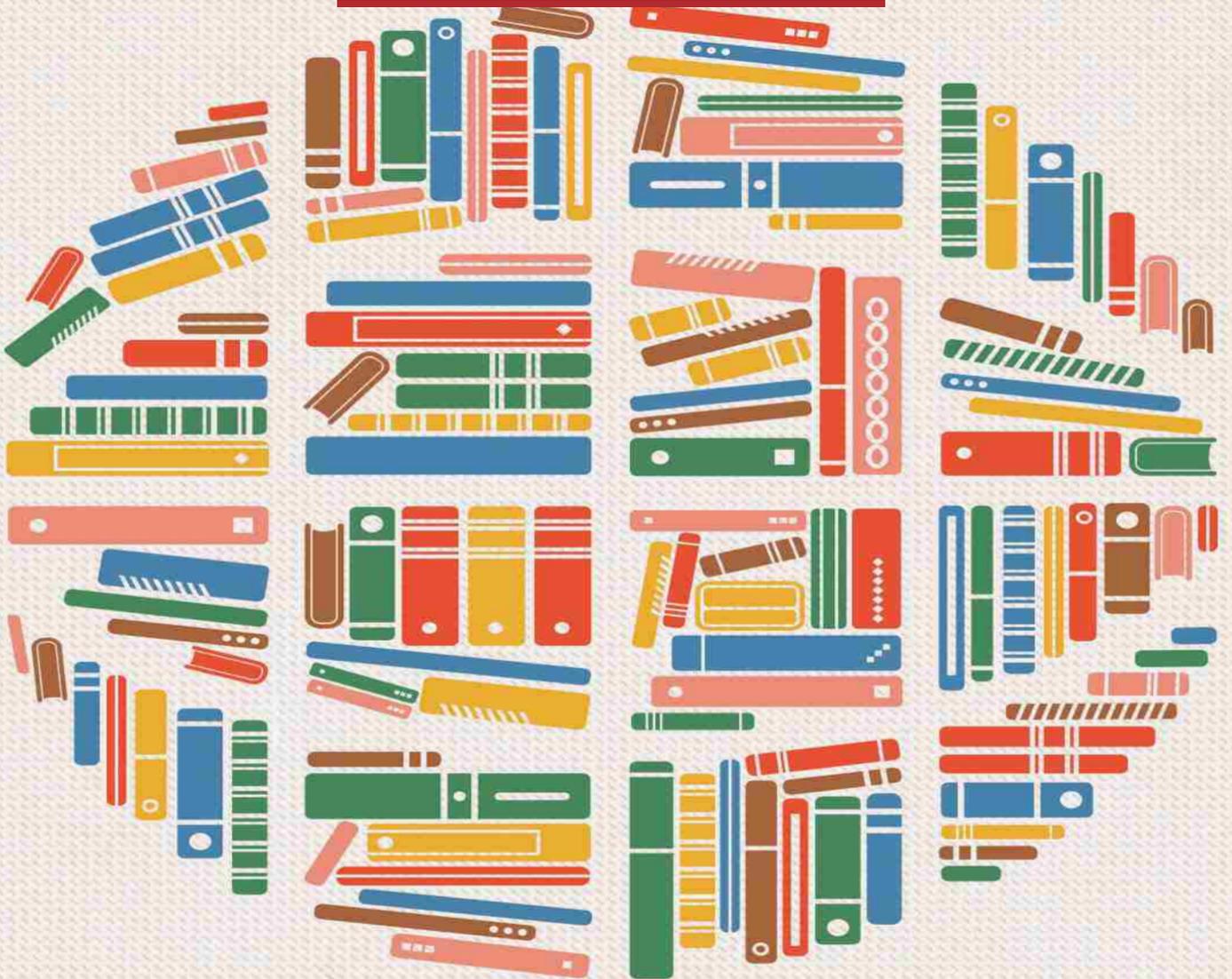


Stock TALES



Stock Tales are concise, holistic stock reports across wider spectrum of sectors. Updates will not be periodical but based on significant events or change in price.

Mazagon Dock Shipbuilders (MAZDOC)

CMP: ₹ 414

Target: ₹ 560 (36%)

Target Period: 12 months

BUY

September 15, 2022

Setting up for bigger future...

About the stock: Mazagon Dock Shipbuilders (MDL) is engaged in the construction and repair of warships and submarines for the Ministry of Defence (MoD) to be used by the Indian Navy along with other vessels for commercial clients.

- MDL is India's only shipyard to have built destroyers and conventional submarines for the Indian Navy
- The company has an order backlog of ₹ 43,343 crore as of August 2022 (6.4x TTM revenues), of which ₹ 19,795 crore of backlog is in Project-17A (Nilgiri class frigates), ₹ 18,897 crore in Project-15B (Visakhapatnam class Destroyers), ₹ 4,400 crore in Project-75 (Kalvari class submarines)
- Over the last 10 years, MDL's revenue increased at 10.5% CAGR over FY13-22 while EBITDA and PAT increased 3.6% and 3.9% CAGR, respectively, during the same period due to a fall in operating margins

What should investors do? MDL's execution capability is set to improve in the coming period led by increasing indigenisation of platforms and sub-systems. Next two year's revenue CAGR is expected at 18.2% vs. 7.5% CAGR in FY19-22. FY24E margin is set to improve substantially led by positive operating leverage

- We initiate coverage under the Stock Tales format with a **BUY** rating

Target Price and Valuation: We value MDL at ₹ 560 i.e. 14x FY24E EPS

Key triggers for future price performance:

- Total defence equipment procurement budget was at ₹ 1.24 lakh crore for FY23E of which ₹ 84,598 crore (68% of procurement budget) has been kept for purchasing locally produced weapons and systems to boost self-reliance in the defence sector. The defence procurement budget is likely to increase considerably for FY24E with the share of imports coming down further
- With an already strong order backlog of ₹ 43,343 crore as of August 2022 (6.4x TTM revenues), MDL is well placed to benefit from Indian Navy's big procurement plan for the next three to four years
- Indian Navy's major projects in the pipeline are next generation destroyers, next generation frigates, conventional submarines and next generation corvettes. The estimated cost of these four projects is ~₹ 1.8 lakh crore. Thus, it provides a huge opportunity for MDL given its strength across building submarines and major warships (mainly destroyers and frigates)
- Out of 1238 sub-systems/components notified for indigenisation, 144 such components are used in submarines & warships manufactured by MDL. Execution is expected to pick up in the coming period led by indigenous manufacturing of large platforms (submarines, surface warships) and the associated sub-systems/components



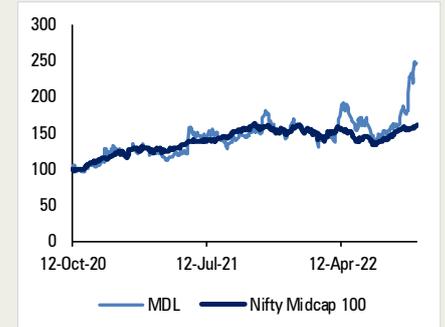
Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	8,350
FY22 Debt (₹ Crore)	0
FY22 Cash (₹ Crore)	11,473
EV (₹ Crore)	(3,123)
52 Week H/L (Rs)	438/224
Equity Capital (₹ Crore)	201.7
Face Value	10

Shareholding Pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	84.8	84.8	84.8	84.8
FII	0.9	1.8	2.1	2.5
DII	0.4	1.0	1.0	1.2
Others	13.8	12.4	12.1	11.6

Price Performance



Research Analyst

Chirag Shah
shah.chirag@icicisecurities.com

Vijay Goel
vijay.goel@icicisecurities.com

Key Financial Summary

(₹ crore)	FY19	FY20	FY21	FY22	4 Year CAGR (FY19-22)	FY23E	FY24E	2 Year CAGR (FY22-24E)
Revenues	4,614	4,918	4,048	5,733	7.5	6,508	8,005	18.2
EBITDA	261	260	224	435	18.6	469	731	29.7
EBITDA margin (%)	5.7	5.3	5.5	7.6		7.2	9.1	
Net Profit	532	471	514	611	4.7	628	809	15.1
EPS (₹)	26.4	23.4	25.5	30.3		31.2	40.1	
P/E (x)	15.7	17.5	13.7	13.4		13.3	10.3	
RoCE (%)	24.5	24.5	21.5	20.0		18.1	20.9	
RoE (%)	16.6	15.6	17.7	16.1		14.6	16.6	

Source: Company, ICICI Direct Research

Company Background

Mazagon Dock Shipbuilders (MDL), incorporated in 1934, is one of India's leading defence public sector undertaking shipyards, operating under the Ministry of Defence (MoD). With the maximum shipbuilding and submarine capacity of 40,000 dead weight tonnage (DWT), MDL is engaged in the construction and repair of warships and submarines for MoD for use by Indian Navy and other vessels for commercial clients.

The company operates in the business divisions of shipbuilding and submarine & heavy engineering. MDL has built 800 vessels since 1960, including 26 warships, ranging from advanced destroyers to missile boats as well as six submarines. The company has also provided cargo ships, passenger ships, supply vessels, multi-purpose support vessels, water tankers, tugs, dredgers, fishing trawlers, barges and border outposts for both national and global clientele. MDL has also manufactured and delivered jackets, wellhead platform main decks, process platforms, jackup rigs along with other products.

The shipbuilding division builds and repairs naval ships. The company is currently building four P-15B destroyers, four P-17A stealth frigates and undertaking repair and refit of a ship for the MoD for use by the Indian Navy.

The submarine and heavy engineering division builds, repairs and refits diesel electric submarines. The company is currently in the process of delivering four Scorpene class submarines under a transfer of technology (ToT) agreement with DCNS (Naval Group, France) as well as one medium refit and life certification of a submarine for the MoD to be used by the Indian Navy.

The company's workshops and facilities are in Mumbai and Nhava, where it primarily builds warships and submarines as well as carries out ship repairs and refits work.

Exhibit 1: Mazagon Dock Shipbuilders – Products profile



Naval Platforms

- Destroyers
- Conventional Submarines
- Frigates
- Corvettes
- Missile Boat
- Offshore Patrol vessels
- Floating Border Outposts



Merchant Ships

- General Cargo Vessel
- Multipurpose Support Vessel
- Offshore Supply vessel
- Tugs
- Dredgers
- Passenger cum Cargo Vessel
- Water tankers
- Barges
- Trawlers
- Windmill towers Pontoons



