



Mazagon Dock Shipbuilders Ltd

Issue Opens	Tuesday, September 29, 2020
Issue Closes	Thursday, October 01, 2020
Price Band	135/145
Bid Lot	103 shares and multiples thereafter



IPO UPDATE Mazagon Dock Shipbuilders Limited

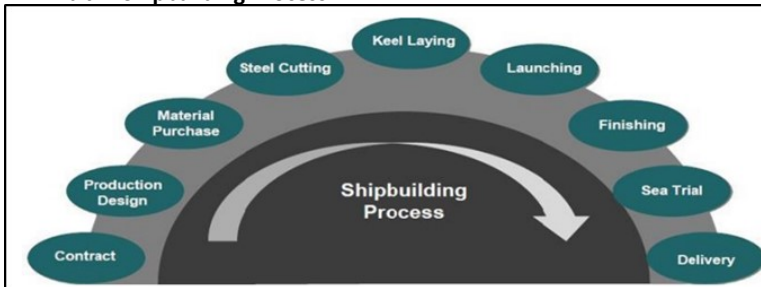
Industry:

The global shipbuilding industry comprises of construction and modification of ships, offshore vessels and rigs. China, South Korea and Japan dominate the industry globally. Over the past few decades, the shipbuilding industry has shifted from Europe to Asia, due to favourable factors such as cheap labour, competitive manufacturing and steel-making sectors, as well as state support.

The broad categories of ships built are:

- Passenger carriers
- Offshore vessels
- Dry bulk carriers
- Tankers (Inclusive of LNG carriers)
- Container ships
- Defence vessels

Exhibit 1: Shipbuilding Process



Source: RHP-Mazagon Dock Shipbuilders Ltd

Indian Shipbuilding Industry:

Based on the types of ships built, the Indian shipbuilding industry can broadly be categorised as follows:

- Large ocean-going vessels catering to overseas and coastal trade;
- Medium-sized specialised vessels, such as port crafts, those for fishing, trawlers, offshore vessels, inland and other smaller crafts;
- Defence/naval crafts and coast guard vessels

The Indian shipbuilding industry can be divided into following segments:

Public sector shipyards: India's major shipyards have historically been from the public sector. They primarily build merchant-class ships and naval vessels. The Indian shipbuilding industry comprises eight public sector shipyards out of which four naval shipyards come under the purview of India's Ministry of Defence, namely Hindustan Shipyard Ltd, Mazagon Dock Shipbuilders Ltd, Goa Shipyard Ltd and Garden Reach Shipbuilders & Engineers Ltd.

Private shipyards: The three listed private-sector shipbuilding companies are Bharati Defence & Infrastructure Ltd (BDIL), ABG Shipyard Ltd and Reliance Defence and Engineering Ltd (RDEL), formerly known as Pipavav Defence and Offshore Engineering Company Limited (PDOEL). Additionally, Larsen & Toubro Ltd is another major private sector player. In addition, there are a number of smaller private shipyards building smaller ships and vessels, including coastal vessels, barges, tugs, patrol ships and fishing ships.

However, over the last few years, major private players like Reliance Defence and Engineering Ltd, ABG Shipyard, Bharati Defence & Infrastructure Ltd etc. had to opt for corporate debt restructuring due to stressed financial positions. To add onto this, the decline in global trade and a liquidity crunch impacted the performance of these shipyards and in totality the execution of existing order book of the private sector on generic basis remained uncertain due to these unresolved issues.

