

Mazagon Dock Shipbuilders Ltd.
SECTOR Shipping
Issue Highlights

Issue Open	September 29, 2020
Issue Close	October 1, 2020
Issue Price	Rs. 135 - Rs. 145 per share
Total Issue Size	Rs. 413 - Rs. 444 Cr
Of which	
Offer for sale	3.1 Cr shares
Face Value	Rs. 10/share
Market Lot	103 Equity Shares
Issue Type	Book Built Issue

Offer Structure

QIB Category	50%
Retail category	35%
Non-Institutional	15%

Lead Book Running Managers

- Yes Securities Ltd
- Axis Capital Ltd
- Edelweiss Financial Services Ltd
- IDFC Securities Ltd
- JM Financial Ltd

Registrar To The Offer

- Alankit Assignments Ltd

About the Company

Mazagon Dock Shipbuilders Ltd (MDSL) is a defence public sector undertaking shipyard company under the Department of Defence Production, Ministry of Defence (MoD). The company has a maximum shipbuilding and submarine capacity of 40,000 Dead weight tonnage (DWT) (Source: CRISIL Report). Further it is 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 Government of India (GoI) company, conferred with the 'Mini-ratna-I' status in 2006, by the Department of Public Enterprises. They are India's only shipyard to have built destroyers and conventional submarines for the Indian Navy. Also one of the initial shipyards to manufacture Corvettes (Veer and Khukri Class) in India (Source: CRISIL Report).

They operate in two business divisions such as (i) shipbuilding and (ii) submarine and heavy engineering. Its shipbuilding division includes the building and repair of naval ships. Since 1960, MDSL has built a total of 795 vessels including 25 warships, from advanced destroyers to missile boats and three submarines. Also, they have delivered cargo ships, passenger ships, supply vessels, multipurpose support vessels, water tankers, tugs, dredgers, fishing trawlers, barges and border outposts for various customers in India as well as abroad (Source: CRISIL Report).

Objects of the Issue

- To carry out the disinvestment plan of 3.1 cr equity shares by selling shareholders constitutes 15.17% of pre-offer equity share capital.
- To achieve the benefits of listing the equity shares on the stock exchanges

Valuation

Over the past few decades, the shipbuilding industry manufacturing has been shifted from Europe to Asia, due to favorable factors such as cheap labour, competitive manufacturing and steel-making sectors, as well as state support. The global shipbuilding industry comprises construction and modification of ships, offshore vessels and rigs while the domestic shipbuilding industry primarily caters to two sub-segments such as the Indian Navy and Indian Coast Guard. Further the Indian shipbuilding industry includes both public and private sector players which helps in achieving growth for the sector. Indian government too have encouraged growth for defence shipbuilding sector by increasing FDI in the sector, indirect tax incentives and by setting investment & infrastructure fund.

Public sector shipyards dominate the shipbuilding industry in India (in terms of revenue) mainly due to their capabilities in building of Defence vessels, which are complex and costlier compared to commercial vessels. In addition, the majority of orders of ships for clients engaged in the defence sector have been placed with the public-sector shipyards and MDSL is the largest beneficiary of such orders. Further we believe the company is well placed as it's the only public sector player for manufacturing defence submarines, strong and experienced management, infrastructure capabilities to fulfill requirements and lastly MDSL is strategically located in Mumbai thus this gives a competitive advantage over its peers. Besides it has strong financial as well as order book which would help it to further strengthen its position in the long run. On valuation front, MDSL is valued at a P/E of 6.1x FY20 EPS, discount over its peers. Going forward, we remain positive on the company's growth and so investors having long term view can subscribe to the issue.

Strength & Strategies

Only public sector defence shipyard constructing conventional submarines: MDSL is primarily engaged in the defence shipbuilding segment catering to the needs of the MoD. They are India's only shipyard to have built destroyers and conventional submarines for the Indian Navy according to the CRISIL report. Also they have in the past constructed two SSK submarines, modernized and refitted four SSK submarines, this has helped to enhanced its capability of handling construction of conventional submarines. Further they have entered into a technology transfer agreement with Naval Group, France for Scorpene submarines. As of date, they have manufactured and delivered two of the Scorpene submarines, INS Kalvari and INS Khanderi to the MoD. Along with the Naval Group the company have trained workforce in relation to the construction of such submarines. The company's personnel association with submarine construction process are now adept with the nuances of submarine technology.

World class infrastructure capable of serving the requirements of the Ministry of Defence: The infrastructure and facilities available at shipyard division as well as their expertise in the same, gives the company a significant edge over its domestic peers. Currently, the facilities comprise of 3 dry docks, 2 wet basins, 3 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 shipbuilding division. Further its 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, 1 dry dock and submarine section assembly shop. Both of its shipbuilding and submarine divisions are ISO 9001:2015 certified. The company had undertaken 'Mazdock Modernization Project' and post completion, the capacity of outfitting warships increased from 8 warships to 10 warships since 2014 and submarine capacity has increased from 6 submarines to 11 submarines since 2016 (Source: CRISIL Report). Along with this the company also has a shore integration facility and have constructed a submarine assembly workshop.

Strategic location of facilities aids to closer association with vendors and customers: MDSL 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. Further, a majority of their subcontractors are based in and around Mumbai which provides with an ease of access to labour. Hence, the location of MDSL facilities provides a strategic competitive advantage over its peers.

