

29 September 2020

## Mazagon Dock Shipbuilders

*Robust revenue visibility, valuation at discount to peers*

**MiniRatna-I Defence PSU:** Incorporated in Feb'1934, Mazgaon Dock Shipbuilders (MDS), a public-sector undertaking under the Department of Defence production, constructs and repairs warships and conventional submarines for the Ministry of Defence (MoD) for the Indian Navy, besides vessels for commercial clients. It has production capacity of 40,000 DWT, with two segments shipbuilding (naval shipbuilding/repairs) and submarine/heavy engineering.

**Greater focus on ship repairs:** To diversify its revenue stream, it is looking to scale up its stable ship-repair business. For this, it is exploring a greenfield shipyard at Nhava Sheva, Navi Mumbai, focusing on construction/repair of warships and commercial ships. Its greater efforts regarding ship repair would enable it to diversify and broaden its client base, reducing dependence on the MoD for orders.

**Exploring export opportunities:** Limited capacity restrained it from taking up export opportunities. Post-modernisation, however, it has further capacity that can be used for exports. Hence, it is reviving exports of its Defence and commercial products having identified certain Defence and civil sector orders. It intends exports in the next few years to comprise 10-15% of revenue.

**View & Valuation:** Over FY17-20, its consolidated revenue/adj. PAT registered a 12/3% CAGR. At the upper end of the issue-price band, the stock trades at ~5x FY20 earnings vs peers (Cochin Shipyard/GRSE)'s 7x/11x. At the IPO price, we believe the company is grossly undervalued given its strong order backlog (book-to-bill 11x FY20 revenue), potential from coming submarine orders and its net cash balance (Rs58bn in FY20). It also offers attractive dividend yield of 7.4%. We recommend subscribe. **Risk:** The continuing Covid-19 pandemic and a shutdown of operations at the Mazagon Docks would be strong headwinds to its performance.

| Key financials (YE Mar) | FY17   | FY18   | FY19   | FY20   |
|-------------------------|--------|--------|--------|--------|
| Sales (₹ m)             | 35,191 | 44,704 | 46,140 | 49,777 |
| Net profit (₹m)         | 5,983  | 4,962  | 5,325  | 6,470  |
| EPS (₹)                 | 29.7   | 24.6   | 26.4   | 32.1   |
| PE (x)                  | 4.9    | 5.9    | 5.5    | 4.5    |
| EV / EBITDA (x)         | -37.8  | -25.5  | -16.2  | -10.7  |
| PBV (x)                 | 1.2    | 1.1    | 1.0    | 1.0    |
| RoE (%)                 | 20.0   | 17.5   | 16.6   | 15.5   |
| RoCE (%)                | 21.5   | 17.4   | 20.4   | 18.7   |
| Dividend yield (%)      | 55.2   | 7.6    | 3.1    | 7.4    |
| Total debt / equity (x) | -2.8   | -2.5   | -2.3   | -1.9   |

Source: Company

Issue Price: ₹135-145

Subscribe

### Key data

|                             |                      |
|-----------------------------|----------------------|
| IPO issue date              | 29th Sep– 1st Oct'20 |
| Face value                  | ₹10                  |
| Lot size                    | 103 shares           |
| Issue price                 | ₹135-145             |
| IPO issue size-OFS          | ₹4.4bn               |
| No. of shares-OFS           | 30.6m                |
| Fresh issue size            | -                    |
| No. of shares – Fresh issue | -                    |
| QIB                         | Up to 50%            |
| Retail                      | 35%                  |
| Non-institutional           | 15%                  |

| Shareholding pattern (%) | Pre-IPO | Post-IPO |
|--------------------------|---------|----------|
| Promoter                 | 100     | 85       |
| Non-promoter group       | 0       | 15       |
| Total                    | 100     | 100      |

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (Rs m)**

| Year-end: Mar             | FY17        | FY18         | FY19        | FY20        |
|---------------------------|-------------|--------------|-------------|-------------|
| Net revenues (Rs m)       | 35,191      | 44,704       | 46,140      | 49,777      |
| <b>Growth (%)</b>         |             | <b>27.0</b>  | <b>3.2</b>  | <b>7.9</b>  |
| Material cost             | 21,749      | 27,846       | 31,652      | 28,654      |
| Employee & Other expense  | 12,184      | 15,310       | 11,880      | 18,443      |
| EBITDA                    | 1,257       | 1,547        | 2,608       | 2,680       |
| <b>EBITDA margins (%)</b> | <b>3.6</b>  | <b>3.5</b>   | <b>5.7</b>  | <b>5.4</b>  |
| - Depreciation            | 417         | 525          | 643         | 687         |
| Other income              | 7,558       | 5,573        | 5,907       | 5,577       |
| Interest Exp              | 93          | 91           | 91          | 93          |
| PBT                       | 8,306       | 6,504        | 7,781       | 7,477       |
| Effective tax rate (%)    | 34.6        | 39.5         | 39.5        | 47.4        |
| + Associates/(Minorities) | 554         | 1,026        | 621         | 934         |
| Net Income                | 5,983       | 4,962        | 5,325       | 4,771       |
| Adjusted income           | 5,983       | 4,962        | 5,325       | 6,470       |
| WANS                      | 202         | 202          | 202         | 202         |
| <b>FDEPS (Rs/share)</b>   | <b>29.7</b> | <b>24.6</b>  | <b>26.4</b> | <b>32.1</b> |
| <b>EPS growth (%)</b>     |             | <b>-17.1</b> | <b>7.3</b>  | <b>21.5</b> |

