

Bright prospects abound ahead!

- With healthy order backlog of Rs486bn (~10x TTM sales), MDL's top-line should see a significant uptick in FY23E/FY24E as P17A project's (stealth frigate) sales expected to ramp up in addition to peak execution of P15B project (destroyer). Post 2nd wave of pandemic, MDL's operations have normalized now & FY22E revenues are expected to be ~Rs50bn.
- Conversion of P75i submarine order (worth ~Rs430bn) would further provide impetus to growth visibility. Its ordering process has started & awarding is expected to conclude in CY23. Further, MDL's medium term prospects remain bright given the domestic / export tender pipeline of worth ~Rs350bn/ Rs60bn.
- We expect Revenue/EBITDA CAGR of 28%/51% over FY21-23E driven by i) sharp pick-up in execution, ii) better operating leverage, iii) traction in high margin repairing business and iv) minimal provisioning for liquidated damages. At CMP, the stock is attractively trading at 7.6x/6.2x FY22E/FY23E earnings respectively. Our estimates remain largely unchanged & we retain a 'Buy' rating with a TP of Rs377, valuing at 10x FY23E EPS.

Large OB provides strong revenue growth visibility

MDL has a huge order backlog of Rs486bn (~10x TTM sales), with finalization of P75i submarine order worth ~Rs430bn expected between FY23-FY24. MDL's management indicated that execution of P15B Destroyer (~45% of OB) & P17A Stealth Frigate (~44% of OB) projects are running largely as per the schedule with an expected delivery timeline of FY25/FY27 respectively. Management stated FY22E revenues will be around levels of FY20, with sharp uptick in revenues would be witnessed from FY23E onwards. Further, as execution gains pace, the majority of ships would be entering into peak phase of execution with turnover expected to be in the range of Rs80-100bn between FY24-25e. Furthermore, management remains optimistic about the repairing business gaining scale as the Indian Navy has decided not to take non-weapons-intensive ships for maintenance. Besides, all Scorpene submarines will require a short, medium, or normal refurbishment, which will be undertaken by MDL. Consequently, we expect revenue CAGR of 28% over FY21-23E.

FINANCIALS (Rs Mn)

Particulars	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	46,140	49,179	40,497	50,065	65,862
Growth(%)		6.6	(17.7)	23.6	31.6
EBITDA	2,608	2,597	2,239	3,158	5,091
OPM(%)	5.7	5.3	5.5	6.3	7.7
PAT	5,325	4,834	6,400	6,175	7,602
Growth(%)		(9.2)	32.4	(3.5)	23.1
EPS(Rs.)	26.4	24.0	31.7	30.6	37.7
Growth(%)		(9.2)	32.4	(3.5)	23.1
PER(x)	8.8	9.7	7.4	7.6	6.2
ROANW(%)	16.6	15.0	15.8	17.1	18.9
ROACE(%)	10.4	8.8	13.4	11.7	12.6

CMP	Rs 234		
Target / Upside	Rs 377 / 61%		
NIFTY	16,637		
Scrip Details			
Equity / FV	Rs 2,017mn / Rs 10		
Market Cap	Rs 47bn		
	USD 635mn		
52-week High/Low	Rs 296/ 192		
Avg. Volume (no)	20,00,100		
Bloom Code	MAZDOCKS IN		
Price Performance			
1M	3M	12M	
Absolute (%)	(9)	8	
Rel to NIFTY (%)	(15)	(2)	
Shareholding Pattern			
	Dec'20	Mar'21	Jun'21
Promoters	84.8	84.8	84.8
MF/Banks/FIs	1.2	0.8	0.5
FII	0.6	0.7	0.7
Public / Others	13.3	13.7	14.0

Company Relative to SENSEX



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Robust order pipeline over the next 3 years

MDL's order pipeline remains robust, with bids worth Rs350bn up for grabs, including i) New generation of Offshore Patrol Vessels (11 ships) worth Rs100bn, ii) New generation of Corvettes (7 ships) worth Rs230bn, and iii) High speed landing craft (6 ships), Polar research vessel (1 ship), Survey training vessel (1 ship), and Acoustic research vessel (1 ship) worth Rs20bn. Furthermore, MDL intends to participate in the Landing Platform Dock - 4 Ships (currently in the RFI stage), with a cost expected to be upward of Rs160bn.

