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India | Equity Research | Q4FY24 results review

Garden Reach Shipbuilders

Defense

Impressive performance; upside capped

Garden Reach Shipbuilders' (GRSE) Q4FY24 revenue rose 69% YoY (up 10% QoQ). Key points: 1) EBITDA margins increased to 8.9% (5.3% in Q3FY24), while PBT margin rose to 15%, mainly due to increased EBITDA margin and higher other income. 2) The implied order book, as of Mar'24-end, stood at INR 218bn. 3) GRSE has received an order for a Trailing Suction Hopper Dredger in May'24 with an order value of USD 16.6mn. 4) Board has recommended a final dividend of INR 1.44/share, taking the total dividend payment to INR 9.36/share for the year. Going ahead, factoring in big-ticket orders of NGC (5 nos.) and NGD (2 nos.), we estimate EPS to persist in the range of INR 55–65/share through to FY32E. Maintain **SELL** with a DCF-based target price of INR 515 (earlier INR 500).

Impressive EBITDA performance

GRSE's has reported an impressive Q4FY24 EBITDA of INR 906mn (up 3.4x YoY) – better than our expectation. Key points: 1) Most of the ships (P 17 (A), SVL, ASW-SWC) are into peak revenue-booking phase; revenue is likely to peak out in FY26. 2) EBITDA margin has improved to 8.9% mainly due to – i) operating leverage advantage; ii) higher gross margins; and iii) QoQ decline in subcontracting charges as a percentage of revenue. 3) Other income was largely stable at INR 7.6bn (INR 7bn in Q4FY23). 4) GRSE received an order of a Trailing Suction Hopper Dredger in May'24 with an order value of USD 16.6mn. 5) It expects order inflow of INR 10–15bn in H1FY25. 6) Projects worth INR 650–660bn are at RFP stage; expected in FY25. Further, the potential order funnel remains strong, which comprises: 1) Five next-gen survey vessels (RFP expected in Q2FY25 months; INR 30bn). 2) 21 waterjet FGTs (RFP expected by CY24; ~INR 25bn). 3) Eight next-gen corvettes (RFP is expected by June/July'25; INR 360bn). 4) Five ocean-going patrol vessels; RFP expected shortly. 5) Two multipurpose vessels for IN, order value expected at ~INR 12bn. Further, GRSE expects export opportunities from Bangladesh, Sri Lanka and Guyana.

Diversifying its revenue stream

Management, in its recent interaction, mentioned that they are focusing on various revenue streams to maintain growth momentum. These include: 1) Ship repair – revenue potential at INR 0.85– 1bn p.a. by end-CY25. 2) Autonomous platforms – currently under development with DRDO. 3) Commercial ship building – discussions underway with various European countries. 4) Potential from co-development of engine with Roll Royce.

Financial Summary

Y/E March (Rs mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	25,611	35,926	50,141	60,884
EBITDA	1,490	2,341	2,664	3,377
EBITDA Margin (%)	0.1	0.1	0.1	0.1
Net Profit	2,281	3,573	4,264	6,101
EPS (INR)	19.9	31.2	37.2	53.3
EPS % Chg YoY	0.2	0.6	0.2	0.4
P/E (x)	59.9	38.2	32.0	22.4
EV/EBITDA (x)	61.1	42.5	14.3	12.8
RoCE (%)	0.1	0.1	0.1	0.1
RoE (%)	0.2	0.2	0.3	0.3

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Market Data

Market Cap (INR)	137bn
Market Cap (USD)	1,640mn
Bloomberg Code	GRSE IN
Reuters Code	GRSE BO
52-week Range (INR)	1,236 /446
Free Float (%)	26.0
ADTV-3M (mn) (USD)	16.7

Price Performance (%)	3m	6m	12m
Absolute	46.4	48.1	149.5
Relative to Sensex	44.9	35.7	129.7

Earnings Revisions (%)	FY25E	FY26E
Revenue	0.0	0.0
EBITDA	(6.0)	(5.0)
EPS	(1.1)	12.3

Previous Reports

15-03-2024: [Q3FY24 concall update](#)

14-02-2024: [Q3FY24 results review](#)

Outlook: Revenue execution to peak out in FY26E; ordering uncertainty mars future prospects

We believe that GRSE has got significant growth prospects with potential orders for NGC and P-17B frigates in the near future. However, the timing and extent of involvement of GRSE in these contracts remains critical. We have witnessed delays in some of the recent ordering. While management is focusing on several growth vectors at the moment – exports, commercial ship building and other equipment such as naval guns – we believe that such initiatives are still nascent. Factoring in the best possible outcome for GRSE in NGC and P-17B frigate orders and other potential orders flowing in in time, we find EPS constrained between INR 60-70/share. Besides, the potential orders are expected to be on competitive bidding; hence, margins are expected to stay under pressure – though we are factoring in steady margin of 6-7%.

