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Q4FY21 result review

Defence

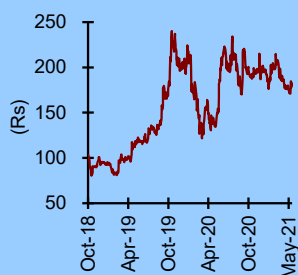
Target price: Rs255

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	74.5	74.5	74.5
Institutional investors	17.8	17.0	16.6
MFs and others	13.0	13.5	13.9
FIs / Banks	0.0	0.0	0.0
Insurance	4.0	2.5	1.7
FIIIs	0.8	1.0	1.0
Others	7.7	8.5	8.9

Source: BSE India

Price chart

Garden Reach Shipbuilders & Engineers **BUY**

Maintained
Rs182

Execution pickup expected in FY22E

Garden Reach Shipbuilders & Engineers (GRSE) reported an impressive Q4FY21. While revenues were down 13%YoY, EBITDA was Rs375mn, up 9% YoY; margins at 9.4%. Both inventory and payable days for FY21 appear inflated, perhaps as a precursor to higher execution in FY22E. What has helped the outlook of working capital the most is a normalised receivable days at 57 (136 YoY). First of the three P17A stealth frigates (P17A forms the largest portion of GRSE's orderbook) was launched in Dec, '20 and will lead to accelerated revenue accretion in the next two years. Execution of 1st ASW-SWC continues to pick up pace. Overall, GRSE is well placed with ~20x book to bill with Rs 262bn orderbook to be completed by CY27; pick up in execution cycle will help unlock value. We maintain BUY with a target of Rs 255/share.

- **Project updates for Q4FY21 – Execution picks up pace for 1st ASW-SWC at L&T's Katupalli shipyard.** Execution is currently carried out at L&T Katupalli shipyard. The contract value of the vessels is Rs63.11bn (US\$855mn). Owing to Covid-19 delays, the start of production of the first hull has slipped four months behind schedule. The tentative delivery plans of the first vessel is Oct 2022, followed by two every 12 months until deliveries complete in Oct, '26. Cochin Shipyard (CSL) is also building 8 ASW-SWC for the same value and started production on 1 Dec, '20.
- **Long running (signed in Sept 2011) contract of 8 Landing craft utility (LCU) was also completed with the delivery of 8th LCU in Dec, '20.** The amphibious ships are to be based out of strategic location of Andaman and Nicobar islands and are specially designed to undertake landing operations in the most difficult beaching areas.
- **Contract signed with Guyana, Government of Seychelles.** GRSE has contracted and subsequently delivered (in Q4FY21 and Q1FY22 respectively) a fast patrol vessel with Government of Seychelles for the country's coast guard. GRSE has also signed a contract with Government of Guyana for an Ocean going vessel at a cost of US\$12.7 mn.
- **Orderbook stands at Rs 261.9bn for construction of 15 warships to be completed progressively by CY27.** GRSE is currently executing three major projects of the Indian Navy pertaining to construction of 3 Stealth Frigates, 4 survey vessel (Large) and 8 ASW SWCs. The last two projects were won on competitive bidding. GRSE is using advanced modular integrated shipbuilding, which has helped enhance its capacity to construct 20 warships concurrently. First of the three P17A stealth frigates were also launched in Dec, '20. The construction of P17A (three) is the largest component of GRSE's orderbook at Rs 192bn. Based on basic design prepared by Directorate of Naval design, the construction is being done in two locations (MDL – Mazagon shipyard and GRSE) concurrently.

