

Strong performance amid uncertainty...

Cochin Shipyard (CSL) reported a strong performance in Q4FY20 led by improvement in margins and transmission of the same to the bottomline. Shipbuilding (SB) revenues grew 7.7% YoY to ₹ 712.6 crore while shiprepair (SR) segment contracted 17.3% YoY to ₹ 104 crore during the quarter. Overall, revenues increased 3.7% YoY to ₹ 816.7 crore. On a segmental profitability front, SB reported EBIT margins of 29.9% whereas SR clocked margins of 27.8%. SB, SR segments contributed 87.2%, 12.8% to the topline, respectively. EBITDA margin was at 20% during the quarter. Gross margins were at 42.1% vs. 35.2% YoY (lower input costs). Employee expenses increased 26% YoY. Absolute EBITDA grew 48.3% YoY to ₹ 163 crore. Other fell 30.8% YoY to ₹ 45 crore. Depreciation expenses rose 39.5% YoY while finance costs came at ₹ 11.1 crore, up 2.1x on account of adoption of Ind-AS 116 lease. Accordingly, PAT grew 42.3% YoY to ₹ 138.8 crore.

Execution delays to impact FY21E...

The management revised their guidance from 15% growth to a flat performance for FY21E while guiding SR segment would clock revenue of ₹ 550 crore in FY21E. During the quarter, CSL delivered eight RO-Pax vessels for IWAI, launched 1200 PAX 1000 MT cargo vessel for A&N administration and delivered one fishing vessel. CSL's current orderbook is at ₹ 14630 crore while the company is L2 in a current bid for floating dock for Navy and L3 in pollution control vessel for the coast guard. Current upcoming orders include new gen offshore patrol vessel, multipurpose vessel and next gen missile vessel. All three together provide an opportunity of ₹ 13000-15000 crore for CSL. IAC basin trials that were scheduled for April 2020 have now been shifted to September 2020. Thus, delivery of IAC may get extended from the earlier date of February 2021. Further, due to lockdown, ISRF, dry dock capex have been impacted heavily as most migrant labourers have left. Till date, CSL has spent ₹ 555 crore & ₹ 436 crore capex on dry dock and ISRF, respectively, and does not expect any cost overruns. Once operational, ISRF is likely to bring revenues of ~₹ 200 crore in first year thereby growing up to ₹ 650 crore in the next three to four years. Further CSL expects delay in collection of receivables from customers but liquidity will not be a major concern as it has sufficient cash balance to sail through.

Valuation & Outlook

CSL continues to have a solid order book of ₹ 14631 crore. However, a delay in execution due lockdown would have an impact in H1FY21E earnings. Thus, we build in 4.1%, -9.9%, -8.1% revenue, EBITDA and PAT CAGR for FY20-22E, respectively. SB revenues are expected to grow at 6.9% CAGR while shiprepair is expected to grow at 2.1% CAGR in FY20-22E. We expect overall margins to get diluted in FY21E on account of impact on operations due to shutdown and lower other income. On the whole, we maintain **BUY** rating on the stock and value CSL at 9x FY22E earnings to arrive at a target price of ₹ 370.

Key Financial Summary

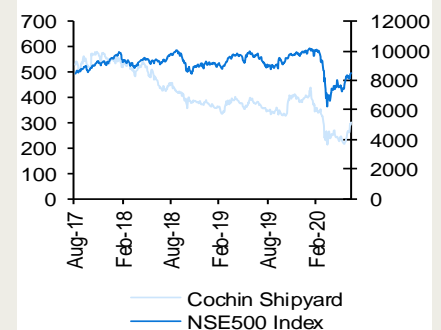
(₹ crore)	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Revenues	2,355	2,962	3,422	3,182	3,711	4.1
EBITDA	464	569	709	535	575	(9.9)
EBITDA margins	19.7	19.2	20.7	16.8	15.5	
Net Profit	396	478	638	424	538	(8.1)
EPS (₹)	29.2	36.3	48.5	32.2	40.9	
P/E (x)	10.6	8.5	6.4	9.6	7.6	
Price / Book (x)	1.3	1.2	1.1	1.0	1.0	
EV/EBITDA (x)	1.8	2.9	2.8	5.7	6.4	
RoCE (%)	13.4	19.0	17.6	12.4	13.9	
RoE (%)	12.2	14.5	17.1	10.9	12.7	

