummeted to **-₹1,234.00 Cr**, resulting in a negative **Free Cash Flow (FCF)** of **-₹1,385.00 Cr**, indicating the company is unable to self-fund its **Capex** or **Dividends paid**.
- **Contract Assets** (unbilled revenue) increased to **₹1,359.33 Cr**, suggesting that revenue recognized via the "Output Method" is significantly outpacing milestone billings, trapping cash and contributing to the negative **CFO/OP** of -136.00%.
- **Fixed Assets** reached **₹3,164.00 Cr**, but the company carries **CWIP** of **₹586.00 Cr**, including **₹12.85 Cr** aged over 3 years; technical expert estimates for useful lives of new infrastructure allow for lower **Depreciation** charges (**₹130.00 Cr**) than standard rates.
- **Total Debt** rose to **₹1,672.00 Cr**, but Note 47 highlights undiscounted **Lease Liabilities** commitments totaling **₹1,990.15 Cr**, with 89% due beyond five years, representing significant long-term leverage.
- **Contingent Liabilities** present a major risk, specifically a 280% spike in **Customs Duty Disputes** to **₹484.12 Cr** following a Jan 2026 Show Cause Notice, which could consume over 67% of the current year's **Net Profit**.
- **ROCE %** diluted to 16.00% from 20.00% as the incremental ROIC of 4.4% since FY2018 shows that the massive expansion in the **Balance Sheet** and **Total Assets** (**₹14,531.00 Cr**) is currently yielding subpar returns.

- High **Customer Concentration** persists, with two shipbuilding customers accounting for 47.19% of segment **Revenue** and 80.83% of receivables tied to Government entities, exposing the company to sovereign payment cycles.
- **Other Current Assets** are dominated by **Advances to Vendors** of **₹2,039.80 Cr** (40% of revenue) and **GST Input Credit** of **₹1,523.87 Cr**, indicating massive cash outflows and tax traps before production value is realized.
- **Dominant Theme:** Cochin Shipyard is transitioning through a phase of stagnant top-line growth and severe working capital stress, where a massive inventory build-up and unbilled revenue spike have necessitated heavy short-term borrowing, leading to a breakdown in cash conversion and a dependence on non-operating income to sustain profitability.

3.3 Contingent Liabilities & Commitments

Item (note's own caption)	Current yr	Prior yr	Change	What it means
Customs Duty Disputes	₹484.12 Cr	₹127.27 Cr	+280.4%	Pending Appeal; risk to 67% of PAT
Indemnity Bond to Govt (IAC)	₹304.15 Cr	₹304.15 Cr	0.0%	Multi-year contractual obligation
Sub-Contractor/Supplier Claims	₹240.36 Cr	₹273.13 Cr	-12.0%	Ongoing operational litigation
Bank Guarantees (Issued)	₹2,332.02 Cr	₹2,016.14 Cr	+15.7%	Performance and bid risk
Capital Commitments	₹175.10 Cr	₹315.09 Cr	-44.4%	Unfunded future capex outflow

- **Customs Duty Shock:** A new Show Cause Notice (Jan 2026) for ₹352.54 Cr was received regarding concessional rate compliance. This poses a significant threat to future liquidity.
- **Vigil Marine Arbitration:** A dispute since 1993 remains active with a ₹18.69 Cr bank guarantee deposited. Interest at 8% p.a. continues to accrue on the original USD 18.25 million claim.
- **Subsidiary Guarantees:** The holding company has provided a joint guarantee for ₹78.14 Cr on behalf of UCSL for 11 vessels, concentrating group-level risk.