**Fig 3 – Cash-flow statement (Rsm)**

| Year-end: Mar                 | FY17   | FY18    | FY19   | FY20    |
|-------------------------------|--------|---------|--------|---------|
| PBT                           | 8,306  | 6,504   | 7,781  | 7,354   |
| + Non-cash items              | -7,048 | -4,957  | -5,173 | -4,797  |
| Oper. prof. before WC         | 1,257  | 1,547   | 2,608  | 2,557   |
| - Incr./(decr.) in WC         | 70,448 | -5,846  | 3,468  | -14,280 |
| Others incl. taxes            | -7,946 | -3,022  | -3,375 | -1,814  |
| Operating cash-flow           | 63,760 | -7,321  | 2,701  | -13,537 |
| - Capex (tang. +intang.)      | -7,055 | -1,794  | -1,727 | -980    |
| Free cash-flow                | 56,705 | -9,115  | 974    | -14,517 |
| - Div. (incl. buyback& taxes) | 2,398  | 2,954   | 1,206  | 2,618   |
| + Equity raised               | 26,316 | -3,569  | -291   | -3,630  |
| + Debt raised                 | -      | -       | -      | -       |
| - Fin investments             | 3,836  | 456     | 15     | 535     |
| - Misc. (CFI + CFF)           | -6,840 | -4,360  | -3,338 | -4,586  |
| Net cash-flow                 | 83,629 | -11,733 | 2,801  | -16,714 |

Source: Company

**Fig 2 – Balance sheet (Rs m)**

| Year-end: Mar            | FY17          | FY18          | FY19          | FY20          |
|--------------------------|---------------|---------------|---------------|---------------|
| Share capital            | 2,490         | 2,241         | 2,241         | 2,017         |
| Net worth                | 29,901        | 28,341        | 32,169        | 30,691        |
| Debt                     | -             | -             | -             | -             |
| Minority interest        | -             | -             | -             | -             |
| DTL/(Assets)             | -5,068        | -5,522        | -5,820        | -4,117        |
| <b>Capital employed</b>  | <b>24,833</b> | <b>22,819</b> | <b>26,349</b> | <b>26,575</b> |
| Net tangible assets      | 5,441         | 6,769         | 7,873         | 8,312         |
| Net intangible assets    | 214           | 284           | 230           | 171           |
| Goodwill                 | -             | -             | -             | -             |
| CWIP (tang. &intang.)    | 984           | 854           | 888           | 800           |
| Investments (strategic)  | -             | -             | -             | -             |
| Investments (financial)  | 3,836         | 4,291         | 4,307         | 4,842         |
| Current assets (ex cash) | 94,740        | 1,04,088      | 1,14,665      | 1,33,436      |
| Cash                     | 83,629        | 71,896        | 74,697        | 57,983        |
| Current liabilities      | 1,64,010      | 1,65,363      | 1,76,310      | 1,78,969      |
| Working capital          | -69,270       | -61,276       | -61,645       | -45,533       |
| <b>Capital deployed</b>  | <b>24,833</b> | <b>22,819</b> | <b>26,349</b> | <b>26,575</b> |

**Fig 4 – Ratio analysis**

| Year-end: Mar                  | FY17    | FY18   | FY19  | FY20   |
|--------------------------------|---------|--------|-------|--------|
| P/E (x)                        | 4.9     | 5.9    | 5.5   | 4.5    |
| EV/EbitDA (x)                  | -37.8   | -25.5  | -16.2 | -10.7  |
| EV/sales (x)                   | -1.4    | -0.9   | -0.9  | -0.6   |
| P/B (x)                        | 1.2     | 1.1    | 1.0   | 1.0    |
| RoE (%)                        | 20.0    | 17.5   | 16.6  | 15.5   |
| RoCE (%) - After tax           | 21.5    | 17.4   | 20.4  | 18.7   |
| DPS (Rs per share)             | 80.0    | 11.0   | 4.5   | 10.8   |
| Dividend yield (%)             | 55.2    | 7.6    | 3.1   | 7.4    |
| Dividend payout (%) - Inc. DDT | 44.2    | 75.0   | 25.6  | 68.2   |
| Net debt/equity (x)            | -2.8    | -2.5   | -2.3  | -1.9   |
| Receivables (days)             | 86      | 92     | 118   | 108    |
| Inventory (days)               | 418     | 309    | 300   | 339    |
| Payables (days)                | 98      | 197    | 232   | 351    |
| CFO:PAT%                       | 1,065.8 | -147.5 | 50.7  | -209.2 |

