

ICICI Securities Limited  
is the author and  
distributor of this report

## Q1FY22 result review

## Defence

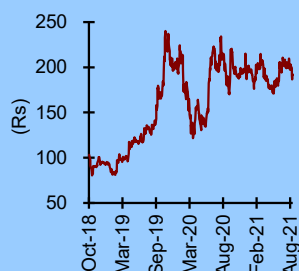
Target price: Rs255

## Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	74.5	74.5	74.5
Institutional investors	17.0	16.6	14.2
MFs and others	13.5	13.9	12.9
FIs / Banks	0.0	0.0	0.0
Insurance	2.5	1.7	0.2
FIIIs	1.0	1.0	1.1
Others	8.5	8.9	11.3

Source: BSE India

## Price chart

Garden Reach Shipbuilders & Engineers **BUY**

Maintained

**Rs191**

## Execution pickup expected in FY22E

Garden Reach Shipbuilders & Engineers (GRSE) reported a muted Q1FY22. The company has laid the keel of 3rd survey vessel large (SVL) and 1st ASWSWC. GRSE also started production of second and third ship (Yard 3030 & Yard 3031) of the eight ASWSWC project on 14th Jul,'21. Production has started of the Ocean Going Passenger cum Cargo Ferry Vessel for the Republic of Guyana. GRSE laid the keel of Fast Patrol Vessel. Further, the company bagged an order to build 06 Patrol Boats for Government of Bangladesh for US\$1.82mn. 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. Having modernized its infrastructure facilities, GRSE is in a position to construct 20 warships concurrently using advanced modular integrated shipbuilding technology. We maintain BUY with a target of Rs 255/share.

- **GRSE has laid the keel of 3<sup>rd</sup> survey vessel large (SVL) and 1<sup>st</sup> ASWSWC.** GRSE bagged both the contracts for construction of SVLs & ASWSWCs on competitive bidding and design for both has been accomplished by the in-house design team of GRSE. The survey vessel is the 3rd of the four ships being built by GRSE under the SVL project. The vessels are capable of full scale coastal & deep water hydrographic survey with their advanced survey equipment. The vessels are 110m long with a deep displacement of 3300te and accommodation of 231 personnel. This ASWSWC is the 1st of the eight vessels being built by GRSE. The ASWSWCs are designed for a deep displacement of 750te, speed of 25 knots and complement of 57 and capable of full scale sub surface surveillance of coastal waters, SAU and coordinated ASW operations with aircraft.
- **GRSE has started Production of the Ocean Going Passenger cum Cargo Ferry Vessel for the Republic of Guyana.** GRSE bagged the order for this vessel on competitive bidding, and the contract was signed with the Transport and Harbours Department of Govt. of Guyana, on 13 Jan 2021. Plate cutting signifies successful completion of pre-production activities and the same has been achieved amidst the Covid pandemic with its share of lockdowns & restrictions. This fuel efficient vessel has been designed for carrying passengers & cargo in the coastal and riverine area of northwest district of Guyana. The ship is designed to carry 276 passengers & 14 crew members along with 14 cars, 02 trucks, 10 containers and 04 refrigerated containers. GRSE was the first Indian Shipyard to export a warship, an OPV to Government of Mauritius in 2015. The shipyard delivered a fast patrol vessel to Government of Seychelles in CY21 and also bagged a contract from Bangladesh for six patrol boats, again on competitive bidding.

Market Cap	Rs21.9bn/US\$295mn
Reuters/Bloomberg	GRSE.BO/GRSE IN
Shares Outstanding (mn)	114.6
52-week Range (Rs)	234/170
Free Float (%)	25.5
FII (%)	1.1
Daily Volume (US\$/'000)	1,156
Absolute Return 3m (%)	3.5
Absolute Return 12m (%)	(16.2)
Sensex Return 3m (%)	14.6
Sensex Return 12m (%)	46.2

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 (%)	2.5	2.5	5.1	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

- **GRSE laid the keel of Fast Patrol Vessel.** This vessel is being constructed for Indian Coast Guard as a replacement for the recently exported FPV SCG PS Zoroaster, which was handed over to Govt. of Seychelles. GRSE also started production of second and third ship (Yard 3030 & Yard 3031) of the eight ASWSWC project on 14 Jul 2021. 'Start Production' is the first 'Milestone' in shipbuilding and signifies commencement of vessel construction after design engineering phase. The platforms will be packed with state-of-the-art weapons and sensors like hull mounted sonar, towed sonar, torpedo launchers and rocket launcher to interdict and destroy sub-surface targets in coastal waters.
- **GRSE bagged an order to build 06 Patrol Boats for sustainable coastal and marine fisheries project under Department of Fisheries, Government of Bangladesh for US\$1.82mn.** The order has been awarded to GRSE through an international competitive bidding where other international players from Europe and Asia were in the fray. The 13 m surveillance patrol boats for Marine Fisheries Surveillance Checkpost (MFSC), Government of Bangladesh will be used in surveillance activities, shallow water operation and patrolling fishing grounds day and night for illegal fishing gears & retrieval of survivors. The patrol crafts will be fitted with water jet drive, suitable for shallow water operation up to 0.6m.

