

Company Overview

Mazagon Dock Shipbuilders Limited is a defence public sector undertaking shipyard under the Department of Defence Production, MoD with a maximum shipbuilding and submarine capacity of 40,000 DWT, engaged in the construction and repair of warships and submarines for the MoD for use by the Indian Navy and other vessels for commercial clients. They are a wholly owned GoI company, conferred with the 'Mini-ratna-I' status in 2006, by the DPE. They are India's only shipyard to have built destroyers and conventional submarines for the Indian Navy. They are also one of the initial shipyards to manufacture Corvettes (Veer and Khukri Class) in India. They are headquartered in Mumbai which is also the headquarters of the Western Naval Command of the Indian Navy. They are also exploring the possibilities of developing a greenfield shipyard at Nhava, Navi Mumbai with a shiplift, wet basin, workshops, stores and buildings and a ship repair facility spread over an area of 37 acres. Their shipbuilding and submarine and heavy engineering divisions are both ISO 9001:2015 certified

Objects of the issue

The objects of the Offer are :

- A) To achieve the benefits of listing the Equity Shares on the Stock Exchanges.
- B) General Corporate purposes

Investment Rationale

World class infrastructure capable of serving the requirements of the Ministry of Defence

Its Infrastructure and facilities available at their shipyard combined with their vast expertise give them a significant edge over the domestic peers. The facilities currently comprise of three dry docks, two wet basins, three slipways, production shops, assembly shops, module shop with painting chamber for integrated construction, sheet metal shop, pipe shop, machine and fitting shop, ship dry dock and dredging, electrical repair shop and instrumentation shop for their shipbuilding division. Company's submarine division infrastructure includes shops for fabrication of frame, sub-section assembly and section formation, cradle assembly shop for structural and equipment outfitting and final assembly, one dry dock and submarine section assembly shop. They have a shore integration facility which enables us to complete combat system integration off-site prior to onboard installation. They also constructed a submarine assembly workshop which comprises of two bays and is equipped with two levels of EOT cranes as well as semi goliath cranes.

Location of the facilities promotes closer association with their vendors and customers

Company's shipyard 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. Our customers, being the MoD and Indian Coast Guard and their vendors are based in Mumbai which enables to in closely co-ordinate with greater efficiencies. Further, a majority of their subcontractors are based in and around Mumbai which provides them with an ease of access to labour. Thus, the location of their facilities provides them a strategic competitive advantage over their peers.

Valuation and Outlook

Mazagon Dock Shipbuilders is a leading defence public sector undertaking shipyard under the Ministry of Defence in India. The company has grown from a single unit, small ship repair company, into a multi-unit and multi-product company, with a significant rise in production, use of modern technology and sophistication of products. On valuation front, At upper end of this price band, company is valued at P/E of 6.1x (to its FY20 EPS of Rs. 23.7), which is at discount to the peer average of 9.3x. Considering the huge potential in the defence space with sector liberalization. We give ***SUBSCRIBE*** rating to this IPO issue for the medium to long term.

Issue Details

Offer Period	Sept 29th - 1st Oct 2020
Price Band	INR.135 to INR.145
Bid Lot	103
Listing	BSE&NSE
Issue Size (no. of shares in mn)	30.6
Issue Size (Rs. in bn)	4
Face Value	10

Issue Structure

QIB	50%
Retail	35%
HNI	15%
BRLM	Yes Securities, Axis Capital, Edelweiss, IDFC Securities, JM Financials
Registrar	Alankit Assignments Pvt. Ltd.

Particulars Pre Issue % Post Issue %

Promoter	100	84.83
Public	-	15.17
Total	100	100

(Assuming issue subscribed at higher band)

Research Team - 022-61596407



Mazagon Dock Shipbuilders Ltd

IPO Note

Income Statement (In mn)

