

Stock Update

Mazagon Dock Shipbuilders Ltd.

Dec 26, 2023





Mazagon Dock Shipbuilders Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Ship Building & Allied Services	Rs. 2121.4	Buy in the Rs. 2100-2142 band & add more on dips to Rs. 1900-1934 band	Rs. 2338	Rs. 2525	2 -3 quarters

HDFC Scrip Code	MAZDOC
BSE Code	543237
NSE Code	MAZDOCK
Bloomberg	MAZDOCKS IN
CMP Dec 22, 2023	2121.4
Equity Capital (Rs Cr)	201.7
Face Value (Rs)	10.0
Equity Share O/S (Cr)	20.2
Market Cap (Rs Cr)	42786.5
Book Value (Rs)	237.0
Avg. 52 Wk Volumes	2,935,378
52 Week High	2483.0
52 Week Low	612.8

Share holding Pattern % (Sept, 2023)	
Promoters	84.8
Institutions	4.1
Non Institutions	11.1
Total	100.0



* Refer at the end for explanation on Risk Ratings

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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.

MDSL has strong order backlog of Rs 37,500 crore as of Sept 30, 2023 (4.75x 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 15,814 crore in P15B Destroyers and Rs 18501 crore in P17A stealth frigates, the current orders could be executed in the next 3-3.5 years. The company is expected to execute P17A Stealth Frigate projects which are running largely as per the schedule with an expected delivery timeline of FY25E onward. MDSL's last P-75 Scorpene Submarines is likely to be delivered by FY25E.

MDSL is a strong contender for an order book of roughly about Rs. one lakh crore led by five new generation destroyers of Rs ~50,000 crore and six conventional submarines (Scorpene submarines P75I) of Rs 43,000 crore. Germany's Thyssenkrupp and India's MDSL have signed an agreement to participate in a submarine tender by the Indian Navy that sources said has a value of around \$5.2 billion. As part of the planned cooperation, Thyssenkrupp would take care of engineering and design, while MDSL would be in charge of construction and the delivery of six submarines the Indian Navy has tendered. These submarines will be powered by a new technology called air-independent propulsion (AIP). They will be built under a Rs 45,000-crore program called Project 75-I. MDSL-TKMS combine will be competing in Project 75-I with another combine, in which Larsen & Toubro (L&T) is partnering Spanish shipbuilder, Navantia.

MDSL has raised its revenue growth guidance for FY24E and expects to report revenue growth of 12-15% for the current financial year, compared to the 10-12%, it guided for earlier. There would be better clarity on the order book in the next 6-12 months.

On June 08, 2023, we had issued an Initiating Coverage report on MDSL ([Link](#)) and recommend to buy in the Rs. 1009-1050 band & add more on dips to Rs. 923-941 band for base case target of Rs 1131 and bull case target of Rs 1231 over the next two to three quarters. The stock achieved its base case target before expiry of the period. Given healthy growth outlook and expectation of strong set of numbers in H2FY24, we have now revised earnings estimates and target price.

Valuation & Recommendation:

MDSL 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 15.17% shares to the public in Sept 2020, GOI is holding 84.83% stake in the company. A substantial portion of its turnover (~ 97%) is on account of the construction of



warships for the Indian Navy and Coast Guard, and therefore, it is a strategically important entity. MDSL could be one of the key beneficiaries of defence indigenization theme pushed by the Govt.

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.

Expectation of improvement in book to bill ratio due to bids in pipeline coupled with timely execution of current order book could lead to re-rating of MDSL. Compared to its two PSU peers, it scores better in terms of PAT margins and RoE.

Investors can buy in the Rs 2100-2142 band and add more on dips to Rs. 1900-1934 band (20.5x Sept'25E EPS). Base case fair value of the stock is Rs 2338 (25x Sept'25E EPS) and the bull case fair value of the stock is Rs 2525 (27x Sept'25E EPS) over the next two to three quarters. At the CMP of Rs 2121.40 the stock trades at 22.7x Sept'25E EPS.