3.9 Earnings Quality & Forensic Checks

EARNINGS QUALITY VERDICT: HIGH RISK

Read	Question	Verdict	Confidence	Checked
1	Is the growth real?	***FLAG***	high	6/6
2	Does profit become cash?	***FLAG***	high	5/5
3	Is the P&L being manufactured?	***WATCH***	high	6/6
4	Is value leaving to insiders?	***WATCH***	high	6/6
5	Can the balance sheet take a hit?	***FLAG***	high	5/5

Read 1 — Is the growth real? → FLAG

Signal	Prior	This year	Δ	Status	Quantified impact	Evidence
Trade Receivables (Current) vs Revenue	Rs 224.85 Cr	Rs 423.22 Cr	88.2% vs 4.2%	□FLAG	Receivables expansion absorbed Rs 198.37 Cr; outpaced sales by 21x	Note 15, p.312
Contract Assets (Unbilled Revenue)	Rs 924.83 Cr	Rs 1,359.33 Cr	47.0% increase	□ WATCH	Represents 27.1% of revenue; recognition ahead of cash milestones	Note 46, p.349
Expected Credit Loss (ECL) Reversal	-	Rs 23.30 Cr	New Reversal	□ WATCH	Boosts PBT by 2.3% despite 88% surge in gross receivables	Note 15, p.314
Customer Concentration (Shipbuilding)	Rs 2,066.65 Cr	Rs 1,588.21 Cr	-478.44 Cr	□ CLEAN	Reduced top-2 dependency from 70% to 59.9%	Note 39, p.107
Revenue from Related Parties	-	63.06% of turnover	High dependency	□ WATCH	Rs 3,166.79 Cr tied to government budget cycles	Note 54, p.364
Advances from Customers	Rs 5,051.28 Cr	Rs 4,525.43 Cr	10.4% decrease	□ WATCH	Reduction of Rs 525.85 Cr shows shift to execution cash usage	Note 46, p.349

> **Mechanism:** Revenue growth is marginal (4.2%), but the quality is weakened by a massive 88% spike in trade receivables and a 47% jump in unbilled contract assets. **Aggregate impact:** Non-cash revenue components grew by Rs 632.87 Cr, exceeding the total revenue growth of Rs 201.91 Cr. **Direction:** deteriorating

Read 2 — Does profit become cash? → FLAG

Signal	Prior	This year	Δ	Status	Quantified impact	Evidence
CFO vs Clean EBITDA	Rs -284.21 Cr / Rs 89.50 Cr	Rs -1,234.08 Cr / Rs 81.10 Cr	-3.1x to -15.2x	□FLAG	Cash burn of Rs 1,234 Cr vs operating profit of Rs 811 Cr	CFS, p.277
Pre-tax operating conversion	-15.4%	-136.1%	Worsening	□FLAG	Rs 1,103.69 Cr of operating profit trapped in WC	CFS, p.277
Inventory absorption of cash	Rs 1,896.09 Cr	Rs 2,288.36 Cr	20.7% growth	□FLAG	Inventory build-up absorbed Rs 392.28 Cr of cash	BS, p.275
Working Capital Movement (Net)	Rs -1,289 Cr	Rs -1,905 Cr	47.8% increase	□FLAG	Rs 1,905 Cr cash drain, necessitated Rs 1,029.85 Cr debt spike	CFS, p.277
Cash Tax Paid vs Book Tax	146.21/295.51	130.39/88.51	Cash > Book	□ WATCH	Rs 41.88 Cr higher cash outflow than current tax provision	CFS, p.277

> **Mechanism:** Severe cash crunch with CFO at negative Rs 1,234 Cr due to a Rs 1,905 Cr WC drain. Forced transition to heavy reliance on short-term borrowings (Rs 1,075.84 Cr). **Aggregate impact:** Total cash burn from operations and WC changes was Rs 1,234.08 Cr (172% of PAT). **Direction:** deteriorating

Read 3 — Is the P&L being manufactured? → WATCH

Signal	Prior	This year	Δ	Status	Quantified impact	Evidence
Other Income as % of PBT	34.6%	41.0%	+640 bps	□ WATCH	Rs 409.82 Cr masks 13% decline in operating results	P&L, p.276
Deferred Tax Movement	Rs -6.42 Cr	Rs 213.27 Cr	Asset to Liab	□ WATCH	Non-cash tax expense reduced PAT by 29.7%	P&L, p.276
Depreciation Policy	-	Expert Assess.	Dev. from Sch II	□ WATCH	Potentially lowers charges on Rs 2,769 Cr infrastructure	Note 3.5, p.287
Provision Reversals	Rs 140.54 Cr	Rs 207.62 Cr	47.7% increase	□ WATCH	Adds Rs 207.62 Cr (20.8% of PBT) via adjustments	CFS, p.277
Asset Reclassification	-	Rs 14.70 Cr	Held for sale	□ WATCH	Stops depreciation on Hydrogen Fuel Cell Vessel	Note 21, p.317
Liquidated Damages (LD) Policy	-	Management Assessment	Subjective	□ WATCH	Abated LD on A&N vessels prevents revenue erosion	Note 3.11, p.325

