

## Mazagon Dock Shipbuilders Ltd.

Mazagon Dock Shipbuilders Ltd (MDSL) is India's leading defence public sector undertaking shipyard under the Ministry of Defence (MoD). Mazagon Dock is primarily engaged in constructing and repairing warships and submarines for MoD and other types of vessels i.e. cargo ships, multipurpose support vessels, barges and border outposts, tugs, dredgers, water tankers, etc. for commercial clients.

**Strong order book provides revenue visibility:** Currently, MDSL has strong order book of around ₹54,074cr that provides revenue visibility for long-term. Order book comprises of four P-15 B destroyers, four P-17A stealth frigates, repair and refit of a ship, four Scorpene class submarines and one medium refit and life certification of a submarine.

**Government's focus on indigenization to boost Indian defence:** MDSL's focus on indigenization under 'Make in India', 'Atmanirbhar Bharat', etc. will be a key positive for growth. Recently, the government has taken steps to ban 101 defence items, which clearly indicates government's focus on indigenization to promote and create big opportunities in Indian defence sector. Going ahead, it would be beneficial for companies like MDSL.

**Plans to diversify revenue:** MDSL intends to foray into segments like exporting its products, focus on ship repair facility and also enhancing infrastructure & manufacturing capacity that would help the company to diversify its revenue in future.

**Outlook & Valuation:** In terms of valuations, the pre-issue P/E works out to 6.1x FY20 earnings (at the upper end of the issue price band), which is lower vs. peers like Garden Reach Shipbuilders and Cochin Shipyard (trading at 12.2x and 6.6x of its FY20 earnings, respectively). Further, MDSL has healthy ROE of ~16% coupled with highest dividend yield (7.4%) and higher cash on balance sheet among its peers. Hence, considering the above positive factors, we recommend **SUBSCRIBE** to the issue with a long-term horizon.

### Key Financials

Y/E March (Rs cr)	FY2017	FY2018	FY2019	FY2020
<b>Net Sales</b>	<b>3,519</b>	<b>4,470</b>	<b>4,614</b>	<b>4,978</b>
% chg		27.0	3.2	7.9
<b>Net Profit</b>	<b>598</b>	<b>496</b>	<b>532</b>	<b>477</b>
% chg		(17.1)	7.3	(10.4)
OPM (%)	3.6	3.5	5.7	5.4
<b>EPS (Rs)</b>	<b>29.7</b>	<b>24.6</b>	<b>26.4</b>	<b>23.7</b>
P/E (x)	4.9	5.9	5.5	6.1
P/BV (x)	1.0	1.0	0.9	1.0
RoE (%)	20.0	17.5	16.6	15.5
RoCE (%)	2.7	3.4	5.8	6.2
EV/Sales (x)	(1.6)	(1.0)	(1.0)	(0.6)
EV/EBITDA (x)	(45.0)	(29.3)	(18.5)	(11.9)

Angel Research; Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

## SUBSCRIBE

Issue Open: Sep 29, 2020

Issue Close: Oct 01, 2020

### Issue Details

Face Value: Rs.10

Present Eq. Paid up Capital: Rs202cr

Offer for Sale: 3cr Share

Post Eq. Paid up Capital: Rs202cr

Issue size (amount): \*\*Rs444cr

Price Band: Rs135-145

Lot Size: 103 shares and in multiple thereafter

Post-issue implied mkt. cap: \* Rs2,723cr - \*\*Rs2,925cr

Promoters holding Pre-Issue: 100%

Promoters holding Post-Issue: 85%

\*Calculated on lower price band

\*\* Calculated on upper price band

### Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

### Post Issue Shareholding Pattern

Promoters	85.0%
Others	15.0%

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## Company background

Incorporated in 1934, Mazagon Dock Shipbuilders Ltd. is India's leading defence public sector undertaking shipyard under the Ministry of Defence (MoD). Mazagon Dock is primarily engaged in constructing and repairing warships and submarines for MoD and other types of vessels i.e. cargo ships, multipurpose support vessels, barges & border outposts, tugs, dredgers, water tankers, etc. for commercial clients. It is the only shipyard to build destroyers and conventional submarines to be used by the Indian Navy.

The business has two key operating divisions i.e. Shipbuilding division that undertakes building and repairing of naval ships, and Submarine and heavy engineering division, which includes building, repairing, and refitting of diesel electric submarines. Till 2020, the company has built 795 vessels, including 25 warships, 4 missile boats, 3 submarines, 6 Leander class frigates, 3 Godavari class frigates, 3 Shivalik class frigates, 3 corvettes, and 6 destroyers.

