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Good set of numbers despite COVID, now all eyes on FY22

LKP

Q4 numbers broadly in line with expectations

GRSE reported a healthy set of numbers in Q4 with topline growing by 23.6% qoq, though on a yoy basis they fell by just 6.6%. This decline was much arrested as compared to Q3, when the revenues had fallen sharply by 24% yoy. The material costs saw a contraction in Q4 as they stood at 46.4% of topline and there was a reduction in employee costs as well, as we saw some cost savings at these line items. Subcontracting costs continued with the trend of growing as they increased by 35% in FY 20. EBITDA margins saw a healthy improvement at 7.6% v/s 6.4% yoy and -0.3% qoq as the company undertook a strong execution. Other income remained strong at ₹528 mn over ₹500 mn yoy. PBT grew by 9% yoy and 92% qoq to ₹798 mn, while reporting strong margins at 17.5%. Adjusted PAT came at ₹603 mn , which has doubled yoy, while margins came at 13.2%. The company delivered 5 ships in FY 20 and dispatched its 105th ship to MoD of India in this quarter. Impact of COVID was very well felt in the quarter for last seven days and led to delay in one of the ASWC ship to the navy, which was planned in last week of March. GRSE in Q4 delivered the last of FPV and one LCU in the quarter. The company also led the keel of the second of the P17A warship in January 2020 and has announced to advance the delivery of the first P17A warship to Q4 FY 21 or Q1 FY 22. FCF of ~₹8.7 bn stands out for GRSE in FY20. This appears mainly on the back of increased customer advances, allowing ~₹7.2bn in increased cash and cash equivalent for the year. The company has announced ₹1.4/ share of final dividend, taking FY20 dividend yield to 4.8% at ~50% payout.

COVID impact

The last week of March witnessed a nation-wide lockdown which led to a delay in delivery in some ships. The most important of all, the company failed to deliver the ASWC ship to the Indian Navy as it was planned to be delivered by March end. This led to a loss of ₹800-900 mn in the quarter, which will be shifted to Q1 FY21. Since the lockdown, all of GRSE's units were closed considering Kolkata being in red/containment zone. These units have started to function in the first week of June but are working with restrictions on employee strength. This has affected the manpower intensive ship building process. Management believes that it will take some time to get back to normalcy, but till then they are planning to deploy the existing/available workforce with extra man hour/shifts per day to deliver the ships on schedule. In May, the cyclone 'Amphan' led to some damage to its docks along with water logging over there and flying away of their roofs. However, the company has been able to recover from it soon.

GRSE remains on track to meet its delivery schedule by FY 22

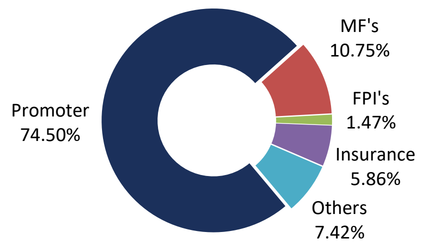
We believe that the delivery schedule of FY 21 being back ended will not be majorly impacted by COVID. The first two months of Q1 being totally impacted, we expected a lackluster performance in the current quarter. In Q2, slowly things will be back on track with restriction getting relaxed and employees (most probably including migrated labor) getting back to work at full strength. The flagship P17A project is running on schedule and has delivered revenues of ₹7.64 bn and is expected to deliver more in FY 21E. Despite COVID, GRSE announced that they plan to advance the delivery of the first P17A to Q4 FY21 or Q1 FY22 which is advancement by around a year. This would give an additional fillip to the financials earlier than expected. The company now has an order book of ₹265 bn which is up by 29% in FY20 due to ₹63.11 bn ASW SWC project order (8 nos) win in April 2019. Also in Q4, the company got an additional order to supply 1 FPV to the Indian Coast Guards.

The current order book which is 19x FY 20 revenues remains the key investment thesis. This consists of ₹192 bn P17A warships (3 nos.), ₹63.11 bn ASW SWC (8 nos.), ₹24.3 bn of SVL (4 nos.) and other small projects. The delivery of first P17A is now advanced and to be held in FY 22,

Stock Data	
Rating	BUY
Current Market Price(₹)	151
12 M Price Target (₹)	233
Potential upside (%)	54
FV (₹)	10
Market Cap Full (₹ bn)	17
52-Week Range (₹)	249 / 105
BSE / NSE Code	542011 / GRSE
Bloomberg	GRSE IN

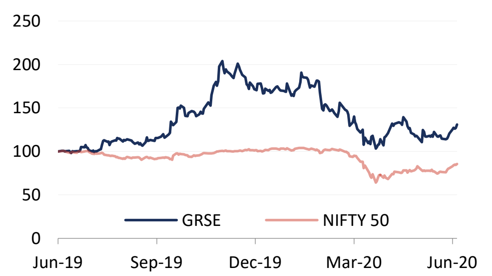
What's Changed	
12 month Price Target (₹)	318 to 233
FY21E EPS (₹)	20.1 to 14.1
FY22E EPS (₹)	28.9 to 23.3

