

Mr. Hasmukh Daftary  
President - Finance & Accounts  
Pipavav Shipyard Limited  
SK11, House  
209 Bank Street Cross Lane,  
Fort  
Mumbai - 400 023

4<sup>TH</sup> Floor, Godrej Colliseum,  
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Sion (East), Mumbai - 400 022, INDIA.  
☎ : 67543456 Fax : (022) 67543457

February 18, 2008

**Confidential**

Dear Sir,

**IPO Grading**

Please refer to your request for grading of your Initial Public Offering (IPO) of 868 Lac equity shares of face value of Rs.10 each.

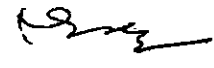
2. CARE has assigned a '**CARE IPO Grade 3**' [**Grade Three**] to the proposed IPO issue of Pipavav Shipyard Limited (PSL.). **CARE IPO Grade 3** indicates **average fundamentals**. CARE assigns IPO grades on a scale of Grade 5 to Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals. CARE's IPO grading is an opinion on the fundamentals of the issuer. The grade assigned to any individual issue represents a relative assessment of the 'fundamentals' of the issuer.
3. Please note that wherever '**CARE IPO Grade 3**' [**Grade Three**] appears, it should invariably be followed by the definition '**CARE IPO Grade 3** [**Grade Three**] indicates average fundamentals'.
4. The explanatory notes regarding the grading symbols of CARE for IPO grading are given in **Annexure 1**. The rationale for this grading will be communicated to you separately.
5. Please arrange to get the grading revalidated, in case the proposed IPO issue is not made within two months from the date of this letter.
6. Please note that the IPO grading is a one time exercise undertaken before an IPO issue and it does not have any ongoing validity.



7. Please note that as per the existing regulations, CARE is required to disclose all IPO gradings. As such, in the absence of any request for review of rating within a week of this letter, CARE will disclose this IPO grading to the public.
8. Please note that the disclaimer as given hereunder should be disclosed wherever the IPO grading assigned by CARE is mentioned, including offer document and issue prospectus.
9. If you need any clarification, you are welcome to approach us in this regard.

Thanking You,

  
[Umeshpratap Singh]  
Manager

Yours faithfully,  
  
[D. R. Dogra]  
Executive Director

Encl : As above

**DISCLAIMER:**

CARE's IPO grading is a one time assessment and the analysis draws heavily from the information provided by the issuer as well as information obtained from sources believed by CARE to be accurate and reliable. However, CARE does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. CARE's IPO grading does not take cognizance of the price of the security and it is not a recommendation to buy, sell or hold shares/securities. It is also not a comment on the offer price or the listed price of the scrip. It does not imply that CARE performs an audit function or forensic exercise to detect fraud. It is also not a forecast of the future market performance and the earnings prospects of the issuer; also it does not indicate compliance/violation of various statutory requirements. CARE shall not be liable for any losses incurred by users from any use of the IPO grading.

Annexure 1

CARE IPO grading Scale

CARE IPO grade	Evaluation
CARE IPO Grade 5	Strong fundamentals
CARE IPO Grade 4	Above average fundamentals
CARE IPO Grade 3	Average fundamentals
CARE IPO Grade 2	Below average fundamentals
CARE IPO Grade 1	Poor fundamentals

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Mr. Hasmukh Daftary  
President – Finance & Accounts  
Pipavav Shipyard Limited  
SKIL House  
209 Bank Street Cross Lane,  
Fort  
Mumbai - 400 023

February 19, 2008

**Confidential**

Dear Sir,

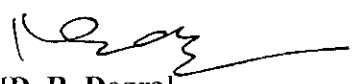
**IPO Grading**

Please refer to our letter dated February 18, 2008, on the above subject.

2. As already advised, our Rating Committee has assigned a 'CARE IPO Grade 3' grading to the Initial Public Offer of Pipavav Shipyard Limited. The rationale for the Grading is enclosed as Annexure to this letter.
3. The above rationale would be included in our quarterly journal, CAREVIEW. We shall be grateful for any comments that you may have on the rationale as early as possible. In case we do not hear from you by February 27, 2008, we will proceed on the basis that you do not have any comments to offer.
4. CARE IPO grading is not a recommendation to buy, sell, or hold any security.
5. If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

  
[Umeshpratap Singh]  
Manager

Yours faithfully,  
  
[D. R. Dogra]  
Executive Director

Encl: As above

### Grading Rationale

#### Pipavav Shipyard Ltd.

##### IPO Grading

##### CARE IPO Grade 3

CARE has assigned 'CARE IPO Grade 3' to the proposed Initial Public Offer (IPO) of Pipavav Shipyard Limited (PSL). CARE IPO Grade 3 indicates average fundamentals. CARE assigns IPO grades on a scale of Grade 5 to Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals. CARE's IPO grading is an opinion on the relative assessment of the fundamentals of the issuer. PSL proposes an IPO of 868 lack equity shares of face value of Rs.10.