**Table 1: Q1FY22 result review**

(Rs mn)	Q1FY22	Q1FY21	% Chg YoY	Q4FY21	% Chg QoQ
Sales	3,042	1,100	176.6	3,988	(23.7)
Cost of material consumed	1,603	337		1,442	
Purchase of products for Sale (BnD spares)	72	87		32	
Change in inventories	9	34		2	
<b>Gross Margin</b>	<b>1,358</b>	<b>642</b>	111.4	<b>2,513</b>	(46.0)
Gross Margin (%)	44.6	58.4		63.0	
Sub-contracting charges	400	182		547	
Employee benefit expenses	673	640	5.3	763	(11.8)
% of topline	22.1	58.2		19.1	
Other expenses -- Project related	32	100		385	
Other expenses	233	125		442	
Total Expenses	3,022	1,504	101.0	3,613	(16.4)
<b>EBITDA</b>	<b>20</b>	<b>(404)</b>	NM	<b>375</b>	(94.7)
Margins	0.7	(36.8)		9.4	
Other income	398	500	(20.3)	509	(21.8)
Depreciation	74	77		78	
Finance costs	3	1		22	
Exceptional Item	(77)				
<b>PBT</b>	<b>265</b>	<b>18</b>	1,399.4	<b>785</b>	(66.3)
Tax	59	16		205	
<b>PAT</b>	<b>206</b>	<b>1</b>	13,758.5	<b>580</b>	(64.5)
OCI	9	(25)		(19)	
TCI	215	(24)		561	

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
<b>EBITDA</b>	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								
<b>Value per share</b>	<b>255</b>								

\* 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 &amp; loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>Operating Income</b>	<b>14,333</b>	<b>11,408</b>	<b>28,960</b>	<b>55,675</b>
<b>Operating Expenses</b>	<b>13,929</b>	<b>10,688</b>	<b>26,421</b>	<b>47,741</b>
<b>EBITDA</b>	<b>404</b>	<b>721</b>	<b>2,539</b>	<b>7,934</b>
% 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
<b>Recurring PBT</b>	<b>2,239</b>	<b>2,071</b>	<b>4,169</b>	<b>9,848</b>
Less: Taxes	604	536	1,042	2,462
<b>Recurring Net Income</b>	<b>1,635</b>	<b>1,535</b>	<b>3,126</b>	<b>7,386</b>

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>Assets</b>				
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
<b>Net Current Assets</b>	<b>5,733</b>	<b>(631)</b>	<b>1,070</b>	<b>7,046</b>
<b>Net Fixed Assets</b>	<b>3,037</b>	<b>3,402</b>	<b>3,682</b>	<b>3,946</b>
Capital Work-in-Progress	515	1,513	1,513	1,513
Other non-current assets	1,213	7,143	7,143	7,143
<b>Total Assets</b>	<b>10,498</b>	<b>11,426</b>	<b>13,407</b>	<b>19,648</b>
<b>Liabilities</b>				
<b>Borrowings</b>	-	-	-	-
<b>Deferred Tax Liability</b>	<b>95</b>	<b>55</b>	<b>55</b>	<b>55</b>
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
<b>Net Worth</b>	<b>10,402</b>	<b>11,371</b>	<b>13,352</b>	<b>19,593</b>
<b>Total Liabilities</b>	<b>10,498</b>	<b>11,426</b>	<b>13,407</b>	<b>19,648</b>

Source: Company data, I-Sec research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>Operating Cashflow</b>	<b>1,659</b>	<b>361</b>	<b>1,496</b>	<b>5,472</b>
Working Capital Changes	4,619	4,851	(16,272)	(2,348)
Capital Commitments	(674)	(1,638)	(600)	(600)
<b>Free Cashflow</b>	<b>5,605</b>	<b>3,574</b>	<b>(15,376)</b>	<b>2,525</b>
<b>Investing Cashflow</b>	<b>3,123</b>	<b>(10,089)</b>	<b>2,000</b>	<b>2,300</b>
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
<b>Chg. in Cash</b>	<b>1,659</b>	<b>361</b>	<b>1,496</b>	<b>5,472</b>

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>Per Share Data (in Rs.)</b>				
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	5.0	10.0	10.0
Book Value per share (BVPS)	90.8	99.3	116.6	171.0
<b>Growth Ratios (%)</b>				
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
<b>Valuation Ratios (x)</b>				
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
<b>Operating Ratios (%)</b>				
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)
<b>Return/Profitability Ratios (%)</b>				
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

*This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92, Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet\_babbar@icicisecuritiesinc.com, Rishi\_agrawal@icicisecuritiesinc.com.*

*"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."*

*New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)*

BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

#### ANALYST CERTIFICATION

I/We, Abhijit Mitra, MBA (Finance), BE; authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

#### Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is SEBI registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on [www.icicibank.com](http://www.icicibank.com).

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit [icicidirect.com](http://icicidirect.com) to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.