

MAZAGON DOCK SHIPBUILDERS LIMITED

IPO Note

(SUBSCRIBE)

Analyst:

Brijesh Bhatia

Rohit Rai

IPO details

Key Data	
Issue Opens	29-Sep-20
Issue Closes	01-Oct-20
Equity Shares Offered (in mn.)	30.60
QIB	Up to 50%
NIB	Min 15%
Retail	Min 35%
Face Value (Rs)	10
Price Band (Rs)	135-145
Max. Issue Size (Rs mn)	4,437
Lot Size (Eq. Shares)	103 and multiple thereof

Valuation	@ 135 per share	@ 145 per share
Market Cap (mn)	27,228	29,245
Net Debt (Rs mn)	0	0
Enterprise Value (Rs mn)	27,228	29,245
EV/ Sales	0.5	0.6
EV/ EBIDTA	10.0	10.8
P/E	6.3	6.8

	Pre Issue		Post Issue [^]	
	# mn Shares	% Holding	# mn Shares	% Holding
Promoters	201.7	100.0%	171.1	84.8%
Public	0.0	0.0%	0.0	0.0%
Others	0.0	0.0%	0.0	0.0%
Offer for sale		0.0%	30.6	15.2%
Total	201.7	100.0%	201.7	100.0%

Object of the issue

- To carry out the disinvestment plan of 30,599,017 equity shares by selling shareholders constitutes 15.17% of pre-offer equity share capital
- To achieve the benefits of share listing on the stock exchanges

Recommendation

Based on FY20 consolidated numbers, the issue is priced at a P/E of 6.9x. (based on upper price band) at diluted EPS of FY20 which is priced fairly among its peers. Defence manufacturing has huge potential in the long run and with sector liberalization, the company may have some concerns in the long run but not in the medium term. we recommend **SUBSCRIBE** over the issue for a long term perspective.

Source: Red Herring Prospectus, Dealmoney Research

A Mini –Ratna – I Status company

- ❑ Incorporated on February 26, 1934, Mazagon Dock Shipbuilders Limited (“MDL”), conferred with the 'Mini-ratna-I' status, is a defence public sector undertaking shipyard under the Department of Defence Production, Ministry of Defence (“MoD”), 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. The shipyard builds warships and conventional submarines at its facilities in Mumbai and Nhava. Major customers for the shipyard include Indian Navy and Coast Guard.
- ❑ The business divisions in which it operates are (i) shipbuilding and (ii) submarine and heavy engineering. Its shipbuilding division includes the building and repair of naval ships. Its submarine and heavy engineering division includes building, repair and refits of diesel electric submarines.
- ❑ Some of the vessels built and delivered 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 for use by the Indian Navy and constructed and delivered seven offshore patrol vessels to the Indian Coast Guard. It has fabricated and delivered jackets, main decks of wellhead platforms, process platforms and jack up rigs, etc.
- ❑ Its shipyard is strategically located on the west coast of India, on the sea route connecting Europe, West Asia and the Pacific Rim, a busy international maritime route. It is headquartered in Mumbai which is also the headquarters of the Western Naval Command of the Indian Navy. It is 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.
- ❑ Company has posted profits continuously in the last four Fiscals. Its total income was ₹42,748.63 million, ₹50,276.29 million, ₹52,046.74 million and ₹55,353.07 million for Fiscals 2017, 2018, 2019 and 2020 respectively. Its profit for the year was ₹5,982.58 million, ₹4,961.73 million, ₹5,324.74 million and ₹4,770.59 million for Fiscals 2017, 2018, 2019 and 2020 respectively.

