

## Q1FY22 result review

## Defence

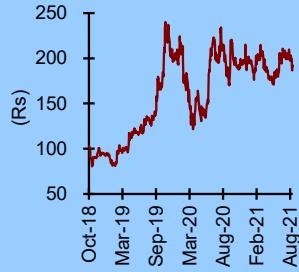
Target price: Rs255

## 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
FII	1.0	1.0	1.1
Others	8.5	8.9	11.3

Source: BSE India

## Price chart



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## INDIA

**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

- **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
<b>NOPAT</b>	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
<b>Total FCF</b>	(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%							
<b>NPV of FCFF (FY23E)</b>	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 & 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>				
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
<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)
Interest 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

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