

Initiating Coverage Garden Reach Shipbuilders & Engineers Ltd.

April 03, 2023





Garden Reach Shipbuilders & Engineers Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Aerospace & Defence	Rs. 455.4	Buy in the Rs. 450-460 band & add more on dips to Rs. 401-409 band	Rs. 501	Rs. 540	2-3 quarters

HDFC Scrip Code	GARREA
BSE Code	542011
NSE Code	GRSE
Bloomberg	GRSE IN
CMP March 31, 2023	455.4
Equity Capital (Rs Cr)	114.6
Face Value (Rs)	10.0
Equity Share O/S (Cr)	11.5
Market Cap (Rs Cr)	5216.7
Book Value (Rs)	119.9
Avg. 52 Wk Volumes	74,955
52 Week High	556.8
52 Week Low	207.8

Share holding Pattern % (Dec, 2022)	
Promoters	74.5
Institutions	10.1
Non Institutions	15.4
Total	100.0



* Refer at the end for explanation on Risk Ratings

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Our Take:

Garden Reach Shipbuilders & Engineers Ltd (GRSE) is a ship building company in India, under the administrative control of the Ministry of Defence. The company is engaged in shipbuilding and ship repairing, engine assembling and testing, and engineering products and has built more than 107 warships for various roles, starting from state-of-the-art frigates and corvettes to fast patrol boats. The company has a total of eight units, of which seven (shipbuilding and repair, engineering and training) are located in and around Kolkata, and one (engine division) assembles and tests new diesel engines and repairs and reconditions old engines of Naval and Coast Guard Ships) is located in Ranchi, Jharkhand.

GRSE's order book stood at Rs 22,242 crore comprises of six ship building projects with 23 platforms, as of Dec 31, 2022. These include 15 ships for the Indian Navy. That is three ships of the P-17 Alpha Advanced Frigate (P-17A), eight ships of the Antisubmarine Warfare Shallow Water Crafts (ASW SWC), and four ships of the Survey Vessel Large (SVL) project. The company is executing an order for the Indian Coast Guard for a Fast Patrol Vessel (FPV). GRSE is also executing a project for the Government of Bangladesh comprising of six Patrol Boats, one Passenger cum Cargo Vessel for the Co-operative Republic of Guyana, and one project for a next-generation electric ferry for the Government of West Bengal. Recently, the company signed contract of Rs 3,500 crore (approx.) on competitive bidding, boosting the Shipyard's credentials for building next generation warships indigenously, with the first next generation off-shore patrol vessels (NGOPV) scheduled to be delivered in 44 months.

The company continues to hold a strong order book of close to Rs 22,242 crore, which is ~9 times its TTM revenue. Recently, the company launched six ships (one P 17 Alpha, one Anti-Submarine Shallow Water Craft (ASW SWC), two Survey Vessels, a Fast Patrol Vessel and one vessel that is being exported to the Government of Guyana. The company expects deliveries and execution to be better in the next 2-3 years because of the large-value projects, currently under execution. That apart, with metal and energy prices easing, margins could be better, supporting higher earnings in the coming quarters. Notably, the company is sitting on a cash and cash equivalents of close to Rs 3,900 crore (part of this is contract signing amount), as of Sept 30, 2022. With the elevated interest rates, treasury income should grow, thus supporting earnings further.

The Indian defence sector is going through a major transformational phase as the government looks committed to reducing imports and increasing indigenisation of various key defence platforms, systems and associated equipment required for these platforms. The defence shipbuilding segment continues to look promising on account of ambitious acquisition plan of Indian Navy and Indian Coast Guard which is quite encouraging for the Indian Shipbuilders and the entire eco-system. A number of Requests for Proposals (RFPs) for various shipbuilding projects have been floated by the MoD during last one year and some more are expected to come out in the near future. Further, the MoD plans to increase export of defence products to \$3.59 billion by the end of 2024-25. Being a shipbuilder, GRSE could be one of beneficiaries.



Valuation & Recommendation:

The company has ability to sustain the overall performance at the present level in a competitive environment, while maintaining leadership in warship building and retaining its largely debt-free status with comfortable liquidity. Growth momentum is expected to continue in the coming quarters. The company is currently working on seven projects, comprising 15 ships for the Navy, Coast Guard, and others. While the company can pass through the higher cost, a sudden spike in prices of raw materials, like steel and energy, can impact profitability.

