

Labour shortage hinders execution, capex...

Cochin Shipyard (CSL) registered a substandard performance in Q1FY21 as production was halted till May 5. After this, production started on a reduced time scale for a significant period of the quarter affecting overall performance. Revenue for the quarter was at ₹ 332.5 crore, down 55% YoY. Shipbuilding (SB) revenue fell 47.5% YoY to ₹ 316.1 crore while shiprepair (SR) segment contracted 87.7% YoY to ₹ 16.35 crore in the quarter. On a segmental profitability front, SB reported EBIT of ₹ 62.5 crore whereas SR clocked an EBIT (loss) of ₹ 8.9 crore. SB, SR segments contributed 95.1%, 4.9% to the topline, respectively. Employee expenses stayed stable, coming in at ₹ 69.9 crore. EBITDA margin came in at 5.1% during the quarter, contracting ~1400 bps YoY. Absolute EBITDA de-grew 88% YoY to ₹ 17 crore. Consequently, PAT came in at ₹ 42.6 crore, down 65% YoY.

Flat guidance for FY21E...

The management of CSL has guided for flattish topline in FY21E. Currently, no revenue for ASW has been booked against 10% advanced received. ASW revenue would start kicking off from Q3 onwards. It is expected to contribute ₹ 150 crore in FY21 and, thereafter, an average of ₹ 1000 crore/year. With regard to IAC, ~ ₹ 6200 worth execution is still pending. Out of this, ₹ 4000 crore is expected to be booked before September 2021 (delivery date) while the rest would be booked post-delivery. In lieu of the above and a conservative approach, we expect revenue to decline 18% in FY21E before improving 38.5% YoY in FY22E.

Current orderbook gives revenue visibility for next three years

The current orderbook of CSL is at ₹ 14393 crore, which gives revenue visibility for the next three years. It has shared order prospects worth ₹ 12000-13000 crore. Further, CSL expects the Atmanirbhar Bharat defence campaign to provide additional opportunities. Recently, it received ₹ 120 crore order for two autonomous electric ferries with an option for two more if the owner intends. CSL is focusing on export orders and is targeting the Singapore, Hong Kong markets. It would be targeting big commercial vessels from international liners once the new dry dock is complete.

Valuation & Outlook

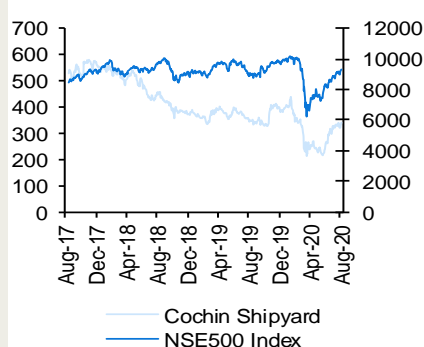
CSL continues to have a solid order book of ₹ 14393 crore. A healthy cash balance of ₹ 1950 crore as on June end provides adequate liquidity for capex, business execution. Considering all factors, we revise our estimates upwards and build in 8.1%, 2.1%, -4.6% revenue, EBITDA and PAT CAGR for FY20-22E, respectively. SB revenues are expected to grow at 12% CAGR while shiprepair is expected to grow at 1.0% CAGR in FY20-22E. We expect overall margins to get diluted in FY21E due to impact on operations due to shutdown, lower other income. On the whole, we maintain **BUY** on the stock and value CSL at 9x FY22E earnings to arrive at a target price of ₹ 395.



Particulars

Particular	Amount
Market Capitalization*	₹4446 Crore
Total Debt (FY 20)	₹123 Crore
Cash & Inv (FY 20)	₹2176 crore
EV (FY 20)	₹2393 Crore
Equity capital**	₹131.5 Crore
Face value	₹10

Price chart



Key Highlights

- ISRF & dry dock execution delayed
- Solid order book at ₹ 14393 crore
- Maintain BUY rating with revised target price of ₹ 395/share

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Key Financial Summary

(₹ crore)	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Revenues	2,355	2,962	3,422	3,285	3,998	8.1
EBITDA	464	569	709	601	740	2.1
EBITDA margins	19.7	19.2	20.7	18.3	18.5	
Net Profit	396	478	638	471	581	(4.6)
EPS (₹)	29.2	36.3	48.5	35.8	44.2	
P/E (x)	11.6	9.3	7.0	9.4	7.7	
Price / Book (x)	1.4	1.3	1.2	1.1	1.0	
EV/EBITDA (x)	2.6	3.6	3.4	5.7	5.3	
RoCE (%)	13.4	19.0	17.6	13.5	14.6	
RoE (%)	12.2	14.5	17.1	11.9	13.4	

