

## Smooth sailing in windy sea...

Cochin Shipyard exited FY21 with an outstanding performance in Q4 wherein revenue and operating margins were a beat to our estimates. Ship repair segment, which was lagging since Covid, has now kicked in strong revenue and margins adding thrust to Cochin's overall performance. The company declared a dividend of ₹ 2.5 per share during the quarter. Revenue for the quarter came in at ₹ 1080.3 crore (vs. I-direct estimate of ₹ 975 crore), up 32.3% YoY, 44.3% QoQ. Gross margins contracted ~411 bps YoY, 2150 bps QoQ (YoY being a higher base, QoQ being a one-off exception). However, on a broader perspective, GMs were in their median range. EBITDA increased 58% YoY to ₹ 257.5 crore (I-direct estimate of ₹ 187 crore). Ensuing EBITDA margins came in at 23.8% vs. 20% YoY (I-direct estimate: 19.2%). Ensuing PAT came in at ₹ 236.2 crore, up 70.2% YoY, 5.6% QoQ.

## Higher execution from IAC leads to better margins...

Ship building revenues came in at ₹ 888 crore, up 24.6% YoY, with EBIT margin of 28.9%. Margins were exceptionally high led by execution of IAC portion, which had better margins. Ship repair contributed ₹ 192.3 crore entailing an EBIT margin of 30.8%. The company suffered setbacks from the Mumbai ship repair operations led by the ongoing pandemic but we believe, ship repair revenues should bulk up from FY22 onwards.

## Margin profile to change, going ahead...

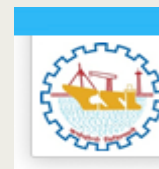
Hitherto, margins for CSL were cushioned by superior margins carried by IAC, which is expected to peak out by FY23 and start fading out post that. The new orders viz. the NGMV (Next Gen Missile Vessels) & ASW Corvette, which would be core revenue drivers for Cochin, carry relatively lower margins (NGMV-low double digits, ASW Corvette-High single digit). Hence, the margin profile should deplete, going ahead but we expect growth in revenue to curtail the impact on profitability.

## Order pipeline remains strong...

Cochin has shared ₹ 4500 worth of order prospects of which two are from Coast Guard and another one from Navy. Further, the current order book of ₹ 12217 crore along with a L1 position for NGMV places CSL in a comfortable position in terms of revenue visibility. Combining it with a strong free cash balance of ~₹ 1000 crore, execution should not be an issue.

## Valuation & Outlook

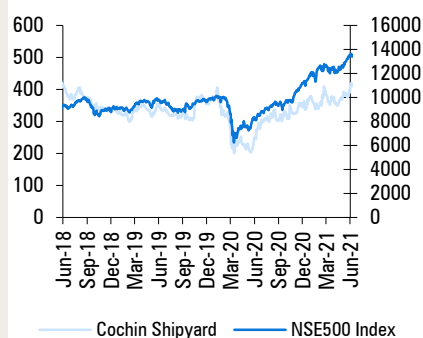
CSL continues to be one of the top-tier shipyards in the country with ample capacity, capability and the orderbook to support it. Newly embedded vision for 2030, upcoming facilities and strong order book augur well for the company. CSL at the CMP trades 11% earnings yield on FY21 EPS. We roll over to FY23E numbers and value CSL at 9x FY23E EPS to arrive at a target price of ₹ 500/share. We maintain our **BUY** rating.



### Particulars

Particular	Amount
Market Capitalization*	₹ 5406 Crore
Total Debt (FY21)	₹ 123 Crore
Cash & Inv (FY21)	₹ 2146 crore
EV (FY21)	₹ 3383 Crore
Equity capital**	₹ 131.5 Crore
Face value	₹ 10

### Price Performance



### Key Risk

- Further delay in ISRF and dry dock commission
- Significant decline in margins led by higher commodity cost and decline of IAC in revenue contribution

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### Key Financial Summary

(₹ crore)	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
Revenues	2,962	3,422	2,819	3,480	4,061	20.0
EBITDA	569	709	720	685	893	11.4
EBITDA margins	19.2	20.7	25.6	19.7	22.0	
Net Profit	478	638	610	578	731	9.4
EPS (₹)	36.3	48.5	46.4	44.0	55.6	
P/E (x)	11.3	8.5	8.9	9.4	7.4	
Price / Book (x)	1.6	1.4	1.4	1.2	1.1	
EV/EBITDA (x)	5.2	4.7	4.7	4.7	3.9	
RoCE (%)	19.0	17.6	14.4	15.2	16.0	
RoE (%)	14.5	17.1	15.3	13.0	14.7	