Shareholding Pattern (March 2020)



YE Mar	FY 19	FY 20	FY 21E	FY 22E
Total sales (₹ bn)	13.9	14.3	16.5	24.8
EBITDA margins (%)	3.0%	2.8%	3.0%	6.0%
PAT margins (%)	8.1%	12.1%	9.8%	10.8%
EPS (₹)	9.8	15.2	14.1	23.3
P/E (x)	15.3	9.9	10.7	6.4
P/BV (x)	1.7	1.7	1.6	1.5
EV/EBITDA (x)	40.6	24.5	18.5	2.6
ROE (%)	9.6%	14.3%	14.1%	23.3%
Dividend yield	4.2%	4.8%	5.2%	9.3%

GRSE vs Nifty 50



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followed by the other two ships with a regular gap of one year each. In the mean time SVL and ASW SWC will start their deliveries and lead to overlapping of revenues at various stages of these projects. We believe this to continue for next 3-4 years leading to exponential revenue growth from FY 22E onwards when the first P17A warship will be delivered.

Margin profile to be elevated by competitively bid projects, indigenization and prudent cost management

We believe that more than 32% of the order book now consists of competitively bid projects which have variable margin profile. We believe that ASW SWC and SVL being complex shipbuilding projects, will most probably attract higher margins than the nominated P17A project (7.5% PBT margins incl. other income). This may lead to a better margin profile going forward. Higher indigenization which is now almost 85-90% in all of the projects will further lead to margin improvement. Higher operating leverage with greater influx of revenues will also lead to margin growth. In the current scenario, higher revenues from lower employee strength will improve the efficiency ratio of the company. Expectations of smaller Liquidity Damages as compared to ₹240 mn in FY 20 may help the company to post better margins.

All fig in ₹ mn	Q4 FY20	Q3 FY20	*% qoq*	Q4 FY19	*% yoy*
Total Net Sales	4,567	3,696	*23.6%*	4,892	*-6.6%*
RM cost	2,137	2,011	*6.3%*	2,919	*-26.8%*
Employee cost	734	753	*-2.5%*	721	*1.7%*
Other expenses	1,350	945	*42.9%*	941	*43.5%*
EBITDA	345	(12)	-	311	*11.0%*
EBITDA Margins %	7.6%	-0.3%	*790 bps*	6.4%	*120 bps*
Other income	528	512	*3.0%*	500	*5.7%*
Depreciation	79	75	*5.2%*	67	*18.5%*
Interest	(3.5)	10.9	-	13.9	*-125.2%*
PBT	798	415	*92.3%*	730	*9.3%*
Tax	195	120	*62.7%*	394	*-50.6%*
PAT	497	295	*68.4%*	336	*47.9%*
PAT margins %	10.9%	8.0%	*290 bps*	6.9%	*400 bps*
Exceptional items	(106.0)	-	-	(0.2)	-
Adjusted PAT	603	295	*104.3%*	336	*79.4%*
APAT margins %	13.2%	8.0%	*520 bps*	6.9%	*630 bps*

Outlook and Valuation

We witnessed a good set of results in Q4 FY20 despite COVID impacting it towards the end. Q1 of FY 21 has already witnessed the same issue on a bigger scale, while going forward, we believe that there will be a gradual improvement in numbers, which may lead FY 21 to post small growth over FY 20 driven by small project delivery and delayed deliveries of FY 20. However, we are aware that most of the major project deliveries are lined up from FY 22 onwards, for which we expect no impact of COVID. Labor issues should get sorted out by then. With overlapping of several project revenues coming from FY 22, we may see a solid growth in financials from then. With strong balance sheet containing enough cash to make up for any payment delays from government, the company may not require any debt to be raised in the medium term. With an order book of 19x FY 20 revenues, strong FCF, robust dividend yield, we continue to be upbeat on this stock. However, we prune down our estimates and target in view of COVID impact resulting in some delays in deliveries and payment from government. Maintain BUY, with a target of ₹233.

Consolidated Financial

Income Statement

YE Mar (₹ mn)	FY 19	FY 20	FY 21E	FY 22E
Total Revenues	**13,864**	**14,333**	**16,468**	**24,786**
Raw Material Cost	7,633	7,218	7,987	11,401
Employee Cost	2,915	2,969	3,458	5,453
Other Exp	2,895	3,742	4,529	6,444
EBITDA	**421**	**404**	**494**	**1,487**
EBITDA Margin(%)	*3.0%*	*2.8%*	*3.0%*	*6.0%*
Depreciation	271	301	330	366
EBIT	**150**	**103**	**164**	**1,121**
EBIT Margin(%)	*1.1%*	*0.7%*	*1.0%*	*4.5%*
Other Income	1,712	2,255	2,000	2,400
Interest	51	13	15	10
PBT	**1,811**	**2,345**	**2,149**	**3,511**
PBT Margin(%)	*13.1%*	*16.4%*	*13.1%*	*14.2%*
Tax	690	604	537	843
Adjusted PAT	**1,121**	**1,741**	**1,612**	**2,669**
APAT Margins (%)	*8.1%*	*12.1%*	*9.8%*	*10.8%*
Exceptional items	-22	-106	0	0
PAT	**1,099**	**1,635**	**1,612**	**2,669**
PAT Margins (%)	*8.1%*	*12.1%*	*9.8%*	*10.8%*

