

Retail Equity Research (South India Focus)

Cochin Shipyard Ltd.

Capital Goods and Engineering

BSE CODE : 540678

NSE CODE: COCHINSHIP

BLOOMBERG CODE: COCHIN:IN

SENSEX : 38,615

BUY

12M Investment Period

Rating as per Small Cap

CMP Rs343

TARGET Rs445

RETURN 30% ↑

(Closing: 19-08-20)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↓

Q1 impacted by lockdown...

Cochin Shipyard Ltd (CSL) is the largest public sector shipyard in India deriving major revenue from Navy. The main sources of revenue are ship building for Navy, Coast guard, commercial and ship repair.

- Q1FY21 revenue & Profitability declined by 55% & 65% on account of Covid-19 related disruptions.
- Order backlog is at ~Rs14,393cr, including recently booked order of 2 Autonomous Electric Ferries, providing strong visibility for next 3 years.
- Management's focus is on doubling of ship repair business for this CSL is ramping-up its ship repair facilities and construction of a new dry dock.
- We remain constructive on CSL over long term, given capacity expansion, improvement in order visibility and GoI focus on indigenous procurement.
- We value CSL at a P/E multiple of 10x on FY22E and maintain our Buy rating with a target price of Rs445.

Revenue growth impacted...Order backlog healthy

Q1FY21 revenue growth was impacted by Covid-19 led disruptions impacting both shipbuilding and repairs business operations. Post lockdown the capacity utilization is yet to reach pre-covid levels on account of shortage of labour. The current order backlog is healthy at ~Rs14,393cr, which is providing strong earnings visibility for next 2-3 years. Recently, CSL has bagged 2 orders for Autonomous Electric Vessels for ASKO Maritime AS, Norway. We expect order pipeline to improve going ahead, with upcoming projects including 4-LPD platform dock, new generation missile vessel, 8-Fast petrol vehicle, 12-Air cushion vessel and multi purpose vessels for Navy. Going ahead, management focus is on doubling the ship repair business. Further, Ministry of Defence announcement of ban on imports of military platforms and weapon systems in phased manner is positive for the domestic manufacturers like CSL. However, given lower budgetary allocation the order booking timeline might get extended.

Capacity expansion to drive growth...

CSL plans to expand its capacity of Dry Dock (Rs1,790cr) in the existing premises and ISRF (International Ship Repair Facility) (Rs970cr) in Cochin Port Trust premises, which is expected to be operational by FY21-22. This is expected to double the operational capability of the yard by enabling it to construct and repair larger vessels like LNG carriers, new generation Air Craft carriers etc. Being the only yard in India to have undertaken the repairs of Aircraft carriers, CSL has proven track record in ship building and ship repair. CSL has also signed MoUs with Mumbai, Kolkata and Andaman & Nicobar port administrations to operate ship repair facilities which is likely to drive ship repair revenue. We expect the revenue to witness robust growth with healthy margins aided by diversified product mix (repair and shipbuilding) from FY23 onwards.

Revision in our estimates...

We expect revival in capacity utilization to be gradual due to shortage of labour and cluster level lockdown. We may expect a gradual revival in execution starting from H2FY21E. The ASW corvettes execution is expected to start from Q3FY21. We lower our revenue estimates by 18% & 3.3% to factor-in the impact of Covid-19 led disruptions. Consequently, our PAT stand reduced by 19% & 6% for FY21E & FY22E.

Valuation

Given improvement in order book visibility, capacity expansion and strong execution capabilities, we continue to maintain our positive view on the stock. We value CSL at a P/E multiple of 10x on FY22E with a target price of Rs445 and maintain BUY rating.