Mechanism: PBT is heavily supported by non-operating income (41%) and provision reversals (Rs 207.62 Cr), accounting for >60% of pre-tax earnings. **Aggregate impact:** Total PBT of Rs 999.03 Cr is comprised of Rs 617.44 Cr (61.8%) from Other Income and Provision Reversals. **Direction:** deteriorating

Read 4 — Is value leaving to insiders? → WATCH

Signal	Prior	This year	Δ	Status	Quantified impact	Evidence
KMP Remuneration vs PAT	Rs 4.63 Cr	Rs 6.92 Cr	49.5% increase	□ WATCH	Consumes 0.97% of PAT, up from 0.56%	Note 54, p.362
CSR Spend vs Budget	-	15.54 vs 13.89	Excess	□ CLEAN	No statutory shortfall	Note 9, p.55
New RP Counterparty (ISTC)	none	ISTC	New Entity	□ WATCH	Administrative support on 'reimbursable basis'	Note 54, p.362
Dividends to GOI	Rs 177.13 Cr	Rs 174.20 Cr	Stable	□ CLEAN	Rs 174.20 Cr cash outflow to promoter	Note 54, p.364
Promoter Pledge	0	0	-	□ CLEAN	n/a	Screener, p.277
Advances to Vendors	Rs 1,814.71 Cr	Rs 2,039.80 Cr	12.4% increase	□ WATCH	Rs 2,039.80 Cr held by vendors (40% of revenue)	Note 21, p.316

Mechanism: KMP remuneration increased significantly despite profit drop. Primary concern is massive 'Advances to Vendors' (Rs 2,039.80 Cr), representing a large transfer of liquidity before production value is realized. **Aggregate impact:** Advances and remuneration collective liquidity impact > Rs 225 Cr. **Direction:** stable

Read 5 — Can the balance sheet take a hit? → FLAG

Signal	Prior	This year	Δ	Status	Quantified impact	Evidence
Short-term Debt Growth	Rs 45.99 Cr	Rs 1,075.84 Cr	2,239%	□FLAG	Increases finance costs by Rs 53.80 Cr (139% jump)	Note 29, p.320
Customs Contingent Liab.	Rs 127.27 Cr	Rs 484.12 Cr	280% increase	□FLAG	Represents 8.2% of net worth; liquidity threat	Note 49, p.353
CWIP Ageing (>3 yrs)	-	Rs 12.85 Cr	Stalled projects	□ WATCH	Rs 12.85 Cr at risk of impairment	Notes, p.304
Dividend vs FCF	-792 / 256.5	-1385 / 256.5	Paid via Debt	□FLAG	Depletes cash in year of Rs 1,385 Cr negative FCF	CFS, p.277
Vigil Marine Arbitration	USD 18.25m	Active	Since 1993	□ WATCH	Unquantified 8% p.a. interest liability over 30 years	Note 49, p.355

Mechanism: Balance sheet under stress due to short-term debt spike used to fund negative FCF. 280% surge in customs disputes could wipe out ~10% of net worth. **Aggregate impact:** Total potential liquidity impact from debt and customs contingencies is Rs 1,432.69 Cr. **Direction:** deteriorating