Source: Red Herring Prospectus, Dealmoney research

Strengths

- ❑ **Only public sector defence shipyard constructing conventional submarines:** Company is primarily engaged in the defence shipbuilding segment catering to the needs of the MoD. It is India's only shipyard to have built destroyers and conventional submarines for the Indian Navy. In the past it has constructed two SSK submarines, modernized and refitted four SSK submarines. this has enhanced its capability of handling construction of conventional submarines. It has also entered into a technology transfer agreement with Naval Group, France for Scorpene submarines which are currently manufactured by it.
- ❑ **World class infrastructure capable of serving the requirements of the Ministry of Defence:** Infrastructure and facilities available at its shipyard combined with vast expertise give it a significant edge over its domestic peers. Its 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 its shipbuilding division.
- ❑ **Location of its facilities promotes closer association with our vendors and customers:** Its 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. Its customers, being the MoD and Indian Coast Guard and its vendors are based in Mumbai which results in closer co-ordination and greater efficiencies.
- ❑ **Increase in indigenisation of our vessels and implementation of the "Make in India" campaign:** It intends to increase the quantum of indigenised components for our warships and submarines in order to give an impetus to the GoI's "Make in India" campaign. In order to address these issues, a dedicated department of indigenisation was set up in November 2015 alongwith a "Make in India" webpage to boost the Make in India campaign. The entire indigenisation process and the list of systems, equipment and items alongwith the necessary technical details which are to be indigenised have been identified.
- ❑ **Experienced board and senior management team and skilfully trained workforce:** It has a diversified Board with directors having several years of experience in the shipbuilding as well as submarine division and each of its senior management team is experienced in the industry and have been with Company for an average of more than two decades. It also has a large pool of experienced naval architects, engineers and draftsmen.

Future road ahead

- ❑ **Export of our products to the international markets:** It is in the process of reviving the exports of its defence and commercial products to Latin America, Africa, South East Asia, Middle East and Scandinavian regions and have identified certain defence and civil sectors in such regions. For this purpose, it has entered into agency agreements with sales agents in order to procure customers for its products which it propose to sell in the identified markets of Europe, Far East, South East Asia, Middle East, Indian Ocean Rimcountries, Latin America and Africa regions.
- ❑ **Focus on ship repair:** Its shipbuilding and submarine contracts have a long gestation period. Its revenues under these contracts are dependent on achievement of certain milestones. In order to diversify its revenue streams, it intend to increase its ship repair activities in the future as such activites are for a shorter period of time and result in the early booking of revenues.
- ❑ **Augmentation of infrastructure and enhancing its manufacturing capacity:** It is currently undertaking capital expenditure for its submarine and heavy engineering division by way of construction of the submarine launch facility and blasting painting chamber. The submarine launch facility which is currently being constructed will enable it to execute future submarine orders. It is also leveraging the latest construction methods in order to speed up the construction of its warships. They are exploring options to develop a greenfield shipyard at Nhava, Navi Mumbai to cater to its existing and future customers in the domestic and international markets.

Current Order Book

Particulars	Nos.	Client Value (₹ million)
Shipbuilding		
P15B Destroyers	4 MoD	2,63,850
P17A Stealth Frigates	4 MoD	2,36,490
Repair, refit and services of a ship	1 MoD	110
Submarine and heavy engineering		
P75 Scorpene Submarines	4 MoD	32,020
Medium Refit and Life Certification (MRLC) of a submarine	1 MoD	8,270
Total Order Book		5,40,740

Source: Red Herring Prospectus, Dealmoney research

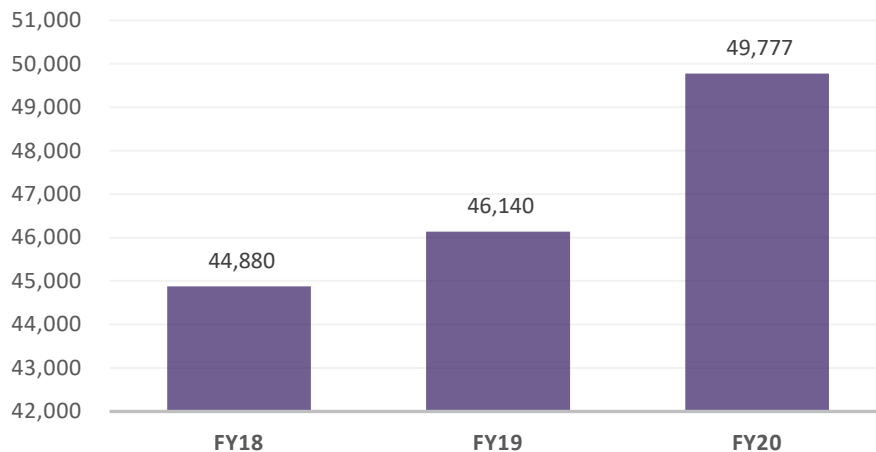
COMPARISON WITH LISTED INDUSTRY PEERS (AS ON 31ST MARCH 2020)