Source: Company, ICICI Direct Research



Particulars	Amount
Market Capitalization*	₹4065 Crore
Total Debt (FY 20)	₹123 Crore
Cash & Inv (FY 20)	₹2176 crore
EV (FY 20)	₹2012 Crore
Equity capital**	₹131.5 Crore
Face value	₹10

Price chart



Key Highlights

- ISRF & dry dock execution delayed
- Solid order book at ₹ 14630 crore
- IAC basin trials delayed till September
- Maintain BUY recommendation with a revised target price of ₹ 370

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Exhibit 1: Variance analysis

	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	
Revenue	816.7	787.6	3.7	896.1	-8.9	Shipbuilding and shiprepair segment contributed 87.2% and 12.8%, respectively
Other Income	45.0	65.0	-30.8	54.9	-18.0	
Total Revenue	861.7	852.6	1.1	951.0	-9.4	
Total Raw Material Costs	472.8	510.6	-7.4	571.6	-17.3	
Employee Expenses	86.2	68.5	25.9	75.2	14.7	
Other expenses	42.2	40.4	4.5	45.2	-6.6	
Provision for losses & exp.	52.4	58.1	-9.9	5.7	815.6	
Operating Profit (EBITDA)	163.0	110.0	48.3	198.4	-17.8	
EBITDA margin (%)	20.0%	14.0%	600 bps	22.1%	-218 bps	
Interest	11.1	5.3	110.3	11.2	-0.8	
Depreciation	12.2	8.7	39.5	12.4	-1.7	
Total Tax	45.9	63.4	-27.6	58.6	-21.6	
PAT	138.8	97.5	42.3	171.1	-18.9	

Key Metrics	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	
Revenue (Segment-wise)						
Shipbuilding	712.6	661.7	7.7	747.4	-4.7	IAC execution led to higher growth
As a % of Sales	87.2%	84.0%		83.4%		
Shiprepair	104.1	125.9	-17.3	148.7	-30.0	Shiprepair segment was down on account of 1 off execution in previous year
As a % of Sales	12.8%	16.0%		16.6%		
EBIT (Segment-wise)						
Shipbuilding	213.2	181.0	17.8	175.2	21.7	
EBIT Margins (%)	29.9%	27.4%		23.4%		
As a % of EBIT	108.9%	108.9%		72.7%		
Shiprepair	29.0	-7.1	-510.9	19.9	45.6	
EBIT Margins (%)	27.8%	-5.6%		13.4%		
As a % of EBIT	14.8%	-4.2%		8.3%		

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY19	FY20	FY21E		FY22E
(₹Crore)	Actual	Actual	Old	New	% Change
Revenue	2962.2	3422.5	4114.2	3181.9	-22.7
EBITDA	569.2	709.3	732.3	534.6	-27.0
EBITDA Margin (%)	19.2	20.7	17.8	16.8	-100 bps
PAT	477.8	637.7	600.5	424.1	-29.4
EPS (₹)	36.3	48.5	45.7	32.2	-29.4

Source: Company, ICICI Direct Research

Conference call takeaways – Q4FY20

- **CSL's order backlog at ₹ 14,631 crore**

Exhibit 3: CSL's Order book

Sr.No.	Current order book	Total No of Vessels	Balance orders
1	Order from Indian Navy (IAC & ASW Corvette)	9	12813
2	Orders from GOI, MOS	6	578
3	Orders from GOI,MOD &MHA	4	342
4	Small passenger ferry (KMRL) & mini cargo vessels	27	388
5	Fishing Vessels (TN Govt) & Other small vessels	-	9.14
6	Ship repair orders		500
	Total ₹		14631

Source: Company, ICICI Direct Research

- Target ₹ 550 crore revenue from Shiprepair segment for FY21E.
- Eight of 10 Ropax vessels dispatched while two are under construction
- Construction of ISRF, new dry dock is expected to get delayed on account of labour shortage
- Fabrication work for ASW to start later in the current year
- ISRF total capacity would be up to 70 vessels. For the first year, CSL expects ₹ 200 crore worth of revenue while gradually increasing up to ₹ 650 crore in three to four years after that
- Downward revision of revenue from Mumbai port to ₹ 70-80 crore
- CSL faced disruption in production from March 23, 2020, to May 5, 2020. Currently, the company is working at 65% capacity levels
- Revenue booked in FY20 for indigenous air craft carrier
Cost plus ₹ 1483 crore
Fixed price ₹ 894 crore