Maintain **SELL** with an unchanged TP of INR 515 (earlier INR 500/share) (DCF-based methodology). Our TP implies a P/E ratio of 10x on FY26E EPS, which is fair given the considerable uncertainties around future orders and current order book peaking out in FY26E.

Exhibit 1: Earnings Revision

(INR mn)	FY25E			FY26E		
	New	Old	% Chg	New	Old	% Chg
Sales	50,141	50,141	0.0	60,884	60,884	0.0
EBITDA	2,664	2,834	(6.0)	3,377	3,555	(5.0)
PAT	4,264	4,313	(1.1)	6,101	5,432	12.3

Source: I-Sec research

Exhibit 2: DCF valuation

(INR mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E
EBITDA	1,407	1,490	2,341	2,664	3,377	3,863	3,855	4,976	6,094	5,988	6,035
Tax	676	771	1,237	1,476	2,111	2,426	2,383	2,486	2,526	2,369	2,391
NOPAT	731	719	1,105	1,189	1,265	1,436	1,472	2,490	3,568	3,619	3,645
Working Capital Change	(117)	4,180	(8,521)	58,471	(9,865)	74,628	(19,085)	(33,776)	(33,556)	(6,975)	(2,309)
Capex	(548)	(423)	(481)	(600)	(600)	(600)	(600)	(600)	(600)	(600)	(600)
FCF	66	4,477	(7,897)	59,060	(9,200)	75,465	(18,213)	(31,886)	(30,587)	(3,956)	735
Terminal Value											10,658
Total FCF	66	4,477	(7,897)	59,060	(9,200)	75,465	(18,213)	(31,886)	(30,587)	(3,956)	11,393
Cost of Equity	11%										
WACC	10%										
Terminal Growth	3%										
NPV of FCFF	56,566										
Net Debt	(2,232)										
Net Equity value	58,798										
Value per share (INR)	515										

Source: Company data

Key risks

- Repeat order of Frigates
- Earlier than expected ordering of Corvettes and Destroyers
- Higher than expected order quantum of Corvettes and Destroyers

Exhibit 3: GRSE Q4FY24 performance review

(INR mn)	Q4FY24	Q4FY23	% Chg YoY	Q3FY24	% Chg QoQ	FY24	FY23	% Chg YoY
Sales	10,157	6,012	69.0	9,231	10.0	35,926	25,616	40.3
Cost of material consumed	4,661	3,315		5,460		20,604	14,952	
Purchase of BnD spares	1,377	286		214		1,971	1,121	
Change in inventories	39	37		-16		-61	47	
Gross Margin	4,081	2,373	72.0	3,574	14.2	13,413	9,495	41.3
Gross Margin (%)	40.2	39.5		38.7		37.3	37.1	
Sub-contracting charges	1,368	792	72.6	1,665	(17.9)	5,249	3,179	
Employee benefit expenses	944	832	13.5	863	9.4	3,489	3,169	10.1
% of top line	9.3	13.8		9.3		9.7	12.4	
Other expenses -- Project related	444	296		203		990	571	
Other expenses	419	248	69.2	356	17.9	1,342	1,085	
Total Expenses	9,252	5,807	59.3	8,744	5.8	33,585	24,125	39.2
EBITDA	906	204	343.0	487	85.9	2,341	1,490	57.1
Margins	8.9	3.4		5.3		6.5	5.8	
Other income	759	699	8.6	815	(6.9)	2996	2018	48.4
Depreciation	104	100		104		413	392	
Finance costs	33	40		11		115	65	
Exceptional Item	0	0		0		0	0	
PBT	1,528	763	100.3	1,187	28.8	4,809	3,052	57.6
Tax	408	210		304		1,232	771	
PAT	1,120	553	102.6	883	26.9	3,577	2,281	56.8
OCI	3	(28)		1		7	5	
TCI	1,123	525		884		3,584	2,287	

Source: I-Sec research, Company data

Exhibit 4: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	74.5	74.5	74.5
Institutional investors	9.3	8.9	9.5
MFs and others	5.3	5.3	5.3
FIs/Banks	0.7	0.7	0.7
Insurance	0.0	0.0	0.0
FIIIs	3.3	2.9	3.5
Others	16.2	16.6	16.1

Source: Bloomberg

Exhibit 5: Price chart

Source: Bloomberg

Financial Summary

Exhibit 6: Profit & Loss

(Rs mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	25,611	35,926	50,141	60,884
Operating Expenses	24,121	33,585	47,477	57,508
EBITDA	1,490	2,341	2,664	3,377
EBITDA Margin (%)	0.1	0.1	0.1	0.1
Depreciation & Amortization	392	413	405	397
EBIT	1,099	1,928	2,259	2,980
Interest expenditure	65	115	50	50
Other Non-operating Income	2,018	2,996	3,531	5,282
Recurring PBT	3,052	4,809	5,740	8,212
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	771	1,237	1,476	2,111
PAT	2,281	3,573	4,264	6,101
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	2,281	3,573	4,264	6,101
Net Income (Adjusted)	2,281	3,573	4,264	6,101