Oil Sector

- Offshore Platforms
- Jack-up rigs

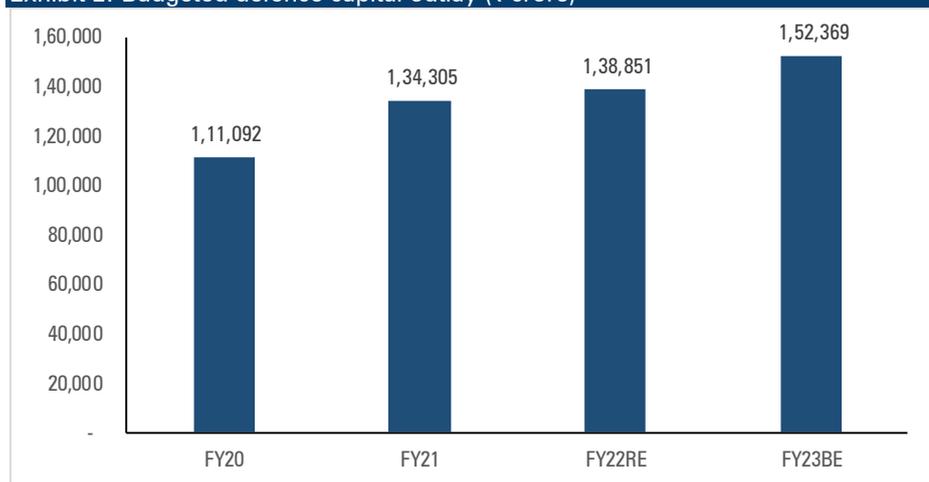
Source: Company, ICICI Direct Research

Investment Rationale

Defence procurement outlay increasing with rise in indigenisation

We believe the Indian defence sector is going through a major transformational phase as the government looks committed to reducing imports and increasing indigenisation of various key defence platforms, systems and associated equipment required for these platforms. The structural shift in the Indian defence budget is clearly visible with increased allocation for modernisation platforms and equipment. In the FY23E budget, the government earmarked ₹ 1.52 lakh crore of capital outlay in defence, which has grown at 11% CAGR over FY20-23BE. This capital outlay in defence for FY23E is at ~29% of the total defence budget of ₹ 5.25 lakh crore against ~25% in FY20. The total procurement budget for defence equipment is estimated to be ~₹ 1.24 lakh crore for FY23E.

Exhibit 2: Budgeted defence capital outlay (₹ crore)

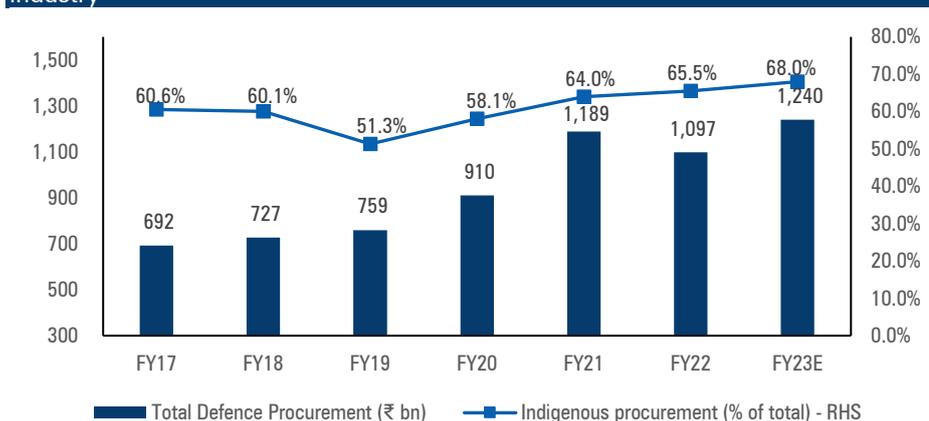


Source: ICICI Direct Research, Company

Total defence equipment procurement budget was at ₹ 1.24 lakh crore for FY23E of which ₹ 84,598 crore (68% of procurement budget) has been kept for purchasing locally produced weapons and systems to boost self-reliance in the defence sector. The MoD has notified 310 major equipment/platforms in the last two years through three separate lists, which included combat aircraft, trainer aircraft, combat helicopters, utility helicopters, submarines, next generation corvettes, tank engines, MRSAM system, vessels, torpedoes, etc. These platforms are planned to be indigenised progressively till 2027. Out of these 310 items, 90 are planned to be indigenised by December 2022 itself.

Moreover, during the same period, 1238 strategically important line replacement units (LRUs), sub-systems/components (used in the major platforms & equipment) have also been notified by the MoD through three other separate lists.

Exhibit 3: Total 68% of FY23E defence procurement budget kept for indigenous industry



Source: ICICI Direct Research, Company

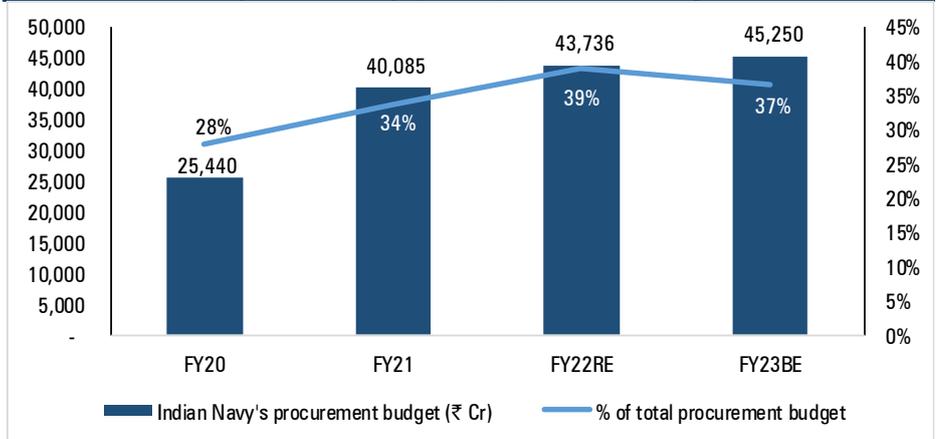
The R&D budget for DRDO was at ₹ 11982 crore for FY23E. It has also grown at 11% CAGR over FY20-23BE. The Ministry of Defence have also identified the 18 major platforms for industry led design & development under various routes. Moreover, DRDO have signed 30 transfer of technology agreements with 25 domestic players and handed over 21 technologies.

As mentioned earlier, 1238 sub-systems/components have also been notified in the last two years that will be indigenised in phases over the next five years. The government has already indigenised 190 such components so far (185 from first list and five from the second list). Moreover, 2500 components had already been indigenised by the government before announcing the first list. We believe indigenous manufacturing of these components by private players or MSMEs will further help defence companies in picking up the execution rate as the procurement time will get reduced.

The share of defence imports, which is ~35% of the total defence procurement budget, has come down in the last two to three years. We believe the share of imports will come down further in coming years as the government continues to focus on allocating a higher budget to DRDO for indigenous development of new generation & modernised equipment, signing large scale orders for these equipment/platforms with defence PSUs and encouraging more domestic private players, MSMEs and start-ups to manufacture key components that India used to import from other countries.