Financial Summary

Particulars (Rs Cr)	Q2FY24	Q2FY23	YoY-%	Q1FY24	QoQ-%	FY22	FY23	FY24E	FY25E	FY26E
Total Operating Income	1828	1702	7.4	2173	-15.9	5,733	7,827	8,630	10,597	13,885
EBITDA	177	118	50.0	172	2.8	435	798	906	1,166	1,562
Depreciation	20	18	9.4	20	2.3	75	76	85	92	102
Other Income	251	164	53.7	233	8.1	410	687	915	1,028	1,125
Interest Cost	1	1	-13.6	1	-1.6	7	6	6	5	5
Tax	103	66	54.7	97	6.3	186	357	437	530	653
RPAT	304	195	55.8	287	5.9	577	1,046	1,294	1,566	1,927
APAT	333	214	55.6	315	5.8	611	1,119	1,397	1,691	2,081
Diluted EPS (Rs)	16.5	10.6	55.6	15.6	5.8	30.3	55.5	69.3	83.8	103.2
RoE-%						16.8	26.0	26.7	26.7	26.9
P/E (x)						70.0	38.2	30.6	25.3	20.6
EV/EBITDA (x)						72.0	37.0	30.8	22.8	16.3

(Source: Company, HDFC sec)

Q2FY24 Result Update

- MDSL numbers were above expectations in Q2FY24. Its consolidated revenue grew by 7.4% YoY to Rs 1828 crore in Q2FY24. The company's EBITDA stood at Rs 177 crore vs. Rs 118 crore in Q2FY23 and EBITDA margin was at 9.7% in Q2FY24 vs. 6.9% in Q2FY23.
- Net profit grew by 55.6% YoY, stood at Rs 333 crore in Q2FY24, supported by higher other income. Other Income increased to Rs 251 crore in Q2FY24 vs. Rs 164 crore in Q2FY23. Net profit margin was at 18.2% in Q2FY24 vs. 12.6% in Q2FY23.



Key Updates

Robust order book brings healthy revenue visibility

MDSL has strong order backlog of Rs 37,500 crore as of Sept 30, 2023 (4.75x 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 15,814 crore in P15B Destroyers and Rs 18501 crore in P17A stealth frigates. Besides, Other projects like 1 Hospital ship, 6 high speed landing craft, 7 NG Fast Attack Craft, 6 Offshore Patrol Vessels, 4 Fast Patrol Vessels, 12 Air Cushion Vessel and one Polar Research Vessels are under the pipeline, the current orders could be executed in the next 3-3.5 years. The company is expected to execute P17A Stealth Frigate projects which are running largely as per the schedule with an expected delivery timeline of FY25E onward. MDSL's last P-75 Scorpene Submarines is likely to be delivered by FY25E.

MDSL has signed two orders from Concor for manufacturing 2,500 shipping containers and MDSL has initiated design & development of indigenous midget submarine. Further, it has developed six Pax hydrogen fuel cell powered electric vessel, in collaboration with TATA Advanced Systems. Besides, MDSL has bagged a Rs 310 crore order from the government on Oct 07, 2023 for the construction of a coast guard training ship. The Ministry of Defence signed a contract for the construction of a training ship for the Indian Coast Guard with MDSL under the Buy (Indian-IDD) category. This is the first dedicated training platform with integral helicopter capabilities that will provide basic sea training to 70 Coast Guard and other international under-trainee officers to prepare these budding mariners for the multi-dimensional maritime aspects of Coast Guard life. The ship will be equipped with advanced and modern, high-tech surveillance and monitoring systems.

On Nov 11, 2023, MDSL won an order worth Rs 1,145 crore from ONGC on a turnkey basis, margins are expected to be relatively lesser than the existing contracts. With this contract, the order book is estimated to be at about Rs 37000 crore (4.7x TTM revenues), giving healthy revenue visibility over FY24-26E. On Dec 15, 2023, MDSL intimated that it has signed individual Shipbuilding Contracts with the European client for construction of three (03) units of 7,500 DWT Multi-Purpose Hybrid Powered Vessels on December 14, 2023 for a value of approx. 42 million USD. ON Dec 08, 2023. MDSL has signed a contract with Acquisition wing of Ministry of Defence for Construction and Delivery of six (06) Next generation Offshore Patrol Vessels (NGOPVs) for Indian Coast Guard (ICG) on 20 Dec 2023 for Rs.1600 crore.

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

MDSL is a strong contender for an order book of roughly about Rs. one lakh crore led by five new generation destroyers of Rs ~50,000 crore and six conventional submarines (Scorpene submarines P75I) of Rs 43,000 crore. A number of RFPs for various shipbuilding projects have been floated by the Ministry of Defence over the last couple of years, and some more are expected to be rolled-out in the near future. On exports front, the company has submitted a techno-commercial proposal to a shipyard in Russia for participating in its shipbuilding program. However, in view of the current geo-political situation and the nature of work being very different from what was initially expected, not much traction has happened on this front.



