



IPO DETAILS

Issue Date 29th Sept-01st Oct 2020

Price Band 135-145 per Share

Bid Lot 103 & in multiple there

Face Value Rs 10/Share

Listing BSE, NSE

Issue Size 30,599,017 Eq Shares

Offer For Sale 30,599,017 Eq Shares

Pre Issue Eq Shares 201,690,000 Eq Shares

Post Issue Eq Shares 201,690,000 Eq Shares

BRLM Yes Securities (India)
Ltd, Axis Capital Ltd,
Edelweiss Financial Services Ltd,
IDFC Securities Ltd,
JM Financial Ltd

Registrar Alankit Assignments Ltd

Company is a defence public sector undertaking shipyard under the Department of Defence Production, MoD with a maximum shipbuilding and submarine capacity of 40,000 DWT engaged in the construction and repair of warships and submarines for the MoD for use by the Indian Navy and other vessels for commercial clients. Company is a wholly owned GoI company, conferred with the 'Mini-ratna-I' status in 2006, by the DPE. Company is India's only shipyard to have built destroyers and conventional submarines for the Indian Navy. Company is also one of the initial shipyards to manufacture Corvettes (Veer and Khukri Class) in India.

Company have in the past constructed two SSK submarines, modernized and refitted four SSK submarines. Company has enhanced its capability of handling construction of conventional submarines. Company have also entered into a technology transfer agreement with Naval Group, France for Scorpene submarines which are currently manufactured by company. Company have delivered two of the Scorpene submarines, INS Kalvari and INS Khanderi to the MoD.

As of July 31, 2020, company's order book for shipbuilding and submarines and heavy engineering was ₹540,740 million comprising of three major shipbuilding projects and two submarine projects.

Company's shipbuilding and submarine contracts have a long gestation period. Company's revenues under these contracts are dependent on achievement of certain milestones. In order to diversify its revenue streams, company intend to increase its ship repair activities in the future as such activities are for a shorter period of time and result in the early booking of revenues. Company have in the past undertaken ship repairs for its clients in the defence and commercial sectors. This will help generate more revenues, increase company's client base and reduce its dependency on the MoD for future orders.

Company completed the "Mazdock Modernization Project" which comprised of a new wet basin, goliath cranes, module workshop, cradle assembly shop, store building and associated ancillary structures enabling integrated modular construction which would substantially reduce the build period. Post completion of the modernization project, the capacity of outfitting warships increased from eight warships to 10 warships since 2014 and submarine capacity has increased from six submarines to 11 submarines since 2016.

Valuation

Company is bringing the issue at p/e multiple of approx 6x at higher end of price band of Rs 135-145/share on FY20 eps basis.

Company being the only public sector defence shipyard constructing conventional submarines has world class infrastructure. Company's order book is looking healthy which gives strong revenue visibility for coming few years. Also company is intending to increase its ship repair activities which is comparatively higher margin business due to shorter time & early booking of revenue model. Along with stable business of company we find the valuation reasonable at which company is bringing the issue Hence, we recommend "Subscribe" the issue for listing gains as well as long term horizon.



COMPANY OVERVIEW

The business divisions in which company operate are (i) shipbuilding and (ii) submarine and heavy engineering. Company’s shipbuilding division includes the building and repair of naval ships. Company is currently building four P-15 B destroyers and four P-17A stealth frigates and undertaking repair and refit of a ship for the MoD for use by the Indian Navy. Company’s submarine and heavy engineering division includes building, repair and refits of diesel electric submarines. Company is currently building/ in the process of delivering four Scorpene class submarines under a transfer of technology agreement with Naval Group as well as one medium refit and life certification of a submarine for the MoD for use by the Indian Navy. Since 1960, company have built a total of 795 vessels including 25 warships, from advanced destroyers to missile boats and three submarines. Company have also delivered cargo ships, passenger ships, supply vessels, multipurpose support vessels, water tankers, tugs, dredgers, fishing trawlers, barges and border outposts for various customers in India as well as abroad.