Market Cap	Rs20.9bn/US\$285mn
Reuters/Bloomberg	GRSE.BO/GRSE IN
Shares Outstanding (mn)	114.6
52-week Range (Rs)	234/134
Free Float (%)	25.5
FII (%)	1.0
Daily Volume (US\$/'000)	782
Absolute Return 3m (%)	(10.9)
Absolute Return 12m (%)	29.6
Sensex Return 3m (%)	(4.0)
Sensex Return 12m (%)	61.2

Year to March	FY20	FY21P	FY22E	FY23E
Revenue (Rs mn)	14,333	11,408	28,960	55,675
Net Income (Rs mn)	1,635	1,535	3,126	7,386
Dil. EPS (Rs)	14.3	13.4	27.3	64.5
% Chg YoY	48.7	(6.1)	103.7	136.3
P/E (x)	13.3	14.2	7.0	2.9
CEPS (Rs)	16.9	15.9	30.1	67.4
EV/E (x)	(13.2)	(2.8)	4.9	1.1
Dividend Yield (%)	10.5	3.8	2.6	5.3
RoCE (%)	22.7	20.3	31.6	50.5
RoE (%)	15.7	13.5	23.4	37.7

Research Analyst:

Abhijit Mitra

abhijit.mitra@icicisecurities.com

+91 22 6637 7289

Table 1: Q4FY21 result review

(Rs mn)	Q4FY21	Q4FY20	% Chg YoY	Q3FY21	% Chg QoQ
Sales	3,988	4,567	(12.7)	3,596	10.9
Cost of material consumed	1,442	1,852		1,624	
Purchase of products for Sale (BnD spares)	32	289		37	
Change in inventories	2	(3)		33	
Gross Margin	2,513	2,430	3.4	1,902	32.1
Gross Margin (%)	63.0	53.2		52.9	
Sub-contracting charges	547	631		383	
Employee benefit expenses	763	734	4.0	757	0.8
% of topline	19.1	16.1		21.1	
Other expenses -- Project related	385	191		102	
Other expenses	442	528		243	
Total Expenses	3,613	4,222	(14.4)	3,180	13.6
EBITDA	375	345	8.8	416	(9.7)
Margins	9.4	7.6		11.6	
Other income	509	528	(3.5)	393	29.5
Depreciation	78	79		77	
Finance costs	22	(4)		2	
Exceptional Item		(106)			
PBT	785	692	13.6	730	NM
Tax	205	195		153	
PAT	580	497	16.7	576	NM
OCI	(19)	(64)		18	
TCI	561	433		594	

Source: Company data, I-Sec research

Maintain BUY with a target of Rs 255/share

We maintain **BUY** on GRSE with a target price of Rs255/share. Given the bulge in execution of the orderbook, we continue to use DCF valuation for GRSE. At the target price the implied P/E for FY23E comes to 4x. We would continue to look at DCF as well as P/E to account for the sharp bulge in execution for FY23-27E.

Table 2: GRSE DCF valuation table

(Rs mn)	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
EBITDA	2,539	7,934	5,605	3,206	3,314	3,144	3,247	3,414	3,590
Tax	1,042	2,462	1,881	1,283	1,312	1,271	1,298	1,342	1,387
NOPAT	1,496	5,472	3,724	1,923	2,002	1,873	1,949	2,073	2,203
Working Capital Change	(14,317)	(771)	1,445	1,487	(119)	57	(160)	(165)	(174)
Capex	(600)	(600)	(600)	(600)	(600)	(600)	(600)	(600)	(600)
FCF	(13,421)	4,102	4,569	2,810	1,283	1,330	1,189	1,307	1,429
Terminal Value									18,219
Total FCF	(13,421)	4,102	4,569	2,810	1,283	1,330	1,189	1,307	19,648
Cost of Equity	12%								
WACC	10%								
Terminal Growth	2%								
NPV of FCFF (FY23E)	21,826								
Net Debt at FY22E	(7,398)*								
Net Equity value	29,223								
Value per share	255								

* 30% of the cash and current investments has been assumed as attributable cash as the advances from government continue to be higher than cash on books.

Source: I-Sec research

Key risks. Key upside risks are continued traction on orderbook, increased indigenisation leading to better margins, better working capital dynamics through governmental support. Key downside risks are higher delays leading to increased liquidate damages and lower margins, not enough visibility on orderbook accretion leading to softening of multiples.