The Indian Navy’s defence procurement budget has increased at a CAGR of 21.2% over FY20-23E to ₹ 45250 crore in FY23BE against ₹ 25440 crore allocated in FY20. The share of Navy’s procurement budget has also increased to 37% in FY23BE against 28% in FY20.

Exhibit 4: Indian Navy’s defence equipment procurement budget



Source: Company, ICICI Direct Research

Though the Navy’s procurement budget has increased significantly over the years, the share of imports in this is also considerably high (45% in FY21). We believe that with the focus on indigenous manufacturing of sub-systems & components for submarines and warships, this share of import in Navy’s procurement budget will come down, going ahead.

Strong capabilities; MDL only DPSU to build conventional submarines, destroyers

MDL, with a maximum shipbuilding and submarine capacity of 40,000 dead weight tonnage (DWT), is India’s only shipyard to have built destroyers and conventional submarines for the Indian Navy. The company has been engaged in the construction and repair of warships and submarines for MoD to be used by the Indian Navy along with other vessels for commercial clients. MDL is also one of the initial shipyards to manufacture corvettes (Veer Class and Khukri Class) in India.

Since 1960, the company has built total 800 vessels including 26 warships (including destroyers, missile boats, etc) and six submarines. MDL has 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 major surface warships/vessels built and delivered by the 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 to be used by the Indian Navy. MDL also constructed and delivered seven offshore patrol vessels to the Indian Coast Guard. The company has also fabricated and delivered jackets, main decks of wellhead platforms, process platforms and jack up rigs, etc.

In terms of submarines, MDL has constructed two SSK submarines, modernised and refitted four SSK submarines, which has enhanced the company’s capability of handling construction of conventional submarines. MDL has also delivered four Kalvari Class submarines (out of six under Project-75) for which the company entered into a ToT agreement with the Naval Group, France for six submarines.

MDL 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). The company is also exploring the possibility of developing a greenfield shipyard at Nhava (Navi Mumbai) with a ship-lift, wet basin, workshops, stores and buildings along with a ship repair facility spread over an area of 40 acres. MDL has completed a modernisation programme aiming at a paradigm shift in warship construction, i.e. construction from unit assembly to block assembly, enabling integrated modular construction. This would substantially reduce the construction/building period. The company’s capacity for ship building has increased to 10 warships while the submarine capacity has increased to 11 submarines.

Exhibit 5: MDL Infrastructure facilities for Shipbuilding and Submarines

SHIP-BUILDING FACILITY COMPRISES OF

- 3 dry docks
- 2 wet basins
- 3 slipways
- Production shops
- Assembly shops
- Electrical shop

- 300 tonne goliath crane
- Shore integration facility
- Module shop with painting chamber for integrated construction
- Sheet metal shop
- Pipe shop
- Machine and fitting shop
- Instrumentation shop

SUBMARINE DIVISION INFRASTRUCTURE INCLUDES

- Shops for fabrication of frame
- Sub-section assembly and section formation shops
- Cradle assembly shop for equipment outfitting
- 1 dry dock
- Shore integration facility

Source: Company, ICICI Direct Research

Strong order book; healthy order pipeline

MDL has an order backlog of ₹ 43,343 crore as of August 2022 (6.4x TTM revenues), of which ₹ 19,795 crore of backlog is in Project-17A (Nilgiri class frigates), ₹ 18,897 crore in Project-15B (Visakhapatnam class destroyers), ₹ 4,400 crore in Project-75 (Kalvari class submarines). Apart from these three major projects, the company has ventured into the business of shipping container manufacturing and bagged two orders from Container Corporation of India (Concor) totalling 2500 containers. MDL is also undertaking repair & refit of submarines (for Indian Navy).

Exhibit 6: Order backlog (as of August 2022)

Projects (₹ Crore)	Nos	Project Cost	Per unit cost	Executed	Order Backlog
P-17A Frigates	4	24,238	6,060	4,443	19,795
P-15B Destroyers	4	34,300	8,575	15,403	18,897
Project-75 Submarines	6	27,976	4,663	23,576	4,400
Others		1,176		925	251
Total					43,343

Source: Company, ICICI Direct Research. Others include building containers, refit of Submarines, Hydrogen Fuel Cell Vessels

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 currently building four P17A frigates by using integrated construction methodology. INS Nilgiri (first frigate under this project) is expected to be commissioned in September 2022.

P15B Destroyers: These are follow-on class of the P15A destroyers with improved stealth features, latest weapons and sensors and platform management systems. One destroyer has already been commissioned under this project and delivered to the Indian Navy while three destroyers ships are in various stages of construction. The role of P15B destroyers is similar to that of the P15A destroyers. INS Mormugao (second destroyer for MDL) is expected to be commissioned in September 2022.

Project-75 (Kalvari class/Scorpene Class submarines): Under this project (in ToT partnership with Naval Group), the company has already delivered four submarines while two more are in the process of construction. INS Vagir (fifth submarine under this project) is expected to be commissioned by 2022 end.

Exhibit 7: Current status of three major projects of MDL

Project	Contract Awarding Date	Submarines/Warships	Launch	Commision	Current Status
Project-75 Submarines	Oct-05	INS Kalvari	Oct-15	Dec-17	
		INS Khanderi	Jan-17	Sep-19	
		INS Karanj	Jan-18	Mar-21	
		INS Vela	May-19	Nov-21	
		INS Vagir	Nov-20	2022 end (Exp)	Sea Trials going on
P-15B Destroyers	Jan-11	INS Vagshseer	Apr-22	2023 end (Exp)	Under Construction
		INS Vishakhapatnam	Apr-15	Nov-21	
		INS Mormugao	Sep-16	Sep/Oct-22 (Exp)	Sea Trials going on
		INS Imphal	Apr-19	2024 (Exp)	Under Construction
P-17A Frigates	Feb-15	INS Surat	May-22	2025 (Exp)	Under Construction
		INS Nilgiri	Sep-19	Sep/Oct-22 (Exp)	Sea Trials going on
		INS Udaygiri	May-22	2025 (Exp)	Under Construction
		INS Taragiri	Sep-22	2025/26 (Exp)	Under Construction
		INS Vindhaygiri	TBL		Laid down; Under Construction

Source: Company, ICICI Direct Research

MDL’s order pipeline looks healthy considering the requirement and strong procurement plan of the Indian Navy and Coast Guard, which are reflected in the Maritime Capability Perspective Plan (MCPPE). The major submarines & warships projects in the pipeline are five next generation destroyers, eight next generation corvettes, six submarines under Project P75(l) and seven next generation frigates. The cumulative cost of the mentioned projects is estimated to be ₹ 1,82,000 crore.