Status of Major Projects

Projects	Awarding Date	Submarine/Warship	Launch	Commission	Status
P75-I Submarines	Oct-05	INS Kalvari	Oct-15	Dec-17	
		INS Khanderi	Jan-17	Sep-19	
		INS Karanj	Jan-18	Mar-21	
		INS Vela	May-19	Nov-21	
		INS Vagir	Nov-20	2022 end (Exp)	Sea Trial-In progress
		INS Vagshseer	Apr-22	2025 end (Exp)	Under Construction
P-15B Destroyers	Jan-11	INS Vishakhapatnam	Apr-15	Nov-21	
		INS Mormugao	Sep-16	Sep/Oct-22 (Exp)	Delivered on Nov 24,2022
		INS Imphal	Apr-19	2024 (Exp)	Under Construction
		INS Surat	May-22	2025 (Exp)	Under Construction
P-17A Frigates	Feb-15	INS Nilgiri	Sep-19	Sep/Oct-22 (Exp)	Sea Trial-In progress
		INS Udaygiri	May-22	2025 (Exp)	Under Construction
		INS Taragiri	Sep-22	2025/26 (Exp)	Under Construction
		INS Vindhyagiri	TBL		Under Construction

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, MDSL revenue is expected to grow significantly during the next three to three and half years.

Focused to strengthen the infrastructure for timely order execution

MDSL fully delivered five Kalvari Class Conventional Submarines to Indian Navy between 2017 to 2022. Further, the company also successfully delivered two Missile Destroyers to the Indian Navy one each in FY22 and FY23, highlight being that both these Ships were delivered to the Indian Navy within the contractual timelines. The company is focused and experiencing all efforts to complete the balance vessels under each of these Projects, i.e, Project 75, Project 15B and Project 17A, MRC of SSK Submarines on priority.

The company has been strengthening the infrastructure to execute the order on time and recently the company decided to the following initiatives going forward;

- MDSL plans to set up a green field shipyard at its Nhava Yard in a phased manner with short term and long term development plans based on better visibility with respect to large ticket orders.



- The company is planning for building a New Floating Dry Dock of 12000T capacity to undertake the construction of advanced and next generation vessels.
- The company is committed towards creating a skill development hub with an Apprentice Training School (ATS) and associated development work at Gavhan village, Navi Mumbai.

Expectations of export orders especially from 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. MDSL signed Letter of Intent (LOI) with a European client for construction of 6 firms and 4 optional units of 7500 DWT (Deadweight Tonnage) MultiPurpose Hybrid Power Vessels in the month of Oct-2023. The prices for which would be firmed up at the time of Signing of Contract. The Lol outlines plans for the construction of six firm units and four optional units of 7,500 DWT multi-purpose hybrid power vessels.

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 and there are 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.

Modern manufacturing programs to strengthen the capabilities and provides end to end solutions

MDSL has undertaken a modernization program at a cost of Rs 900 crore, and has increased the building capacity of warship and Submarine over the period since 2014. The company has developed Shore Integration Facilities (SIF) for Shipbuilding and Submarine Divisions, separately, to integrate and simulate various systems and equipment prior to fitting them onboard.

MDSL concluded a Memorandum of Understanding in June-2023 with ThyssenKrupp Marine Systems for the local construction of submarines for the Indian Navy, the partners have also teamed up again for the overhaul and modernization of the Indian submarine INS SHANKUSH in the month of July 2023. INS SHANKUSH is the second submarine in a series of four HDW Class 209 Type 1500 boats that are all still in service. The submarines were built and delivered for the Indian Navy in the 1980s as part of a German-Indian cooperation. After seeing service for decades, INS SHANKUSH is now due for a planned extension of its operational capability.

On Oct 21, 2022, MDSL had collaborated with Altair, a global leader in computational science and artificial intelligence (AI), for multiple simulation areas. In this collaboration, MDSL will utilize Altair solutions for simulation-driven design and validation, structural fidelity calculations, shock and vibration assessments, hydrodynamic loading, electromagnetic simulation, and more. The collaboration agreement strengthens the relationship between the two companies, as MDSL already utilizes various Altair solutions to develop its robust ship design and engineering offerings. Altair solutions are used extensively in the marine and maritime industries.