Material notes captured

Note	Discloses	Prior	This year	Impact	Signal
35(5)	***Suspension of passenger vessel construction for UT Admin.***	Rs 665.04 Cr received	No progress	BGs of Rs 1,124.12 Cr active for stalled projects.	Neutral — Profit ↑↓
49	***New Show Cause Notice (Jan 2026) for customs duty.***	Rs 127.27 Cr	Rs 484.12 Cr	Rs 352.54 Cr new contingent liability added.	Profit ↓ — Risk
35.6	**Re-recognition of SB Financial Assistance (MoPSW extension).**	-	Rs 70.37 Cr	Reliance on regulatory waivers to sustain income.	Profit ↑ — Revenue
3.5	***Technical expert assessments for useful lives of ISRF/NDD.***	-	-	Lower depreciation charge vs Schedule II.	Profit ↑ — Accounting
21	***Reclassification of Hydrogen Vessel to Asset Held for Sale.***	-	Rs 14.70 Cr	Stops depreciation; marginal P&L boost.	Profit ↑ — Accounting

4. MANAGEMENT & GOVERNANCE

A. Auditor Report & Key Audit Matters

- **Audit Opinion:** Unqualified.
- **KAM 1: Revenue Recognition:** Auditor flagged significant judgment in estimating "physical completion" under the Output Method, relying on project team reports, creating risk of aggressive revenue booking.
- **KAM 2: Litigation Provisioning:** Highlights evaluation of "remote" vs "probable" status for □484.12 Cr in customs disputes; misjudgment would lead to material under-provisioning.
- **KAM 3: Inventory Obsolescence:** Monitor management's graded provision matrix for project-specific materials, subject to management adjustments.
- **Auditor Fees:** □0.32 Cr. This is exceptionally low for □5,022 Cr revenue and □2,332 Cr in bank guarantees, suggesting potential limitations in audit depth.
- **Audit Trail:** SAP S/4HANA internal controls were adequate, but the Secretarial Auditor noted a total collapse of board oversight, weakening the environment in which the audit trail operates.

B. Related Party Transactions

Party	Relationship	Nature	Amount (□Cr)	Concern
Government Entities	Major Customer	Revenue	3,166.79 Cr	***Dependency: 63.06% of turnover***
Government of India	Promoter	Dividend Paid	174.20 Cr	Standard sovereign payout
DCI Limited	Associate	Debenture Sub.	111.48 Cr	Facilitating contract payment
Benefit Trusts	Post-employment	Contributions	22.42 Cr	Statutory compliance
ISTC	Affiliate	Admin Support	Not Disclosed	***Potential cost leakage via reimbursement***

Verdict: □Monitor. While revenue concentration is decreasing (from 82% to 63%), 80.83% of receivables remain tied to Government entities.

C. Shareholding

- **Promoter (GOI):** 67.91% (reduced from 72.86% in Mar 2025).
- **Pledged Shares:** 0.00%.

D. Board Composition + KMP Compensation

- **Board Structure: □Severe non-compliance.** Only 1 Independent Director (16.67%) vs 50% requirement. Only 1 Woman Director.
- **KMP Compensation vs Profit:** EBITDA declined 9.39% while CMD remuneration spiked 70.27% to □1.26 Cr. Remuneration includes PRP for prior years, insulating current pay from current profit contraction. No family relations among KMPs.

F. Capital Allocation & Capex

Action	FY Current (□Cr)	FY Prior (□Cr)	% of CFO	Signal
Capex (Infrastructure)	2,769.00 Cr	-	N/M	***Concern***
Short-term Debt	1,075.84 Cr	45.99 Cr	N/M	□
Dividends	236.77 Cr	256.50 Cr	N/M	Neutral

CAPEX Analytical Notes: * **CFO Coverage:** Negative □1,234.00 Cr CFO fails to cover any capex. Funding gap bridged by a **23x spike in short-term debt**. * **Deployment Efficiency:** Asset turnover is low (0.35x) as new infrastructure (□1,799 Cr Dry Dock) has not reached optimal throughput. **□175.10 Cr remaining commitments** will further strain liquidity.

G. Revenue Recognition Policy

CSL uses the "Output Method" (physical completion). This is aggressive as it relies on management technical estimates. The shift of □434.50 Cr into Contract Assets (unbilled revenue) signals that recognized profits are increasingly detached from actual billings.

H. Risks

- **Customs Dispute:** □484.12 Cr potential hit; would wipe out 67% of PAT.
- **Inventory Bloat:** Project-specific materials at □2,084.46 Cr; high obsolescence risk.
- **Debt Service Risk:** 23x spike in short-term debt; Interest coverage fell from 32x to 11x (consolidated).