**Exhibit 1: Variance analysis**

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	
Revenue	1080.3	975.0	816.7	32.3	748.7	44.3	Shipbuilding and shiprepair segment contributed 85.7% and 14.3%, respectively
Other Income	67.9	45.0	45.0	51.0	14.7	361.4	
Total Revenue	1148.2	1020.0	861.7	33.3	763.4	50.4	
Total Raw Material Costs	638.2	604.5	472.8	35.0	303.1	110.5	GMs contracted, however, both YoY & QoQ base for exceptionally high
Employee Expenses	78.9	89.7	86.2	-8.5	72.5	8.8	
Other expenses	52.4	48.8	42.2	24.0	45.6	14.9	
Provision for losses & exp.	53.3	45.0	52.4	1.8	11.4	369.0	
Operating Profit (EBITDA)	257.5	187.1	163.0	58.0	316.1	-18.5	Operating leverage coupled with better mix aided EBITDA
EBITDA margin (%)	23.8%	19.2%	20.0%	388 bps	42.2%	-1838 bps	Better margins led by higher execution of IAC portion
Interest	16.7	11.0	11.1	50.0	11.7	42.7	
Depreciation	16.9	18.0	12.2	39.2	17.2	-1.4	
Total Tax	68.3	56.9	45.9	48.6	78.2	-12.8	
PAT	236.2	146.2	138.8	70.2	223.7	5.6	

Key Metrics	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	
<b>Revenue (Segment-wise)</b>						
Shipbuilding	888.0	712.6	24.6	637.9	39.2	Robust performance on the shipbuilding front
As a % of Sales	82.2%	87.2%		85.2%		
Shiprepair	192.3	104.1	84.7	110.8	73.5	Ship repair better off from previous set backs
As a % of Sales	17.8%	12.8%		14.8%		
<b>EBIT (Segment-wise)</b>						
Shipbuilding	256.8	213.2	20.4	320.4	-19.9	
EBIT Margins(%)	28.9%	29.9%		50.2%		Margins expand led by execution of IAC portion with better margins
As a % of EBIT	80.0%	108.9%		102.2%		
Shiprepair	59.3	29.0	104.5	18.1	227.3	
EBIT Margins (%)	30.8%	27.8%		16.3%		
As a % of EBIT	18.5%	14.8%		5.8%		

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

	FY20	FY21	FY22E	FY23E			
(₹ Crore)	Actual	Actual	Old	New	% Change	New	
Revenue	3422.5	2818.9	4048.3	3479.6	-14.0	4060.9	We introduce FY23 Numbers & trim down our FY22 estimates owing to 2nd wave impact of covid
EBITDA	709.3	720.3	797.5	685.5	-14.0	893.4	
EBITDA Margin (%)	20.7	25.6	19.7	19.7	0 bps	22.0	Margins to remain steady till IAC execution
PAT	637.7	610.1	636.4	578.1	-9.2	730.7	
EPS (₹)	48.5	46.4	48.4	44.0	-9.2	55.6	

Source: Company, ICICI Direct Research

## Conference call takeaways – Q4FY21

- **CSL's order backlog at ₹ 12,218 crore, L1 position ₹ 10,000 crore**

### Exhibit 3: CSL's order book

Orderbook as on FY21 End				
Sr no	Project	Total no of vessels	Balance orders	
1	Indigenous Aircraft Carrier for Indian Navy	1	4493	
2	ASW Corvette for Indian Navy	8	6284	
3	500 Pax cum 150 Ton Cargo Vessel for A&N Admin	1	19	
4	1200 Pax cum 1000 Ton Cargo Vessel A&N Administration	2	419	
5	Mini Bulk Carrier of 800 DWT for JSW Shipping	4	53	
6	Floating Border Outpost Vessel for Ministry of Home Affairs	9	189	
7	Hybrid Electric - Passenger Ferry (100 Pax) for Kochi Metro	23	168	
8	Autonomous Electric Vessel for ASKO Maritime AS, Norway	2	93	
9	Ship Repair orders		500	
	<b>Total</b>	<b>50</b>	<b>12218</b>	
<b>10</b>	<b>Next Gen Missile Vessels for Indian Navy (L1)</b>	<b>6</b>	<b>10000</b>	
11	Technology Demonstration Vessel for DRDO - Sea Trials will be commenced soon and will be delivered shortly	1		