Investors could buy in the Rs 450-460 band and add more on dips to Rs. 401-409 band (10.5x FY25E EPS). Base case fair value of the stock is Rs 501 (13x FY25E EPS) and the bull case fair value of the stock is Rs 540 (14x FY25E EPS) over the next two to three quarters. At the CMP of Rs 455 the stock trades at 11.8x FY25E EPS.

Financial Summary

Particulars (Rs Cr)	Q3FY23	Q3FY22	YoY-%	Q2FY23	QoQ-%	FY21	FY22	FY23E	FY24E	FY25E
Total Operating Income	699	487	43.6	682	2.5	1,141	1,758	2,557	3,942	4,821
EBITDA	47	52	-9.1	48	-2.9	51	133	202	339	429
Depreciation	10	10	0.7	10	1.8	29	36	39	41	43
Other Income	50	44	14.2	41	23.1	186	161	161	203	205
Interest Cost	1	0	-589.3	1	129.4	1	1	4	3	3
Tax	22	23	-4.5	20	9.6	54	68	80	125	147
RPAT	64	63	1.5	59	8.8	153	190	241	374	441
APAT	64	63	1.5	59	8.8	168	196	241	374	441
Diluted EPS (Rs)	5.6	5.5	1.5	5.1	8.8	13.4	16.6	21.0	32.6	38.5
RoE-%						15.5	16.3	18.0	24.2	24.2
P/E (x)						34.0	27.5	21.7	14.0	11.8
EV/EBITDA (x)						41.3	18.5	11.3	6.0	4.2

(Source: Company, HDFC sec)

Q3FY23 Result Update

- GRSE reported strong performance in the quarter. Its consolidated revenue grew by 44% YoY to Rs 699 crore in Q3FY23.
- The company's EBITDA stood at Rs 47 crore vs. Rs 52 crore in Q3FY22 and EBITDA margin was at 6.7% in Q3FY23 vs. 10.6% in Q3FY22, impacted by higher RM cost, subcontracting expenses and other expenses. Raw material cost increased by 62% YoY in the quarter.
- Net profit was up by 2% YoY basis to Rs 64 crore in Q3FY23. Other Income increased to Rs 50 crore in Q3FY23 vs. Rs 44 crore in Q3FY22.
- As on Dec 31, 2022, order book stood at a very healthy Rs 22,242 crore of this almost 98% to 98.5% comes from war shipbuilding.



Recent Triggers

Robust order book brings healthy revenue visibility

GRSE depends on government’s defence spending as well as investment in national security and the government’s existing security policies. The outstanding order book position is Rs 22,242 crore as of Dec 31, 2022, to be executed in the next 5-6 years; order book for shipbuilding stood at 98-98.5% of total order book, comprising of six projects encompassing 23 platforms. These include 15 ships for the Indian Navy. That is three ships of the P-17 Alpha Advanced Frigate (P-17A), eight ships of the Antisubmarine Warfare Shallow Water Crafts (ASW SWC), and four ships of the Survey Vessel Large (SVL) project. The company is executing an order for the Indian Coast Guard for a Fast Patrol Vessel (FPV), these 3 projects for the Indian Navy total to 15 warships.

P-17 project is important in revenue contribution, the first of the P17 Alpha project has almost touched 50% of construction, with the second and third one closely following, second one is almost at 40% of physical construction and the third one is at about 25% of physical construction. Besides, GRSE is also executing a project for the Government of Bangladesh comprising of six Patrol Boats, one Passenger cum Cargo Vessel for the Co-operative Republic of Guyana, and one project for a next-generation electric ferry for the Government of West Bengal. Overall, 99% of these outstanding orders are from the Indian Navy. A strong order book for the construction of 17 warships concurrently for the Indian Navy at this juncture bodes well for GRSE.

Recently the company signed a contract of ~Rs 3,500 crore for for 04 Next Generation Offshore Patrol Vessels (NGOPV). The company expects order book worth by Rs 25000 crore by end FY23E. The company is expecting huge opportunity in shipbuilding, as ~100 platforms are expected to come for bidding in Indian Navy and Indian Coast Guard over the next 3-5 years, with order value of Rs 85000-86000 crore on conservative side and Rs 120000 crore on optimistic side.