Exhibit 8: Projects under pipeline for submarines/warships

Projects in Pipeline	Nos	Customer	Estimated Cost (₹ Cr)	Status
New Generation Corvettes	8	Navy	33,000	Approved by DAC; RFP will be out soon
Project 75-l submarines	6	Navy	43,000	RFP already out; bid submission extended to Nov-22
Next Generation Destroyers	5	Navy	50,000	Next phase of Project 15-B
Next Generation Frigates	7	Navy	56,000	Navy is considering repeat order of 7 P-17A frigates (Mazagon - 4, GRSE - 3)
Total			1,82,000	

Source: Company, ICICI Direct Research

A few other projects are also in the pipeline for Indian Navy and Indian Coast Guard, which includes six high speed landing crafts, six offshore patrol vessels, seven new generation fast attack crafts, four fast patrol vessels, 12 air cushion vessels, etc.

Exhibit 9: Other projects in pipeline

Projects in Pipeline	Numbers	Customer
Hospital ship	1	Navy
High Speed Landing craft	6	Navy
NG Fast Attack Craft	7	Navy
Offshore Patrol vessel	6	Coast Guard
Fast Patrol vessel	4	Coast Guard
Air Cushion Vessel	12	Coast Guard
Polar research Vessel	1	Civil

Source: Company, ICICI Direct Research

Increase in indigenisation of major platforms & sub-systems to drive execution

Out of 310 major defence platforms notified by MoD for indigenisation manufacturing, 16 such platforms are under submarines and warships/vessels (including conventional submarines, missile destroyers, various vessels and water crafts).

Exhibit 10: Submarines, warships in positive indigenisation lists

Name of Platform/ Weapon/ System/ Equipment	Indicative Year- Import Embargo
Missile Destroyers	
Multi-Purpose Vessel	
Offshore Patrol Vessel	
Next Generation Missile Vessels	
Anti-Submarine Warfare Shallow Water Crafts	Dec-20
Water Jet Fast Attack Craft	
Survey Vessels	
Floating Dock	
Diving Support Vessels	
Pollution Control Vessels	
Conventional Submarines	Dec-21
Next Generation Corvette	Dec-22
Next Generation Offshore Patrol Vessel	Dec-25
Next Generation Fast Attack Craft	Dec-25
Next Generation Fast Interceptor Craft	Dec-26
Mine Counter Measure (Autonomous Surface Vessel)	Dec-26

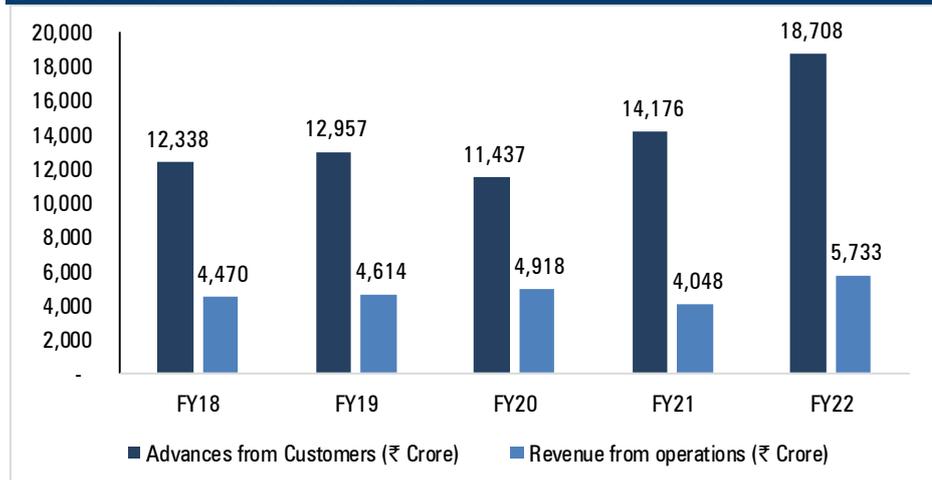
Source: Company, ICICI Direct Research

Moreover, as mentioned earlier, 1238 sub-systems/components have also been notified in the last two years that will be indigenised in phases over the next five years. The government has already indigenised 190 such components so far (185 from first list and five from the second list). Moreover, 2500 components had already been indigenised by the government before announcing the first list. Out of 1238 sub-systems/components notified for indigenisation, 144 such components are used in submarines & warships manufactured by MDL.

We believe that indigenous manufacturing of large platforms (submarines & surface warships) and associated sub-systems/components would help the company to procure faster from private players, MSMEs or start-ups. This will further help defence companies in picking up their execution rate (as the procurement time will be reduced) with a reduction in overall raw material costs.

MDL also receives significant advances from customers (Indian Navy, MoD) after receiving the order in shipbuilding for working capital support, which helps in timely execution of contracts. The advances from customers was at ₹ 18708 crore at FY22 end (which is ~43% of the current order backlog and ~3x of FY22 revenues).

