Investment Idea

Mazagon Dock Shipbuilders Ltd.

Feb 13, 2025

Mazagon Dock Shipbuilders Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Ship Building & Allied Services	Rs 2256	Buy in Rs 2234-2278 band and add on dips in Rs 2030-2070 band	Rs 2437	Rs 2617	2-3 quarters

HDFC Scrip Code	MAZDOC
BSE Code	543237
NSE Code	MAZDOCK
Bloomberg	MAZDOCKS IN
CMP Feb 13, 2025	2256.0
Equity Capital (Rs Cr)	20.2
Face Value (Rs)	5.0
Equity Share O/S (Cr)	40.3
Market Cap (Rs Cr)	91002.5
Book Value (Rs)	181.0
Avg. 52 Wk Volumes	2,935,378
52 Week High	2930.0
52 Week Low	898.6

Share holding Pattern % (Dec, 2024)	
Promoters	84.8
Institutions	3.0
Non Institutions	12.2
Total	100

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Our Take:

Mazagon Dock Shipbuilders Ltd. (MDSL) is one of India's leading shipbuilding yards, having evolved from a single unit, small ship repair company to a multi-unit and multi-product company. It is India's only shipyard to have built destroyers and conventional submarines for the Indian Navy; one of the initial shipyards in India to manufacture Corvettes (Veer & Khukri Class) in India. The company has delivered 6 Destroyers between 2014 to 2023 i.e, One Destroyer every 18 Months and 3rd Destroyer of P15B delivered 5 Months ahead of Schedule.

MDSL has strong order backlog of Rs 34,787 crore as of Dec 31, 2024 (3.1x TTM revenues), led by three major contracts - Project-17A frigates, Project-15B destroyers and Project-75 submarines. **The company has participated over Rs 36000 crore deal, for three additional Scorpene Submarines, which is likely to be signed by March 31, 2025**. Over the next five to seven years, we expect order inflow opportunities worth Rs 1.2 lakh crore for Mazagon Dock. The company's outstanding projects are to be completed and delivered in the next four-to-five years, providing sufficient revenue visibility.

Valuation & Recommendation:

MDSL has built 801 vessels of which 27 have been warships, totaling over 40,000 dead weight tonnage capacity. Of the 27, nine ships have been destroyers over its journey. The company has also delivered seven submarines to date. MDSL is exploring the establishment of a greenfield shipyard at Nhava Yard, with both short-term and long-term plans to enhance shipbuilding and repair capabilities. This includes the construction of a new 12,000-ton capacity Floating Dry Dock.

MDSL has ability to sustain the growth in overall performance 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 cost, a sudden spike in prices of raw materials, like steel and energy, can impact profitability. Compared to its two PSU peers, it scores better in terms of PAT margins and RoE. However, structural changes in business, the company is likely to report steady margins at profit before tax level in near to medium terms. Benign raw material prices and cost effectiveness efforts could increase the margins going forward. **Investors can buy in the Rs 2234-2278 band and add more on dips to Rs. 2030-2070 band (23.5x FY27E EPS). Base case fair value of the stock is Rs 2437 (28x FY27E EPS) and the bull case fair value of the stock is Rs 2617 (30x FY27E EPS) over the next two to three quarters. At the CMP of Rs 2256 the stock trades at 25.9x FY27E EPS**.

Financial Summary:

Particulars (Rs Cr)	Q3FY25	Q3FY24	YoY-%	Q2FY25	QoQ-%	FY23	FY24	FY25E	FY26E	FY27E
Total Operating Income	3144	2362	33.1	2757	14.0	7,827	9,467	12,439	14,058	17,378
EBITDA	817	539	51.5	511	60.0	798	1,412	2,028	2,334	3,015
Depreciation	40	20	96.6	23	70.7	76	83	121	126	131
Other Income	286	269	6.6	254	12.6	687	1,101	1,443	1,511	1,564
Interest Cost	1	1	-14.0	1	1.8	6	5	6	5	5
Tax	294	195	51.2	188	56.8	357	616	869	939	1,124
RPAT	768	592	29.9	553	39.0	1,046	1,809	2,474	2,774	3,319
APAT	807	627	28.8	583	38.4	1,119	1,937	2,623	2,940	3,518
Diluted EPS (Rs)	20.0	15.5	28.8	14.5	38.4	27.7	48.0	65.0	72.9	87.2
RoE-%						26.0	35.2	36.4	31.9	30.3
P/E (x)						81.3	47.0	34.7	30.9	25.9
EV/EBITDA (x)						97.4	54.4	37.0	30.9	23.5

