

Execution expected to pick up...

About the stock: Cochin Shipyard (CSL) was incorporated in 1972 as a Government of India company, with the first phase of facilities coming online in 1982. CSL is the largest shipbuilding and maintenance facility in India.

- The yard has facilities to build vessels up to 1.1 lakh tonnes and repair vessels up to 1.25 lakh tonnes annually
- CSL has secured shipbuilding orders from internationally renowned companies from Europe and the Middle East in the recent past

Q2FY23 Results: Lower than expected performance in ship-building segment.

- Revenue for the quarter was at ₹ 683.2 crore, down 1.9% YoY on account of muted execution in ship-building segment. Revenue was up 55% QoQ
- Absolute EBIDTA came in at ₹ 135.3 crore, down 17.7% YoY on higher RM and others cost. EBITDA margin declined 382 bps YoY mainly due to contraction in margin in the ship-building segment
- PAT was at ₹ 112.8 crore, down 14.1% YoY but up 167.4% QoQ

What should investors do? Execution is expected to improve significantly over FY24-25E, which would drive revenues. Margins are also expected to improve led by operating leverage benefits.

- We maintain our **BUY** rating on the stock

Target Price and Valuation: We value CSL at ₹ 745 i.e. 15x PE (FY25E).

Key triggers for future price performance:

- Order backlog is estimated at ~₹ 21000 crore (~8x TTM revenues). Majority of the large contracts in the order book are expected to witness meaningful execution from FY24E onwards
- Healthy order book and strong pipeline of projects in the coming two to three years from Indian Navy and other international customers
- Capacity expansion for ship-repair activities to help get more orders in this segment, which is also a higher margin business

Alternate Stock Idea: We also like Bharat Electronics in the defence space.

- Strong order book & healthy pipeline in defence electronics offers strong visibility; diversifying into non-defence to help improve margins
- BUY with a target price of ₹ 135 per share



Particulars

Particular	Amount
Market Capitalization*	₹ 8024 Crore
Total Debt (FY22)	₹ 123 Crore
Cash & Inv (FY22)	₹ 3213 crore
EV (FY22)	₹ 4934 Crore
52 week H/L (₹) (BSE)	420/280
Equity capital**	₹ 131.5 Crore
Face value	₹ 10

Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	72.9%	72.9%	72.9%	72.9%
FII	3.1%	2.7%	2.8%	3.7%
DII	4.1%	4.3%	4.3%	5.0%
Others	19.9%	20.1%	20.0%	18.4%

Price Chart



Recent event & key risks

- Receiving order from Europe
- Key Risk:** (i) Rising input cost (ii) No order from Navy in coming quarters

Research Analyst

Chirag Shah
shah.chirag@icicisecurities.com

Vijay Goel
vijay.goel@icicisecurities.com

Yash Panwar
yash.panwar@icicisecurities.com

Key Financial Summary

(₹ crore)	FY20	FY21	FY22	3 Year CAGR (FY19-FY22)	FY23E	FY24E	FY25E	3 Year CAGR (FY22-25E)
Revenues	3,422	2,819	3,191	2.2	3,111	3,494	4,073	8.5
EBITDA	709	716	623	2.3	566	643	770	7.3
EBITDA margins	20.7	25.4	19.5		18.2	18.4	18.9	
Net Profit	638	611	564	2.5	513	563	652	5.0
EPS (₹)	48.5	46.4	42.9		39.0	42.8	49.6	
P/E (x)	12.6	13.1	14.2		15.6	14.3	12.3	
Price / Book (x)	2.2	2.0	1.8		1.7	1.6	1.5	
EV/EBITDA (x)	8.4	8.3	7.9		9.5	8.6	7.3	
RoCE (%)	17.6	14.1	11.4		10.5	10.6	11.1	
RoE (%)	17.1	14.9	12.7		11.0	11.3	12.2	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter

Q2FY23 Results

- Revenue for the quarter came in at ₹ 683.2 crore (down 1.9% YoY); lower than our estimate of ₹ 800.6 crore. This was mainly due to slower than expected execution in ship-building contracts. Revenue from ship-building segment (~77% share) declined 5% YoY to ₹ 527.6 crore while revenue from ship-repair segment (~23% share) increased 10.3% YoY to ₹ 155.6 crore. Sequentially, total revenue increased 55% led by strong growth in both segments (50.1% QoQ revenue growth in ship-building and 74.0% QoQ revenue growth in ship-repair)
- Gross margins contracted 305 bps YoY on increase in raw material cost. Sequentially, gross margin improved 379 bps led by strong revenue growth (despite a sharp increase in raw material cost)
- EBITDA margins came in at 19.8%; contracting 382 bps YoY on muted sales and increase in costs (mainly other cost). Sequentially, EBITDA margins improved sharply by 1265 bps on operating leverage benefits. EBITDA declined 17.7% YoY (+329% QoQ) to ₹ 135.3 crore (I-direct estimate: ₹ 120.2 crore)
- EBIT from the ship-building segment was at ₹ 96.4 crore (down 38.8% YoY) while ship-repair segment EBIT increased sharply by 178.4% YoY to ₹ 50.6 crore. EBIT margin of ship-building was at 18.3% vs. 28.4% in Q2FY22. Ship-repair EBIT margin improved significantly to 32.5% vs. 12.9% in Q2FY22
- PAT came in at ₹ 112.8 crore (down 14.1% YoY) led by lower sales and lower margins. However, higher other income of ₹ 61.7 crore (+47.3% YoY) supported the bottomline.

Exhibit 1: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	
Revenue	683.2	800.6	696.1	-1.9	440.9	55.0	Lower than expected performance in ship-building segment
Other Income	61.7	55.0	41.9	47.3	55.9	10.3	
Total Revenue	744.9	855.6	738.0	0.9	496.8	49.9	
Total Raw Material Costs	412.7	520.3	399.3	3.4	283.0	45.8	
Employee Expenses	81.2	104.1	83.9	-3.3	78.1	4.0	
Other expenses	52.7	56.0	43.8	20.5	44.1	19.7	
Provision for losses & exp.	1.3	0.0	4.7	-72.7	4.2	-69.5	
Operating Profit (EBITDA)	135.3	120.2	164.4	-17.7	31.5	329.3	
EBITDA margin (%)	19.8%	15.0%	23.6%	-382 bps	7.1%	1265 bps	Margin impacted on higher RM & others cost
Interest	12.2	12.1	11.8	3.1	12.1	0.7	
Depreciation	19.8	19.3	17.4	13.7	18.9	4.5	
Total Tax	52.2	38.1	45.8	14.0	14.2	266.9	
PAT	112.8	105.7	131.3	-14.1	42.2	167.4	

Key Metrics	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	
Revenue (Segment-wise)						
Shipbuilding	527.6	555.1	-5.0	351.4	50.1	Delay in execution impacted ship-building revenues
As a % of Sales	77.2%	79.7%		79.7%		
Shiprepair	155.6	141.1	10.3	89.5	74.0	Ship repair performance remained better than expected
As a % of Sales	22.8%	20.3%		20.3%		
EBIT (Segment-wise)						
Shipbuilding	96.4	157.5	-38.8	77.8	23.9	
EBIT Margins(%)	18.3%	28.4%		22.1%		Margin impacted on higher RM & others cost
As a % of EBIT	54.4%	83.4%		113.6%		
Shiprepair	50.6	18.2	178.4	-31.8	-259.1	
EBIT Margins (%)	32.5%	12.9%		-35.6%		Ship-repair margins improved significantly
As a % of EBIT	28.6%	9.6%		-46.5%		

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY23E			FY24E			FY25E
	Old	New	Change(%)	Old	New	Change(%)	New
Revenue	3110.6	3110.6	0.0	3493.9	3493.9	0.0	4072.6
EBITDA	566.1	566.1	0.0	642.9	642.9	0.0	769.7
EBITDA Margin (%)	18.2	18.2	0 bps	18.4	18.4	0 bps	18.9
PAT	507.7	513.1	1.1	556.8	562.8	1.1	652.0
EPS (₹)	38.6	39.0	1.1	42.3	42.8	1.1	49.6