• **Board Vacuum:** Only 1 Independent Director vs requirement of 6; lack of Audit Committee oversight.

• **Forex Volatility:** □22.21 Cr net loss; EURIBOR exposure on Euro PCFC.

5. SCORECARD & VERDICT

Part A: Scorecard

Dimension	Rating (1–5)	Delta	Key Evidence	One-line Rationale
Business Quality	4	→	□22,125 Cr order book; CMA CGM Green win	Transition to high-tech green shipbuilding and MRO hub status.
Financial Health	2	↓	CFO -□1,234 Cr; 23x ST Debt spike	Severe liquidity mismatch; operations unable to fund capex or dividends.
Earnings Quality	2	↓	41% Other Income; 88% Receivable spike	Profits supported by treasury income and unbilled revenue recognition.
Management & Governance	1	↓	1/6 Indep. Directors; Audit Comm. failure	Total collapse of board-level checks during a high-leverage phase.
Capital Allocation	2	↓	FCF -□1,385 Cr; Capex not yet yielding returns	Heavy investment in long-term assets funded by short-term borrowings.

BUSINESS POSITIVES (for this company this year) * □**Global Tech Validation:** Secured order for six LNG-fuelled container vessels from CMA CGM (France). * □**Infrastructure Commissioning:** New Large Dry Dock (□1,799 Cr) and ISRF (□970 Cr) operational. * □**Offshore Refit Return:** First 3-legged rig refit (*Sagar Kiran*) in 17 years completed. * □**Export Growth:** Export revenue surged 114.92% to □1,565.23 Cr. * □**Subsidiary Performance:** Udupi-CSL reached □630 Cr revenue with a □2,000 Cr+ order book.

BUSINESS NEGATIVES / CONCERNS (for this company this year) * □**Liquidity Crisis:** Cash from Operations plummeted to -□1,234.00 Cr. * □**Debt Explosion:** Short-term borrowings spiked 2,239% to □1,075.84 Cr to fund working capital. * □**Working Capital Bloat:** Inventory rose to □2,288 Cr (20.7% growth) vs 4.2% revenue growth. * □**Governance Collapse:** Board has only 1 Independent Director; no functional Audit Committee for most of FY26. * □**Contingent Liability Spike:** 280% increase in Customs Duty disputes to □484.12 Cr. * □**Revenue Quality:** Trade Receivables surged 84.7%; Contract Assets (unbilled) rose to □1,359.33 Cr. * □**Non-Core Dependency:** Other Income (Treasury) now accounts for 41% of PBT.

OVERALL SCORECARD SUMMARY CSL is an operationally world-class engineering asset currently trapped in a deteriorating financial and governance state. While the business quality is high due to its green-tech pivot and massive order book, the financial health is weakening under a severe working capital crunch and debt explosion. Most critically, the total absence of independent board oversight during this high-risk expansion phase creates an unacceptable institutional risk profile. The trajectory is deteriorating.

Part B: Governance Check Matrix

#	Check	Status	Evidence
1	Audit opinion clean?	□	Unqualified opinion (p.43)
2	Promoter pledge = 0?	□	0.00% pledge (p.277)
3	KMP pay < 5% of PAT?	□	Remuneration is 0.97% of PAT
4	RPT quantum < 5% of revenue?	□	Govt entities = 63.06% of turnover
5	Board > 50% independent?	□	Only 1 of 6 Directors is independent
6	At least 1 woman director?	□	Dr. Seema Suri (p.85)
7	No statutory dues outstanding?	□	Statutory dues increased 140% to □75.54 Cr
8	No fraud reported?	□	None reported by auditors
9	Audit trail enabled?	□	SAP S/4HANA compliant (p.43)
10	Frequent Auditor change	□	Standard rotation
Final line: "Total: 6.5/10 □— Governance Rating: 1" (Down-rated from 3 to 1 due to Audit Committee collapse).			

Part C: Investor Verdict

THESIS: A high-tech maritime leader facing a severe "Working Capital Trap" and a governance vacuum that obscures balance sheet risks.