(Source: Company, HDFC sec)

Q3FY25 Result Update

- MDSL reported strong performance in Q3FY25 with a strong order backlog. Growth momentum is expected to continue in the coming quarters. Its consolidated revenue grew by 33.1% YoY to Rs 3144 crore in Q3FY25.
- The company's EBITDA stood at Rs 817 crore vs. Rs 539 crore in Q3FY24 and EBITDA margin was at 26% in Q3FY25 vs. 22.8% in Q3FY24.
- Net profit grew by 28.8% YoY to Rs 807 crore in Q3FY25, supported by higher other income. Other Income increased to Rs 286 crore in Q3FY25 vs. Rs 269 crore in Q3FY24. Net profit margin was at 25.7% in Q3FY25 vs. 26.5% in Q3FY24.

Recent updates

Robust order book brings healthy revenue visibility

MDSL has strong order backlog of Rs 34,787 crore as of Dec 31, 2024 (3.1x TTM revenues), led by three major contracts - Project-17A frigates, Project-15B destroyers and Project-75 submarines, subgrouped over two critical projects namely the Rs 4,301 crore in P15B Destroyers and Rs 14,518 crore in P17A stealth frigates. MDSL's last P-75 Scorpene Submarines is likely to be delivered by FY25E. The company delivered P-15B Destroyers and P17A Stealth Frigate projects on December 20, 2024. No deliveries are expected in Q4FY25, but the company is confident about a couple of deliveries in FY26E. Three additional P75I submarines are in the pipeline, and the company is confident they can be completed before March 31, FY26.

The company's outstanding projects are to be completed and delivered in the next four-to-five years, providing sufficient revenue visibility. The orders are nomination-based or tender-based, and future revenue is predefined with majority orders from the MoD, thereby lending high credibility to orders.

Projects Status (As on Dec 31, 2024)

Projects	Nos	Client	Proj- Value	Value	To be delivered (No)
Shipbuilding					
P15B Destroyers	4	MOD	28641	4301	-
P17A Stealth Frigates	4	MOD	26803	14518	3
ICGS (CTS,NGOPV,FPV)	21	ICG	2849	2838	21
7500DWT MPV-3 nos	6	European	715	693	6
Submarine and Heavy Engineering					
P75 Scorpene Submarines	6	MOD	28890	2671	1
Medium Refit and Certification (MRLC) of a submarine	1	MOD	2379	1856	1
Part Replacement of Pipeline Project (PRPP)	3	ONGC	6525	5955	3
AIP	1	MOD	1758	1758	1
Others	0	Others	256	197	-
Total				**34787**	

MDL has signed a deal with Defence Ministry of India for the acquisition of 14 Fast Patrol Vessels (FPVs) for the Indian Coast Guard (ICG) on Jan 24, 2024. The value of the contract is Rs 1070.47 crore. These multi-role FPVs will be indigenously designed, developed, and manufactured by MDL under the Buy (Indian-IDDM) Category and will be delivered in a total of 63 months.

On Dec 30, 2024, MDL has signed a contract with Ministry of Defence (MoD), valued at Rs 1,990 crore with the company for the construction of an air independent propulsion (AIP) plug based on technology developed by the Defence Research and Development Organisation (DRDO). The AIP plug will be integrated into Indian submarines to significantly increase their underwater endurance.

Over the next five to seven years, we expect order inflow opportunities worth Rs 1.2 lakh crore for Mazagon Dock, but execution timelines remain uncertain. Going ahead, timely placement of the large orders in defence shipbuilding (like new destroyers, frigates & corvettes), ship-repair and submarines (P-75I and additional three kalvari class submarines) segments would be the key developments to watch out for incoming period. **The company has participated over Rs 36000 crore deal, for three additional Scorpene Submarines, which is likely to be signed by March 31, 2025.**

Expectations of export orders especially from the European region could add orders and revenue going forward

MDSL has been exploring export opportunities in the defence or commercial shipbuilding segment and more opportunities could emerge for the company in future. MDL have already bagged the following export orders:

(a) Inspection of Pipes and Valves from M/s BHIC Submarine Engineering Services Sdn Bhd Malaysia.