Order Book (Rs in Crore)

Particulars	FY19	FY20	FY21	FY22
Order Book	21644	26544	25706	24104
Ship building	21345	26281	25450	23864
Engineering	81	80	91	95
Bailey Bridge	32	30	21	17
Deck Machinery	49	50	70	79
Engine Division	219	183	166	144

For the period of FY24E, Navy has received a budget allocation of Rs 52,000 crore towards capital modernization budget. Excluding the infrastructure project that the Navy is undertaking for their modernization, majority of this will go for the various stage payments for the project which are in progress. A number of RFPs for various shipbuilding projects have been floated by the Ministry of Defence during the last couple of years, and some more are expected to be rolled-out in the near future. Furthermore, the Ministry of Defence's plan to increase the



export of defence products to US\$ 5bn by 2024 augurs well for all shipbuilding companies. To support the execution of the existing work orders and bid for new orders, the company had availed an enhancement in the Bank Guarantee limits in the recent past. Going forward, considering the production maturity of the ongoing shipbuilding projects, GRSE revenue is expected to grow significantly during the next three years.

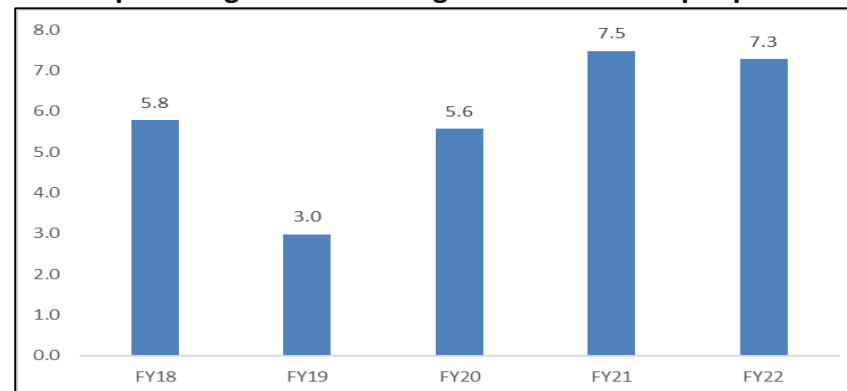
Focus on ship repair and expanding its presence in international market could add its market share in ship repairing space

Revenues from the ship repair segment contributed 2.3% of the total sales generated in FY22 but more than doubled as compared with the previous year. The contribution of ship repairs in order book is just about 0.5%. The company has decided to cap it to around maximum 5% in the next three to five years. The company has procured export orders from a few countries, Government of Guyana order for the construction of an Ocean-Going Passenger cum Ferry Vessel and one Fast Patrol Vessel for the Government of Seychelles as well as an order for Patrol Boats from Bangladesh. The Company is focused on its Ship Repair division which has higher margin work orders. The company has also exported 14 Bailey type Portable Steel Bridges (Ten Bridges to Bhutan and Four Bridges to Nepal).

The company has successfully completed the refit of Barracuda, a Mauritius Ship for amount of Rs 21 crore. In order to give thrust to Ship Repair and Refit business, the Company has signed an agreement with Syama Prasad Mookherjee Port, Kolkata for long term lease of 03 existing Dry Docks for shipbuilding including repair & refit of ships. Recently, the company undertaken the refit of ICGS Sarojini Naidu. GRSE has signed an agreement with Kolkata Port Trust (KoPT) in Dec. 2021 for ship repair business activity at their premises, and three docks have been made available for GRSE.

The company is also actively looking for exports in new markets, like SAARC, ASEAN, African and Latin American countries for export opportunities. Besides, it has also collaborated with international companies for improving technical capabilities, which will not only provide a competitive edge in India, but also visibility in the international market. GRSE is also working towards capacity building, modernisation and upgrading technology through research and development and has done various capex in the recent past to this end.

Non Shipbuilding trend including revenue from ship repair





Long term Triggers

Established PSU player in ship building and strategic importance to the defence ministry

GRSE a mini Ratna Category-1 status company, is a premier warship building company in India and is one of the leading shipbuilding company among the four public sector undertakings for shipbuilding, under the administrative control of the Ministry of Defence. Post the dilution of 25.5% shares to the public in October 2018, GOI is holding 74.50% stake in the company.

GRSE is primarily dependent on government spending and the government's existing security policies. A substantial portion of its turnover (~97.5%) is on account of the construction of warships for the Indian Navy and Coast Guard, and therefore, it is a strategically important entity.

Diversified business model and strong relationship with India Navy and Coast Guard

GRSE's core manufacturing activities are shipbuilding, and the company offers diversified products, and services to its customers including portable bridges, deck machinery items, pump, and engines. The Company has a dedicated deck machinery equipment facility and an engine assembling and testing facility, both of which, are essential for the shipbuilding and testing process. This is vertical integration which would enable the Company to produce ships in a more time efficient.