Source: ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY22	FY23E	FY24E	FY25E
Net Sales	3,191	3,111	3,494	4,073
Operating income	-	-	-	-
Revenue	3,191	3,111	3,494	4,073
% Growth	13.2	(2.5)	12.3	16.6
Other income	262	250	250	250
Total	3,453	3,361	3,744	4,323
% Growth	14.7	(2.7)	11.4	15.5
Raw Mtl costs	2,026	1,960	2,201	2,545
Employee Expenses	311	327	360	419
other expenses	183	180	203	236
Total Operating Exp.	2,568	2,544	2,851	3,303
EBITDA	623	566	643	770
% Growth	(13.1)	(9.1)	13.6	19.7
Interest	47	45	45	45
PBDT	838	771	848	975
Depreciation	70	78	87	94
PBT & Except. items	769	693	761	881
Total Tax	202	180	198	229
PAT before MI	564	513	563	652
Minority Interest	-	-	-	-
PAT	564	513	563	652
% Growth	(7.7)	(9.0)	9.7	15.8
EPS	43	39	43	50

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
	₹ crore			
(₹ Crore)	FY22	FY23E	FY24E	FY25E
Profit after Tax	564	513	563	652
Depreciation	70	78	87	94
Interest	47	45	45	45
CF before WC changes	681	636	695	791
Changes in inventory	128	(35)	(42)	(63)
Changes in debtors	(37)	(206)	22	(95)
Changes in loans & Adv	(18)	7	(3)	(5)
Changes in other CA	167	32	(227)	(343)
Net Increase in CA	240	(202)	(250)	(507)
Changes in creditors	(59)	135	(33)	23
Changes in provisions	(43)	103	(1)	31
Net Inc in CL	532	(162)	234	460
CF from Operatons	1,453	272	679	744
Changes in deferred tax assets	5	-	-	-
(Purchase)/Sale of FA	(261)	(450)	(500)	(500)
CF from Investing	(198)	(450)	(500)	(500)
Dividend & Dividend Tax	(220)	(220)	(243)	(276)
CF from Financing	(199)	(272)	(291)	(324)
Net Cash flow	1,056	(451)	(112)	(80)
Opening Cash/Cash Eq	2,150	3,206	2,756	2,644
Closing Cash/ Cash Eq	3,206	2,756	2,644	2,564

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet				
	₹ crore			
(₹ Crore)	FY22	FY23E	FY24E	FY25E
Equity Capital	131.5	131.5	131.5	131.5
Reserve and Surplus	4,262	4,541	4,858.0	5,231.0
Total Shareholders funds	4,393	4,672	4,989.6	5,362.5
Minority Interest	-	-	-	-
Total Debt	123	123	123.0	123.0
Total Liabilities	4,912.5	5,191.8	5,508.9	5,881.9
Gross Block	1,262	2,076	2,576.2	3,076.2
Acc: Depreciation	292	370	457.3	551.0
Net Block	970	1,706	2,118.9	2,525.3
Capital WIP	1,264	900	900.0	900.0
Total Fixed Assets	2,234	2,606	3,018.9	3,425.3
Non Current Assets	360	360	359.8	359.8
Inventory	306	341	382.9	446.3
Debtors	390	597	574.3	669.5
Loans and Advances	35	27	30.7	35.8
Other Current Assets	1,876	1,844	2,071.5	2,414.7
Cash	3,213	2,756	2,643.8	2,563.6
Total Current Assets	5,820	5,565	5,703.2	6,129.8
Current Liabilities	376	511	478.6	502.1
Provisions	522	624	623.1	654.4
Net Current Assets	2,319	2,226	2,130.1	2,096.7
Total Assets	4,912.5	5,191.8	5,508.9	5,881.9

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Per Share Data				
EPS	42.9	39.0	42.8	49.6
Cash per Share	244.2	209.5	201.0	194.9
BV	334.0	355.2	379.3	407.7
Dividend per share	16.8	16.8	18.5	21.0
Dividend payout ratio	39%	43%	43%	42%
Operating Ratios				
EBITDA Margin	19.5	18.2	18.4	18.9
PAT Margin	16.3	15.3	15.0	15.1
Return Ratios				
RoE	12.7	11.0	11.3	12.2
RoCE	11.4	10.5	10.6	11.1
RoC	20.9	14.6	13.7	13.8
Valuation Ratios				
EV / EBITDA	7.9	9.5	8.6	7.3
P/E	14.2	15.6	14.3	12.3
EV / Net Sales	1.5	1.7	1.6	1.4
Sales / Equity	0.7	0.7	0.7	0.8
Market Cap / Sales	2.5	2.6	2.3	2.0
P/BV	1.8	1.7	1.6	1.5
Turnover Ratios				
Asset Turnover Ratio	2.5	1.5	1.4	1.3
Debtors Turnover Ratio	8.6	6.3	6.0	6.5
Creditors Turnover Ratio	7.9	7.0	7.1	8.3
Solvency Ratios				
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	2.8	2.4	2.7	3.0
Quick Ratio	2.5	2.1	2.4	2.6