Company	Consolidated/ Unconsolidated	Face Value	EPS (Basic)	NAV	P/E ~	RoNW (%)
Mazagon Dock Shipbuilders Limited*	Consolidated	10	21.36	152.17	[.]	15.54%
Cochin Shipyard Limited**	Consolidated	10	48.05	283.02	7.6	16.98%
Reliance Naval and Engineering Limited**	Consolidated	10	-23.87	-165.1	NA	NA
Garden Reach Shipbuilders & Engineers Limited**	Unconsolidated	10	14.27	90.81	14.91	7.01%

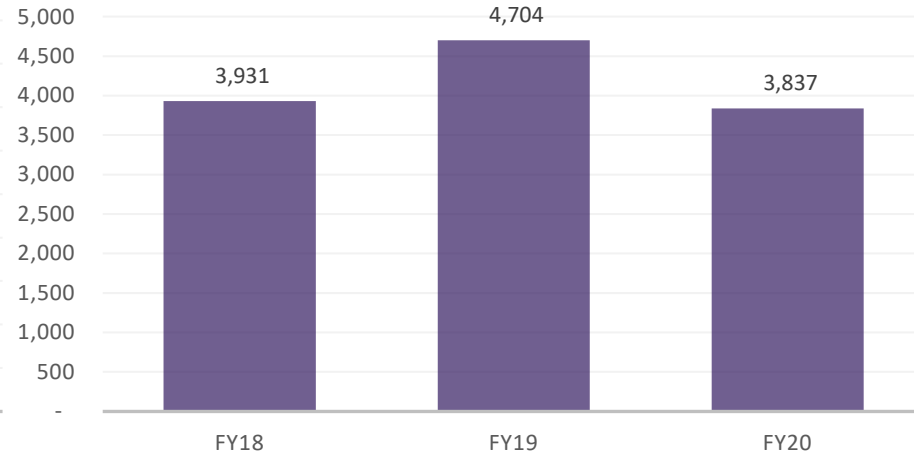
P/E figures for the peer is computed based on closing market price as on August 27, 2020 as available at BSE website

Financial Performance

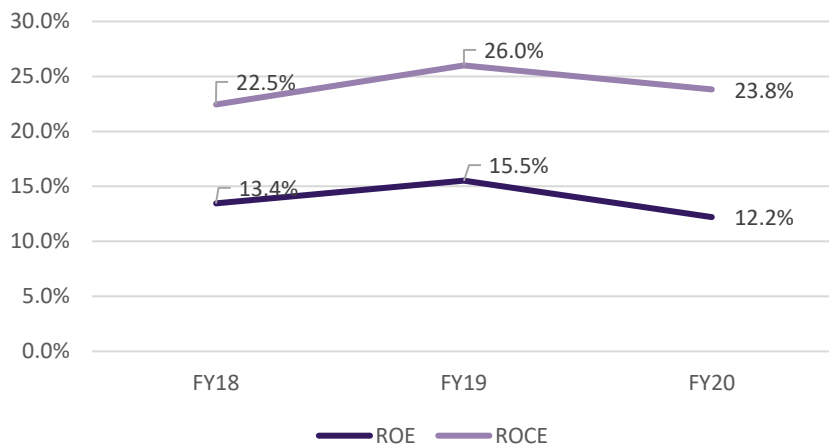
Revenue (Rs. Mn)



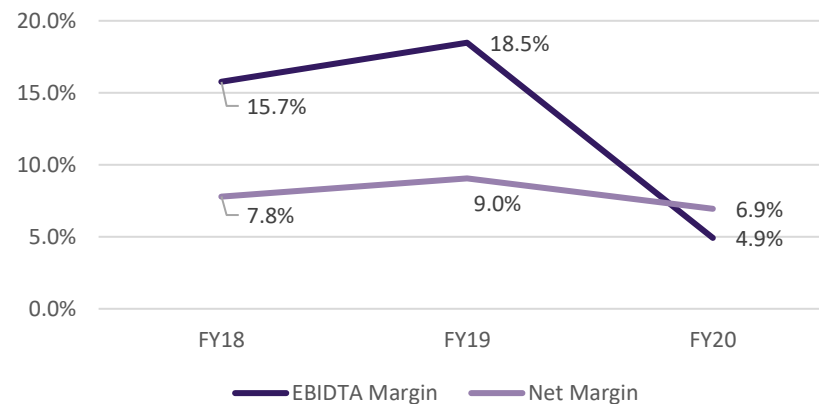
PAT (Rs. Mn)