Particulars	FY17	FY18	FY19	FY20
Revenue				
Revenue from operations	35,191	44,704	46,140	49,777
Total revenue	35,191	44,704	46,140	49,777
Expenses				
Cost of materials consumed	21,400	26,929	25,571	25,032
Procurement of base and depot spares	348.	917	6,080	3,622
Employee benefit expenses	7,288	8,857	6,895	7,929
Provisions	592.	192	389	386
Other expenses	4303	6,261	4,596	10,127
Total Operating expenses	33,933	43,157	43,532	47,097
EBITDA	1,257	1,547	2,608	2,680
Depreciation and amortisation expense	417	525	643	687
Other income	7,557	5,573	5,907	5,577
EBIT	8,306	6,504	7,781	7,477
Finance costs	93.1	91	91	93
Exceptional Item	-	-	-	123
PBT	8,306	6,504	7,781	7,354
Current tax	2,930	2,915	3,321	1,804
Deferred Tax charge	(53)	(347)	(244)	1,712
Total tax	2,877	2,568	3,077	3,517
PAT	5,428	3,936	4,704	3,837
Share of Net Profit/(loss) of associate	554	1,026	621	934
Reported PAT	5,983	4,962	5,325	4,771
EPS	29.7	24.6	26.4	23.7

Source: Company, BP Equities Research

Cash Flow Statement (In mn)

Particulars	FY17	FY18	FY19	FY20
Cash Flow from operating activities	(10,027)	4,908	652	(956)
Cash flow from investing activities	4,930	3,479	4,166	4,537
Cash flow from financing activities	(2,452)	(6,080)	(1,257)	(6,046)
Net increase/(decrease) in cash and cash equivalents	(7,549)	2,307	3,561	(2,464)
Cash and cash equivalents at the beginning of the period	8,978	1,429	3,736	7,297
Cash and cash equivalents at the end of the period	1,429	3,736	7,297	4,833

Source: Company, BP Equities Research



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IPO Note

Balance Sheet (In mn)

Particulars	FY17	FY18	FY19	FY20
Liabilities				
Share Capital	2,490	2,241	2,241	2,017
Reserve & Surplus	27,411	26,100	29,928	28,674
Net worth	29,901	28,341	32,169	30,691
Other financial liabilities	546	532	513	516
Provisions	12,121	12,064	11,978	12,151
Other long-term liabilities	1,669	1,597	1,578	1,695
Total Non Current Liabilities	14,337	14,193	14,069	14,362
Trade payables	11,011	26,489	31,540	49,072
Contract liability	1,37,596	1,23,381	1,29,499	1,13,832
Other current liabilities	251	99	221	436
Short Term Provisions	816	1,201	982	1,268
Total Current Liabilities	1,49,674	1,51,170	1,62,241	1,64,608
Total liabilities	1,93,912	1,93,704	2,08,479	2,09,661
Assets				
Tangible Assets	5,441	6,769	7,873	8,312
Capital work in Progress	984	854	888	800
Intangible Assets	214	284	230	171
financial assets	4,117	4,574	5,966	6,601
Deferred tax Assets (net)	5,068	5,522	5,820	4,117
Non-current tax assets (net)	1,811	2,067	1,934	2,259
Other non-current assets	1,388	3,195	4,990	6,518
Total Non current assets	19,023	23,266	27,701	28,778
Trade Receivables	8,117	11,134	14,729	14,588
Cash and Bank Balances	83,629	71,896	74,697	57,983
Contract assets	11,632	7,379	9,013	555
Inventories	40,287	37,860	37,903	46,227
Investment	1,487	1,114	2,256	1,802
Other current assets	29,737	41,055	42,181	59,728
Total Current Asset	1,74,888	1,70,438	1,80,779	1,80,882
Net Current Assets	25,215	19,268	18,537	16,274
Total Assets	1,93,912	1,93,704	2,08,479	2,09,661

Source: Company, BP Equities Research

Key Risks

- ⇒ Their entire business operations are based out of a single yard at Mumbai. The loss of, destruction, or shutdown of, the operations at their shipyard in Mumbai will have a material adverse effect on the business, financial condition and results of operations
- ⇒ Company does not have access to records and data pertaining to certain historical legal and secretarial information in relation to certain disclosures and there are certain discrepancies in the records available with the company. Further, the master data on the MCA wrongly reflects the paid up share capital of the Company and the Company has advised the public, not to place any reliance on such data.
- ⇒ Imposition of liquidated damages and invocation of performance bank guarantees / indemnity bonds by their customers could impact the results of operations and they may face potential liabilities from lawsuits and claims by customers in the future

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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