Key Ratios

YE Mar	FY 19	FY 20	FY 21E	FY 22E
Per Share Data (₹)				
Adj. EPS	9.8	15.2	14.1	23.3
CEPS	11.7	16.9	17.0	26.5
BVPS	90.6	90.8	94.8	99.9
DPS	6.3	7.1	7.7	14.0
Growth Ratios(%)				
Total revenues	2.7%	3.4%	14.9%	50.5%
EBITDA	-349.7%	-4.0%	22.3%	201.0%
EBIT	-132.8%	-31.2%	59.0%	582.6%
PAT	18.9%	55.3%	-7.4%	65.6%
Valuation Ratios (X)				
PE	15.3	9.9	10.7	6.4
P/CEPS	12.8	8.9	8.8	5.7
P/BV	1.7	1.7	1.6	1.5
EV/Sales	1.2	0.7	0.6	0.2
EV/EBITDA	40.6	24.5	18.5	2.6
Operating Ratios (Days)				
Inventory days	92.0	112.3	105.0	110.0
Recievable Days	57.9	136.3	120.0	112.0
Payables day	97.4	139.2	145.0	150.0
Net Debt/Equity (x)	0.00	0.00	0.00	0.00
Profitability Ratios (%)				
ROE	9.6%	14.3%	14.1%	23.3%
Dividend payout ratio	65.5%	50.0%	55.0%	60.0%
Dividend yield	4.2%	4.8%	5.2%	9.3%

Balance Sheet

YE Mar (₹ mn)	FY 19	FY 20	FY 21E	FY 22E
Equity and Liabilities				
Equity Share Capital	1,146	1,146	1,146	1,146
Reserves & Surplus	9,238	9,257	9,716	10,303
Total Networth	**10,383**	**10,402**	**10,862**	**11,449**
Total debt	0	0	0	0
Net Deferred Tax	112	95	95	95
Long term provisions	719	874	1,024	1,174
Current Liab & Prov				
Trade payables	3,701	5,467	6,542	10,186
Short term prov+ borrowings	1,408	1,526	1,526	1,526
Other current liabilities	25,575	35,477	36,094	44,139
Total current liab and privs	30,685	42,470	44,162	55,851
Total Equity & Liabilities	**41,899**	**53,841**	**56,143**	**68,568**
Assets				
Net block	2,973	2,992	3,063	3,197
Capital WIP	342	515	615	715
Other non current assets	2,870	2,258	2,258	2,258
Total fixed assets	**6,185**	**5,765**	**5,935**	**6,169**
Cash and cash equivalents(i)	93	7,292	8,035	13,303
Bank deposits other than (i)	19,801	18,821	17,821	16,821
Inventories	3,496	4,410	4,737	7,470
Trade receivables	2,199	5,353	5,414	7,605
Other current assets	10,107	11,660	13,660	16,660
Total current Assets	**35,714**	**48,076**	**50,208**	**62,399**
Total Assets	**41,899**	**53,841**	**56,143**	**68,568**

Cash Flow

YE Mar (₹ mn)	FY 19	FY 20	FY 21E	FY 22E
PBT	1,790	2,239	2,149	3,511
Depreciation	271	301	330	366
Interest	51	13	15	10
Chng in working capital	(2,787)	4,619	(546)	3,915
Tax paid	1,259	1,246	537	843
Other operating activities	(1,699)	(2,139)	0	0
Cash flow from operations (a)	**(1,116)**	**6,278**	**1,411**	**6,959**
Capital expenditure	(525)	(674)	(500)	(600)
Chng in investments	1,111	1,979	1,000	1,000
Other investing activities	1,392	1,144	0	0
Cash flow from investing (b)	**1,978**	**2,449**	**500**	**400**
Free cash flow (a+b)	**862**	**8,727**	**1,911**	**7,359**
Inc/dec in borrowings	0	0	0	0
Dividend paid (incl. tax)	(868)	(1,497)	(1,153)	(2,082)
Interest paid	(20)	(31)	(15)	(10)
Other financing activities	0	0	0	0
Cash flow from financing (c)	**(888)**	**(1,528)**	**(1,168)**	**(2,092)**
Net chng in cash (a+b+c)	**118**	**93**	**7,292**	**8,035**
Closing cash & cash equivalents	**93**	**7,292**	**8,035**	**13,303**

Source: Company, LKP Research

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