Sound financial profile

- 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 7827 crore in FY23, 9.2% CAGR over the period. We expect that the company could report revenue ~21% CAGR over the FY23 to FY26E and EBITDA margin at a range of 10.5-11.5% over the FY24E to FY26E.
- 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.
- 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 13,802 crore (though this includes advances received from customers).
- The company has always been generous in declaring dividends and buybacks over the periods and the company has been paying dividend consistently for the last 18 consecutive years. The company has declared buy back offer two times to the shareholders over the last 5 years. The board has recommended a total dividend at Rs 22.2 per share to the shareholders for FY24E.
- The inventory days has decreased from 490 days to 343 days and the receivable days decreased from 64 days to 47 days as on March 31, 2023.
- With rise in profitability as well as better return ratios in the future, we expect RoE at in the range of 26.5-27% for FY25E and FY26E, 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.
- 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.



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- Higher raw materials (Steel, Steel Alloys, Paint, Diesel and gas prices) could impact its profitability going forward.
- Adverse sea waves and storm type of situation could impact its operation, it could result in damages and cost burden.
- 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.

Peer Comparison

Rs in Cr	Mkt Cap (Cr)	Sales (Cr)			PAT (Cr)			EPS			ROE-%			P/E-x		
		FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Mazagon Dock	42787	8630	10597	13885	1397	1691	2081	69.3	83.8	103.2	26.7	26.7	26.9	30.6	25.3	20.6
GRSE	9389	3495	4255	5139	347	429	525	30.3	37.5	45.8	22.6	23.9	24.8	27.1	21.9	17.9
Cochin Shipyard	6258	17119	4745	5983	512	602	786	39	45.8	59.7	11.1	12	14.4	33.4	28.4	21.8

(Source: HDFC sec)



Mazagon Dock Shipbuilders Ltd.

Financials (Consolidated)

Income Statement

(Rs Cr)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenues	5733	7827	8630	10597	13885
Growth (%)	42	37	10	23	31
Operating Expenses	5299	7029	7724	9431	12323
EBITDA	435	798	906	1166	1562
Growth (%)	94.2	83.5	13.6	28.6	34.0
EBITDA Margin (%)	7.6	10.2	10.5	11.0	11.3
Depreciation	75	76	85	92	102
EBIT	360	722	822	1073	1460
Other Income	410	687	915	1028	1125
Interest expenses	7	6	6	5	5
PBT	763	1403	1731	2096	2580
Tax	186	357	437	530	653
RPAT	577	1046	1294	1566	1927
APAT	611	1119	1397	1691	2081
Growth (%)	18.9	83.2	24.9	21.0	23.1
EPS	30.3	55.5	69.3	83.8	103.2

Balance Sheet

As at March (Rs Cr)	FY22	FY23	FY24E	FY25E	FY26E
SOURCE OF FUNDS					
Share Capital	202	202	202	202	202
Reserves	3656	4558	5508	6745	8322
Shareholders' Funds	3858	4760	5710	6947	8524
Long Term Debt	5	0	0	0	0
Net Deferred Taxes	-447	-450	-473	-449	-427
Long Term Provisions & Others	724	563	568	583	599
Total Source of Funds	4139	4873	5806	7081	8697
APPLICATION OF FUNDS					
Net Block & Goodwill	965	1024	1130	1268	1462
CWIP	87	62	103	114	134
Other Non-Current Assets	1742	1842	1841	1923	2067
Total Non Current Assets	2794	2928	3074	3305	3663
Inventories	7700	7357	8275	10161	13315
Trade Receivables	1005	1002	1419	1742	2283
Cash & Equivalents	11480	13286	14916	16243	17295
Other Current Assets	6343	4440	4218	4007	3686
Total Current Assets	26529	26085	28828	32153	36578
Short-Term Borrowings	7	6	3	3	3
Trade Payables	6166	4463	5438	6677	8750
Other Current Liab & Provisions	19011	19671	20655	21697	22792
Total Current Liabilities	25184	24140	26096	28377	31544
Net Current Assets	1346	1945	2732	3776	5034
Total Application of Funds	4139	4873	5806	7081	8697

(Source: Company, HDFC sec)