MDL awaiting foreign OEM response for P-75i project

The RFP for the P-75i submarine (6 units) was released in July'21, with the deadline for submissions set for Nov'21. The P-75i project will be the first to be launched under the strategic partnership (SP) policy. As required by the RFP, foreign OEMs should develop a ToT program for submarines equipped with AIP technology (which gives submerged endurance for a longer period) and demonstrate this product to the Indian Navy. This is where foreign OEMs are facing challenges, as some of them are in the middle of developing AIP technology. As of now, MDL is currently awaiting a response from a foreign OEM so that it can align itself and submit a bid accordingly.

Exports can also contribute meaningfully in future

MDL had a significant share of exports until couple of years ago, but Naval orders forming a major part of OB, it did not enter the export markets. Going forward, management stated that it is focusing on regaining a presence in international markets. As part of this strategy, MDL is pursuing bids worth Rs60bn in the overseas market, including a Rs6-7bn bid for a floating dry dock in the Suez Canal, an Off-Shore Patrol Vessel for the Argentina Coast Guard, and Corvettes for the Philippine Navy. Going forward, MDL plans to leverage the cost differential while participating in European markets where the cost differential can be up to 2.5-3x in MDL's favor.

Minimal impact of exorbitant lease claim

Recently, Mumbai Port Trust (MPT) demanded Rs3bn from MDL for the extensive use of four plots owned by MPT, that had expired in 2006 and have since been used by MDL. The fact of the matter is that MPT was unable to raise a demand in the past because it did not have a land lease policy in place. Nonetheless, MDL has strongly contested this claim as exorbitant, and the matter is being discussed at the Ministry level between the Department of Defence Production and the Ministry of Ports, Shipping, and Waterways. MDL's management remains optimistic about this matter because it appears to be going in MDL's favor, as MPT's lease policy is expected to be revised with PSU in mind.

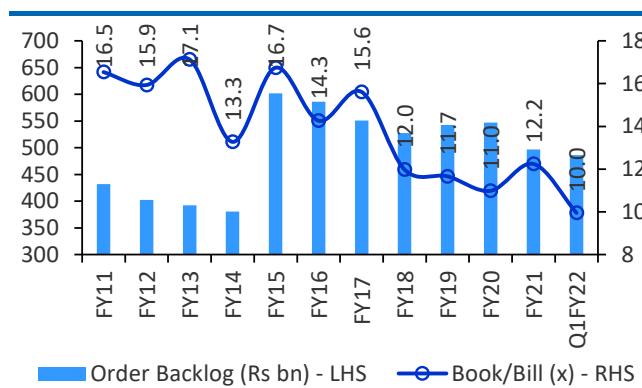
Strong core performance in Q1FY22

MDL reported robust revenue growth of 216% YoY at Rs12bn, 27% above DART estimate despite operational constraints caused by second wave of Covid. EBITDA came in at Rs702mn (20% above our estimates), compared to an Rs161mn in Q1FY21. MDL witnessed a margin expansion on 158bps YoY to 5.8% (broadly in line with the DART estimate of 6.1%). Adj. PAT stood at Rs1.1bn, up 6.5% YoY, 18% below the DART estimate as other income dropped by 10% YoY (-25% vs DART estimates).

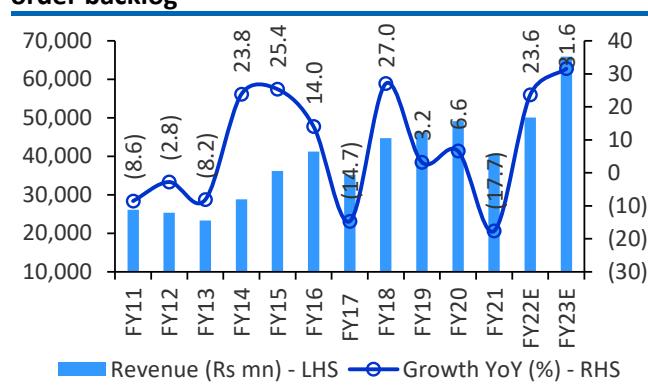
Exhibit 1: Change in estimates

Particulars (Rs mn)	New Estimates		% Change		Old Estimates	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Sales	50,065	65,862	4	0	48,065	65,862
EBITDA	3,158	5,091	0	(0)	3,145	5,101
PAT	6,175	7,602	0	(0)	6,165	7,609
EPS	30.6	37.7	0	(0)	30.6	37.7
EBITDAM (%)	6.3	7.7	(24)	(1)	6.5	7.7