Some of the vessels built and delivered by company in the past include, six Leander class frigates, three Godavari class frigates, three corvettes, four missile boats, six destroyers, four submarines and three Shivalik class frigates for the MoD for use by the Indian Navy and constructed and delivered seven offshore patrol vessels to the Indian Coast Guard. Company have fabricated and delivered jackets, main decks of wellhead platforms, process platforms and jack up rigs, etc.

Company’s shipyard is strategically located on the west coast of India, on the sea route connecting Europe, West Asia and the Pacific Rim, a busy international maritime route. Company is headquartered in Mumbai which is also the headquarters of the Western Naval Command of the Indian Navy. Company is also exploring the possibilities of developing a greenfield shipyard at Nhava, Navi Mumbai with a shiplift, wet basin, workshops, stores and buildings and a ship repair facility spread over an area of 37 acres. Company’s shipbuilding and submarine and heavy engineering divisions are both ISO 9001:2015 certified. Over the last 18 Fiscals, the total number of orders for vessels received and delivered by company is set out below:

Division	Orders Received	Orders Delivered
Shipbuilding	15*	27
Submarine & heavy engineering	10**	5**



INVESTMENT RATIONALE

World class infrastructure capable of serving the requirements of the Ministry of Defence

The infrastructure and facilities available at company’s shipyard combined with its vast expertise give company a significant edge over its domestic peers. Company’s facilities currently comprise of three dry docks, two wet basins, three slipways, production shops, assembly shops, module shop with painting chamber for integrated construction, sheet metal shop, pipe shop, machine and fitting shop, ship dry dock and dredging, electrical repair shop and instrumentation shop for company’s shipbuilding division. Company’s submarine division infrastructure includes shops for fabrication of frame, sub-section assembly and section formation, cradle assembly shop for structural and equipment outfitting and final assembly, one dry dock and submarine section assembly shop. Company’s shipbuilding and submarine and heavy engineering divisions are both ISO 9001:2015 certified.

Increase in indigenisation of company’s vessels and implementation of the “Make in India” campaign

Company intend to increase the quantum of indigenised components for its warships and submarines in order to give an impetus to the GoI’s “Make in India” campaign. In the past, for company’s warships and submarines, company used to import equipment related to design support, model testing evaluation and simulation, major engineering and weapon equipment and systems, equipment related to planning and project management, installations and system integration, due to non-availability of domestic manufacturers. Importing such items and equipments resulted in increased costs, quality compromises and unsatisfactory after sales support. Company have successfully indigenised certain equipment such as sonar dome, ship installed chemical agent detection system, bridge window glass, main batteries for Scorpene submarines, multiple cable transit glands and remote controlled valves with various companies on a no cost no commitment basis. Company have recently created the indigenisation fund for ₹103.90 million in compliance with the policy dated March 08, 2019 for indigenisation of components and spares used in defence platforms for DPSUs which was promulgated by the MoD.

Location of company’s facilities promotes closer association with its vendors and customers

Company’s shipyard is strategically located in Mumbai on the west coast of India, on the sea route connecting Europe, West Asia and the Pacific Rim, a busy international maritime route. Company’s customers, being the MoD and Indian Coast Guard and its vendors are based in Mumbai which results in closer co-ordination and greater efficiencies. Further, a majority of company’s subcontractors are based in and around Mumbai which provides company with an ease of access to labour. The location of company’s facilities provides it a strategic competitive advantage over its peers.

Company’s Strong Order Book

As on July 31, 2020, company’s Order Book position, is as follows:

Particulars	Nos	Client	Value (Rs Mn)
<i>Shipbuilding</i>			
P15B Destroyers	4	MoD	263,850
P17A Destroyers	4	MoD	236,490
Repair ,refit & service of a ship	1	MoD	110
<i>Submarine & heavy engineering</i>			
P75 Scorpene Submarines	4	MoD	32,020
Medium Refit & Life Certification (MRLC) of a submarine	1	MoD	8,270
Total Order Book			540,740



STRATEGIES

Export of company's products to the international markets

Company primarily cater to the defence sector in India at present. However, company is in the process of reviving the exports of its defence and commercial products to Latin America, Africa, South East Asia, Middle East and Scandinavian regions and have identified certain defence and civil sectors in such regions. For this purpose, company have entered into agency agreements with sales agents in order to procure customers for its products which company propose to sell in the identified markets of Europe, Far East, South East Asia, Middle East, Indian Ocean Rimcountries, Latin America and Africa regions. Company have, in the past, exported its products to Mexico, France, Bahamas and Yemen. Company intend to increase its presence globally by establishing an international marketing team to identify potential markets for its business growth.

