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Q4FY21 result concall
update

Defence

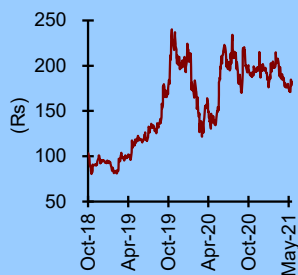
Target price: Rs255

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) signalled significant YoY improvement in execution while maintaining margins for FY22E. Rs250.8bn orderbook with meaningful capacity upgrades to speed up execution and smart outsourcing/in-house mix allows for the management confidence. We maintain BUY with a target of Rs 255/share.

- **Execution details for FY21.** FY21 revenue break consists of i) Rs 10.1bn in shipbuilding including Rs140mn of refits and repairs ii) Rs500mn from Bailey bridges iii) Rs170mn from Deck Machinery & Pump and iv) Rs180mn from Engine division. Shipbuilding revenue has seen contribution of i) Rs630mn from P17A ii) Rs1230mn from survey vessels (large) iii) Rs1660mn from ASWSWC iv) Rs410mn from FPV and v) Rs318mn from LCU.
- **Execution scheduled for FY22/23E allows management optimism for meaningful increase in execution over the next two years.** P17A and Survey vessel construction are expected to contribute materially to FY22E revenues along with Phase 1 construction of ASW SWC. 1st ship of P17A has seen meaningful maturity of outfitting, while the second ship will be commissioned by July, '22 with a much higher percentage (35%) of outfitting and onboarded equipments. Management expects to witness commissioning of the first survey vessel in August/Sept, '21, with significant outfitting/equipment onboarding and consequently addition to revenues. Second survey vessel will be commissioned in the LnT shipyard by Dec, '22 with an even higher percentage of outfitting. Construction of the first ASWSWC has started in Dec, '21. The remaining 3 ASWSWCs were expected to start in May, '21 but has been delayed to June, '21. The execution for the ocean going vessel for the government of Guyana is also expected to start in Nov, '21.
- **Significant capacity augmentation across facilities will help in faster execution of the orderbook.** Current orderbook stands at Rs 250.8bn comprising of 17 ships. The CNC Plasma cutting facility in the Rajabagan dockyard (RBD) set up at a cost of Rs.41mn will enhance the plate cutting capacity by 30%. The modern Hull block fabrication complex in RBD, constructed at a cost of Rs190mn will enable concurrent construction of large sized (40 te) hull blocks in a covered environment. This will facilitate modular integrated construction of warships with an enhancement in production capacity of hull blocks by 25%. Blocks thus fabricated in the RBD, will be moved through river to be assembled at the main shipyard. Thus, a concurrent in-house process of plate cutting, fabrication and assembly have allowed throughput to increase from 1000tpa to 1500tpa.

Market Cap	Rs20.7bn/US\$284mn
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)	803
Absolute Return 3m (%)	(8.8)
Absolute Return 12m (%)	34.7
Sensex Return 3m (%)	(1.8)
Sensex Return 12m (%)	67.1

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

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- **Partnership with LnT.** GRSE has outsourced construction of 3 survey vessels and 4 ASW SWC – on a limited tender basis to LnT. Order value stands at Rs1.76bn for survey vessels for hull construction, with provisions for increasing up to a percentage of the total order value for GRSE. The value of order placed for ASW SWC stands at Rs2.5bn for the 4 ships. Thus while value of construction orders placed on LnT is not material it will help speed up the execution schedule for GRSE.
- **Future orders, revenue streams and margin visibility.** Management expects 11 next generation offshore patrol vessels (NGOPV) order from Indian Navy, of Rs 45bn. Seven of the NGOPVs will be executed by L1 bidder and four by L2 bidder. Also Rs12bn order from Indian Navy for cadet training ships is also expected in immediate future. Management also expects order flow from next generation corvettes in the medium term. GRSE has come L1 in a US\$3mn international competitive tended offer for Bangladesh. Management witnesses meaningful revenue opportunity in ship refits and have leased three drydocks from Kolkata Port trust (KPT). GRSE expects both domestic and international refit orders. Domestic orders should include LST (Landing ship tank) refit of Rs 2bn from Southern command. Management doesn't expect meaningful margin impact from high commodity prices or differing execution mix (higher ASWSWC execution) in FY22E.
- **Provisions and one-offs in the results. GRSE has provided for Rs 117.5mn for P17A.** Since the design of the project rests with Mazagon dock (MDL), the payment for monitoring system (named PLF) for common procurement has been provided in Q4FY21. This inflates 'other expenses – Project related' for Q4FY21. There has been an increase in 'other expenses' as well driven by i) Rs 37mn CSR expense provision ii) Rs 50mn charge for RnD iii) Rs 24mn charge for obsolete and non-moving inventory.

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 FCF (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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