The company has established relationships with the Indian Navy and Indian Coast Guard since inception. The Company has delivered 107 warships to the Indian Navy, Indian Coast Guard and friendly countries till date. The shipyard has built and supplied more than 780 vessels for maritime security.

In FY23, the company has collaborated through 'MoUs' with more than 20 firms including several MSMEs and Startups. In a major step aimed towards bolstering the 'Make in India' initiative, GRSE has also signed a MoU with Rolls Royce Solutions of Germany to manufacture high-quality marine diesel engines. GRSE signed strategic MoUs as part of the 'BANDHAN' initiative at Aero India 2023 (Bangaluru), that will help the shipyard boost its Shipbuilding and Ship Repair capabilities and identify and explore synergies and partnerships for the niche market in India and neighbouring countries. GRSE has signed MoUs with M/s Aerospace Engineers Pvt. Ltd., M/s Central Institute Fisheries Technology, M/s Dynatron, M/s Keltron, M/s Krasny Marine, M/s Naval Group France, M/s Rekise Marine Pvt. Ltd., M/s Rolls Royce Solutions GmbH (MTU), and M/s Tunga Aerospace Pvt. Ltd.

Business strategies being adopted by the shipyard include optimum utilization of shipyard capabilities, as well as capacity and cutting down costs for shipbuilding projects of the Indian Navy and Indian Coast Guard. Currently, GRSE is also exploring the Non-Defence shipbuilding market for constructing special-purpose ships.



Project 18, the next generation destroyer could be a Rs.1 lakh cr opportunity

Project 18 is a class of next generation stealth guided missile destroyers. They are projected to be the replacement of the Rajput-class guided-missile destroyers. India has an inventory of 11 destroyers. GRSE being one of the leading players in the field could get a good share of this order over the next 2 years.

GRSE modern manufacturing platform and strong design capabilities provides end to end solutions

GRSE's manufacturing facilities and vast technical expertise gives it a significant edge over other domestic defence shipyards. Over the years, the company has significantly improved its manufacturing and other functional processes by modernisation of its facilities and adoption of Information Technology. The company produces eight large ships and 12 medium and small ships in its facilities. Besides, the company has constructed new hull shop, module shop and mega block integration, dry dock and building birth.

GRSE has a dedicated Central Design Office (CDO) which undertakes design, research and development, with a highly skilled workforce of ~100 members. Its CDO team uses various software ranging from Aveva Marine, NAPA for Naval Architectural design, AutoCAD for drafting work and other software's for structural analysis. With its dedicated CDO team, it has achieved innovative measures in carrying out complex warship designs and its ability to provide end to end solutions to its customers, ranging from product conceptualization, design, system integration and project management increases its capability to meet customer demands.

At Defence EXPO 22, GRSE launched first of its kind 'Double Lane Modular Steel Bridges' which are used in Humanitarian Assistance and Disaster Relief (HADR) operations and in border areas for establishing road connectivity. GRSE's Diesel Engine Plant at Ranchi, has developed India's first Naval Shock Standards fully qualified, 01 MW Diesel Alternator for marine application. Through strategic initiatives, the company is focused on increasing self-reliance in the maritime domain including development of 'autonomous vessels' and 'Close in Weapon Systems (CIWS)' for maritime use.

Sound financial profile

- GRSE's operating and financial performance has been robust led by negligible debt, healthy cash generating ability and consistent dividend payment to shareholders over the past and the company's production and sales has been as per the shipbuilding schedule over the past. Financial flexibility is strong, supported by robust liquidity.
- GRSE's revenue rose from Rs 922 crore in FY17 to Rs 1758 crore in FY22 - ~13.8% CAGR over the period. We expect that the company could report revenue ~40% CAGR over the FY22 to FY25E and EBITDA margin at 8-9% in next three years.
- The company has zero debt and the company has no further plans to raise any debt going forward. Capital structure is expected to remain comfortable and debt protection metrics could also be healthy going forward. The company's net financial leverage continued to remain negative with a net cash position on account of zero debt and healthy cash balance at the end of FY22. GRSE will continue to have 10%-15% of order backlog in the form of client advances, or cash on asset side, which helps the company earn lucrative other income.