Exhibit 1: Variance analysis

	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	
Revenue	332.5	735.4	-54.8	816.7	-59.3	Shipbuilding and shiprepair segment contributed 95.1% and 4.9%, respectively
Other Income	64.6	67.9	-4.9	45.0	43.6	
Total Revenue	397.1	803.4	-50.6	861.7	-53.9	
Total Raw Material Costs	213.4	488.8	-56.3	472.8	-54.9	
Employee Expenses	69.9	70.4	-0.7	86.2	-18.9	
Other expenses	27.7	32.7	-15.1	42.2	-34.3	
Provision for losses & exp.	4.4	1.9	132.5	52.4	-91.6	
Operating Profit (EBITDA)	17.0	141.7	-88.0	163.0	-89.5	
EBITDA margin (%)	5.1%	19.3%	1415 bps	20.0%	-1483 bps	Negative operating leverage impacted performance
Interest	11.4	11.1	2.3	11.1	2.3	
Depreciation	12.1	12.1	-0.3	12.2	-0.9	
Total Tax	15.6	66.2	-76.5	45.9	-66.1	
PAT	42.6	120.3	-64.5	138.8	-69.3	

Key Metrics	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	
Revenue (Segment-wise)						
Shipbuilding	316.1	602.1	-47.5	712.6	-55.6	
As a % of Sales	95.1%	81.9%		87.2%		
Shiprepair	16.4	133.4	-87.7	104.1	-84.3	Closed Mumbai and Kolkata facilities impacted performance
As a % of Sales	4.9%	18.1%		12.8%		
EBIT (Segment-wise)						
Shipbuilding	62.5	101.2	-38.2	213.2	-70.7	
EBIT Margins (%)	19.8%	16.8%		29.9%		
As a % of EBIT	89.8%	51.2%		108.9%		
Shiprepair	-8.9	41.2	-121.5	29.0	-130.6	
EBIT Margins (%)	-54.2%	30.9%		27.8%		
As a % of EBIT	-12.7%	20.9%		14.8%		

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY19	FY20	FY21E			FY22E		
(₹Crore)	Actual	Actual	Old	New	% Change	Old	New	% Change
Revenue	2962.2	3422.5	3181.9	3284.7	3.2	3710.6	3997.9	7.7
EBITDA	569.2	709.3	534.6	601.1	12.4	575.1	739.6	28.6
EBITDA Margin (%)	19.2	20.7	16.8	18.3	150 bps	15.5	18.5	300 bps
PAT	477.8	637.7	424.1	470.8	11.0	538.2	580.8	7.9
EPS (₹)	36.3	48.5	32.2	35.8	11.2	40.9	44.2	8.0

Source: Company, ICICI Direct Research

Conference call takeaways – Q1FY21

- **CSL's order backlog at ₹ 14,393 crore**

Exhibit 3: CSL's order book

Sr.No.	Current order book	Total No of	Balance orders
1	Order from Indian Navy (IAC & ASW Corvette)	9	12553
2	Orders from GOI, MOS	6	570
3	Orders from GOI,MOD &MHA	10	283
4	Small passenger ferry (KMRL) & Others	29	481
5	Fishing Vessels (TN Govt) & Other small vessels	-	6.05
6	Ship repair orders		500
Total ₹			14393

Source: Company, ICICI Direct Research

- There was production loss of 25 days in April and resumption beginning May 6 with 50% strength. Non-availability of labour along with closed Mumbai & Kolkata facilities impacted performance in Q1FY21
- ISRF & dry Dock capex have been impacted owing to shortage of labour and non-availability of materials and equipment
- Revenue booked in Q1FY21 in ship building ₹ 316 crore
IAC 261 crore (cost plus ₹ 186 crore, fixed price ₹ 75 crore)
Other 56 crore
- Target ₹ 500 to ₹ 550 crore revenue from ship repair segment for FY21E
- Currently, CSL has not heard from the Navy regarding INS Vikramaditya. However, the vessel would be due for repair in 2022 ending
- NCLT orders have been passed in case of Tebma shipyard. The 90-day period has been extended on account of lockdown. CSL is looking to complete the process by September. Post this, the yard would undergo maintenance for a few months before ship-repair activities resume
- No revenue has been booked so far from ASW. The management has guided for ₹ 150 crore worth of revenue booking this year followed by ₹ 1000 crore average in coming years
- ISRF total capacity would be up to 70 vessels. For the first year, CSL expects ₹ 200 crore worth of revenue while gradually increasing up to ₹ 650 crore in three to four years after that