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Cash Flow Statement

(Rs Cr)	FY22	FY23	FY24E	FY25E	FY26E
Reported PBT	749	1,403	1,731	2,096	2,580
Non-operating & EO items	-357	-614	-915	-1,028	-1,125
Interest Expenses	7	6	6	5	5
Depreciation	75	76	85	92	102
Working Capital Change	-335	300	844	328	-161
Tax Paid	-302	-312	-437	-530	-653
OPERATING CASH FLOW (a)	-163	858	1,313	963	748
Capex	-31	-134	-145	-205	-312
Free Cash Flow	-193	723	1,168	758	436
Investments	-9	20	0	0	0
Non-operating income	366	623	915	1,028	1,125
INVESTING CASH FLOW (b)	326	508	770	823	813
Debt Issuance / (Repaid)	0	-6	0	0	0
Interest Expenses	-3	-2	-6	-5	-5
FCFE	-190	730	1,174	764	441
Share Capital Issuance	0	0	0	0	0
Dividend	-180	-216	-448	-454	-504
Other	0	0	0	0	0
FINANCING CASH FLOW (c)	-183	-224	-453	-459	-509
NET CASH FLOW (a+b+c)	-19	1,142	1,630	1,327	1,051

Key Ratios

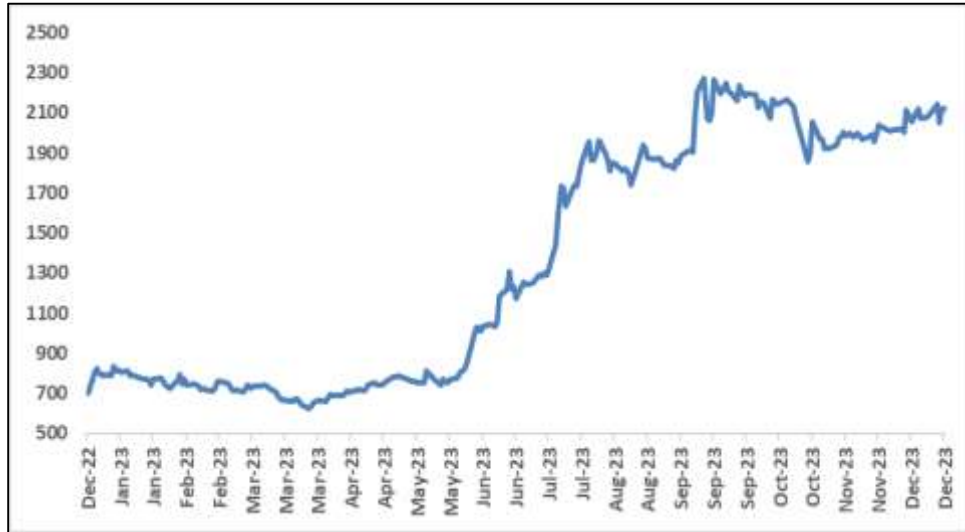
Particulars	FY22	FY23	FY24E	FY25E	FY26E
Profitability Ratio (%)					
EBITDA Margin	7.6	10.2	10.5	11.0	11.3
EBIT Margin	6.3	9.2	9.5	10.1	10.5
APAT Margin	10.7	14.3	16.2	16.0	15.0
RoE	16.8	26.0	26.7	26.7	26.9
RoCE	20.6	32.9	35.8	35.6	35.1
Solvency Ratio (x)					
Net Debt/EBITDA	-26.4	-16.6	-16.5	-13.9	-11.1
Net D/E	-3.0	-2.8	-2.6	-2.3	-2.0
PER SHARE DATA (Rs)					
EPS	30.3	55.5	69.3	83.8	103.2
CEPS	34.0	59.2	73.5	88.4	108.2
Dividend	8.7	9.1	22.2	22.5	25.0
BV	191.3	236.0	283.1	344.4	422.6
Turnover Ratios (days)					
Debtor days	64	47	60	60	60
Inventory days	490	343	350	350	350
Creditors days	393	208	230	230	230
VALUATION (x)					
P/E	70.0	38.2	30.6	25.3	20.6
P/BV	11.1	9.0	7.5	6.2	5.0
EV/EBITDA	72.0	37.0	30.8	22.8	16.3
EV / Revenues	5.5	3.8	3.2	2.5	1.8
Dividend Yield (%)	0.4	0.4	1.0	1.1	1.2

(Source: Company, HDFC sec)



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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.



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Disclosure:

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Any holding in stock – No

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