- The company's debt service coverage ratio (DSCR) also stood comfortable on account of the absence of long-term repayment obligations, DSCR stood at 1.5x in FY22.
- The company has sufficient cash and cash equivalent for further investment to expand its business going forward. As on Sept 30, 2022, the company has cash and cash equivalent of Rs 3,900 crore (though it includes advances from customers). Cash per share works out to a healthy ~75% of its CMP.
- The company has always been generous in declaring dividends and the company has been paying dividend consistently for the last 29 consecutive years. The board has recommended a final dividend of Rs 5.8/share for FY22 and the dividend payout amounts to close to 35% of the post-tax profit. For FY23E, the company declared an Interim Dividend @ Rs. 5.50/- per equity share. We expect dividend per share of Rs 7.5/9.5/13 per share for FY23E/FY24E/FY25E, respectively.
- The inventory days has decreased from 252 days to 243 days, payable decreased from 250 days to 85 days, and the receivable days from 57 days to 32 days as on March 31, 2022. With rise in profitability as well as better return ratios in the future, we expect RoE at a range of 18% to 24% in FY23E to FY25E, respectively.

Industry Overview

The growing tensions in the Asia-Pacific region has resulted in an increased emphasis on naval modernization programs and a resurgence of submarine inventory proliferation by countries in the region as well as by NATO and the United States. These tensions are predominantly generated by Chinese threats of expansionism into the East and South China Seas. The global market for ship repair and maintenance service is expected to witness significant growth, reaching a market value of US\$ 40bn by 2030 supported by developments in the markets in South East Asia and India.

Defence shipbuilding in India is emerging as an area of focus of both the public and private sector shipyards, the defence shipbuilding order book is expected to grow 8-10% CAGR over the next five years. Further, the Indian shipbuilding industry's order book is expected to receive a boost on account of Indian Navy and Coast Guard's ship acquisition plans to add fleet of 200 ships each. Their combined shipbuilding program spanning over fifteen (15) years, indicated that they could place orders for about 165 warships in the coming years.

The Indian Navy's estimated capital budget for up to 2027 amounts to Rs 4,50,000 crore approx. The planned expenditure includes a separate estimate for various vessel categories including submarines (Rs 2,20,000 crore approx.), destroyers / frigates (Rs 90,000 crore approx), aircraft carriers (Rs 45,000 crore approx.), Corvettes, landing platform etc. For the Indian Coast Guard (ICG), the Government has approved a Rs 32,000 crore action plan. For FY23-24, Navy has got a budget allocation of Rs 52,000 crore for there is a capital modernization budget for Navy. 43 ships are under construction for Navy. Excluding the infrastructure project that the Navy is undertaking for their modernization, majority of this will go for the various stage payments for the project which are in progress.



What could go wrong?

- GRSE could see increasing competition from private players and other PSU players. However, GRSEL continues to maintain its edge over new emerging competitors by way of capacity, design, technology, processes and cost advantages.
- Any delay in project execution and the repair of ship during the guarantee period could impact its profitability due to the cost overruns and liquidated damages, as per the contract. This could impact its profitability. However, this is offset by provisions made by the company for liquidate damages.
- Higher raw materials (Steel, Steel Alloys, Paint, Diesel and gas prices) could impact its profitability going forward.
- Cyclone and any sea wave related challenges could impact its operation and it could cause monetary damages.
- GRSE largely depends on government projects and Budgets; also, any delay in cash realization could further increase its receivables days going forward. Also post FY27-FY28, the revenue visibility for GRSE could fall unless the spate of orders received continue. GRSE will have to procure orders for new platforms later for this. Any delay in missile frigate orders, large survey vessels and ASW vessels, and delay by platform vendors could dilute revenue visibility.
- Any dilution by the GoI of its stake in the company by way of OFS could increase the free float and bring pressure on stock price.
- The stage of physical progress, brought out items, and provisioning can make forecasting margins quarter after quarter a difficult task.
- With the bell-curve in ship building peaking, the best value of output in the middle stage (the stage of ship building) can skew financial performance.

Company Profile:

Garden Reach Shipbuilders & Engineers Ltd. (GRSE) is a premier shipbuilding company in India under the administrative control of the Ministry of Defence, primarily catering to the shipbuilding requirements of the Indian Navy and the Indian Coast Guard. GRSE is diversified services in the shipbuilding industry and the first Shipyard in the country to export warships and deliver 100 warships to the Indian Navy and Indian Coast Guard. GRSE is engaged in building warships and other vessel for the Indian Navy and Indian Coast Guard.