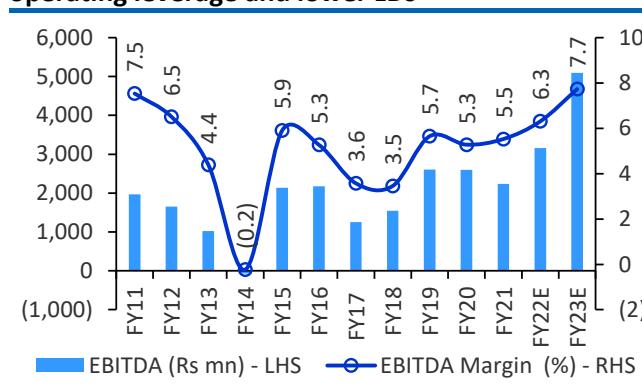
Source: DART, Company

Story in charts
Exhibit 2: Robust order backlog of Rs486bn


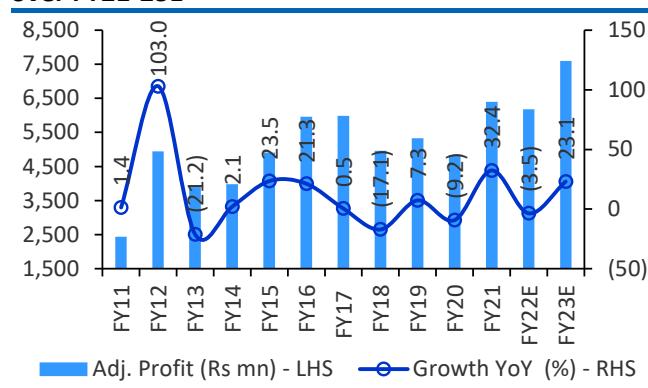
Source: DART, Company

Exhibit 3: Revenue expected to increase at a CAGR of 28% over FY21-23E driven by robust execution of order backlog


Source: DART, Company

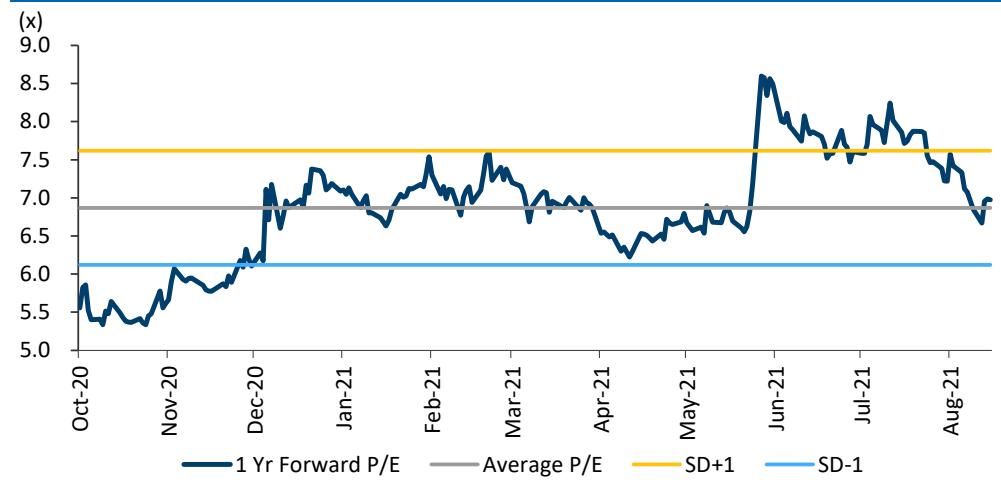
Exhibit 4: Resilient EBITDA margin driven by better operating leverage and lower LDs


Source: DART, Company

Exhibit 5: Adj. PAT expected to grow at a CAGR of 9% over FY21-23E


Source: DART, Company

Exhibit 6: The stock is trading at a 1-yr fwd PE of 7.0x



Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
Revenue	49,179	40,497	50,065	65,862
Total Expense	46,583	38,258	46,907	60,771
COGS	35,587	28,574	35,696	47,750
Employees Cost	7,929	6,546	7,332	7,919
Other expenses	3,067	3,137	3,879	5,103
EBIDTA	2,597	2,239	3,158	5,091
Depreciation	688	597	645	658
EBIT	1,909	1,643	2,513	4,433
Interest	93	84	80	80
Other Income	5,582	5,741	4,700	4,500
Exc. / E.O. items	(123)	(1,261)	0	0
EBT	7,275	6,039	7,133	8,853
Tax	3,498	1,504	1,797	2,231
RPAT	4,710	5,139	6,175	7,602
Minority Interest	0	0	0	0
Profit/Loss share of associates	934	604	840	980
APAT	4,834	6,400	6,175	7,602