*Grading factors in strong order book position, SEZ approval to the subsidiary of the company (E Complex Pvt. Ltd.), professionally qualified & experienced management and strategic tie up with Punj Lloyd Ltd. (PLL). However, grading is constrained by absence of track record in shipbuilding, project execution risk associated with the green-field expansion, past CDR history of company and concentration of order book to main line shipping sector. Inherent cyclicity in the ship building sector and execution of long orders within timeframe are the key grading sensitivities.*

##### Background

SKIL Infrastructure Limited incorporated Pipavav Ship Dismantling and Engineering Limited on Oct.17, 1997 to gain on the IMO regulations for discarding single hull tankers. However, the ship dismantling business became unfeasible as the IMO regulations, regarding single hull vessels, got postponed to 2010. Company requested lenders to extend the moratorium period as well as for a rescheduling of the payments on the loan and went through the CDR mechanism. Company has since prepaid the lenders under the CDR scheme and currently not subject to the terms of the CDR scheme thereof. Subsequently, in April 2005, the main business of the company was changed from ship dismantling to shipbuilding and ship repair. Accordingly the name of the company was changed to Pipavav Shipyard Limited. Original promoters were joined by Punj Lloyd Limited (PLL) as co-promoter in FY08 by acquisition of 22.34% share capital of PSL.

A handwritten signature, possibly of a company representative, located below the background text.

**Management**

Senior management comprises of Mr. Bhavesh Gandhi, executive vice chairman and Mr. Raymond Steward chief executive officer (CEO), they are assisted by team of key managerial personnel (KMPs). Although KMPs have been inducted recently, they bring on board huge experience in the related industry.

**Corporate Governance**

The company has four Independent – Non Executive directors out of total number of 11 directors on the board. In the recent past, the company has complied with SEBI Guidelines in respect of Corporate Governance specifically with reference to broad basing the board, including appointment of independent directors and constituting of committees such as Audit, Remuneration Committee and Share Holders'/Investors' Grievances Committee. Corporate governance practice in terms of adhering to clause 49 of listing agreements has been initiated since October 2007 in view of IPO.

**Project Particulars**

The construction of the Pipavav Shipyard is being conducted on an owner-managed basis, whereby the company would manage various parties providing the engineering, procurement and construction services for the construction of the shipyard. The original promoter, SKIL, is experienced in the construction of infrastructure projects on an owner-managed basis. The scope of the green field expansion of Pipavav Shipyard includes:

- Conversion of one existing wet basin into a 651 meters long and 65 meters wide, capable of accommodating ships of up to 400,000 DWT and / or multiple combinations of smaller vessels;
- The construction of a fabrication and block assembly facility for shipyard operations;
- The establishment of dryland facilities comprising a fabrication area for the Offshore Business Products; and
- Installation of a shiplift facility, including multiple land berths, for building and repairing small to medium sized ships, including naval vessels.



PSL also executed cooperation agreements with various companies that have experience in the shipbuilding business like – KOMAC, a Korean ship design consulting firm - to provide with procurement support for supply of non-Indian sourced shipbuilding materials, shipboard machineries and equipments, production management services related to the start-up and initial operation of the Pipavav Shipyard, and technical support services related to the construction of the Panamax bulk carriers which comprise the initial order book. PILS Co. Limited of South Korea, a procurement and logistics firm - to assist the company with the procurement of certain component parts for production SembCorp, a company which operates shipyards and offshore construction and fabrication facilities in Singapore – the company executed a technical assistance agreement. In November 2007, SembCorp acquired a strategic equity stake of 175 lakh equity shares in the company, representing an approximate interest of 3.02%. As a co-promoter, Punj Lloyd has agreed to conduct all of its offshore business (excluding the construction and fabrication of subsea pipelines) in India through PSL and is expected to provide the company with access to opportunities in the Offshore Business . As of the date, the company has agreements with three international clients for the construction of 26 Panamax bulk carriers. These contracts have an aggregate face value of approximately Rs.42,99.26 crore.