GRSE has emerged as a leading shipyard of India, building a wide array of vessels ranging from 05 ton boats to 24,600 ton Fleet Tanker including world class Frigates and Fast Attack Crafts. Apart from Ship Building & Ship Repairs, GRSE is also diversified into engineering business with a product profile of pre-fabricated steel bridges, various deck machinery items & assembly/testing/overhauling of marine diesel engines.

GRSE has so far delivered 107 warships to Indian Navy, Indian Coast Guard, Mauritius Coast Guard and Seychelles Coast Guard & is the only shipyard to achieve this Centennial Mark. The 1st warship for export by India was delivered by GRSE to Mauritius in 2014, Offshore Patrol Vessel, CGS Barracuda. The shipyard has been profit making and dividend paying company for the past 28 years.



Business Overview

Shipbuilding

GRSE's shipbuilding division is engaged in the construction of warships /vessels for clients mainly in the defence sector, Indian Navy & Indian Coast Guard. GRSE has 3 separate facilities for shipbuilding, all of which are located in close vicinity of each other in Kolkata and interconnected by the Hoogly river. GRSE shipbuilding division consists of the construction of vessels for clients engaged in the defence sector shipping industry.

Vessels built by GRSE:

- Frigates
- Anti-Submarine Warfare Corvette
- Missile Corvette
- Landing Ship Tank
- Landing Craft Utility
- Survey Vessel
- Fleet Replenishment Tanker
- Fast Patrol Vessel
- Offshore Patrol Vessel
- Inshore Patrol Vessel
- WJ-FAC,
- Hover Craft
- Fast Interceptor Boat
- Anti-submarine Shallow Water Craft
- Passenger cum Ferry Cargo Vessel

Majority of the products manufactured by GRSE are supplied to central and state governments and entities owned and controlled by such governments. Significant majority of the company's revenues are derived from sales of shipbuilding products to the Indian Navy and the Indian Coast Guard. The centre piece of Main Works is an Integrated Shipbuilding Facility located in Kolkata, India.

Engineering: The company offers portable bridges, deck machinery items and marine pumps as engineering division's products and merchandise. The engineering division at GRSE was primarily set up in order to indigenize sophisticated deck machinery items in the year 1970. The company has manufacturing capabilities for portable bridges and Deck Machinery.

Engines: GRSE's state-of-the-art plant in Ranchi undertakes assembly, overhauling and testing of MTU diesel engines in collaboration with MTU, Germany. GRSE's Diesel Engine Plant in Ranchi is fully equipped with test bench facility as well as trained service personnel. Shipyard



has modernised the Plant recently and tied up with M/s MTU Germany to indigenise manufacturing of 40% of Engine Parts under Make in India Initiative over next 4 to 5 years.

This division supplies and overhauls MTU 396-04; MTU 4000; MTU 1163; and MTU 538 class diesel engines. The company owns a license agreement with MTU Germany for semi knocked down assembly of MTU 12V/ 16V 4000M90 engines and production of certain engine parts. DEP has also successfully developed the 1 MWA diesel generator for the P17A project.

Projects

Project Type	No of Vessels
Project P-17A for Indian Navy	3
Survey Vessel (Large) for Indian Navy	4
ASW-SWC for Indian Navy	8
Ocean Going Passenger cum Cargo Ferry for Govt. of Guyana	1
Fast Patrol Vessel for Indian Coast Guard	1
Total Ships	17
Patrol Boats- Bangla Desh	6

Projects in progress

Launching		
Ship	Yard	Launch date
1st Survey Vessel (L)	3025	05-Dec-21
2nd Survey Vessel (L)	3026	21-Mar-22
Keel Laying		
Ship	Yard	Date
Fast Patrol Vessel (FPV)	2118	15-Jul-21
3rd Survey Vessel (L)	3027	06-Aug-21
1st Anti-Submarine Warfare Shallow Water Craft (ASW SWC)	3029	06-Aug-21
Ocean Going Passenger & Cargo Ferry Vessel (OGV)	2119	20-Nov-21
5th Anti-Submarine Warfare Shallow Water Craft (ASW SWC)	3035	21-Dec-21
Start Production		
Ship	Yard	Date
2nd Anti-Submarine Warfare Shallow Water Craft (ASW SWC)	3030	14-Jul-21
3rd Anti-Submarine Warfare Shallow Water Craft (ASW SWC)	3031	14-Jul-21
Ocean Going Passenger & Cargo Ferry Vessel (OGV)	2119	07-Aug-21
5th Anti-Submarine Warfare Shallow Water Craft (ASW SWC)	3035	28-May-21



Garden Reach Shipbuilders & Engineers Ltd.