Major expansion update

New large dry dock

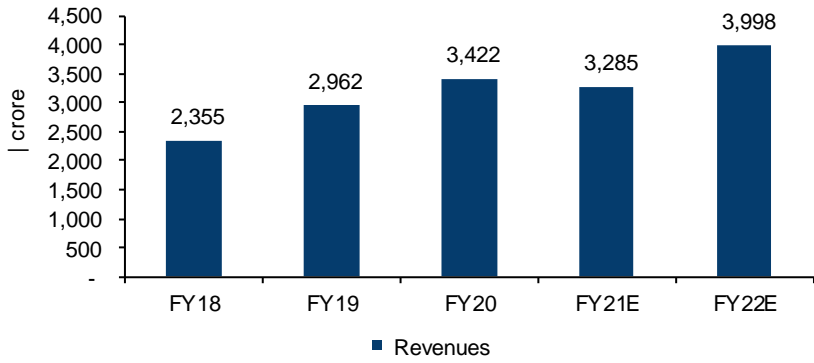
- Dock: 310m x 75/60m x 13m and other allied facilities
- Estimate: ₹ 1799 crore
- Target completion: December 2022
- Construction of complex, technology intensive large vessels like LNG carriers, offshore drill ships, aircraft carriers, offshore rigs, semi-submersibles, etc
- Cumulative expenditure till date is ₹ 555 crore
- Repair of 80 additional vessels a year. Increase in repair throughput by around 70%
- **Status**
- Overall physical completion – 33.5%
- Labour shortage, disruption in material supply chains have severely affected execution
- Currently, work is being carried out with 50% labour strength in order to comply with social distancing norms
- Construction contractor, crane manufacturer, project management consultant, etc, had already intimated *Force Majeure* due to Covid-19
- Projected date of commissioning is targeted by December 31, 2022

International ship repair facility (ISRF)

- Ship lift: 130 m x 25 m x 6000 T with six workstations
- Estimate: ₹ 970 crore
- Target completion: December 2021
- Cumulative expenditure till date is ₹ 436 crore
- **Status**
- Overall physical completion 70%
- Execution affected due to labour shortage, disruption in material supply, suppliers invoking *Force Majeure* due to Covid-19

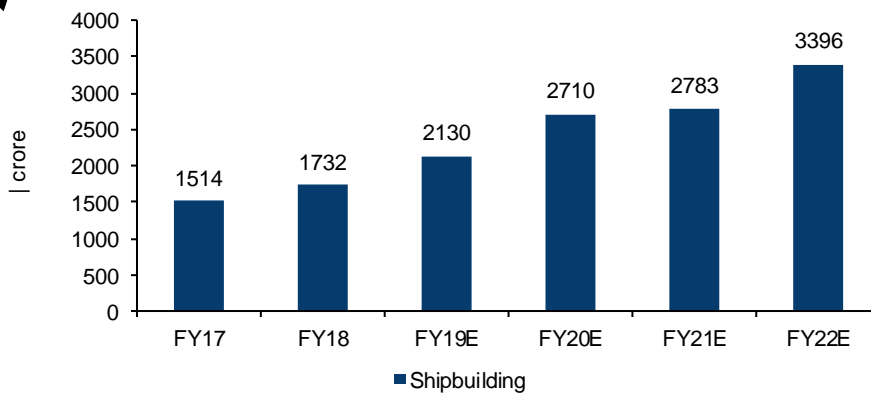
Financial story in charts

Exhibit 4: Revenue trend (consolidated)