Exhibit 11: Advances from customers

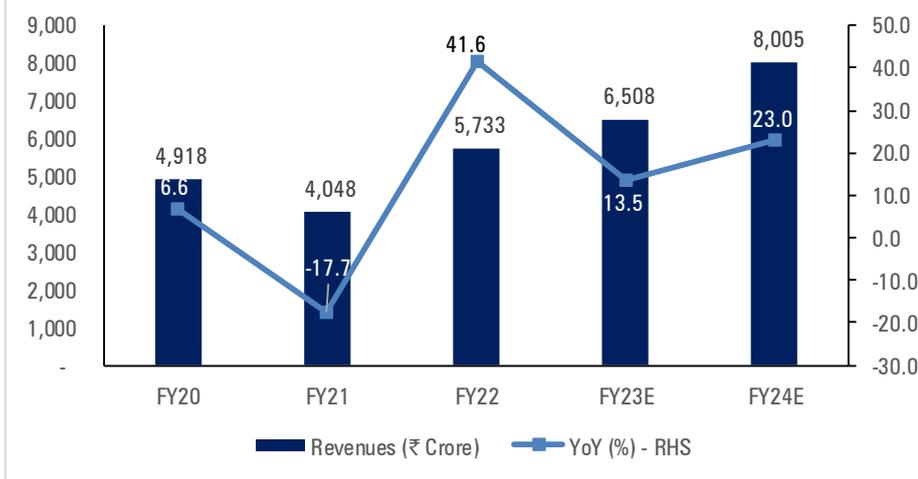


Source: Company, ICICI Direct Research

Financials

Revenues expected to grow at 18% CAGR over FY22-24E

Exhibit 12: Revenue to grow at 18% CAGR on strong execution



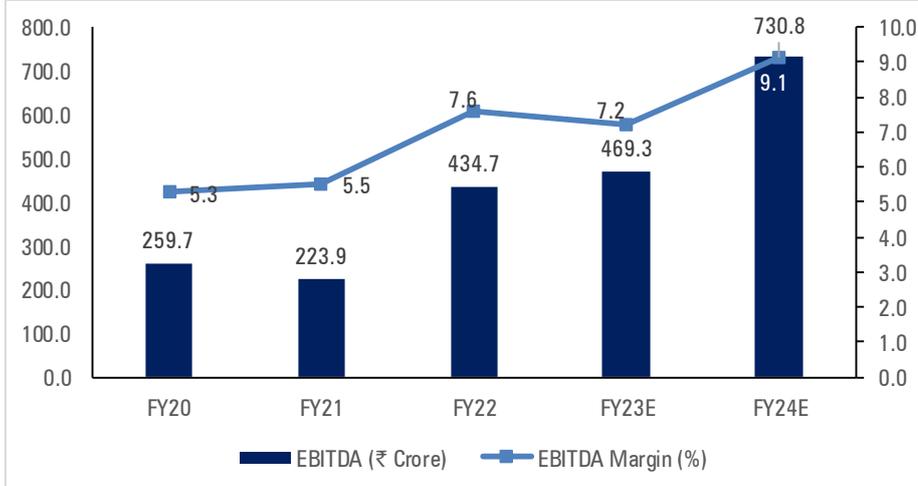
Source: ICICI Direct Research, Company

MDL's revenues increased significantly in FY22 by 41.6% led by lower base and pick-up in execution

Revenue over FY23-24E is expected at 18% CAGR led by expected sharp pick-up in execution (on account of increasing indigenisation). One submarine (under P-75), one destroyer (under P-15B) and one frigate (under P-17A) are expected to be commissioned in FY23E

EBITDA margins expected to improve in FY24E on better execution, positive operating leverage

Exhibit 13: EBITDA expected at 29.7% CAGR over FY22-24E



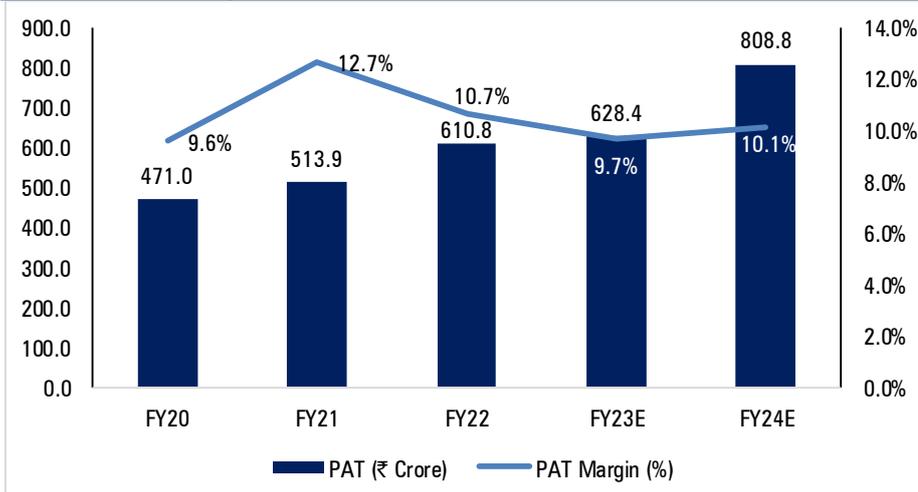
Source: ICICI Direct Research, Company

EBITDA margins improved to 7.6% in FY22 from 5.5% in FY21 led by positive operating leverage on strong revenue growth

EBITDA margins are expected at 7.2% in FY23E (vs 7.6% in FY22) as other cost expected to increase on high sub-contracting charges to Naval group (for P-75 submarines). The margin is expected to improve to 9.1% in FY24E on strong positive operating leverage and increase in indigenisation of sub-systems and components required in shipbuilding. Consequently, EBITDA is expected to grow at 29.7% CAGR over the same period