Source: Company

## Salient features of the issue

- The offer: Rs4.4bn (at the upper end of the band)
- Offer for sale: 30.6m equity shares of Rs10 each.
- Listing: on the BSE and the NSE
- Issue size: Rs4.1bn – 4.4bn
- Price band: Rs135-145
- Bid lot: 103 shares, then in multiples thereof
- Post-issue implied market cap: Rs27.2bn–29.2bn
- BRLMs: Yes Securities, Axis Capital, Edelweiss Financial, IDFC Securities, JM Financial
- Registrar: Alankit Assignments
- Issue opens: 29<sup>th</sup>Sep'20
- Issue closes: 1<sup>st</sup>Oct'20

**Fig 5 – Indicative timetable**

| Activity                               | Approximate Date        |
|--|-------------------------|
| Finalisation of the basis of allotment | 7 <sup>th</sup> Oct'20  |
| Refunds/ unblocking ASBA Fund          | 8 <sup>th</sup> Oct'20  |
| Credit of equity shares to DP A/c      | 9 <sup>th</sup> Oct'20  |
| Trading commences                      | 12 <sup>th</sup> Oct'20 |

Source: Company

**Fig 6 – Issue break-up**

| Category  | No. of shares | ₹m                | % of issue |
|-----------|---------------|-------------------|------------|
| QIB*      | 15,126,750    | 2,042.1 – 2,193.4 | 50         |
| NIB       | 4,538,025     | 612.6 – 658       | 15         |
| Retail    | 10,588,725    | 1,429.5 – 1,535.4 | 35         |
| Employees | 345,517       | 46.6 – 50.1       | -          |
| Total     | 30,599,017    | 4,130.9 – 4,436.9 | 100        |

Source: Company

**Fig 7 – Shareholding (%)**

|                            | Pre-issue | Post-issue |
|----------------------------|-----------|------------|
| Promoters & Promoter group | 100.00    | 85.00      |
| Public                     | 0.00      | 15.00      |
| Total                      | 100.00    | 100.00     |

Source: Company

### Objective of the Issue

The issue comprises OFS only; thus, the company will not utilize the proceeds for its business. However, listing would enhance its brand image and shareholders would enjoy greater liquidity.

## Company background

Incorporated in 1934 in Mumbai, Mazgaon Dock Shipbuilders (MDS) is a public sector undertaking under the Department of Defence Production. It constructs and repairs warships and submarines for the Ministry of Defence for use by the Indian Navy, besides other vessels for commercial clients. It has capacity of 40,000 DWT. Also, it is one of the first shipyards in India to manufacture corvettes. It operates in two segments naval shipbuilding (incl. repairs) and submarine & heavy engineering.

**Fig 8 – Details of vessels delivered in the past 18 years**

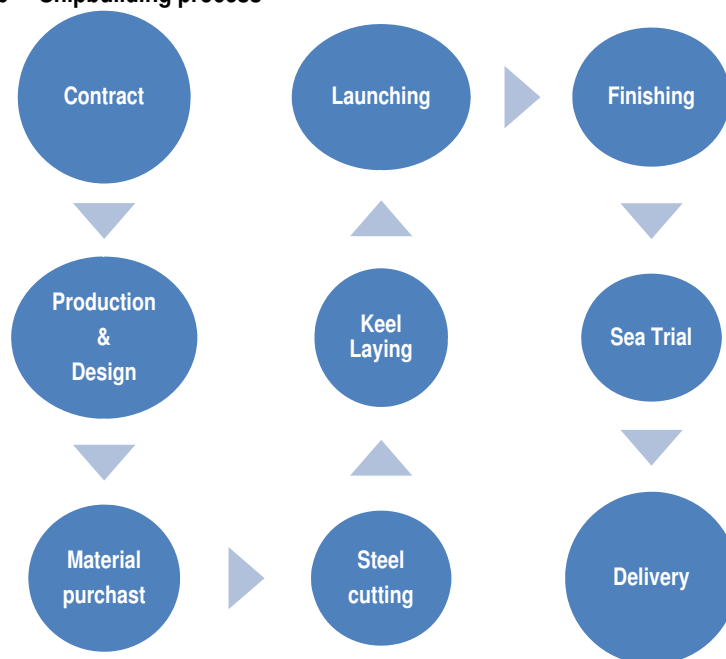
| Name of the ship            | Year of delivery | Name of the ship        | Year of delivery |
|-----------------------------|------------------|-------------------------|------------------|
| <b>P15 A Destroyers</b>     |                  | <b>Pontoons</b>         |                  |
| INS Kolkata                 | 2014             | SLB                     | 2002             |
| INS Kochi                   | 2015             | Vahak                   | 2007             |
| INS Chennai                 | 2016             | Vivan                   | 2014             |
| <b>P17 Frigates</b>         |                  | <b>Varenya</b>          |                  |
| INS Shivalik                | 2010             | Floating Border outpost | -                |
| INS Sahyadri                | 2012             | Seema Prahari Dwarka    | 2003             |
| INS Satpura                 | 2011             | Seema Prahari Sagar     | 2003             |
| <b>Multi-support vessel</b> |                  | Seema Prahari Kamakhya  | 2003             |
| Hercules -I                 | 2012             | Seema Prahari Somnath   | 2004             |
| Go-Surf                     | 2014             | Seema Prahari Shakti    | 2004             |
| <b>Dredger</b>              |                  | Seema Prahari Bajarang  | 2004             |
| BBMB Dredger                | 2004             | Seema Prahari Durga     | 2004             |
| Jalangi                     | 2004             | Seema Prahari Pratap    | 2004             |
| Mahananda                   | 2004             | Seema Prahari Trishul   | 2004             |
| Tizu                        | 2004             | <b>Missile boats</b>    |                  |
| DCI Dredger XVIII           | 2009             | Prabal                  | 2002             |