**Project cost and means of finance:**

The project cost of shipyard is estimated at Rs. 2888 crore, to be financed through a mix of equity contribution, term loan and IPO proceeds. The details of the same are as follows:

*(In Rs. Crore)*

Sr. No.	Particulars	Amount
1.	Equity -Pre IPO placement	1248.68
2.	Term loan from FIs	935.20
3.	IPO Proceeds	704.94
	<b>Total</b>	<b>2888.82</b>

The company would be implementing the project in two phases. Phase – I expected to be complete by FY09 and covers the infrastructure required for ship building and ship

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repairs activities. The total cost of the Phase – I is Rs.2189.5 crore. Phase – II, which covers infrastructure for the offshore services division, expected to be completed during FY10 with a total capital cost of Rs.699 crore.

### **IPO Issue Details**

PSL is proposing to make Initial Public Offer (IPO) of 868.50 lakh equity shares for cash at the market determined price per share. The issue of equity shares will constitute 13.04% of the fully diluted post-issue equity share capital of the company. However, the company is considering a Pre-IPO placement of not more than 28.50 lakh equity shares to certain investors prior to the Issue, prior to filing of RIIP with ROC. In such a situation, the size of the proposed IPO will be reduced to the extent not beyond 10% of the post-issue capital, being offered to the public.

The proceeds from the issue of shares are intended to be deployed as follows:

1. Construction of facilities for shipbuilding, ship repair and offshore business  
Rs. 2371.29 crore
2. Margin for working capital Rs. 457.52 crore
3. General corporate purpose Rs. 60 crore

### **Industry**

The global shipbuilding industry is dominated by Japanese and Korean shipyards which control nearly 78% of the total shipbuilding orders. As a result of increasing demand for the vessels, the waiting period for shipbuilding climbed to well over three years with deliveries for some vessels stretching till 2010. India, ranking 8<sup>th</sup> in terms of global order book, has 32 shipbuilding yards belonging to the public and private sectors with about 46% of the order book geared towards offshore segment. The future growth in Indian shipbuilding sector is driven by availability of low cost and technically qualified manpower, world over shipyards operating at maximum capacity and niche developed by Indian shipyards in construction of OSVs. Growth for OSVs is expected to remain buoyant on account of continuous rise in crude prices and government emphasis on the energy security through NELP (new exploration licensing policy). However, some of the concerns faced by the shipbuilding industry are - availability of man power going forward, continuous rupee appreciation,





uncertainty about extension of government subsidy for vessels booked post August 2007 and possible delay in completion of planned capacity expansion. Existing upturn in the ship building industry is governed by high freight rates and increasing investment in oil & gas exploration sector mainly due to mounting oil prices. However, any correction in the oil prices is expected to result in dip in the investment in the exploration sector thereby affecting freight rates and hence demand for newer ships. Since the Japanese and Korean shipyards are booked for more advanced big vessels, the demand from offshore sector is heading towards Indian shipyards. The downturn in the shipbuilding would release the pressure from these global capacities to accommodate orders from offshore sector thereby increasing competition for Indian shipyards.

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☎ : 67543456 Fax : (022) 67543457  
E-mail : care@careratings.com  
www.careratings.com

August 27, 2009

**Confidential**

Dear Sir,

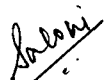
**IPO Grading**

Please refer to our letter dated July 15, 2008 and your subsequent letter dated July 13, 2009, requesting us to revalidate the IPO grading.

2. Our rating committee has reaffirmed a 'CARE IPO Grade 3' to the proposed IPO issue of Pipavav Shipyard Ltd (PSL). **CARE IPO Grade 3 indicates average fundamentals.** The explanatory notes regarding the grading symbols of CARE for IPO grading are given in **Annexure**.
3. Please note that wherever 'CARE IPO Grade 3' [Grade three] appears, it should invariably be followed by the definition 'CARE IPO Grade 3' [Grade three] indicates **average fundamentals**".
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6. Please note that the disclaimer, as given hereunder, should be disclosed wherever the IPO grading assigned by CARE is mentioned, including offer document and issue prospectus.
7. If you need any clarification, you are welcome to approach us in this regard.

Thanking You,

Yours faithfully,

  
[Saloni Jain]  
Analyst

  
[Mahendra Patil]  
Manager

Encl : As above

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Annexure

**CARE IPO grading Scale**

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