Source Company data, I-Sec research

Exhibit 7: Balance sheet

(Rs mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	98,951	94,458	1,57,648	1,62,377
of which cash & cash eqv.	45,615	37,203	98,598	93,486
Total Current Liabilities & Provisions	93,476	85,645	1,45,911	1,45,888
Net Current Assets	5,475	8,813	11,737	16,489
Investments	-	-	-	-
Net Fixed Assets	5,076	4,926	5,121	5,324
ROU Assets	-	-	-	-
Capital Work-in-Progress	60	248	248	248
Total Intangible Assets	-	-	-	-
Other assets	3,672	2,888	2,888	2,888
Deferred Tax Assets	-	-	-	-
Total Assets	14,283	16,874	19,993	24,948
Liabilities				
Borrowings	-	-	-	-
Deferred Tax Liability	145	140	140	140
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	1,146	1,146	1,146	1,146
Reserves & Surplus	12,993	15,589	18,708	23,663
Total Net Worth	14,138	16,734	19,853	24,808
Minority Interest	-	-	-	-
Total Liabilities	14,283	16,874	19,993	24,948

Source Company data, I-Sec research

Exhibit 8: Quarterly trend

(INR mn, year ending March)

	Jun-23	Sep-23	Dec-23	Mar-24
Net Sales	7,559	8,979	9,231	10,157
% growth (YOY)	30.4	31.7	32.1	69.0
EBITDA	461	488	487	906
Margin %	6.1	5.4	5.3	8.9
Other Income	706	715	815	759
Extraordinaries	-	-	-	-
Adjusted Net Profit	768	809	884	1,123

Source Company data, I-Sec research

Exhibit 9: Cashflow statement

(Rs mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	14,502	(7,069)	59,660	(8,600)
Working Capital Changes	13,621	(8,399)	58,471	(9,865)
Capital Commitments	(423)	(481)	(600)	(600)
Free Cashflow	14,080	(7,550)	59,060	(9,200)
Other investing cashflow	(16,240)	11,038	3,531	5,282
Cashflow from Investing Activities	(16,663)	10,557	2,931	4,682
Issue of Share Capital	-	-	-	-
Interest Cost	(53)	(115)	(50)	(50)
Inc (Dec) in Borrowings	3,000	(2,456)	-	-
Dividend paid	(727)	(987)	(1,146)	(1,146)
Others	-	-	-	-
Cash flow from Financing Activities	2,203	(3,575)	(1,196)	(1,196)
Chg. in Cash & Bank balance	43	(87)	61,395	(5,113)
Closing cash & balance	27,587	45,528	98,598	93,486

Source Company data, I-Sec research

Exhibit 10: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	19.9	31.2	37.2	53.3
Adjusted EPS (Diluted)	19.9	31.2	37.2	53.3
Cash EPS	23.3	34.8	40.8	56.7
Dividend per share (DPS)	5.8	7.0	10.0	10.0
Book Value per share (BV)	123.4	146.1	173.3	216.6
Dividend Payout (%)	29.1	22.4	26.9	18.8
Growth (%)				
Net Sales	0.5	0.4	0.4	0.2
EBITDA	0.1	0.6	0.1	0.3
EPS (INR)	0.2	0.6	0.2	0.4
Valuation Ratios (x)				
P/E	59.9	38.2	32.0	22.4
P/CEPS	51.1	34.3	29.3	21.0
P/BV	9.7	8.2	6.9	5.5
EV / EBITDA	61.1	42.5	14.3	12.8
Dividend Yield (%)	0.0	0.0	0.0	0.0
Operating Ratios				
Gross Profit Margins (%)	0.4	0.4	0.4	0.4
EBITDA Margins (%)	0.1	0.1	0.1	0.1
Effective Tax Rate (%)	0.3	0.3	0.3	0.3
Net Profit Margins (%)	0.1	0.1	0.1	0.1
Net Debt / Equity (x)	(3.2)	(2.2)	(5.0)	(3.8)
Net Debt / EBITDA (x)	(30.6)	(15.9)	(37.0)	(27.7)
Fixed Asset Turnover (x)	4.0	4.9	6.5	7.4
Inventory Turnover Days	585	551	401	374
Receivables Days	10	27	27	25
Payables Days	65	10	7	6
Profitability Ratios				
RoCE (%)	0.1	0.1	0.1	0.1
RoE (%)	0.2	0.2	0.3	0.3
RoIC (%)	0.0	(0.1)	0.0	0.0

Source Company data, I-Sec research

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