Source : Company

**Fig 9 – Product Offerings – Shipbuilding**

| Vessel Type                  | Description  |
|------------------------------|--|
| P17 frigates                 | The company recently constructed and delivered three Shivalik-class frigates for the MoD for use by the Indian Navy. The P17 frigates are multi-role and first-of-its kind warships built in India incorporating stealth features  |
| P17A frigates                | The P17A frigate is a design derivative of the Shivalik-class stealth frigates with much more advanced stealth features and indigenous weapons and sensors. The company is building four P17A frigates using integrated-construction methods   |
| P15A destroyers              | It recently constructed and delivered three P15A destroyers to the MoD for use by the Indian Navy. The role of the P15A destroyers is to co-ordinate a task force in sea control in a multi-threat environment. The P15A destroyers are capable of striking shore-based targets and providing defence against hostile aircraft, submarines and surface ships |
| P15B destroyers              | These are a follow-on class of the P15A destroyers with improved stealth features, latest weapons and sensors and platform-management systems. Currently, four P15B destroyers are in various stages of construction. The role of P15B destroyers is similar to that of P15A destroyers.   |
| Multipurpose support vessels | Two multi-purpose support vessels designed for diesel fuel, fresh water and deck cargo carriage, RoV operations and for azimuth-thruster operations were constructed and delivered to foreign clients  |

Source : Company

**Fig10 – Shipbuilding process**

Source : Company

**Fig 11 – Some submarines built by MDS in the past or being built**

| Vessel Type         | Description  |
|---------------------|--|
| SSK submarines      | Two Shishumar (SSK Type 1500) class submarines constructed. Medium refitting of four submarines of the Shishumar class undertaken. Medium refitting and life-certification of one submarine recently undertaken  |
| Scorpene submarines | Building/in the process of delivering five Scorpene submarines as part of Project 75 pursuant to a transfer-of-technology partnership with the Naval Group. This transfer involves appropriate technical support by the Naval Group to MDL in construction, integration and testing submarines in India, achieved through transfer of technical data to the company through information systems as well as on-the-job training on critical technologies to the company's personnel |

Source : Company

**Fig 12 – Submarines built and delivered to the MoD for the Indian Navy**

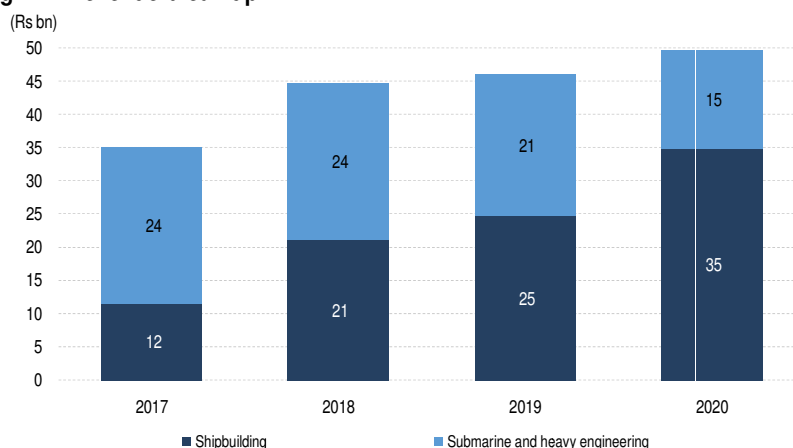
| Name of the submarine | Year of delivery |
|-----------------------|------------------|
| INS Shalki            | 1992             |
| INS Shankul           | 1994             |
| INS Kalvari           | 2017             |
| INS Khanderi          | 2019             |

Source : Company

**Fig 13 – Medium refitting carried out**

| Name of the submarine | Year of delivery |
|-----------------------|------------------|
| INS Shishumar         | 2000             |
| INS Shankhush         | 2005             |
| INS Shalki            | 2009             |
| INS Shankul           | 2011             |

Source : Company

**Fig 14 – Revenue break-up**

Source : Company

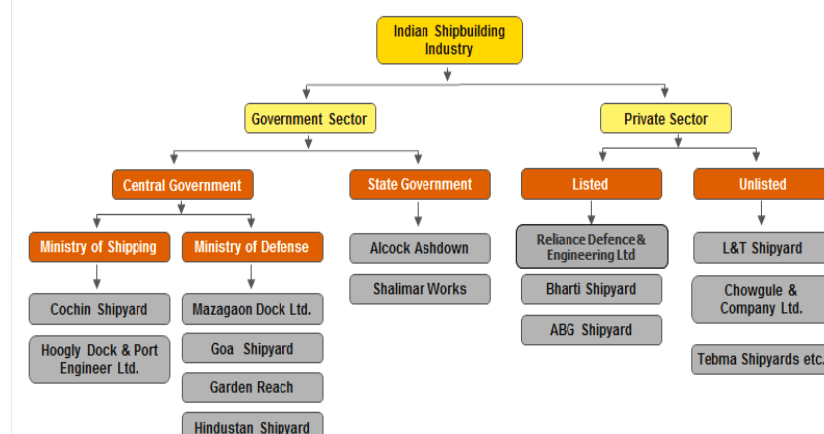
### Mazgaon Docks for shipbuilding, submarines; Nhava Sheva for repair