Major expansion update

New large dry dock

- ✓ Dock: 310m x 75/60m x 13m and other allied facilities
- ✓ Estimate: ₹ 1799 crore
- ✓ Target completion: December 2022
- ✓ Construction of complex, technology intensive large vessels like LNG carriers, offshore drill ships, aircraft carriers, offshore rigs, semi-submersibles, etc
- ✓ Cumulative expenditure till date is ₹ 555 crore
- ✓ Repair of 80 additional vessels a year. Increase in repair throughput by around 70%

Status

- ✓ Overall physical completion – 31%
- ✓ Labour shortage, disruption in material supply chains have severely affected execution
- ✓ Currently work is being carried out with 50% labour strength in order to comply social distancing norms
- ✓ Construction contractor, crane manufacturer, project management consultant, etc, had already intimated force majeure due to Covid-19
- ✓ Projected date of commissioning is targeted by December 31, 2022

International ship repair facility (ISRF)

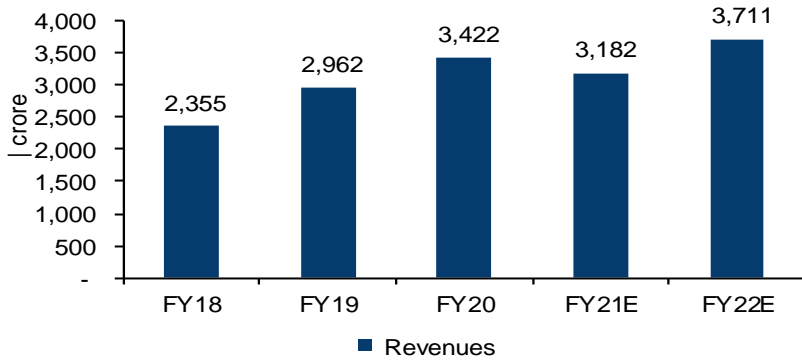
- ✓ Ship lift: 130 m x 25 m x 6000 T with six workstations
- ✓ Estimate: ₹ 970 crore
- ✓ Target completion: December 2021
- ✓ Cumulative expenditure till date is ₹ 436 crore

Status

- ✓ Overall physical completion 68%
- ✓ Execution affected due to labour shortage, disruption in material supply, suppliers invoking *Force Majeure* due to Covid-19

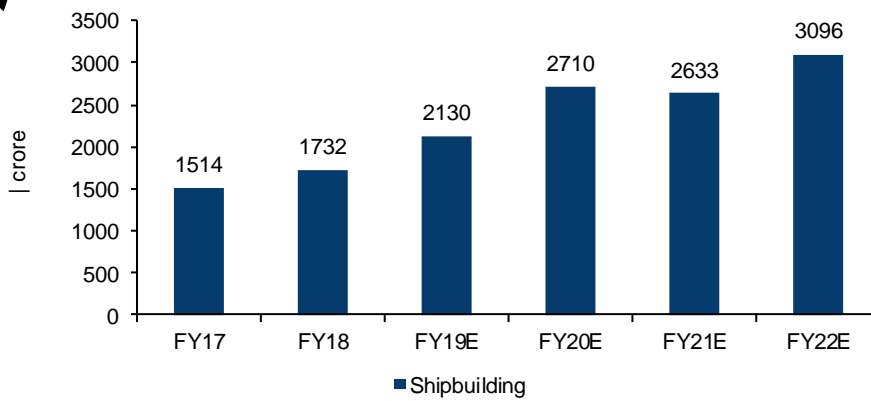
Financial story in charts

Exhibit 4: Revenue trend (consolidated)