Source: Company, ICICI Direct Research

- Travel restrictions hindered final trials of vessels as service engineers were unavailable
- FY22E & FY23E revenue guidance at ₹ 3500 crore & ₹ 4000 crore, respectively
- FY22E & FY23E capex at ₹ 330 crore & ₹ 400 crore, respectively
- Ship repair revenue to double in three years
- Order prospects worth ₹ 4500 crore from Coast Guard and Indian Navy. Apart from this, expecting an order for dredger worth ₹ 1000 crore
- ISRF & dry dock capex suffered setback due to availability of labour. Revised target to completed ISRF by FY22 end and dry dock by mid-2023

## Major expansion update

### New large dry dock

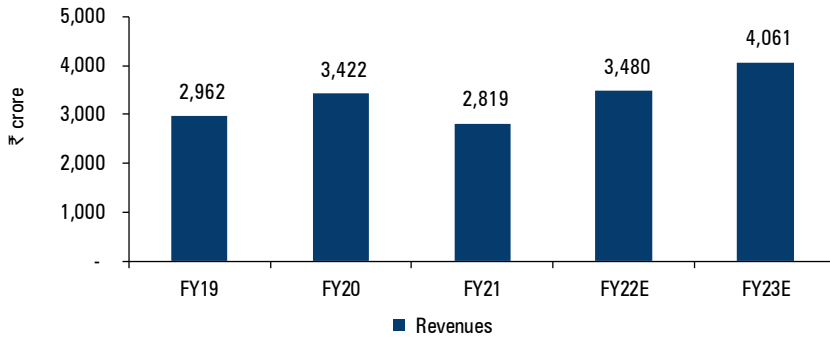
- Dock: 310 metre x 75 metre, 60 metre x 13 metre and other allied facilities
- Estimate: ₹ 1799 crore
- Target completion: December 2022 – mid 2023
- Construction of complex, technology intensive large vessels like LNG carriers, offshore drill ships, aircraft carriers, offshore rigs, semi-submersibles, etc
- **Status**
- Overall physical completion – 45%
- Labour shortage, disruption in material supply chains have severely affected execution
- Construction contractor, crane manufacturer, project management consultant, etc, had already intimated *Force Majeure* due to Covid-19

### International ship repair facility (ISRF)

- Ship lift: 130 metre x 25 metre x 6000 T with six workstations
- Estimate: ₹ 970 crore
- Target completion: December 2021 – FY22 End
- **Status**
- Overall physical completion 77%
- Repair of 80 additional vessels a year. Increase in repair throughput by around 70%
- Execution was affected by labour shortage, disruption in material supply, suppliers invoking *Force Majeure* due to Covid-19

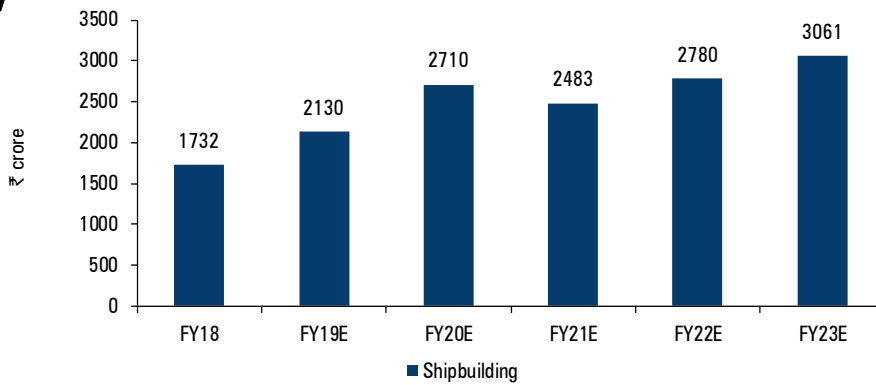
## Financial story in charts

Exhibit 4: Revenue trend (consolidated)