At MDS' dockyard in Mazgaon, Mumbai, the north and south yards are for shipbuilding; the east yard is where submarines are constructed. The Alcock yard is just north of the north yard and is now being used to augment the submarine-hull construction capacity. The second submarine fabrication facility is already in use. Land adjacent to the south yard is available to construct and accommodate ships and submarines (a modular workshop for shipbuilding, a cradle workshop for submarine building, a Goliath crane, a wet basin).

The company is exploring the development of a greenfield shipyard at Nhava Sheva, Navi Mumbai, with a shiplift, a wet basin, workshops, stores and buildings and a ship-repair facility over 37 acres. The focus of this shipyard would be construction and repair of commercial and warships. The above-water construction structure is ready.

### The Indian shipbuilding industry

India's major shipyards have in the past been in the public sector. They primarily built merchant navy ships and naval vessels. The Indian shipbuilding industry comprises eight public-sector shipyards, of which four naval shipyards come under the purview of India's Ministry of Defence. On the other hand there are about six private companies, listed and unlisted, catering to the Indian shipbuilding sector.

**Fig 15 – Industry structure**

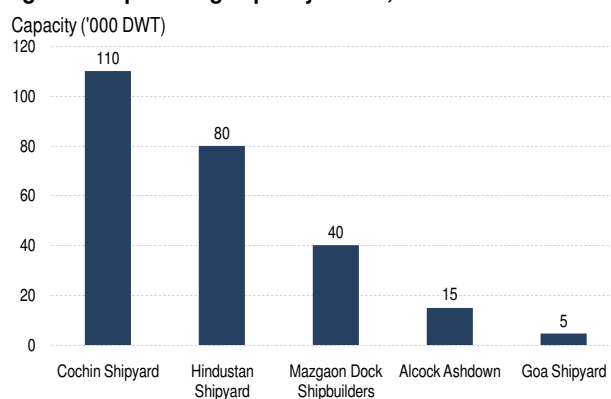
Source : Company

**Fig 16 – Shipbuilding capacity of public and private shipyards by type of vessels**

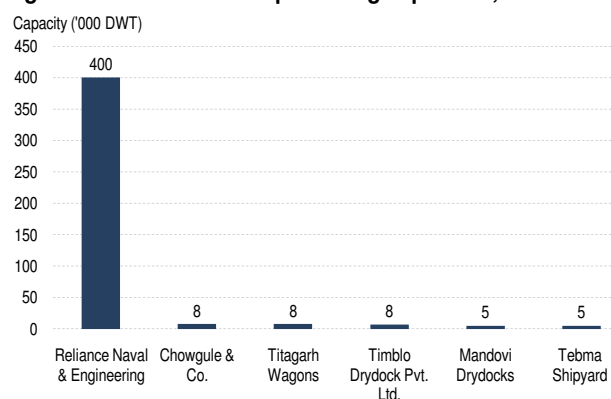
| Name of player                               | Tanker | Dry cargo | Bulk carriers | Passenger/Passenger cum - cargo ships | Product carriers | Other | Defence ships |
|--|--------|-----------|---------------|---------------------------------------|------------------|-------|---------------|
| <b>Public sector</b>                         |        |           |               |                                       |                  |       |               |
| Alcock Ashdown (Gujarat)(AAL)                | ✓      |           | ✓             |                                       |                  | ✓     |               |
| Cochin Shipyard (CSL)                        | ✓      | ✓         | ✓             | ✓                                     | ✓                | ✓     | ✓             |
| Hindustan Shipyard(HSL)                      | ✓      | ✓         | ✓             | ✓                                     | ✓                | ✓     | ✓             |
| Hooghly Dock & Port Engineers (HDPE)         | ✓      |           |               | ✓                                     |                  | ✓     |               |
| Shalimar Works (SWL)                         |        |           |               |                                       |                  | ✓     |               |
| Goa Shipyard (GSL)                           |        |           |               |                                       |                  |       | ✓             |
| Mazagon Dock Shipbuilders                    |        |           |               |                                       |                  |       | ✓             |
| Garden Reach Shipbuilders & Engineers*(GRSE) |        |           |               |                                       |                  |       | ✓             |
| <b>Private sector</b>                        |        |           |               |                                       |                  |       |               |
| ABG Shipyard(ABGS)                           | ✓      |           | ✓             |                                       |                  | ✓     |               |
| Bharati Defence & Infrastructure(BDIL)       | ✓      | ✓         | ✓             | ✓                                     |                  | ✓     |               |
| Reliance Defence & Engineering (RDEL))       |        | ✓         | ✓             | ✓                                     |                  | ✓     | ✓             |

Source : Company

Shipbuilding capacity of the majors in the industry, public and private, is 683,000 DWT, of which public-sector capacity is 250,000 DWT.