Balance Sheet

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
Sources of Funds				
Equity Capital	2,017	2,017	2,017	2,017
Minority Interest	0	0	0	0
Reserves & Surplus	28,582	32,305	36,010	40,572
Net Worth	30,599	34,322	38,027	42,589
Total Debt	0	0	0	0
Net Deferred Tax Liability	14,059	9,086	11,233	14,777
Total Capital Employed	44,658	43,408	49,260	57,366

Applications of Funds

Net Block	8,484	8,068	8,223	8,565
CWIP	800	802	802	802
Investments	19,247	21,516	22,016	22,516
Current Assets, Loans & Advances	1,80,877	2,20,117	2,34,940	2,51,038
Inventories	46,227	57,980	61,724	72,178
Receivables	14,485	9,825	12,345	16,240
Cash and Bank Balances	57,983	80,279	85,430	86,834
Loans and Advances	0	0	0	0
Other Current Assets	62,182	72,034	75,440	75,786
Less: Current Liabilities & Provisions	1,64,749	2,07,095	2,16,720	2,25,555
Payables	47,439	62,867	65,839	72,178
Other Current Liabilities	1,17,311	1,44,228	1,50,881	1,53,377
<i>sub total</i>				
Net Current Assets	16,128	13,023	18,220	25,483
Total Assets	44,658	43,408	49,260	57,366

E – Estimates

Important Ratios

Particulars	FY20A	FY21A	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	27.6	29.4	28.7	27.5
EBIDTA Margin	5.3	5.5	6.3	7.7
EBIT Margin	3.9	4.1	5.0	6.7
Tax rate	48.1	24.9	25.2	25.2
Net Profit Margin	9.6	12.7	12.3	11.5
(B) As Percentage of Net Sales (%)				
COGS	72.4	70.6	71.3	72.5
Employee	16.1	16.2	14.6	12.0
Other	6.2	7.7	7.7	7.7
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	20.6	19.6	31.4	55.4
Inventory days	343	523	450	400
Debtors days	108	89	90	90
Average Cost of Debt				
Payable days	352	567	480	400
Working Capital days	120	117	133	141
FA T/O	5.8	5.0	6.1	7.7
(D) Measures of Investment				
AEPS (Rs)	24.0	31.7	30.6	37.7
CEPS (Rs)	27.4	34.7	33.8	41.0
DPS (Rs)	13.0	7.2	12.2	15.1
Dividend Payout (%)	54.2	22.8	40.0	40.0
BVPS (Rs)	151.7	170.2	188.5	211.2
RoANW (%)	15.0	15.8	17.1	18.9
RoACE (%)	8.8	13.4	11.7	12.6
RoAIC (%)	(9.1)	(6.5)	(6.9)	(13.5)
(E) Valuation Ratios				
CMP (Rs)	234	234	234	234
P/E	9.7	7.4	7.6	6.2
Mcap (Rs Mn)	47,105	47,105	47,105	47,105
MCap/ Sales	1.0	1.2	0.9	0.7
EV	(10,878)	(33,174)	(38,326)	(39,729)
EV/Sales	(0.2)	(0.8)	(0.8)	(0.6)
EV/EBITDA	(4.2)	(14.8)	(12.1)	(7.8)
P/BV	1.5	1.4	1.2	1.1
Dividend Yield (%)	5.6	3.1	5.2	6.5
(F) Growth Rate (%)				
Revenue	6.6	(17.7)	23.6	31.6
EBITDA	(0.4)	(13.8)	41.0	61.2
EBIT	(2.8)	(14.0)	53.0	76.4
PBT	(6.5)	(17.0)	18.1	24.1
APAT	(9.2)	32.4	(3.5)	23.1
EPS	(9.2)	32.4	(3.5)	23.1

Cash Flow

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
CFO	(955)	682	6,775	2,400
CFI	4,537	3,483	847	2,044
CFF	(6,046)	(1,598)	(2,470)	(3,041)
FCFF	3,631	4,231	7,681	4,504
Opening Cash	74,697	57,983	80,279	85,430
Closing Cash	57,983	80,279	85,430	86,834

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



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