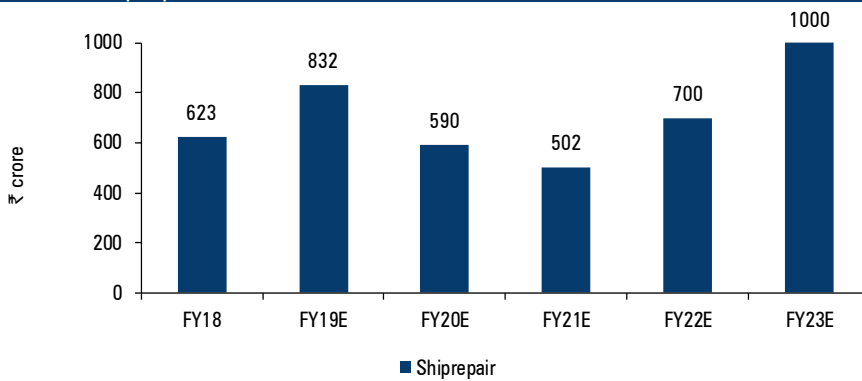
Source: Company, ICICI Direct Research

Exhibit 5: Shipbuilding revenue trend



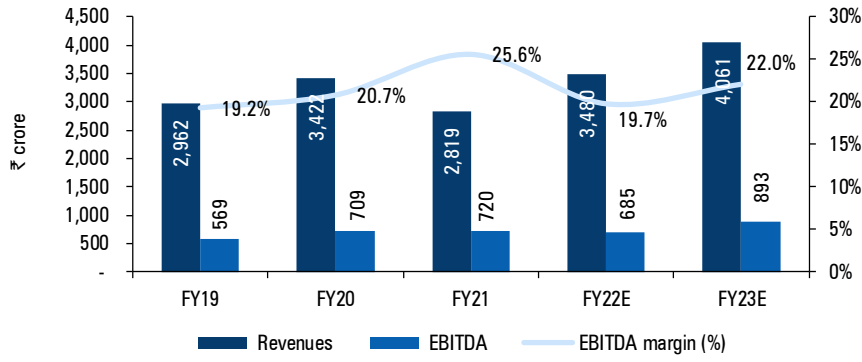
Source: Company, ICICI Direct Research

Exhibit 6: Shiprepair revenue trend



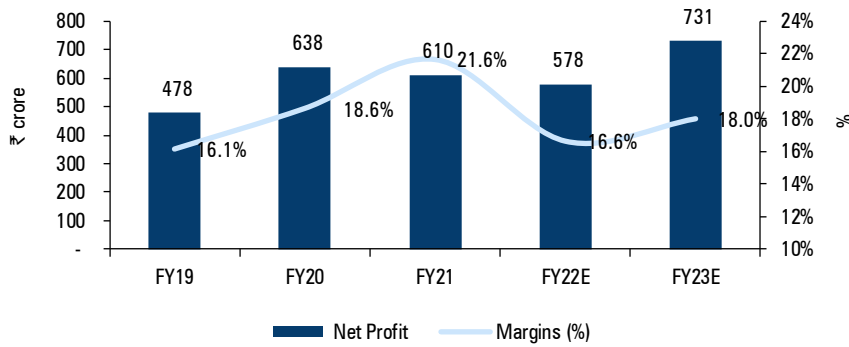
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA and EBITDA margin trend



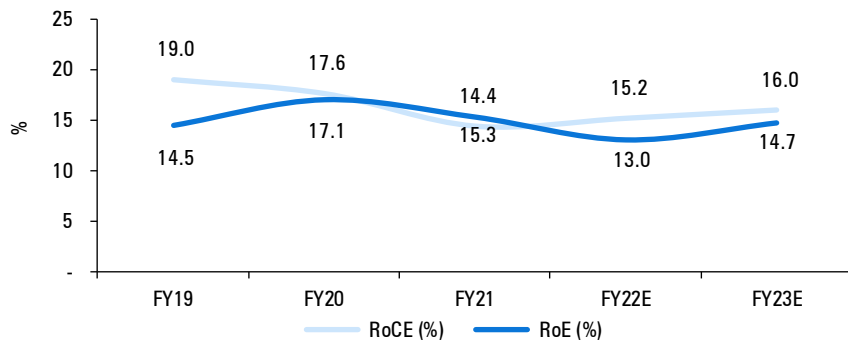
Source: Company, ICICI Direct Research

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)	FY20	FY21	FY22E	FY23E
Net Sales	3,422	2,819	3,480	4,061
Operating income	-	-	-	-
Revenue	3,422	2,819	3,480	4,061
% Growth	15.5	(17.6)	23.4	16.7
Other income	248	194	220	250
Total	3,686	3,013	3,700	4,311
% Growth	14.0	(18.3)	22.8	16.5
Raw Mtl costs	2,162	1,556	2,213	2,518
Employee Expenses	306	292	324	378
other expenses	160	159	164	191
Total Operating Exp.	2,099	2,099	2,794	3,168
EBITDA	709	720	685	893
% Growth	24.6	1.6	(4.8)	30.3
Interest	45	50	40	45
PBDT	912	864	865	1,098
Depreciation	49	53	84	111
PBT & Except. items	863	811	781	987
Total Tax	226	200	203	257
PAT before MI	638	610	578	731
Minority Interest	-	-	-	-
PAT	638	610	578	731
% Growth	33.5	(4.3)	(5.2)	26.4
EPS	48.5	46.4	44	56