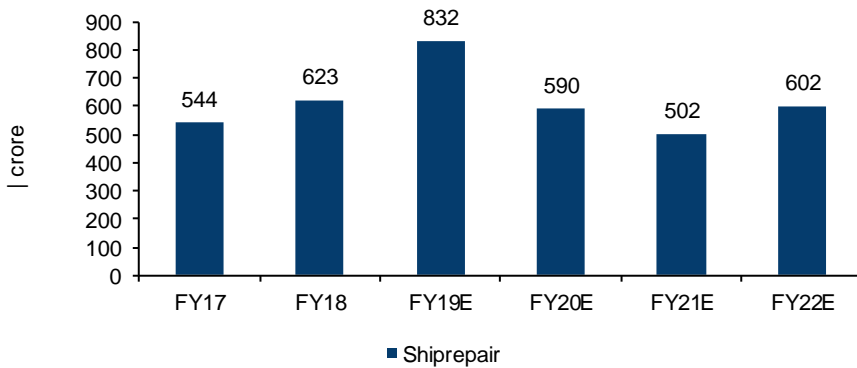
Source: Company, ICICI Direct Research

Exhibit 5: Shipbuilding revenue trend



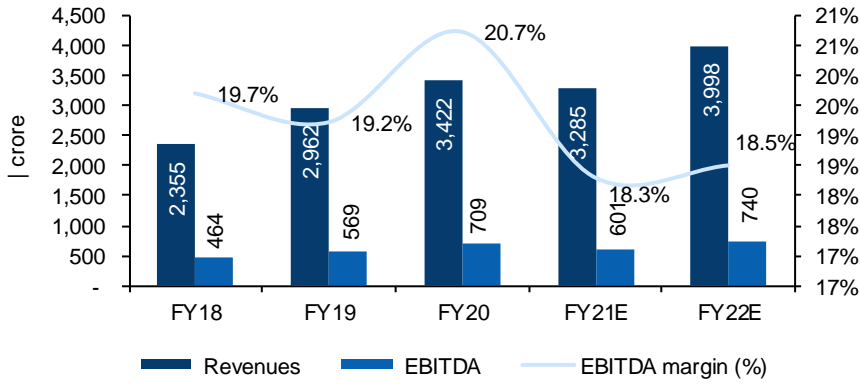
Source: Company, ICICI Direct Research

Exhibit 6: Shiprepair revenue trend



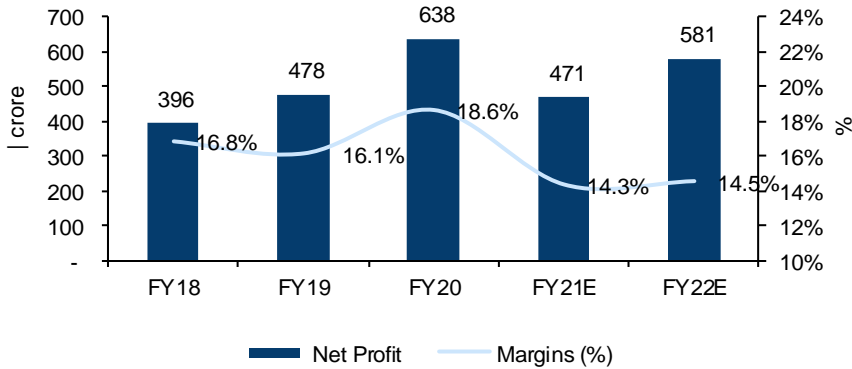
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA and EBITDA margin trend