Return Ratios



Margins



Summary Financials

Income Statement

Rs. mn	FY18	FY19	FY20
Total Income	44,879.9	46,139.6	49,776.5
Operating Expense	43,398.7	43,526.5	47,058.6
EBIDTA	1,481.1	2,613.1	2,717.9
Depreciation	502.2	643.3	686.8
Other Income	5,586.5	5,907.2	5,576.6
Finance Costs	68.0	95.8	130.8
PBT	6,497.5	7,781.1	7,476.9
Exceptional items	-	-	(123.2)
Profit before tax	6,497.5	7,781.1	7,353.7
Provision for Tax	2,566.1	3,077.3	3,516.8
Profit for the year	3,931	4,704	3,837

Rs. mn	FY18	FY19	FY20
EBIDTA Margin	15.7%	18.5%	4.9%
Net Margin	7.8%	9.0%	6.9%
ROE	13.4%	15.5%	12.2%
ROCE	22.5%	26.0%	23.8%

Balance Sheet

Rs mn	FY18	FY19	FY20
Liabilities			
Share capital	2,241	2,241	2,017
Share Warrants & Outstandings	-	-	-
Minority Interest	-	-	-
Reserves and surplus	26,215	29,928	28,674
Deferred tax liabilities(Net)	(5,444)	(5,820)	(4,117)
Long Term Trade Payables	159	158	156
Other Long Term Liabilities	1,604	1,934	2,055
Long term provisions	22,062	21,056	19,941
Other financial liabilities	-	-	-
Trade payables	23,911	29,173	47,708
Other current liabilities	1,25,867	1,32,087	1,15,632
Short term borrowings	-	-	-
Short Term Provisions	1,201	982	1,268
Total Liabilities	1,97,816	2,11,738	2,13,334
Assets			
Net Block	6,464	8,103	8,484
Capital Work in Progress	854	888	800
Investments	4,291	4,307	4,842
Loans & Advances	12,203	11,250	10,297
Other Non Current Assets	3,606	6,412	8,029
Currents Investments	-	-	-
Inventories	37,860	37,903	46,227
Trade receivables	11,089	14,729	14,588
Cash and cash equivalents	71,896	74,697	57,983
Loans & Advances	40,915	41,981	59,718
Other current assets	8,639	11,469	2,367
Total Assets	1,97,816	2,11,738	2,13,334

Source: Red Herring Prospectus, Dealmoney research

Key Risks

- ❑ Subdued economic activities post Covid19 led lockdown
- ❑ Unfavorable change in defence procurement policy and lower defence budget
- ❑ Project execution delay
- ❑ Increased competition
- ❑ Difficulty in maintaining the profitability

Source: Red Herring Prospectus, Dealmoney research

Dealmoney Securities Private Limited

Plot No. A356/357, Road No.26,Wagle Industrial Estate, Thane (West), Maharashtra - 400 604.

Disclaimer:

Dealmoney Securities Private Limited (hereinafter referred to as "Dealmoney") is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited and MCX Stock Exchange Limited. Dealmoney is also registered as a Depository Participant with CDSL. Dealmoney is in the process of making an application with SEBI for registering it as a Research Entity in terms of SEBI (Research Analyst) Regulations, 2014. Dealmoney or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities Market and no material disciplinary action has been taken by SEBI/other regulatory authorities impacting Dealmoney's Equity Research Analysis. Dealmoney or its associates/analyst including its relatives do not hold any actual/beneficial ownership of more than 1% in the company/ies covered by Analyst (hereinafter referred to as "Subject Company/ies"). Dealmoney or its associates/analyst including its relatives may hold financial interest in the company/ies covered by Analyst (hereinafter referred to as "Subject Company/ies"). Dealmoney or its associates/analysts or his/her relative does not receive any compensation or other benefits from the subject company/ies mentioned in this research report (hereinafter referred to as "Report") or from a third party in connection with preparation of the report. Accordingly, Dealmoney or its associates/analyst or his/her relative does not have any other material conflict of interest at the time of publication of the Report.