PAT margins expected to be ~15% over FY23-24E

Exhibit 14: PAT likely to increase at 15% CAGR over FY22-24E

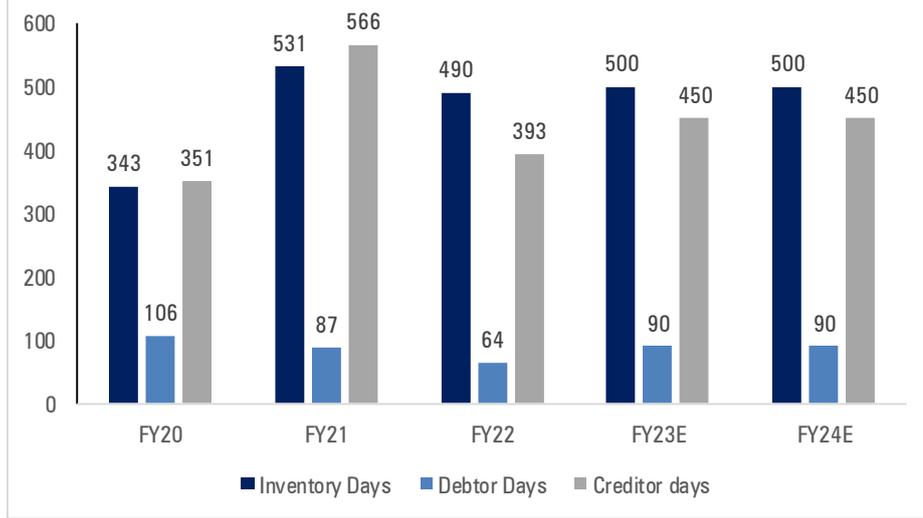


Source: ICICI Direct Research, Company

We expect PAT to grow at ~15% CAGR over FY22-24E led by strong revenue growth and better EBITDA margins

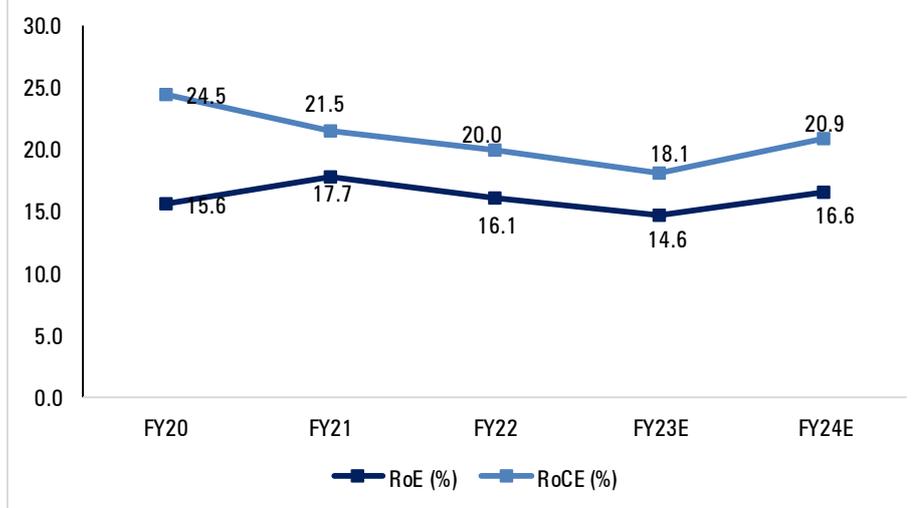
Working capital position, return ratios

Exhibit 15: Working capital position improves significantly in FY22



Source: ICICI Direct Research, Company

Exhibit 16: Return ratios to improve over FY23-24E



Source: ICICI Direct Research, Company

Valuation & Outlook

Mazagon Dock Shipbuilders (MDL) is well placed to benefit from increasing indigenisation of key platforms (under surface ships and submarines) and associated components and sub-systems over the coming period.

MDL is India's only defence PSU, which has built conventional submarines (with ToT from Naval Group-France) and destroyers. The current order book at ₹ 43300 crore already provides healthy visibility (6.4x TTM revenues). Moreover, we believe the company should get significant orders from Indian Navy's upcoming procurement plan (for conventional submarines, next generation destroyers, next generation frigates, next generation corvettes, etc).

With a pick-up in execution (led by sourcing of components through domestic players), margins are expected to improve on positive operating leverage. We expect revenue and EBITDA to grow at 18.2% and 29.7% CAGR, respectively, in FY22-24E.

At the CMP, the stock is trading at a valuation of 10.3x on FY24E earnings, which is at a significant discount to DPSUs like Hindustan Aeronautics, Bharat Electronics and Bharat Dynamics. We believe the valuation gap between MDL and other DPSUs should narrow down considering the expected strong execution and, thus, earnings growth over the next two to three years.

MDL's current valuations look attractive given the strong earnings growth, healthy balance sheet and improvement in return ratios. We initiate coverage on the stock under the Stock Tales format with a **BUY** recommendation and a target price of ₹ 560/share based on 14x FY24E earnings.

Exhibit 17: Peer Valuation

Company	Mcap	EPS		P/E (x)		RoCE (%)		RoE (%)	
	₹ Crore	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Hindustan Aeronautics	85,202	130.9	143.1	19.5	17.8	30.6	30.8	23.2	23.4
Bharat Electronics	81,870	3.8	4.5	29.8	25.0	28.4	30.0	21.2	22.4
Bharat Dynamics	15,890	33.0	42.7	26.3	20.3	24.7	27.9	17.7	20.0
Cochin Shipyard	4,959	38.6	42.3	9.8	8.9	12.2	12.4	10.5	10.8
Mazagon Dock	8,350	31.2	40.1	13.3	10.3	18.1	20.9	14.6	16.6

Source: Company, ICICI Direct Research

Key risk and concerns

Primarily dependent on contracts from Ministry of Defence

MDL is primarily dependent on MoD and the Indian Navy for contracts under submarines and shipbuilding. Any decline, delay or re-prioritisation of funding under the Indian defence budget or that of customers including the MoD for the Indian Navy's use could adversely affect the company's ability to grow or maintain its sales, earnings, and cash flow.

Delay in advances from customers may impact execution

MDL gets significant advances from customers at the beginning of a project. Any delay in these advances or lower disbursement can impact execution of the project and, thus, profitability and cash flows.

Delays in procurement, nomination or any other decision making by MoD

Any delays in procurement, nomination or any other decision making by the company's customers and collaborators may result in time and cost overruns in completion of the company's shipbuilding and submarine projects, which may have an adverse effect on its business, financial condition and results of operations.