(b) MDL has signed contract with a Danish client for Construction and Delivery of Six (06) 7500 DWT Multi-Purpose Hybrid Powered Vessels.

(c) MDL has facilitated yard facility to M/s Porrima, a Switzerland flag experimental boat.
(d) Two orders for Maintenance, Repair & Overhaul (MRO) of MI 17 Helicopter for Nepali Army.
(e) In addition, MDL has signed Master Ship Repair Agreement (MSRA) with the US Government represented by NAVSUP Fleet Logistics Centre Yokosuka to carry out Voyage repairs of US Navy Vessels.
The company's strategic positioning on the west coast of the country provides proximity to the main sea routes crisscrossing the Arabian Sea and Indian Ocean with accessibility to Europe and Middle East. Tie-ups with other small shipyards in the country are in place.

Europe is showing strong traction in the commercial shipbuilding segment as 2000-2500 old vessels are expected to be replaced with electric/hybrid vessels in the next 10 years. This could be a huge opportunity for Indian shipyards in the coming period. In September, the company signed a master ship repair agreement (MSRA) with the US government represented by NAVSUP Fleet Logistics Center (FLC) Yokosuka. This is a non-financial agreement with only two shipyards in the country, including MDSL who have signed MSRA. The agreement is expected to open up voyage repairs of US Navy Ships at MDSL.

Sound financial profile supported by strong debt metrics and comfortable liquidity position

- MDSL's operating and financial performance has been robust led by zero debt, healthy cash generating ability and consistent dividend payment to shareholders over the past. Its production and sales has been as per the shipbuilding schedule over the past. Financial flexibility is strong, supported by robust liquidity.
- MDSL's revenue rose from Rs 3530 crore in FY17 to Rs 9467 crore in FY24, 10.4% CAGR over the period. We expect that the company could report revenue ~22% CAGR over the FY24 to FY27E and EBITDA margin at a range of 16-17% over the FY25E to FY27E.
- 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 FY24.
- The company has sufficient cash and cash equivalent for further investment to expand its business going forward. As on Sept 30, 2023, the company has cash and cash equivalent of Rs 13,594 crore (though this includes advances received from customers).
- MDSL has always been generous in declaring dividends and buybacks over the periods and the company has been paying dividend consistently for the last 19 consecutive years. The company has declared buy back offer two times to the shareholders over the last 5 years. The company has recommended a total dividend (adjusted) at Rs 13.7 per share in FY24. Dividend yield stood at 0.6%.
- Operating cash flow negative in the first half due to delays in payment realizations; expected to normalize by year-end.
- With rise in profitability as well as better return ratios in the future, we expect RoE at in the range of 30% to 36% over the FY25E to FY27E, respectively.

What could go wrong?

- MDSL predominantly depends on the MoD for defence orders and has mostly been awarded such orders on a nomination basis by the MoD for use by the Indian Navy. Further, any changes in the policy framework governing defence procurement and manufacturing in India may have an adverse effect on business growth, financial condition and results of operations. Any reduction or unavailability of the funds available to the Indian Navy could have a material adverse impact on the funding of contracts.
- The current order book is in peak execution stage and we expect the meaningful contribution from new orders once the current order book goes to end. Thus, new order books limits revenue visibility.
- In India, defence sector is open for private participation since 2001 but the country has never seen a bigger private player in the manufacturing of Naval warships, submarines, among others.
- MDSL could see increasing competition from private players. However, the company continues to maintain its edge over new emerging competitors by way of capacity, design, technology, processes, track record of executions 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.
- Warship building and submarine projects generally have long gestation periods due to technological and process complexities and are typically subject to delays due to stringent defence procurement procedures and delays in nominating, procuring and / or finalizing the specifications of the vessel and the weapons, sensors and other equipment by customers and collaborators.
- Higher raw materials (Steel, Steel Alloys, Paint, Diesel and gas prices) could impact its profitability going forward.
- MDSL largely depends on government projects, any delay in cash realization could further increase its receivables days going forward.