Company Data

Market Cap (cr)	Rs.4,512
Enterprise Value (cr)	Rs.3,787
Outstanding Shares (cr)	13.2
Free Float	27%
Dividend Yield	5.3%
52 week high	Rs.491
52 week low	Rs.209
6m average volume (cr)	0.1
Beta	0.7
Face value	Rs.10

Shareholding (%)	Q3FY20	Q4FY20	Q1FY21
Promoters	75.2	72.8	72.9
FII's	2.0	2.1	1.8
MFs/Institutions	11.7	13.1	10.4
Public	8.8	9.5	10.8
Others	2.3	2.5	4.0
Total	100.0	100.0	100.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	51.2%	-0.6%	-4.6%
Absolute Sensex	24.8%	-6.2%	0.7%
Relative Return*	26.4%	5.6%	-5.3%

*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	3422	3143	4267
Growth (%)	15.5	(8.2)	35.8
EBITDA	709	645	877
EBITDA Margin(%)	20.7	20.5	20.6
Adjusted PAT	638	464	591
Growth (%)	32.5	(27.2)	27.3
Adjusted EPS	48.5	35.3	44.9
Growth (%)	32.5	(27.2)	27.3
P/E	7.1	9.7	7.6
P/B	1.2	1.1	1.0
EV/EBITDA	5.3	5.8	4.4
ROE (%)	17.1	11.7	13.6
D/E	0.0	0.0	0.0

Anil R
Research Analyst

Quarterly Financials (Standalone)

Profit & Loss

Rs cr)	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	YoY Growth %
Sales	332	735	<i>(55.0)</i>	817	<i>(59.3)</i>
EBITDA	17	142	<i>88.0</i>	163	<i>(89.0)</i>
EBITDA margins	5.1	19.3	<i>(14.2)</i>	20.0	<i>(15.0)</i>
Depreciation	12	12	-	12	-
EBIT	5	130	<i>(96.0)</i>	151	<i>(97.0)</i>
Interest	11	11	-	11	-
Other Income	65	68	<i>(5.0)</i>	45	<i>44.0</i>
Exceptional Items	-	-	-	-	-
PBT	58	186	<i>(69.0)</i>	185	<i>(68.0)</i>
Tax	16	66	<i>(76.5)</i>	46	<i>(66.0)</i>
Share of profit from Associate	-	-	-	-	-
Minority Interest	-	-	-	-	-
Reported PAT	43	120	<i>(64.5)</i>	139	<i>(69.0)</i>
Adjustments	-	-	-	-	-
Adjusted PAT	43	120	<i>(64.5)</i>	139	<i>(69.0)</i>
No. of Shares	13.6	13.6	-	13.6	-
EPS (Rs)	3.2	9.1	<i>(64.5)</i>	10.5	<i>(69.0)</i>

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	3,840	4,414	3,143	4,267	<i>(18.2)</i>	<i>(3.3)</i>
EBITDA	805	918	645	877	<i>(20.0)</i>	<i>(4.4)</i>
Margins (%)	21.0	20.8	20.5	20.6	<i>(50bps)</i>	<i>(20bps)</i>
Adj. PAT	570	632	464	591	<i>(18.6)</i>	<i>(6.4)</i>
EPS	43.3	48.0	35.3	44.9	<i>(18.6)</i>	<i>(6.4)</i>

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Sales	2,355	2,962	3,422	3,143	4,267
% change	14.4	25.8	15.5	(8.2)	35.8
EBITDA	465	572	709	645	877
% change	22.6	23.0	24.1	(9.0)	36.0
Depreciation	38	34	49	74	109
EBIT	427	538	661	571	768
Interest	11	14	45	49	55
Other Income	189	228	248	92	68
PBT	605	751	863	614	781
% change	22.6	24.2	14.9	(28.9)	27.2
Tax	208	270	226	154	195
Tax Rate (%)	34.0	36.0	26.1	25.0	25.0
Reported PAT	397	481	638	464	586
Adj.*	-	-	-	-	-
Adj. PAT	397	481	638	464	586
% change	23.4	21.3	32.5	(27.8)	27.3
No. of shares (cr)	13.6	13.2	13.2	13.2	13.2
Adj EPS (Rs)	29.2	36.6	48.5	35.0	44.5
% change	23.4	25.3	32.5	(27.8)	27.2
DPS (Rs)	9.0	14.9	17.6	17.2	17.2