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
₹ crore				
(₹ Crore)	FY20	FY21	FY22E	FY23E
Profit after Tax	638	610	578	731
Depreciation	49	53	84	111
Interest	45	50	40	45
CF before WC changes	731	714	702	887
Changes in inventory	(30)	(119)	51	(64)
Changes in debtors	104	(65)	(123)	(80)
Changes in loans & Adv	200	15	(256)	(46)
Changes in other CA	(963)	(440)	991	(174)
Net Increase in CA	(689)	(608)	662	(364)
Changes in creditors	72	17	(6)	72
Changes in provisions	16	116	(89)	73
Net Inc in CL	387	739	(929)	319
<b>CF from Operatons</b>	<b>429</b>	<b>844</b>	<b>436</b>	<b>842</b>
Changes in deferred tax assets	20	(32)	-	-
(Purchase)/Sale of FA	(855)	(338)	(350)	(450)
CF from Investing	(555)	(451)	(350)	(450)
Dividend & Dividend Tax	(237)	(184)	(206)	(197)
CF from Financing	(316)	(346)	(159)	(257)
Net Cash flow	(441)	47	(73)	135
Opening Cash/Cash Eq	2,545	2,104	2,151	2,074
Closing Cash/ Cash Eq	2,104	2,151	2,074	2,189

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
₹ crore				
(₹ Crore)	FY20	FY21	FY22E	FY23E
Equity Capital	131.5	131.5	131.5	131.5
Reserve and Surplus	3,600	3,846	4,305	4,824
Total Shareholders funds	3,732	3,978	4,437	4,956
Minority Interest	-	-	-	-
<b>Total Debt</b>	<b>123</b>	<b>123</b>	<b>123</b>	<b>123</b>
Total Liabilities	4,231	4,487	4,946	5,465
<b>Gross Block</b>	<b>1,224</b>	<b>1,223</b>	<b>1,735</b>	<b>2,185</b>
Acc: Depreciation	467	467	558	669
Net Block	756	756	1,177	1,516
Capital WIP	768	1,062	900	900
Total Fixed Assets	1,524	1,818	2,077	2,416
Non Current Assets	408	375	375	375
Inventory	313	432	381	445
Debtors	288	353	477	556
Loans and Advances	33	18	274	320
Other Current Assets	1,595	2,035	1,044	1,218
<b>Cash</b>	<b>2,176</b>	<b>2,146</b>	<b>2,074</b>	<b>2,189</b>
Total Current Assets	4,406	4,984	4,406	4,729
Current Liabilities	419	435	429	501
Provisions	410	526	438	511
Net Current Assets	2,232	2,072	2,286	2,426
Total Assets	4,231	4,487	4,956	5,435

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
EPS	48.5	46.4	44.0	55.6
Cash per Share	165.4	163.2	157.7	166.4
BV	283.7	302.4	337.3	376.7
Dividend per share	15.0	14.0	15.7	15.0
Dividend payout ratio	31%	30%	36%	0.3
EBITDA Margin	20.7	25.6	19.7	22.0
PAT Margin	17.4	20.3	15.6	17.0
RoE	17.1	15.3	13.0	14.7
RoCE	17.6	14.4	15.2	16.0
RoIC	29.9	24.0	23.6	23.6
EV / EBITDA	4.7	4.7	4.7	3.9
P/E	8.5	8.9	9.4	7.4
EV / Net Sales	1.0	1.2	0.9	0.8
Sales / Equity	0.9	0.7	0.8	0.8
Market Cap / Sales	1.6	1.9	1.6	1.3
P/BV	1.4	1.4	1.2	1.1
Asset Turnover Ratio	2.8	2.3	2.1	1.9
Debtors Turnover Ratio	10.1	8.8	8.4	7.9
Creditors Turnover Ratio	8.9	6.6	8.1	8.7
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	2.7	2.7	2.3	2.3
Quick Ratio	2.3	2.3	1.9	1.9

Source: Company, ICICI Direct Research

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