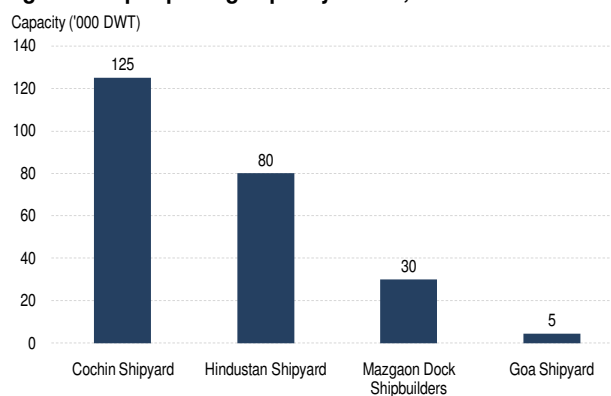
**Fig 17 – Shipbuilding capacity: PSUs, 2019**

Source: Statistics of India's Ship Building and Ship Repairing Industry-2018-19

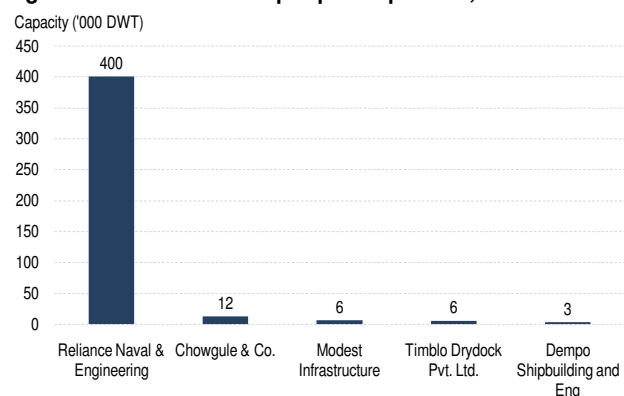
**Fig 18 – Private sector ship-building capacities, 2019**

Source: Statistics of India's Ship Building and Ship Repairing Industry-2018-19

Ship-repair capacity of the majors in the industry, public and private, is 667,000 DWT, of which public-sector capacity is 240,000 DWT.

**Fig 19 – Ship-repairing capacity: PSUs, 2019**

Source: Statistics of India's Ship Building and Ship Repairing Industry-2018-19

**Fig 20 – Private sector ship-repair capacities, 2019**

Source: Statistics of India's Ship Building and Ship Repairing Industry-2018-19

## Competitive strength

### Strong order book

MDS order book on 31<sup>st</sup> Jul'20 was Rs541bn, offering 6-7 years' revenue assurance. The order book comprises three major shipbuilding and two submarine projects. The company has already bid for a few orders for ship repairs; due to the pandemic, however, closure was delayed. The company is also looking at export orders. Given its expertise and sturdy manufacturing facilities, we believe it would keep its order book strong, providing robust revenue assurance for the future.

**Fig 21 – Order book**

| Particulars   | Nos. | Client | Value (Rs m)    |
|---|------|--------|-----------------|
| <b>Shipbuilding</b>   |      |        |                 |
| P15B destroyers   | 4    | MoD    | 2,63,850        |
| P17A stealth frigates   | 4    | MoD    | 2,36,490        |
| Repair, refitting and services                                | 1    | MoD    | 110             |
| <b>Submarine and heavy engineering</b>                        |      |        |                 |
| P75 Scorpene submarines                                       | 4    | MoD    | 32,020          |
| Medium refitting and life certification (MRLC) of a submarine | 1    | MoD    | 8,270           |
| <b>Order book</b>   |      |        | <b>5,40,740</b> |

Source : Company

**Fig 22 – Orders received and delivered in the last 18 years**

| Division                        | Orders Received | Orders Delivered |
|---------------------------------|-----------------|------------------|
| Shipbuilding                    | 15              | 27               |
| Submarine and heavy engineering | 10              | 5                |

Source : Company

### Modernisation program led to greater capacity

Its vast expertise and well-built infrastructure and facilities give the company an edge over competition. Its facilities comprise three dry docks, two wet basins, three slipways, production shops, assembly shops, a module shop, sheet metal shop, pipe shop, machine and fitting shop, dry dock and dredging, electrical repair shop and instrumentation shop for the shipbuilding division. Its submarine division infrastructure includes shops for fabrication of frames, sub-section assemblies and section formations, a cradle assembly shop for structural and equipment outfitting and final assembly, one dry dock and submarine section assembly shop.

The company had undertaken a modernisation program at its Mazgaon dock. Thereby, its capacity to outfit warships increased from eight to 10 and its submarine capacity increased from six to 11. For this a Rs9bn investment was made, of which Rs8bn was provided by the government of India, the rest from internal accruals. Besides, it has a shore integration facility which enables it to complete combat system integration off-site prior to on-board installation. It has also constructed a submarine assembly workshop which comprises two bays, equipped with two levels of EOT cranes as well as semi-Goliath cranes.