Company Profile

Mazagon Dock Shipbuilders Ltd. (MDSL) is one of India's leading Defence public sector undertaking shipyard under the Ministry of Defence. The company is engaged in construction of warships and submarines, and repair of small ship. The company has a large number of workshops situated at Mumbai and Nhava with sophisticated equipment and machines specific to hull fabrication and ship construction work.

The company's current portfolio of designs spans a wide range of products for both domestic and overseas clients. Since 1960, MDSL has built total 801 vessels including 27 warships, from advanced destroyers to missile boats and 7 submarines. MDSL had also delivered cargo ships, passenger ships, supply vessels, multipurpose support vessel, water tankers, tugs, dredgers, fishing trawlers, barges & border out posts for various customers in India as well as abroad. MDSL have also fabricated and delivered jackets, main decks of wellhead platforms, process platforms, jack-up rigs etc.

Mazagon Dock Shipbuilders Ltd.

World class infrastructure

Diverse and established maritime profile

Financials

Income Statement

(Rs Cr)	FY23	FY24	FY25E	FY26E	FY27E
Net Revenues	**7827**	**9467**	**12439**	**14058**	**17378**
Growth (%)	**37**	**21**	**31**	**13**	**24**
Operating Expenses	7029	8055	10411	11724	14363
EBITDA	**798**	**1412**	**2028**	**2334**	**3015**
Growth (%)	**83.5**	**76.9**	**43.6**	**15.1**	**29.2**
EBITDA Margin (%)	**10.2**	**14.9**	**16.3**	**16.6**	**17.4**
Depreciation	76	83	121	126	131
EBIT	**722**	**1328**	**1906**	**2207**	**2885**
Other Income	687	1101	1443	1511	1564
Interest expenses	6	5	6	5	5
PBT	**1403**	**2425**	**3344**	**3713**	**4444**
Tax	357	616	869	939	1124
RPAT	**1046**	**1809**	**2474**	**2774**	**3319**
APAT	**1119**	**1937**	**2623**	**2940**	**3518**
Growth (%)	83.2	73.1	35.4	12.1	19.7
EPS	27.7	48.0	65.0	72.9	87.2

Balance Sheet

As at March	FY23	FY24	FY25E	FY26E	FY27E
SOURCE OF FUNDS					
Share Capital	202	202	202	202	202
Reserves	4558	6042	7959	10092	12723
Shareholders' Funds	**4760**	**6243**	**8160**	**10294**	**12925**
Long Term Debt	0	1	1	1	1
Net Deferred Taxes	-450	-600	-570	-541	-514
Long Term Provisions & Others	563	570	584	600	617
Total Source of Funds	**4873**	**6215**	**8176**	**10353**	**13028**
APPLICATION OF FUNDS					
Net Block & Goodwill	1024	841	955	1039	1100
CWIP	62	68	92	99	106
Other Non-Current Assets	1842	2151	2284	2426	2621
Total Non Current Assets	**2928**	**3061**	**3331**	**3564**	**3826**
Inventories	7357	5713	7497	8088	9522
Trade Receivables	1002	1847	2386	2696	2857
Cash & Equivalents	13286	14210	16024	18976	20078
Other Current Assets	4440	4018	3817	3626	3445
Total Current Assets	**26085**	**25788**	**29724**	**33387**	**35902**
Short-Term Borrowings	6	0	0	0	0
Trade Payables	4463	4466	5793	6547	7618
Other Current Liab & Provisions	19671	18168	19086	20051	19083
Total Current Liabilities	**24140**	**22634**	**24879**	**26598**	**26701**
Net Current Assets	**1945**	**3154**	**4845**	**6789**	**9202**
Total Application of Funds	**4873**	**6215**	**8176**	**10353**	**13028**

(Source: Company, HDFC sec)