Research analyst/s engaged in preparation of the Report, has not received any compensation / managed or co-managed public offering of securities of the subject company/ies / has not received compensation for investment banking or merchant banking or brokerage services from the subject company/ies / has not received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company/ies / has not received compensation or other benefits from the subject company/ies or third party in connection with the Report of the subject company/ies during the past twelve months / has not served as an officer, director or employee of subject Company/ies and is not engaged in market making activity of the subject Company/ies.

Dealmoney or its associates are engaged in various financial services business, thus, it might have, received any compensation / managed or co-managed public offering of securities of the subject company/ies / received compensation for investment banking or merchant banking or brokerage services from the subject company/ies / received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company/ies / received compensation or other benefits from the subject company/ies or third party in connection with the Report of subject company/ies during the past twelve months engaged in market making activity for the subject company/ies.

In the preparation of the material contained in the Report, Dealmoney has used information that is publicly available, as also data developed in-house. Some of the material used in the document may have been obtained from members/persons other than Dealmoney and which may have been made available to Dealmoney. Information gathered & material used in the Report is believed to be from reliable sources. Dealmoney has not independently verified all the information and opinions given in this material/document/Report. Accordingly, no representation or warranty, express or implied, is made as to the accuracy, authenticity, completeness or fairness of the information and opinions contained in this material/document/Report. For data reference to any third party in this material no such party will assume any liability for the same.

Dealmoney group companies provides finance related product services like distribution of financial products and as such is a provider of many services like loans, mutual funds, tax & trust planning etc. mentioned in this brochure. And hence, Dealmoney do not warranty / guarantee about performance of any products and customer servicing w.r.t third party products per se.

Third party products are subject to code of conduct to be adhered to by the representatives of Dealmoney and Dealmoney is not responsible for the losses, whether actual or notional incurred by any investor. Services assured and expected may vary from actual service and Dealmoney does not guarantee about the quality of services. Investments in securities and commodities are subject to market and other risks and there is no assurance or guarantee that the objectives of any of the Investments/Schemes/product would be achieved. Past performances are only indicative and returns are not assured and guaranteed by Dealmoney group companies. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments.

The recipient alone shall be fully responsible, and/or liable for any decision taken on the basis of this material/document/Report. Dealmoney does not in any way through this material solicit or offer for purchase or sale of any financial services, commodities, products dealt in this material/document/Report. Dealmoney/its affiliates/associates/directors shall not be in any way responsible for any loss or damage of any nature, including but not limited to direct, indirect, punitive, special, exemplary, and consequential, as also any loss of profit that may arise to any person/entity from or in connection with the use of information contained in this material/document/Report. All recipients of this material/document/Report before dealing and/or transacting in any of the products advised, opined or referred to in this material shall make their own investigation, seek appropriate professional advice and make their own independent decision. Noting contained in this material/document/Report should be construed as investment or financial advice. Clients are advised to assess their risk profile/ appetite before acting on any information contained in this material/document/Report. Investors should also refer to risk tag and compare it with its own risk appetite before taking any investment decision.

Information/ opinion conveyed through this material/document/Report are strictly meant for the registered Clients of Dealmoney group of Companies of the respective segments. This information is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Dealmoney or its affiliates to any registration requirement within such jurisdiction or country. This information does not constitute an offer to sell or a solicitation of an offer to buy any financial products to any person in any jurisdiction where it is unlawful to make such an offer or solicitation. No part of this material may be duplicated in whole or in part in any form and / or redistributed without the prior written consent of Dealmoney. This material/document/Report is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on directly or indirectly.

For any grievance mail at compliance@Dealmoney.com

<http://www.nseindia.com/ChartApp/install/charts/mainpage.jsp>, www.bseindia.com and <http://economicstimes.indiatimes.com/markets/stocks/stock-quotes>. (Choose a company from the list on the browser and select the "three years" period in the price chart).

Recipients of the Report shall always independently verify reliability and suitability of the Report and opinions before investing.

For Company details, please visit our website www.Dealmoneyonline.com

For research related query, write to us at research@Dealmoney.in