Mazagon Dock Shipyard is strategically located on the west coast of India, the sea route that connects Europe, Pacific Rim, and West Asia.

## Issue details

MDSL's Promoter (Government of India) is selling ~3cr equity share (face value of ₹10) through Offer for Sale in the price band of ₹135-145, which is ~15% total paid-up equity share capital.

### Exhibit 1: Pre and post IPO shareholding pattern

	No of shares (Pre-issue)	%	No of shares (Post-issue)	%
Promoters	201,690,000	100%	171,090,983	85%
Others	NA	0%	30,599,017	15%
	201,690,000	100%	201,690,000	100%

Source: Source: RHP

## Objectives of the Offer

The net proceeds from the IPO will be used towards following objectives:

- To carry out the disinvestment plan
- To achieve the benefits of share listing on the stock exchanges

## Outlook & Valuation

In terms of valuations, the pre-issue P/E works out to 6.1x FY20 earnings (at the upper end of the issue price band), which is lower compared to peers like Garden Reach Shipbuilders and Cochin Shipyard (trading at 12.2x and 6.6x of its FY20 earnings, respectively). Further, MDSL has healthy ROE of ~16% coupled with highest dividend yield (7.4%) and higher cash on balance sheet among its peers. Hence, considering the above positive factors, we recommend SUBSCRIBE on the issue with a long-term horizon.

## Key Risks

- Slowdown in order inflow and execution would impact the company's profitability.

**Income Statement**

Y/E March ( ₹ cr)	FY2017	FY2018	FY2019	FY2020
<b>Net Sales</b>	<b>3519</b>	<b>4470</b>	<b>4614</b>	<b>4978</b>
% chg		27.0	3.2	7.9
<b>Total Expenditure</b>	<b>3,393</b>	<b>4,316</b>	<b>4,353</b>	<b>4,710</b>
Raw Material	2175	2785	3165	2865
Personnel	729	886	689	793
Others Expenses	490	645	499	1051
<b>EBITDA</b>	<b>126</b>	<b>155</b>	<b>261</b>	<b>268</b>
% chg		23.0	68.6	2.7
(% of Net Sales)	3.6	3.5	5.7	5.4
Depreciation & Amortisation	42	52	64	69
<b>EBIT</b>	<b>84</b>	<b>102</b>	<b>196</b>	<b>199</b>
% chg		21.6	92.2	1.4
(% of Net Sales)	2.4	2.3	4.3	4.0
Interest & other Charges	9	9	9	9
Other Income	756	557	591	558
<b>Recurring PBT</b>	<b>831</b>	<b>650</b>	<b>778</b>	<b>748</b>
% chg		(21.7)	19.6	(3.9)
Extraordinary Items	-	-	-	12
<b>PBT</b>	<b>831</b>	<b>650</b>	<b>778</b>	<b>735</b>
Tax	288	257	308	352
(% of PBT)	34.6	39.5	39.5	47.0
<b>PAT (reported)</b>	<b>543</b>	<b>394</b>	<b>470</b>	<b>384</b>
Profit/Loss of Associate Company	55	103	62	93
<b>ADJ. PAT</b>	<b>598</b>	<b>496</b>	<b>532</b>	<b>477</b>
% chg		(17.1)	7.3	(10.4)
(% of Net Sales)	17.0	11.1	11.5	9.6
<b>Basic EPS ( ₹ )</b>	<b>29.7</b>	<b>24.6</b>	<b>26.4</b>	<b>23.7</b>
<b>Fully Diluted EPS ( ₹ )</b>	<b>29.7</b>	<b>24.6</b>	<b>26.4</b>	<b>23.7</b>
% chg		(17.1)	7.3	(10.4)