CASH FLOW

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	642	786	912	688	890
Non-cash adj.	(303)	(382)	(302)	(197)	(208)
Changes in W.C	293	(852)	(357)	913	193
C.F. Operation	632	(448)	253	1,405	875
Capital exp.	(75)	(284)	(463)	(1,239)	(807)
Change in inv.	(1,399)	1,110	212	-	-
Other invest.CF	146	218	177	92	68
C.F - Investment	(1,328)	1,044	(74)	(1,146)	(739)
Issue of equity	945	(202)	-	-	-
Issue/repay debt	-	-	(12)	-	-
Dividends paid	(122)	(196)	(232)	(226)	(226)
Other finance.CF	(10)	(10)	(53)	(49)	(55)
C.F - Finance	812	(409)	(309)	(275)	(281)
Chg. in cash	116	187	(130)	(16)	(145)
Closing cash	2,101	978	849	832	688

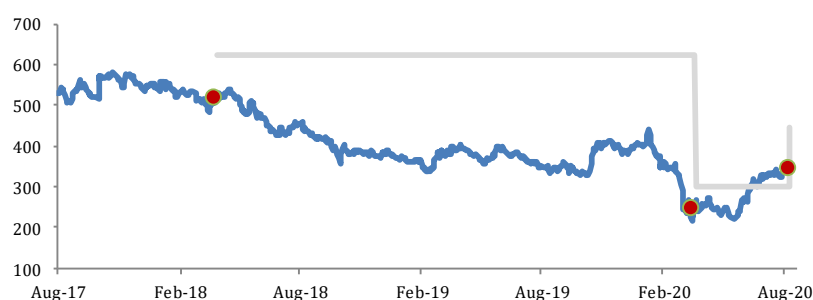
BALANCE SHEET

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	3,490	978	849	832	688
Accounts Receivable	580	392	288	517	701
Inventories	315	283	313	417	507
Other Cur. Assets	428	2,409	2,964	2,140	2,473
Investments	16	60	65	65	65
Gross Fixed Assets	370	427	859	1,459	2,259
Net Fixed Assets	284	313	697	1,222	1,913
CWIP	115	341	768	1,400	1,400
Intangible Assets	65	62	60	67	74
Def. Tax (Net)	43	66	46	46	46
Other Assets	77	280	293	318	343
Total Assets	5,478	5,244	6,405	7,086	8,272
Current Liabilities	2,074	1,761	2,145	2,592	3,408
Provisions	279	369	381	314	427
Debt Funds	123	123	123	123	123
Other Liabilities	3	3	376	376	376
Equity Capital	136	132	132	132	132
Reserves & Surplus	3,120	3,201	3,600	3,835	4,195
Shareholder's Fund	3,256	3,332	3,732	3,967	4,327
Total Liabilities	5,478	5,244	6,405	7,086	8,272
BVPS	239	245	274	292	318

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab & Return					
EBITDA margin (%)	19.7	19.3	20.7	20.5	20.6
EBIT margin (%)	18.1	18.1	19.3	18.2	18.0
Net profit mgn.(%)	13.7	15.6	16.8	16.2	18.6
ROE (%)	12.2	14.4	17.1	11.6	13.5
ROCE (%)	16.5	15.3	15.6	17.1	13.0
W.C & Liquidity					
Receivables (days)	68.7	59.9	36.3	46.7	52.1
Inventory (days)	78.4	72.72	60.6	83.2	77.5
Payables (days)	67.8	75.2	77.8	100.2	91.2
Current ratio (x)	2.3	2.3	2.1	1.5	1.3
Quick ratio (x)	2.2	2.1	1.9	1.3	1.1
Turnover & Leverage					
Gross asset T.O (x)	6.5	7.4	5.3	2.7	2.3
Total asset T.O (x)	0.5	0.6	0.6	0.5	0.3
Int. covge. ratio (x)	37.4	37.6	14.8	11.6	13.9
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	0.6	1.2	1.1	1.2	0.9
EV/EBITDA (x)	2.8	6.4	5.3	5.9	4.5
P/E (x)	11.8	9.4	7.1	9.8	7.7
P/BV (x)	1.4	1.4	1.2	1.1	1.0

Recommendation summary



Dates	Rating	Target
06-April -18	BUY	625
30-March-20	BUY	301
20-August-20	BUY	445

Source: Bloomberg, Geojit Research.

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated	-	-	-

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated : The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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