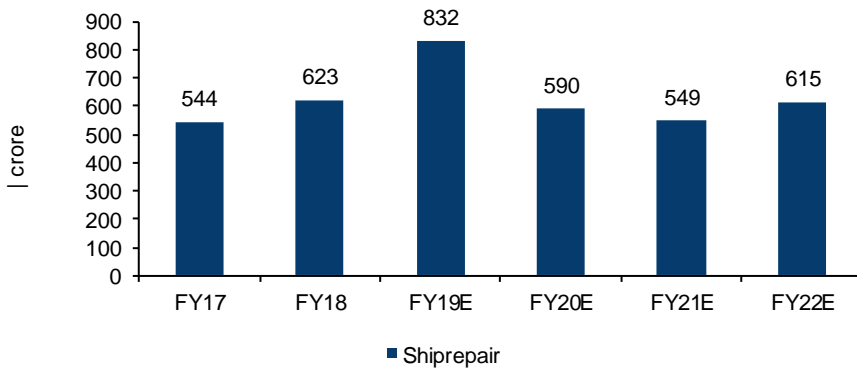
Source: Company, ICICI Direct Research

Exhibit 5: Shipbuilding revenue trend



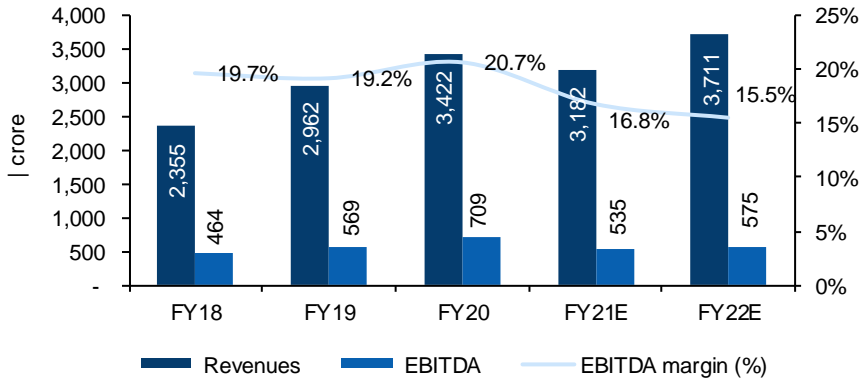
Source: Company, ICICI Direct Research

Exhibit 6: Shiprepair revenue trend



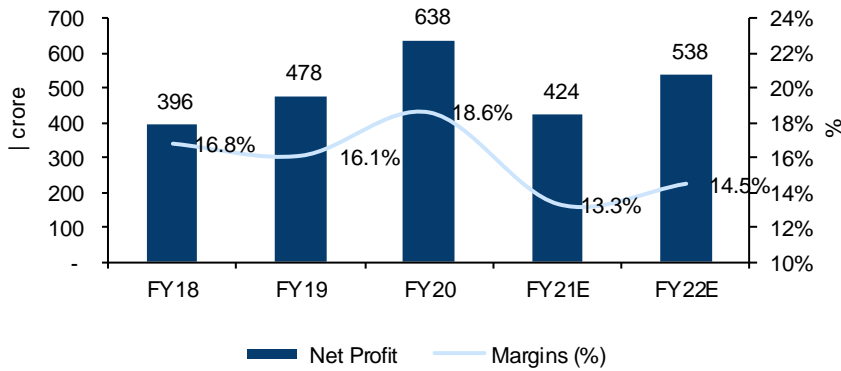
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA and EBITDA margin trend