Segments Overview

Rs in Crore	FY18	FY19	FY20	FY21	FY22
Contract Revenue					
Shipbuilding	1109.2	1228.5	1275.2	1010.3	1571.0
General engineering	-1.6	3.1	0.2	3.9	5.8
Diesel engines	4.1	0.5	19.5	17.8	55.3
Sale of products					
B & D spares	152.3	100.1	58.1	25.7	9.0
Bailey bridge	55.5	24.9	24.1	48.0	55.0
General engineering	5.6	10.7	9.1	12.6	6.0
Diesel engines			17.2	0.0	0.0
Sale of services					
Ship repair	6.1	9.1	12.0	12.0	40.5
Bailey bridge	0.0	0.0	1.8	2.1	5.0
General engineering	12.5	2.0	0.0	0.0	0.0
Diesel engines	1.8		7.4	0.2	0.2
Misc. Project				0.0	0.5
Other operating revenue					
Scrap sales	3.1	6.9	8.3	8.1	8.7
Written down value of inventories	0.3	0.0	0.0	0.0	0.5
Training Fees	0.8	0.7	0.3	0.0	0.0
Total	1349.7	1386.4	1433.3	1140.8	1757.5

Peer Comparison

Rs in Cr	Mkt Cap (Cr)	Sales (Cr)			PAT (Cr)			EPS-Rs			ROE-%			P/E-x		
		FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
GRSE	5216.7	2557	3942	4821	241	374	441	21.0	32.6	38.5	18.0	24.2	24.2	21.7	14.0	11.8
Mazagon Dock	13373.1	7368	8070	9018	945	878	1027	46.8	43.5	50.9	22.3	17.8	18.3	14.2	15.2	13.0
Cochin Shipyard	6258.0	3485	4019	4486	586	688	781	44.5	52.3	59.3	12.8	13.9	14.4	10.7	9.1	8.0



Garden Reach Shipbuilders & Engineers Ltd.

Financials

Income Statement

(Rs Cr)	FY21	FY22	FY23E	FY24E	FY25E
Net Revenues	1141	1758	2557	3942	4821
Growth (%)	-20	54	45	54	22
Operating Expenses	1090	1624	2355	3603	4392
EBITDA	51	133	202	339	429
Growth (%)	71.7	160.8	51.4	67.9	26.6
EBITDA Margin (%)	4.5	7.6	7.9	8.6	8.9
Depreciation	29	36	39	41	43
EBIT	22	98	163	298	386
Other Income	186	161	161	203	205
Interest expenses	1	1	4	3	3
PBT	207	258	321	498	589
Tax	54	68	80	125	147
RPAT	153	190	241	374	441
APAT	168	196	241	374	441
Growth (%)	-1.7	16.2	23.1	55.2	18.1
EPS	13.4	16.6	21.0	32.6	38.5

Balance Sheet

As at March	FY21	FY22	FY23E	FY24E	FY25E
SOURCE OF FUNDS					
Share Capital	115	115	115	115	115
Reserves	1023	1143	1298	1563	1856
Shareholders' Funds	1137	1258	1413	1678	1970
Long Term Debt	2	10	10	10	10
Net Deferred Taxes	6	11	9	8	7
Long Term Provisions & Others	90	97	100	104	108
Minority Interest	0	0	0	0	0
Total Source of Funds	1235	1376	1531	1799	2095
APPLICATION OF FUNDS					
Net Block & Goodwill	340	501	520	543	569
CWIP	151	10	10	11	11
Other Non-Current Assets	814	1295	968	1065	1172
Total Non Current Assets	1306	1806	1498	1619	1752
Current Investments	0	0	0	0	0
Inventories	788	1172	1401	2052	2245
Trade Receivables	178	155	245	324	396
Cash & Equivalents	3107	2754	2955	3179	3439
Other Current Assets	1404	1748	2011	1860	2046
Total Current Assets	5477	5830	6612	7415	8127
Short-Term Borrowings	2	1	1	1	1
Trade Payables	783	412	630	972	1189
Other Current Liab & Provisions	4764	5847	5947	6261	6593
Total Current Liabilities	5548	6260	6579	7235	7783
Net Current Assets	-71	-430	33	180	343
Total Application of Funds	1235	1376	1531	1799	2095

(Source: Company, HDFC sec)



Garden Reach Shipbuilders & Engineers Ltd.