**Location of the facilities provides various benefits**

The Mazagaon Dockyard is strategically located in Mumbai on the west coast of India, connecting with Europe, West Asia and the Pacific Rim, a busy international maritime route. Its customers being the Ministry of Defence, the Indian Coast Guard and vendors based in Mumbai leads to better co-ordination and greater efficiencies. Further, most sub-contractors are in and around Mumbai, which provides the company ease of access to labour. We believe that the location of its facilities provides it with a strategic competitive advantage over its peers.

**Greater indigenisation over the past few years**

In the past, for its warships and submarines, the company imported equipment related to several processes. Importing resulted in higher costs, quality compromises and unsatisfactory after-sales support. In this regard, it intends to increase the quantum of indigenised components for its warships and submarines, thereby giving an impetus to the GoI's 'Make in India' campaign. In Project 15 bravo and 17 alpha, the company has indigenisation of 72-75%; in weapons, 30-40%. Greater indigenisation has reduced reliance on third-party component manufacturers and cost of vessel construction.

## Strategies

MDS has strategized to focus on areas such as exports, currently nil, increased impetus in ship repairs with augmentation of greenfield capacity.

### **Exports: 10-15% of revenue aimed at in the next few years**

At present, MDS caters to the Defence sector in India. Its last export was in 2012, since when it has catered only to Defence sector orders. Export opportunities were not considered due to limited capacity. Now, post-modernisation, it has additional capacity that can be used for export. Hence, it is in the process of reviving export of its Defence and commercial products to Latin America, Africa, South-East Asia, the Middle East and the Scandinavian region. For this, it has identified certain Defence and civil orders in such regions. With such a focus, it intends exports to make up 10-15% of revenue in the next few years.

### **Greater impetus to ship repairs**

Revenue from shipbuilding and submarine & heavy engineering are subject to achievement of certain milestones. Hence, to have a stable revenue stream, the company has started focussing on ship repairs. In the past it undertook ship repair for Defence and commercial clients. Focussing on ship repair would also enable MDS to diversify and broaden its client base, thereby reducing dependence on the MoD for orders. To strengthen its ship-repair business, it has been exploring a greenfield shipyard at Nhava Sheva, Navi Mumbai, with facilities such as ship lifting, a wet basin, workshops, stores and buildings and a ship repair plant spread over 37 acres.

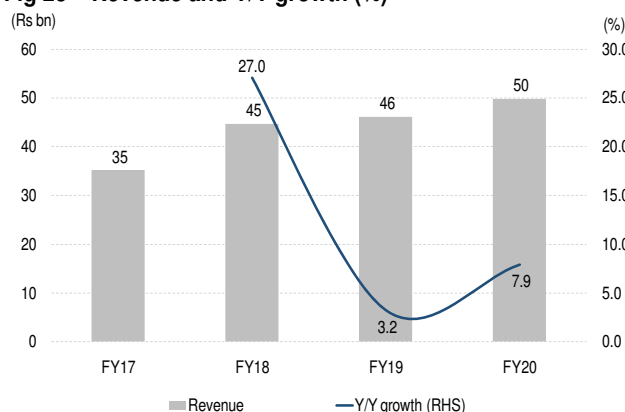
### **Infrastructure-augmentation and enhancing manufacturing capacity**

MDS is presently undertaking capital expenditure for its submarine & heavy engineering division by constructing a submarine launch pad and a blast-painting chamber. This, now being constructed, will enable it to execute future submarine orders. It is also leveraging the latest construction methods to speed up construction of its warships. Besides, it is exploring options of creating a greenfield shipyard at Nhava Sheva, Navi Mumbai, to cater to ship repairs. Such augmentation of facilities and greenfield plans would help it broaden its revenue stream and customer base, domestically and internationally.

## Financials

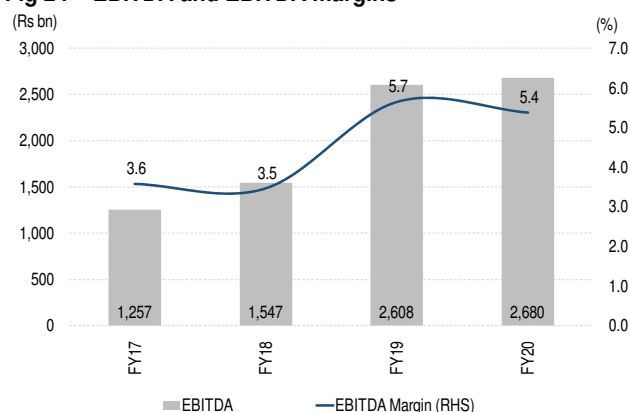
Consolidated revenue registered a 12.3% CAGR over FY17-20 to Rs49.8bn, while PAT declined from Rs5.4bn to Rs4.9bn. The EBITDA margin averaged 4.5%. With Rs58bn cash on the books in FY20, other income was Rs5.6bn. Of this Rs58bn, ~Rs8.3bn was free cash; the rest, project cash. The RoE declined from 20% to 15.5%. MDS is debt-free. At the upper end of the band, the stock trades at 4.5x FY20 earnings.