Financial summary

Table 3: Profit & loss statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Operating Income	14,333	11,408	28,960	55,675
Operating Expenses	13,929	10,688	26,421	47,741
EBITDA	404	721	2,539	7,934
% margins	2.8	6.3	8.8	14.3
Depreciation & Amortisation	301	291	320	336
Gross Interest	13	27	50	50
Other Income	2,255	1,876	2,000	2,300
Recurring PBT	2,239	2,071	4,169	9,848
Less: Taxes	604	536	1,042	2,462
Recurring Net Income	1,635	1,535	3,126	7,386

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Assets				
Total Current Assets	49,077	55,068	46,641	58,985
of which cash & cash eqv.	27,113	23,812	9,241	12,870
Total Current Liabilities & Provisions	43,344	55,699	45,572	51,938
Net Current Assets	5,733	(631)	1,070	7,046
Net Fixed Assets	3,037	3,402	3,682	3,946
Capital Work-in-Progress	515	1,513	1,513	1,513
Other non-current assets	1,213	7,143	7,143	7,143
Total Assets	10,498	11,426	13,407	19,648
Liabilities				
Borrowings	-	-	-	-
Deferred Tax Liability	95	55	55	55
Equity Share Capital	1,146	1,146	1,146	1,146
Face Vale	10	10	10	10
Reserves & Surplus	9,257	10,226	12,207	18,447
Net Worth	10,402	11,371	13,352	19,593
Total Liabilities	10,498	11,426	13,407	19,648

Source: Company data, I-Sec research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Operating Cashflow	1,659	361	1,496	5,472
Working Capital Changes	4,619	4,851	(16,272)	(2,348)
Capital Commitments	(674)	(1,638)	(600)	(600)
Free Cashflow	5,605	3,574	(15,376)	2,525
Investing Cashflow	3,123	(10,089)	2,000	2,300
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	(1,497)	(601)	(1,146)	(1,146)
Dividends Paid	(16)	(23)	(50)	(50)
Interests paid	7,215	(7,140)	(14,571)	3,629
Chg. in Cash	1,659	361	1,496	5,472

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY20	FY21P	FY22E	FY23E
Per Share Data (in Rs.)				
EPS(Basic Recurring)	14.3	13.4	27.3	64.5
Diluted Recurring EPS	14.3	13.4	27.3	64.5
Recurring Cash EPS	16.9	15.9	30.1	67.4
Dividend per share (DPS)	5.0	10.0	10.0	10.0
Book Value per share (BVPS)	90.8	99.3	116.6	171.0
Growth Ratios (%)				
Operating Income	3.4	(20.4)	153.8	92.3
EBITDA	(4.1)	78.4	252.3	212.6
Recurring Net Income	48.7	(6.1)	103.7	136.3
Valuation Ratios (x)				
P/E	13.3	14.2	7.0	2.9
P/CEPS	11.2	11.9	6.3	2.8
P/BV	2.1	1.9	1.6	1.1
EV / EBITDA	(13.2)	(2.8)	4.9	1.1
EV / FCF	(1.0)	(0.6)	(0.8)	3.5
Operating Ratios (%)				
Raw Material/Sales	48.6	47.0	54.5	54.0
Other Income / PBT	100.7	90.6	48.0	23.4
Effective Tax Rate	27.0	25.9	25.0	25.0
NWC / Total Assets	54.6	(5.5)	8.0	35.9
Inventory Turnover	2.0	0.9	1.8	2.4
Asset Turnover	1.4	1.0	2.2	2.8
Net D/E Ratio (x)	(2.6)	(2.1)	(0.7)	(0.7)
Return/Profitability Ratios (%)				
Recurring Net Income Margins	11.4	13.5	10.8	13.3
RoCE	22.7	20.3	31.6	50.5
RoNW	15.7	13.5	23.4	37.7
Dividend Pay-out Ratio	37.3	36.6	15.5	20.3
EBITDA Margins	2.8	6.3	8.8	14.3

Source: Company data, I-Sec research

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