Cash Flow Statement

(Rs Cr)	FY21	FY22	FY23E	FY24E	FY25E
Reported PBT	207	257	321	498	589
Non-operating & EO items	-149	-141	-161	-203	-205
Interest Expenses	1	1	4	3	3
Depreciation	29	36	39	41	43
Working Capital Change	481	-442	-260	80	101
Tax Paid	-54	-68	-80	-125	-147
OPERATING CASH FLOW (a)	515	-356	-138	295	383
Capex	-164	-55	-60	-65	-70
Free Cash Flow	351	-411	-198	230	313
Investments	-772	629	327	-97	-107
Non-operating income	-237	-146	161	203	205
INVESTING CASH FLOW (b)	-1,173	428	428	41	28
Debt Issuance / (Repaid)	-2	-1	0	0	0
Interest Expenses	-1	-1	-4	-3	-3
FCFE	354	-409	-194	233	316
Share Capital Issuance	0	0	0	0	0
Dividend	-60	-70	-86	-109	-149
Other	0	0	0	0	0
FINANCING CASH FLOW (c)	-62	-72	-89	-112	-152
NET CASH FLOW (a+b+c)	-720	0	201	224	260

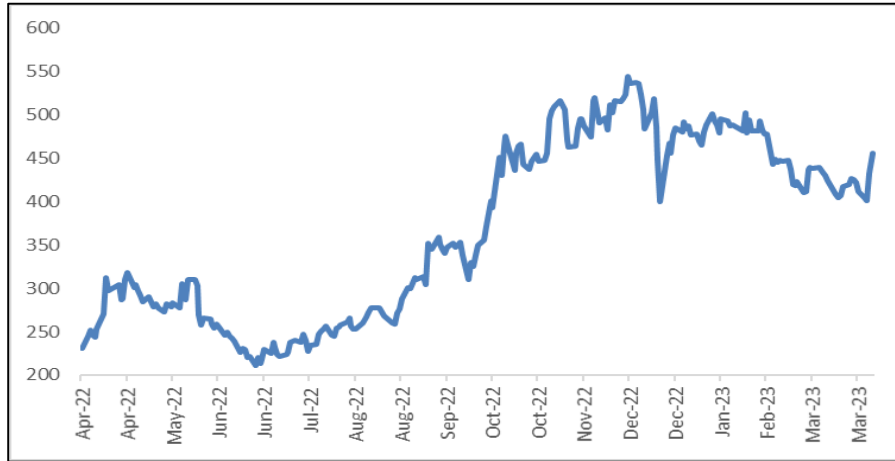
Key Ratios

Particulars	FY21	FY22	FY23E	FY24E	FY25E
Profitability Ratio (%)					
EBITDA Margin	4.5	7.6	7.9	8.6	8.9
EBIT Margin	1.9	5.6	6.4	7.6	8.0
APAT Margin	14.8	11.1	9.4	9.5	9.2
RoE	15.5	16.3	18.0	24.2	24.2
RoCE	25.9	24.2	25.0	31.7	30.7
Solvency Ratio (x)					
Net Debt/EBITDA	-60.6	-20.6	-14.6	-9.3	-8.0
Net D/E	-2.7	-2.2	-2.1	-1.9	-1.7
PER SHARE DATA (Rs)					
EPS	13.4	16.6	21.0	32.6	38.5
CEPS	15.9	19.7	24.4	36.2	42.3
Dividend	5.0	5.8	7.5	9.5	13.0
BV	99.3	109.8	123.3	146.4	172.0
Turnover Ratios (days)					
Debtor days	57	32	35	30	30
Inventory days	252	243	200	190	170
Creditors days	250	85	90	90	90
VALUATION (x)					
P/E	34.0	27.5	21.7	14.0	11.8
P/BV	4.6	4.1	3.7	3.1	2.6
EV/EBITDA	41.3	18.5	11.3	6.0	4.2
EV / Revenues	1.9	1.4	0.9	0.5	0.4
Dividend Yield (%)	1.1	1.3	1.6	2.1	2.9



Garden Reach Shipbuilders & Engineers Ltd.

One Year Price Chart



HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclical of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.



Garden Reach Shipbuilders & Engineers Ltd.



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