**Fig 23 – Revenue and Y/Y growth (%)**



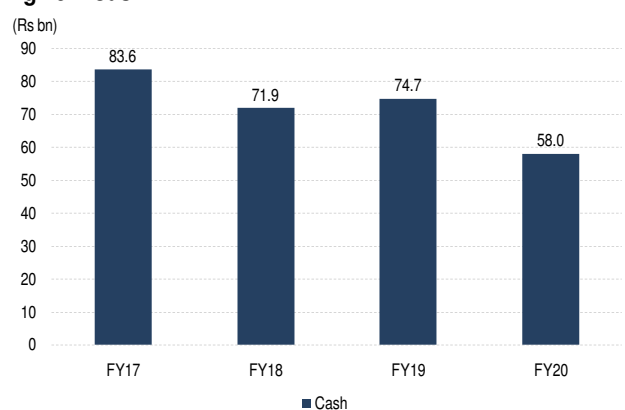
Source: Company

**Fig 24 – EBITDA and EBITDA margins**



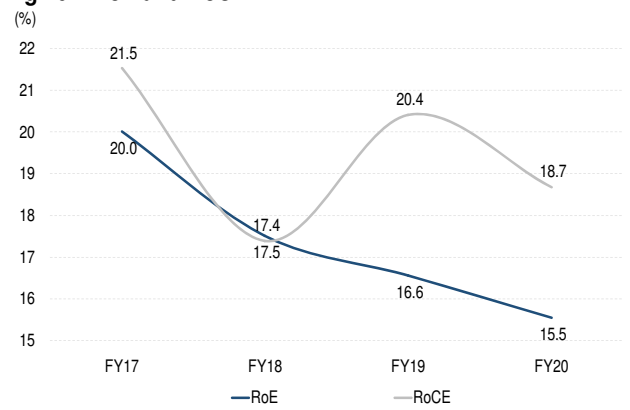
Source: Company

**Fig 25 – Cash**



Source: Company

**Fig 26 – RoE and RoCE**



Source: Company

**Fig 27 – Peer comparison**

|                 | Price (Rs) | Mkt Cap (Rs bn) | FY20 FDEPS (Rs) | P/E (x) | P/Bv (x) | Div Yield (%) | RoE (%) | Book/Bill (x) |
|-----------------|------------|-----------------|-----------------|---------|----------|---------------|---------|---------------|
| Cochin Shipyard | 332        | 44              | 48              | 6.6     | 1.12     | 4.7           | 17.9    | 5.0           |
| GRSE            | 184        | 21              | 15              | 11.4    | 1.91     | 4.1           | 16.8    | 18.0          |
| MDL             | 144        | 29              | 32              | 4.5     | 0.9      | 7.5           | 15.5    | 11.0          |

Source: Company

## Key risks

- The impact of the continuing Covid-19 pandemic on business and operations is highly uncertain and cannot be predicted.
- The entire business operations are conducted out of a single yard at Mumbai. The loss of, destruction or shutdown of, operations at the shipyard in Mumbai would have a material effect on the business, financial condition and results of operations.
- In the past negative net cash-flows from operating activities were seen. This may continue.
- Customers claiming liquidated damages and invoking performance bank guarantees / indemnity bonds could materially affect results of operations. MDS may face liabilities and claims by customers in future.

## About the management

**Chairman and Managing Director Narayan Prasad** served in the Indian Navy for over 36 years, holding several assignments afloat and onboard (INS Rana, INS Ranjit and INS Talwar; chief staff officer (technical)/headquarter Eastern Naval Command, admiral superintendent of the Naval Dockyard, Vishakapatnam, assistant chief of material (nuclear systems maintenance). He was also director-general of the naval project at Visakhapatnam. He has been awarded AtiVishishtSeva Medal and NavSena Medal for his services.

**Director (Submarine & Heavy Engineering) Jasbir Singh** has been associated with MDS since May'10. Previously, he was in the Indian Navy for over 22 years and held several assignments afloat and onboard (INS Mumbai, INS Kuthar) and various appointments in the warship-overseeing team, Directorate of Naval Design, Directorate of Ship Production and Naval Dockyard, Vishakhapatnam.

**Director (Shipbuilding) K Saxena** served in the Indian Navy for about 35 years in various capacities (warship production, superintendent of the warship overseeing team, Mumbai, and director-general of naval design). He also held appointments in the Directorate of Naval Architecture and Directorate of Ship Production of the Indian navy. He also served at the both naval dockyards at Mumbai and Vishakhapatnam.

**Director (Finance) Sanjeev Singhal**, B.Com (Hons) Delhi University, is a cost accountant with more than 32 years' experience in finance and accounting. He was with The Steel Authority of India (finance and accounts) and Director (Finance), Mishra Dhatu Nigam before joining the company on 8<sup>th</sup> Jan'20.

**Director (Corporate Planning and Personnel) T. V. Thomas** was previously in the Indian Navy for over 28 years, holding several assignments, afloat and ashore, incl. engineer officer of INS Viraat, executive officer of INS Shivaji and command engineer officer of the Southern Naval Command. He has been with the company since May'13.

## Appendix

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|                           | Buy  | Hold  | Sell |
|---------------------------|------|-------|------|
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