Increasing presence and exports to the international markets: At present the company, primarily cater to the defence sector in India. However, they are in the process of reviving the exports of 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. Further, they have entered into agency agreements with sales agents in order to procure customers in the markets of Europe, Far East, South East Asia, Middle East, Indian Ocean Rimcountries, Latin America and Africa regions. This will help in to increase presence globally by establishing an international marketing team to identify potential markets for business growth.

Focus on enhancing manufacturing capacity: Currently MDSL is undertaking capital expenditure for its submarine division by way of construction of the submarine launch facility and blasting painting chamber and this will enable to execute future submarine orders. In order to speed up the construction of warships, the company is leveraging the latest construction methods. Also they are exploring options to develop a greenfield shipyard at Nhava, Navi Mumbai which will help to cater their existing and future customers in the domestic and international markets. They are too planning to dredge the water front to a depth of 3.5 meters below chart datum and create a navigation channel from Angre wet basin to the offshore container terminal of MbPT which will enable to move the vessels without depending on the tidal conditions throughout the year. In addition they are exploring to acquire additional land adjacent to company's property for setting up of new facilities. As a result, augmentation of existing facilities and developments of future facilities will enable MDSL to deliver products on or before the scheduled date of delivery.

Diversify into ship repair: Shipbuilding and submarine contracts of the company has a long gestation period and its revenues under these contracts are dependent on achievement of certain milestones. In order to diversify its revenue streams, the company plans to increase its ship repair activities in the future as it would result in the early booking of revenues and further it would help generate more revenues, increase client base and reduce its dependency on the MoD for future orders. Also, they are 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 which will be suitable for construction and repair of warships and commercial ships with larger dimensions. Thus, the revival of its ship repair operations will result in augmentation of revenues and profitability.

Key Risks

- Defence orders are largely dependent on Ministry of Defence and in future there is no assurance that orders will be awarded to the company.
- Entire business operations are based out of a single yard at Mumbai. Also expansion is limited, due to lack of additional space. So any loss, destruction, or shutdown of operations could impact the business.
- Any delays in procurement, nomination or any other decision making by customers and collaborators may result in time and cost overruns in completion of the project in shipbuilding and submarine division, which may effect financials and business of the company.
- Further deterioration of economic condition due to Novel Coronavirus could have potential impact on the business performance.

Financial Performance

Profit & Loss Account

Particulars (Rs Crs)	FY17	FY18	FY19	FY20
Net revenue	3,519	4,470	4,614	4,978
Cost of materials consumed	2,140	2,693	2,557	2,503
Procurement of base and depot spares	35	92	608	362
Employee benefits expense	729	886	689	793
Sub-contract	110	323	176	744
Power and fuel	26	23	19	17
Project related expense	142	151	81	114
Others expense	152	130	183	138
Provisions	59	19	39	39
Total expense	3,393	4,316	4,353	4,710
EBITDA	126	155	261	268
EBITDA margin %	3.6	3.5	5.7	5.4
Depreciation, amortization and impairment	42	52	64	69
EBIT	84	102	196	199
Other income	756	557	591	558
Finance costs	9	9	9	9
PBT before exceptional	831	650	778	748
Exceptional	-	-	-	12
PBT after exceptional	831	650	778	735
Tax	288	257	308	352
PAT	543	394	470	384
Share of profit/loss of associate	55	103	62	93
PAT	598	496	532	477
PAT Margin %	17.0	11.1	11.5	9.6
Calculated EPS	24.0	22.1	23.8	23.7

Source: Company Data, RHP

Financial Performance

Balance Sheet

Particulars (Rs Crs)	FY17	FY18	FY19	FY20
Equities and Liabilities				
Shareholders' funds				
Equity Share capital	249	224	224	202
Other Equity	2741	2610	2993	2867
Total Equity	2,990	2,834	3,217	3,069
Non-current liabilities				
Trade payables	16	16	16	16
Others	39	37	36	36
Other long-term liabilities	167	160	158	169
Long-term provisions	1212	1206	1198	1215
	1434	1419	1407	1436
Current liabilities				
Borrowings	926	2391	2917	4771
Others	175	258	237	136
Contract liability	13760	12338	12950	11383
Other current liabilities	25	10	22	44
Short-term provisions	82	120	98	127
	14,967	15,117	16,224	16,461
Total Liabilities	19,391	19,370	20,848	20,966
Assets				
Non-current assets				
Property, Plant and Equipment	544	677	787	831
Capital work-in-progress	98	85	89	80
Other intangible assets	21	28	23	17
Financial assets				
Investments	384	429	431	484
Trade receivable	16	16	16	16
Loans	9	9	7	7
Other financial assets	3	3	144	153
Deferred tax assets (net)	507	552	582	412
Non-current tax assets (net)	181	207	193	226
Other non-current assets	139	320	499	652
Total of non-current assets	1,902	2,327	2,770	2,878
Inventories	4,029	3,786	3,790	4,623
Trade receivables	812	1,113	1,473	1,459
Cash	143	374	730	483
Bank balances	8,220	6,816	6,740	5,315
Loans	1	1	4	2
Others	148	111	221	178
Contract assets	1,163	738	901	55
Assets held for sale	0	0	2	0
Other current assets	2,974	4,106	4,216	5,973
	17,489	17,044	18,078	18,088
Total Assets	19,391	19,370	20,848	20,966

Source: Company Data, RHP

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[Please note that only in case of multiple RAs, if in the event answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) below , are given separately]

S. No.	Statement	Answer	
		Yes	No
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? [If answer is yes, nature of Interest is given below this table]		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
	I / we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		No
	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

Nature of Interest (if answer to F (a) above is Yes :

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Name(s) with Signature(s) of RA(s).

[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) above , are given below]

SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

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