Source: Company, Angel Research

**Exhibit 2: Balance Sheet**

Y/E March ( ` cr)	FY2017	FY2018	FY2019	FY2020
<b>SOURCES OF FUNDS</b>				
Equity Share Capital	249	224	224	202
Reserves& Surplus	2,741	2,610	2,993	2,867
<b>Shareholders Funds</b>	<b>2,990</b>	<b>2,834</b>	<b>3,217</b>	<b>3,069</b>
Total Loans	167	160	158	169
Deferred Tax Liability	-	-	-	-
<b>Total Liabilities</b>	<b>3,157</b>	<b>2,994</b>	<b>3,375</b>	<b>3,239</b>
<b>APPLICATION OF FUNDS</b>				
<b>Net Block</b>	<b>565</b>	<b>705</b>	<b>810</b>	<b>848</b>
Capital Work-in-Progress	98	85	89	80
Investments	384	429	431	484
<b>Current Assets</b>	<b>17,656</b>	<b>17,392</b>	<b>18,743</b>	<b>18,916</b>
Inventories	4,029	3,786	3,790	4,623
Sundry Debtors	828	1,129	1,489	1,474
Cash	8,363	7,190	7,470	5,798
Loans & Advances	10	10	11	9
Other Assets	4,427	5,277	5,983	7,012
Current liabilities	16,234	16,377	17,473	17,727
<b>Net Current Assets</b>	<b>1,422</b>	<b>1,015</b>	<b>1,270</b>	<b>1,188</b>
<b>Deferred Tax Asset</b>	<b>688</b>	<b>759</b>	<b>775</b>	<b>638</b>
<b>Total Assets</b>	<b>3,157</b>	<b>2,994</b>	<b>3,375</b>	<b>3,239</b>

Source: Company, Angel Research

**Exhibit 3: Cash Flow Statement**

Y/E March ( ` cr)	FY2017	FY2018	FY2019	FY2020
Profit before tax	8,306	6,504	7,781	7,354
Depreciation	417	525	643	711
Change in Working Capital	(8,985)	5,795	819	(1,661)
Interest / Dividend (Net)	93	91	91	93
Direct taxes paid	(3,461)	(3,070)	(3,159)	(2,082)
Others	(6,396)	(4,937)	(5,523)	(5,370)
<b>Cash Flow from Operations</b>	<b>(10,027)</b>	<b>4,908</b>	<b>652</b>	<b>(956)</b>
(Inc.)/ Dec. in Fixed Assets	(2,183)	(1,929)	(1,718)	(1,095)
(Inc.)/ Dec. in Investments	7,113	5,409	5,884	5,632
<b>Cash Flow from Investing</b>	<b>4,930</b>	<b>3,479</b>	<b>4,166</b>	<b>4,537</b>
Issue of Equity	0	0	0	0
Inc./(Dec.) in loans	0	0	0	0
Dividend Paid (Incl. Tax)	(2,398)	(2,954)	(1,206)	(2,618)
Interest / Dividend (Net)	(54)	(3,126)	(52)	(3,428)
<b>Cash Flow from Financing</b>	<b>(2,452)</b>	<b>(6,080)</b>	<b>(1,257)</b>	<b>(6,046)</b>
Inc./(Dec.) in Cash	(7,549)	2,307	3,561	(2,464)
<b>Opening Cash balances</b>	<b>8,978</b>	<b>1,429</b>	<b>3,736</b>	<b>7,297</b>
<b>Closing Cash balances</b>	<b>1,429</b>	<b>3,736</b>	<b>7,297</b>	<b>4,833</b>

Source: Company, Angel Research

**Exhibit 4: Key Ratios**

Y/E March	FY2017	FY2018	FY2019	FY2020
<b>Valuation Ratio (x)</b>				
P/E (on FDEPS)	4.9	5.9	5.5	6.1
P/CEPS	5.0	6.6	5.5	6.5
P/BV	1.0	1.0	0.9	1.0
Dividend yield (%)	6.8	8.4	3.4	7.4
EV/Sales	(1.6)	(1.0)	(1.0)	(0.6)
EV/EBITDA	(45.0)	(29.3)	(18.5)	(11.9)
EV / Total Assets	(1.8)	(1.5)	(1.4)	(1.0)
<b>Per Share Data (₹)</b>				
EPS (Basic)	29.7	24.6	26.4	23.7
EPS (fully diluted)	29.7	24.6	26.4	23.7
Cash EPS	29.0	22.1	26.5	22.4
DPS	9.9	12.2	5.0	10.8
Book Value	148.3	140.5	159.5	152.2
<b>Returns (%)</b>				
ROCE	2.7	3.4	5.8	6.2
Angel ROIC (Pre-tax)	(1.5)	(2.2)	(4.3)	(6.5)
ROE	20.0	17.5	16.6	15.5
<b>Turnover ratios (x)</b>				
Inventory / Sales (days)	418	309	300	339
Receivables (days)	86	92	118	108
Payables (days)	98	197	232	351
Working capital cycle (ex-cash) (days)	406	205	186	96

Source: Company, Angel Research

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