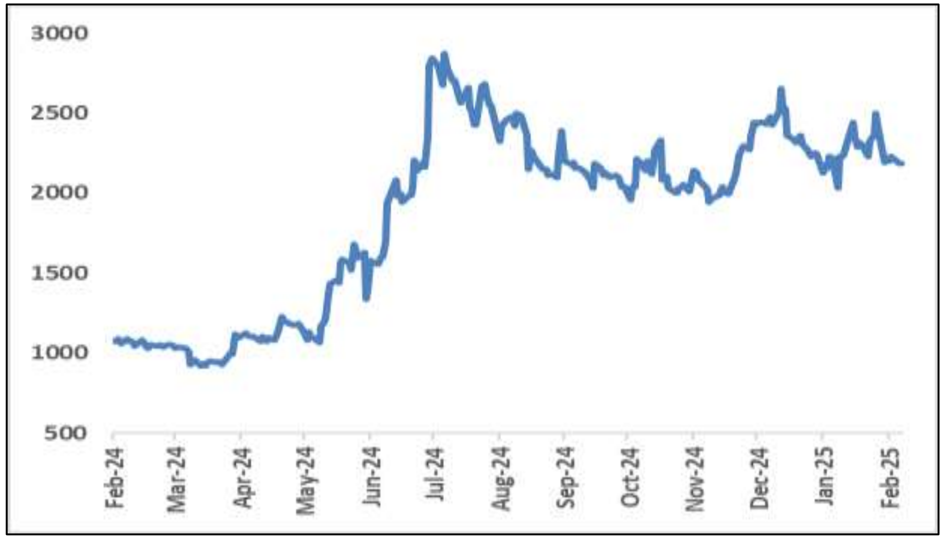
Cash Flow Statement

(Rs Cr)	FY23	FY24	FY25E	FY26E	FY27E
Reported PBT	1,403	2,425	3,344	3,713	4,444
Non-operating & EO items	-614	-1,007	-1,443	-1,511	-1,564
Interest Expenses	6	5	6	5	5
Depreciation	76	83	121	126	131
Working Capital Change	958	-145	174	1,059	-1,260
Tax Paid	-312	-677	-869	-939	-1,124
OPERATING CASH FLOW (a)	**1,516**	**684**	**1,333**	**2,454**	**630**
Capex	-134	105	-250	-200	-200
Free Cash Flow	1,382	788	1,083	2,254	430
Investments	-638	291	0	0	0
Non-operating income	623	1,007	1,443	1,511	1,564
INVESTING CASH FLOW (b)	**-150**	**1,403**	**1,193**	**1,311**	**1,364**
Debt Issuance / (Repaid)	0	0	0	0	0
Interest Expenses	-2	-1	-6	-5	-5
FCFE	1,383	789	1,088	2,259	435
Share Capital Issuance	0	0	0	0	0
Dividend	-216	-448	-706	-807	-887
Other	0	0	0	0	0
FINANCING CASH FLOW (c)	**-218**	**-449**	**-711**	**-812**	**-892**
NET CASH FLOW (a+b+c)	**1,148**	**1,638**	**1,814**	**2,953**	**1,102**

Key Ratios

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Profitability Ratio (%)					
EBITDA Margin	10.2	14.9	16.3	16.6	17.4
EBIT Margin	9.2	14.0	15.3	15.7	16.6
APAT Margin	14.3	20.5	21.1	20.9	20.2
RoE	26.0	35.2	36.4	31.9	30.3
RoCE	32.9	45.4	47.4	41.4	38.4
Solvency Ratio (x)					
Net Debt/EBITDA	-16.6	-10.1	-7.9	-8.1	-6.7
Net D/E	-2.8	-2.3	-2.0	-1.8	-1.6
PER SHARE DATA (Rs)					
EPS	27.7	48.0	65.0	72.9	87.2
CEPS	29.6	50.1	68.0	76.0	90.5
Dividend	8.0	13.7	17.5	20.0	22.0
BV	118.0	154.8	202.3	255.2	320.4
Turnover Ratios (days)					
Debtor days	47	71	70	70	60
Inventory days	343	220	220	210	200
Creditors days	208	172	170	170	160
VALUATION (x)					
P/E	81.3	47.0	34.7	30.9	25.9
P/BV	19.1	14.6	11.2	8.8	7.0
EV/EBITDA	97.4	54.4	37.0	30.9	23.5
EV / Revenues	9.9	8.1	6.0	5.1	4.1
Dividend Yield (%)	0.4	0.6	0.8	0.9	1.0

One Year Price chart



(Source: Company, HDFC sec)

HDFC Sec Prime 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 cyclicality 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.

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