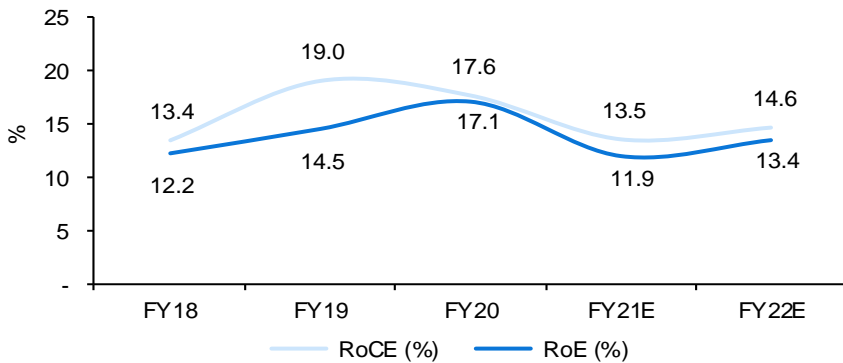
Source: Company, ICICI Direct Research

Exhibit 8: PAT and PAT margins trend



Source: Company, ICICI Direct Research

Exhibit 9: RoE and RoCE trend



Source: Company, ICICI Direct Research

Financial summary

Exhibit 10: Profit and loss statement				
₹ crore				
(₹Crore)	FY19	FY20	FY21E	FY22E
Net Sales	2,962	3,422	3,285	3,998
Operating income	-	-	-	-
Revenue	2,962	3,422	3,285	3,998
% Growth	25.8	15.5	(4.0)	21.7
Other income	226.8	247.5	130.0	140
Total	3,215	3,670	3,415	4,138
% Growth	25.6	14.2	(7.0)	21.2
Raw Mtl costs	1,882	2,162	2,102	2,579
Employee Expenses	278	306	312	380
other expenses	161	160	171	192
Total Operating Exp.		2,713	2,684	3,258
EBITDA	569	709	601	740
% Growth	22.7	24.6	(15.2)	23.0
Interest	14	45	25	13
PBDT	782	912	706	867
Depreciation	34	49	53	60
PBT & Except. items	748	863	654	807
Total Tax	270	226	183	226
PAT before MI	478	638	471	581
Minority Interest	-	-	-	-
PAT	478	638	471	581
% Growth	20.6	33.5	(26.2)	23.4
EPS	36.3	48.5	35.8	44

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
₹ crore				
(₹Crore)	FY19	FY20	FY21E	FY22E
Profit after Tax	478	638	471	581
Depreciation	34	49	53	60
Interest	14	45	25	13
CF before WC changes	526	731	548	654
Changes in inventory	31	(30)	(47)	(78)
Changes in debtors	188	104	(342)	82
Changes in loans & Adv	28	200	(225)	(56)
Changes in other CA	(464)	(963)	609	(214)
Net Increase in CA	(217)	(689)	(4)	(266)
Changes in creditors	(45)	72	76	(2)
Changes in provisions	87	16	95	(2)
Net Inc in CL	(301)	387	(177)	210
CF from Operatons	8	429	367	598
Changes in deferred tax asset:	(23)	20	-	-
(Purchase)/Sale of FA	(283)	(855)	(1,100)	(900)
CF from Investing	(514)	(555)	(1,100)	(900)
Dividend & Dividend Tax	(245)	(245)	(163)	(207)
CF from Financing	(455)	(323)	(197)	(220)
Net Cash flow	(961)	(449)	(931)	(523)
Opening Cash/Cash Eq	3,505	2,545	2,096	1,165
Closing Cash/ Cash Eq	2,545	2,096	1,165	642

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
₹ crore				
(₹Crore)	FY19	FY20	FY21E	FY22E
Equity Capital	131.5	131.5	131.5	131.5
Reserve and Surplus	3,164	3,600	3,822	4,195
Total Shareholders fu	3,296	3,732	3,953	4,327
Minority Interest	5.3	-	-	-
Total Debt	123	123	123	123
Total Liabilities	3,427	4,231	4,452	4,826
Gross Block	831	1,224	2,192	3,092
Acc: Depreciation	455	467	520	580
Net Block	376	756	1,672	2,512
Capital WIP	342	768	900	900
Total Fixed Assets	718	1,524	2,572	3,412
Non Current Assets	405	408	408	408
Inventory	283	313	360	438
Debtors	392	288	630	548
Loans and Advances	233	33	259	315
Other Current Assets	632	1,595	985	1,199
Cash	2,545	2,176	1,165	642
Total Current Assets	4,085	4,406	3,399	3,142
Current Liabilities	347	419	495	493
Provisions	394	410	505	503
Net Current Assets	2,299	2,232	1,402	936
Total Assets	3,427	4,231	4,452	4,885

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
EPS	36.3	48.5	35.8	44.2
Cash per Share	193.4	165.4	88.6	48.8
BV	250.6	283.7	300.5	328.9
Dividend per share	15.5	15.5	12.4	15.8
Dividend payout ratio	43%	32%	35%	36%
EBITDA Margin	19.2	20.7	18.3	18.5
PAT Margin	15.0	17.4	13.8	14.0
RoE	14.5	17.1	11.9	13.4
RoCE	19.0	17.6	13.5	14.6
RoIC	47.5	29.9	18.5	16.7
EV / EBITDA	3.6	3.4	5.7	5.3
P/E	9.3	7.0	9.4	7.7
EV / Net Sales	0.7	0.7	1.0	1.0
Sales / Equity	0.9	0.9	0.8	0.9
Market Cap / Sales	1.5	1.3	1.4	1.1
P/BV	1.3	1.2	1.1	1.0
Asset Turnover Ratio	3.6	2.8	1.5	1.3
Debtors Turnover Ratio	6.1	10.1	7.2	6.8
Creditors Turnover Ratio	8.0	8.9	7.2	8.1
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.9	2.7	2.2	2.5
Quick Ratio	1.6	2.3	1.9	2.0

Source: Company, ICICI Direct Research

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