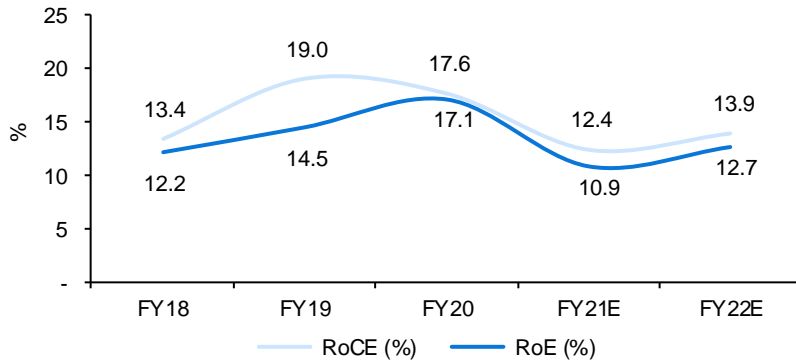
Source: Company, ICICI Direct Research

Exhibit 8: PAT and PAT margins trend



Source: Company, ICICI Direct Research

Exhibit 9: RoE and RoCE trend



Source: Company, ICICI Direct Research

Financial summary

Exhibit 10: Profit and loss statement				
₹ crore				
(₹Crore)	FY19	FY20	FY21E	FY22E
Net Sales	2,962	3,422	3,182	3,711
Operating income	-	-	-	-
Revenue	2,962	3,422	3,182	3,711
% Growth	25.8	15.5	(7.0)	16.6
Other income	226.8	247.5	130.0	175
Total	3,215	3,670	3,312	3,886
% Growth	25.6	14.2	(9.8)	17.3
Raw Mtl costs	1,882	2,162	2,068	2,449
Employee Expenses	278	306	318	371
other expenses	161	160	165	204
Total Operating Exp.	2,393	2,713	2,647	3,135
EBITDA	569	709	535	575
% Growth	22.7	24.6	(24.6)	7.6
Interest	14	45	25	13
PBDT	782	912	640	737
Depreciation	34	49	51	-
PBT & Except. items	748	863	589	737
Total Tax	270	226	165	199
PAT before MI	478	638	424	538
Minority Interest	-	-	-	-
PAT	478	638	424	538
% Growth	20.6	33.5	(33.5)	26.9
EPS	36.3	48.5	32.2	41

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
₹ crore				
(₹Crore)	FY19	FY20	FY21E	FY22E
Equity Capital	131.5	131.5	131.5	131.5
Reserve and Surplus	3,164	3,600	3,776	4,122
Total Shareholders fu	3,296	3,732	3,907	4,253
Minority Interest	5.3	-	-	-
Total Debt	123	123	123	123
Total Liabilities	3,427	4,231	4,406	4,752
Gross Block	831	1,224	2,192	3,092
Acc: Depreciation	455	467	518	578
Net Block	376	756	1,673	2,514
Capital WIP	342	768	900	900
Total Fixed Assets	718	1,524	2,573	3,414
Non Current Assets	405	408	408	408
Inventory	283	313	349	407
Debtors	392	288	610	508
Loans and Advances	233	33	251	292
Other Current Assets	632	1,595	955	1,113
Cash	2,545	2,176	1,126	529
Total Current Assets	4,085	4,406	3,289	2,850
Current Liabilities	347	419	479	457
Provisions	394	410	489	467
Net Current Assets	2,299	2,232	1,355	801
Total Assets	3,427	4,231	4,406	4,752

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
₹ crore				
(₹Crore)	FY19	FY20	FY21E	FY22E
Profit after Tax	478	638	424	538
Depreciation	34	49	51	-
Interest	14	45	25	13
CF before WC changes	526	731	500	551
Changes in inventory	31	(30)	(35)	(58)
Changes in debtors	188	104	(322)	102
Changes in loans & Adv	28	200	(217)	(42)
Changes in other CA	(464)	(963)	640	(159)
Net Increase in CA	(217)	(689)	66	(156)
Changes in creditors	(45)	72	61	(22)
Changes in provisions	87	16	79	(22)
Net Inc in CL	(301)	387	(239)	114
CF from Operatons	8	429	326	509
Changes in deferred tax assets	(23)	20	-	-
(Purchase)/Sale of FA	(283)	(855)	(1,100)	(900)
CF from Investing	(514)	(555)	(1,100)	(900)
Dividend & Dividend Tax	(245)	(245)	(163)	(192)
CF from Financing	(455)	(323)	(196)	(205)
Net Cash flow	(961)	(449)	(970)	(596)
Opening Cash/Cash Eq	3,505	2,545	2,096	1,126
Closing Cash/ Cash Eq	2,545	2,096	1,126	529

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
EPS	36.3	48.5	32.2	40.9
Cash per Share	193.4	165.4	85.6	40.3
BV	250.6	283.7	297.0	323.4
Dividend per share	15.5	15.5	12.4	14.6
Dividend payout ratio	43%	32%	38%	36%
EBITDA Margin	19.2	20.7	16.8	15.5
PAT Margin	15.0	17.4	12.8	13.9
RoE	14.5	17.1	10.9	12.7
RoCE	19.0	17.6	12.4	13.9
RoIC	47.5	29.9	16.5	14.5
EV / EBITDA	2.9	2.8	5.7	6.4
P/E	8.5	6.4	9.6	7.6
EV / Net Sales	0.6	0.6	1.0	1.0
Sales / Equity	0.9	0.9	0.8	0.9
Market Cap / Sales	1.4	1.2	1.3	1.1
P/BV	1.2	1.1	1.0	1.0
Asset Turnover Ratio	3.6	2.8	1.5	1.2
Debtors Turnover Ratio	6.1	10.1	7.1	6.6
Creditors Turnover Ratio	8.0	8.9	7.1	7.9
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.9	2.7	2.2	2.5
Quick Ratio	1.6	2.3	1.9	2.0

Source: Company, ICICI Direct Research

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