Dependent on foreign suppliers for weapons, propulsion systems

The company is dependent on foreign suppliers for weapons and propulsion systems to be fitted on warships and the submarines. Any change in preference of these suppliers or any disturbance in the global supply chain may impact the company's execution and, thus, earnings and cash flows.

Financial Summary

Exhibit 18: Profit & loss statement

(₹ Crore)	FY21	FY22	FY23E	FY24E
Revenue	4,048	5,733	6,508	8,005
% Growth	(17.7)	41.6	13.5	23.0
Other income	574.1	410.3	400.0	400.0
Total Revenue	4,604	5,733	6,508	8,005
% Growth	(15.9)	24.5	13.5	23.0
Total Raw Material Costs	2,460	3,607	4,112	5,057
Employee Expenses	653	799	919	1,056
other expenses	711	893	1,009	1,161
Total Operating Expenditure	3,824	5,299	6,039	7,274
Operating Profit (EBITDA)	224	435	469	731
% Growth	(13.8)	94.2	8.0	55.7
Interest	8	7	7	7
PBDT	790	838	862	1,124
Depreciation	60	75	91	112
PBT before Exceptional Items	730	763	771	1,012
Total Tax	150	186	193	253
PAT before MI	453	563	578	759
Minority Interest	-	-	-	-
PAT	514	611	628	809
% Growth	9.1	18.9	2.9	28.7
EPS	25.5	30.3	31.2	40.1

Source: Company, ICICI Direct Research

Exhibit 19: Cash flow statement

(₹ Crore)	FY21	FY22	FY23E	FY24E
Profit after Tax	514	611	628	809
Depreciation	60	75	91	112
Interest	8	7	7	7
Cash Flow before WC changes	582	693	727	928
Changes in inventory	(1,266)	(1,811)	(1,215)	(2,051)
Changes in debtors	467	(39)	(599)	(369)
Changes in loans & Advances	(0)	2	-	-
Changes in other current assets	(873)	1,051	(2,064)	(1,808)
Net Increase in Current Assets	(1,783)	(993)	(3,917)	(4,330)
Changes in creditors	1,544	(106)	1,858	1,846
Changes in provisions	(56)	44	66	42
Net Inc in Current Liabilities	4,233	4,484	5,506	7,014
Net CF from Operating activities	3,032	4,184	2,315	3,612
Changes in deferred tax assets	(9)	(23)	-	-
(Purchase)/Sale of Fixed Assets	(30)	(239)	(110)	(110)
Net CF from Investing activities	(743)	(456)	(167)	(156)
Dividend and Dividend Tax	(155)	(176)	(182)	(232)
Net CF from Financing Activities	(150)	(192)	(189)	(239)
Net Cash flow	2,140	3,536	1,959	3,217
Opening Cash/Cash Equivalent	5,798	7,938	11,473	13,432
Closing Cash/ Cash Equivalent	7,938	11,473	13,432	16,649

Source: Company, ICICI Direct Research

Exhibit 20: Balance Sheet

(₹ Crore)	FY21	FY22	FY23E	FY24E
Equity Capital	201.7	201.7	201.7	201.7
Reserve and Surplus	3,230	3,656	4,103	4,680
Total Shareholders funds	3,432	3,858	4,304	4,881
Other Non Current Liabilities	163.5	158.1	158.1	158.1
Total Debt	-	-	-	-
Total Liabilities	4,356	4,586	5,033	5,610
Gross Block	1,072	1,293	1,405	1,515
Acc: Depreciation	277	336	428	540
Net Block	795	957	977	975
Capital WIP	80	87	85	85
Total Fixed Assets	887	1,052	1,070	1,068
Non Current Assets	2,167	2,189	2,246	2,292
Inventory	5,889	7,700	8,915	10,966
Debtors	966	1,005	1,605	1,974
Loans and Advances	2	-	-	-
Other Current Assets	6,846	5,795	7,859	9,667
Cash	7,938	11,473	13,432	16,649
Total Current Assets	21,994	26,522	32,399	39,946
Current Liabilities	6,272	6,166	8,024	9,869
Provisions	730	565	565	565
Total Current Liabilities	20,693	25,177	30,683	37,696
Net Current Assets	1,301	1,345	1,716	2,249
Total Assets	4,356	4,586	5,033	5,610

Source: Company, ICICI Direct Research

Exhibit 21: Key ratios

(Year-end March)	FY20	FY21	FY22	FY23E	FY24E
EPS	23.4	25.5	30.3	31.2	40.1
Cash per Share	287.5	393.6	568.9	666.0	825.5
BV	151.7	170.1	191.3	213.4	242.0
Dividend per share	10.8	7.2	8.7	9.0	11.5
Dividend payout ratio	46%	28%	29%	29%	29%
EBITDA Margin	5.3	5.5	7.6	7.2	9.1
PAT Margin	9.6	12.7	10.7	9.7	10.1
RoE	15.6	17.7	16.1	14.6	16.6
RoCE	24.5	21.5	20.0	18.1	20.9
P/E	17.5	13.7	13.4	13.3	10.3
Sales / Equity	1.6	1.2	1.5	1.5	1.6
Market Cap / Sales	1.7	2.1	1.5	1.3	1.0
Price to Book Value	2.7	2.4	2.2	1.9	1.7
Asset turnover	1.6	1.2	1.5	1.5	1.6
Debtors Turnover Rati	3.4	3.4	5.8	5.0	4.5
Creditors Turnover Ra	1.3	0.7	0.9	0.9	0.9
Debt / Equity	-	-	-	-	-
Current Ratio	2.4	2.1	2.2	2.2	2.2
Quick Ratio	1.5	1.2	1.1	1.1	1.1

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

ANALYST CERTIFICATION

I/We, Chirag Shah, PGDBM, Vijay Goel, PGDBM, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ00183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.