OVERALL STANCE: AVOID

RATIONALE: The collapse of board-level checks and balances, combined with negative CFO and a 23x spike in short-term debt, outweighs the strong order book. RE-EVALUATE WHEN: Board independence reaches 50% AND CFO turns positive. BULL CASE: US Navy MRO hub and "Green Shipping" orders scale revenue beyond □8,000 Cr with 18%+ OPM. BEAR CASE: Crystallization of □484 Cr customs liability combined with an interest rate spike on short-term debt. KEY MONITORABLE: Short-term Debt: □1,076 Cr → Watch threshold: □1,500 Cr.

7. YEAR-OVER-YEAR ANALYSIS

7.1 Changes

Metric / Theme	Summary A Status	Summary B Status	Forensic Takeaway
Capital Structure & Debt	Virtually debt-free (Gearing 0.41%); operations funded by customer "float."	Short-term debt exploded 2,239% to ₹1,075.84 Cr to bridge a ₹1,905 Cr working capital gap.	The transition from interest-free customer advances to high-cost short-term borrowing signals a breakdown in the company's self-funding mechanism.
Cash Conversion (CFO/PAT)	0.15x; profits diverging from cash due to inventory build-up.	-1.72x; cash from operations plummeted to -₹1,234 Cr as working capital became a total drain.	The collapse into deep negative operational cash flow indicates that reported profits are currently entirely non-cash and dependent on accounting estimates.
Margin Trajectory	OPM at 19.00%; supported by a pivot to high-margin ship repair.	OPM contracted to 16.00%; driven by a surge in "Other Costs" from 7.13% to 30.57%.	Profitability is being eroded by manufacturing overheads and maintenance dredging costs that are scaling faster than revenue.
Revenue Quality	Receivables reduced; revenue recognized via input method (cost-to-cost).	Receivables surged 88% while "Contract Assets" (unbilled revenue) rose 47% to ₹1,359 Cr.	The quality of earnings has deteriorated as revenue is increasingly recognized ahead of cash milestones and actual billings.
Contingent Liability Profile	Customs disputes at ₹127.27 Cr; secondary to operational risks.	Customs disputes spiked 280% to ₹484.12 Cr following a new Jan 2026 notice.	Tax litigation has escalated into a primary solvency threat, representing a potential hit to 67% of current annual profits.
Management Tone	Aggressive and execution-oriented, focused on post-IAC growth.	"Operationally Aggressive but Governally Passive"; dismissive of board vacancy risks.	Management is prioritizing high-tech project wins while appearing to abdicate responsibility for critical regulatory and oversight failures.
Asset Turnover & CWIP	Capex deployment phase for ISRF and New Dry Dock.	Infrastructure commissioned but ROCE diluted from 20% to 16%.	Massive capital investments have yet to generate efficient returns, as evidenced by a low 0.35x asset turnover and stalled CWIP.

7.2 Persistent Patterns

- **Structural Working Capital Stress:** In both periods, the company exhibits a chronic inability to convert accounting profits into Free Cash Flow (FCF) due to the unique, long-cycle procurement needs of naval shipbuilding.
- **Subjective Revenue Recognition:** The reliance on **management-led technical estimates (Input/Output methods)** for revenue recognition remains a consistent Key Audit Matter, creating sustained risk of profit overstatement.
- **Sovereign Customer Dependency:** CSL maintains an **extreme concentration of revenue and receivables tied to Government-related entities** (82% in A, 63% in B), making liquidity entirely dependent on national budget cycles.
- **Strategic Green Tech Pivot:** A consistently positive trend is the company's **successful evolution into a global leader for zero-emission and green-tech maritime assets**, securing landmark export orders in both years.
- **Governance Non-Compliance:** Both periods show a **material collapse in board-level oversight**, with the company operating without a functional Audit Committee or the required number of Independent Directors for significant durations.

- **Treasury-Driven Profitability:** A persistent portion of Net Profit (over 40% of PBT in the current year) is derived from **interest income on the float of customer advances** rather than core shipbuilding margins.
- **Restricted Liquidity Trap:** Despite reporting high headline cash balances, the majority of cash remains **encumbered or restricted for specific naval projects**, limiting management's ability to use that cash for general corporate purposes.