Source: Company, ICICI Direct Research

Exhibit 7: ICICI Direct coverage universe (Capital Goods)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY22	FY23E	FY24E									
L&T (LARTOU)	2,000	2,355	Buy	280640	56.8	66.1	76.7	35.2	30.2	26.1	8.9	9.3	11.6	12.1	12.9	13.6
Siemens Ltd	2,926	3,660	Buy	104201	29.5	36.7	50.5	99.2	79.7	57.9	13.9	15.7	19.2	10.1	11.6	14.2
AIA Engineering (AIAENG)	2,607	3,011	Buy	24589	64.6	79.8	86.0	40.4	32.6	30.3	16.5	17.9	17.1	13.2	14.3	13.6
Thermax (THERMA)	2,386	2,405	Buy	28431	26.2	38.7	53.4	91.0	61.7	44.7	11.3	15.4	18.7	8.9	12.0	14.6
KEC International (KECIN)	410	515	Buy	10541	12.9	15.4	30.3	31.7	26.6	13.5	11.9	13.8	20.5	10.6	10.7	17.9
Greaves Cotton (GREAVE)	152	209	Buy	3514	0.7	3.5	3.6	214.7	43.1	42.5	2.5	9.4	10.7	1.3	6.7	7.7
Elgi Equipment (ELGEQU)	508	520	Hold	16099	7.2	9.4	11.4	71.0	54.1	44.5	19.0	21.4	22.0	19.8	21.3	21.1
Bharat Electronics (BHAELE)	108	135	Buy	78946	3.2	3.8	4.5	33.8	28.4	24.0	26.1	28.4	30.0	19.5	21.2	22.4
Cochin Shipyard (COCSHI)	612	745	Buy	8050	42.9	38.6	42.8	14.3	15.9	14.3	10.9	10.5	10.6	12.7	11.0	11.3
SKF (SKFIND)	4,890	5,215	Buy	24175	77.0	108.7	130.3	63.5	45.0	37.5	26.0	30.7	31.3	20.6	23.3	23.4
Timken India (TIMIND)	2,900	3,561	Buy	21813	43.5	61.3	71.2	66.7	47.3	40.7	25.3	36.2	42.0	19.7	27.9	32.2
NRB Bearing (NRBBEA)	148	220	Buy	1434	7.8	9.2	12.1	19.0	16.1	12.2	15.0	15.3	19.2	12.6	12.6	14.8
Action Construction (ACTCON)	319	365	Buy	3799	8.8	15.1	19.2	36.3	21.1	16.6	23.0	25.6	26.7	13.9	18.3	18.9
Data Patterns (DATPAT)	1373	1,555	Buy	7124	18.1	22.0	30.4	75.8	62.5	45.2	23.8	24.9	28.4	16.4	18.2	21.0
HAL (HINAER)	2,468	2,860	Buy	82527	151.9	130.9	143.1	16.2	18.8	17.2	27.4	30.6	30.8	26.3	23.2	23.4
ABB (ABB)	3,122	3,275	Buy	66158	25.5	38.9	43.7	122.6	80.3	71.5	45.0	49.2	64.9	11.2	13.0	17.6
Ador Welding (ADOWEL)	790	890	Buy	1074	33.2	37.5	49.3	23.8	21.1	16.0	19.9	23.8	26.8	13.6	17.1	19.3
Bharat Dynamics (BHADYN)	993	1,068	Buy	18200	27.3	33.0	42.7	29.0	24.0	18.5	24.6	24.7	27.9	17.3	17.7	20.0
Mazagon Dock (MAZDOC)	788	562	Buy	15893	30.3	31.2	40.1	26.1	25.4	19.7	20.0	18.1	20.9	16.1	14.6	16.6

Source: Bloomberg, ICICI Direct Research

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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, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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