Focus on ship repair

Company's shipbuilding and submarine contracts have a long gestation period. Company's revenues under these contracts are dependent on achievement of certain milestones. In order to diversify company's revenue streams, company intend to increase its ship repair activities in the future as such activities are for a shorter period of time and result in the early booking of revenues. Company have in the past undertaken ship repairs for its clients in the defence and commercial sectors. This will help generate more revenues, increase company's client base and reduce its dependency on the MoD for future orders. Company is in the process of reviving its ship repair operations. Company is also exploring the possibilities of developing a greenfield shipyard at Nhava, Navi Mumbai with a shiplift, wet basin, workshops, stores and buildings and a ship repair facility spread over an area of 37 acres which will be suitable for construction and repair of warships and commercial ships with larger dimensions. Company have also entered into a contract for the repair, refit and services of a ship. The revival of company's ship repair operations will result in augmentation of company's revenues and profitability.

Augmentation of infrastructure and enhancing company's manufacturing capacity

Company is currently undertaking capital expenditure for its submarine and heavy engineering division by way of construction of the submarine launch facility and blasting painting chamber. The submarine launch facility which is currently being constructed will enable company to execute future submarine orders. Company is also leveraging the latest construction methods in order to speed up the construction of company's warships. Company is exploring options to develop a greenfield shipyard at Nhava, Navi Mumbai to cater to company's existing and future customers in the domestic and international markets. Company is planning to dredge the water front to a depth of 3.5 metres below chart datum and create a navigation channel from Angre wet basin to the offshore container terminal of MbPT which will enable company to move the vessels without depending on the tidal conditions throughout the year. Company is also exploring acquiring additional land adjacent to company, belonging to MbPT for setting up of new facilities. Company's augmentation of its existing facilities and developments of future facilities will enable company to deliver its products on or before the scheduled date of delivery and enable company to cater to future orders.



Risk Factors:

Company predominantly depend on the MoD for defence orders and have mostly been awarded such orders on a nomination basis by the MoD for use by the Indian Navy. There is no assurance that future defence orders will be awarded to company by the MoD. Further, recent changes in the policy framework governing defence procurement and manufacturing in India may result in company no longer being given such orders which may have an adverse effect on company's business growth, financial condition and results of operations.

Objects of Issue:

The objects of the Offer are to (i) to carry out the disinvestment of 30,599,017 Equity Shares by the Selling Shareholder constituting 15.17% of company's pre-Offer paid up Equity Share capital ; and (ii) achieve the benefits of listing the Equity Shares on the Stock Exchanges. Company will not receive any proceeds from the Offer and all such proceeds will go to the Selling Shareholder.

Financial Statement

(Rs Cr)

Particulars	FY17	FY18	FY19	FY20
Total Income	3519.08	4470.36	4613.96	4977.65
Total Exp	3393.34	4315.66	4353.16	4709.68
EBIDTA	125.74	154.70	260.80	267.97
Other Income	755.78	557.27	590.72	557.66
Depreciation	41.66	52.48	64.33	68.677
EBIT	839.87	659.49	787.19	756.95
Interest	9.31	9.08	9.08	9.264
PBT	830.55	650.41	778.12	747.69
E/O Items	0.00	0.00	0.00	12.317
PBT	830.55	650.41	778.12	735.37
Tax	287.72	256.83	307.73	351.679
PAT	542.83	393.57	470.38	383.69
Sh Of Profit in				
Asso	55.43	102.60	62.09	93.37
PAT	598.26	496.17	532.47	477.06
Eq Cap	249.00	224.10	224.10	201.69
Net Worth	2,990.15	2,834.05	3,216.92	3,069.13
Eq Shares	24.90	22.41	22.41	20.17
EPS	24.03	20.61	23.75	21.36
ROE	20.61	17.51	16.55	15.54

Source:RHP

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