SNAPSHOT

Issue Opens	Tuesday, Sept 29, 2020	
Issue Closes	Thursday, Oct 01, 2020	
Price Band (Rs)	135 / 145	
Bid Lot	103 shares and multiples thereafter	
Face Value	Rs10	
Listing	BSE & NSE	
Type of Issue	Offer for Sale	
Offer Size <i>(Rs Mn)</i>	Fresh Issue	-
	OFS	4,437
	Total	4,437
*Implied Market Cap <i>(Rs Mn)</i>	29,245	
P/E <i>(based on FY20 Earnings)*</i>	6.1	

*Note: Implied Market Cap & P/E are calculated at upper price band of Rs145

Issue Allocation

Reservations	% of Net Issue
QIB	50
NIB	15
Retail	35
Total	100

Object of the Offer

- Carry out of disinvestment of equity shares by selling shareholder constituting 15.17% of the company
- Benefit of listing equity shares on the stock exchanges

Details of Offered Shares

Offer for Sale	30,599,017
Fresh Issue	-
Total	30,599,017

Other Highlights

- **Employee Reservation Category:** 345,517 shares

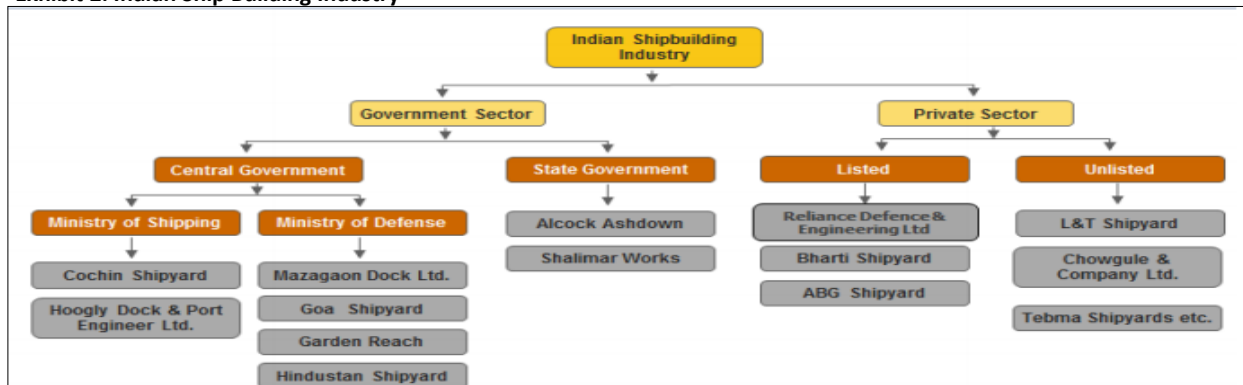


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Industry: (contd.)

Exhibit 2: Indian Ship Building Industry



Source: RHP-Mazagon Dock Shipbuilders Ltd

About the company:

Incorporated in 1934, Mazagon Dock Shipbuilders Ltd (MDSL) is India's leading defence public sector, conferred with the 'Mini-ratna-I' status, undertaking shipyard under the Ministry of Defence. MDSL is primarily engaged in constructing and repairing warships and submarines for the MoD and other types of vessels i.e. cargo ships, multipurpose support vessels, barges and border outposts, tugs, dredgers, water tankers, etc. for commercial clients. It is the only shipyard to build destroyers and conventional submarines to be used by the Indian Navy. The business has two key operating divisions- **Shipbuilding division** that undertakes building and repairing of naval ships, whereas **Submarine and heavy engineering division** includes building, repairing, and refitting of diesel electric submarines. Till 2020, the company has built 795 vessels, including 25 warships, 4 missile boats, 3 submarines, 6 leander class frigates, 3 Godavari class frigates, 3 Shivalik class frigates, 3 corvettes, and 6 destroyers. MDSL is strategically located on the west coast of India, the sea route that connects Europe, Pacific Rim and West Asia. Govt. of India is the promoter of the company. President of India is acting through the Ministry of Defence.

Business Segments:

The business divisions in which the company operates are:

- Shipbuilding and
- Submarine and Heavy Engineering

The shipbuilding division includes the building and repair of naval ships. It is currently building four P-15 B destroyers and four P-17A stealth frigates and undertaking repair and refit of a ship for the MoD for use by the Indian Navy.

The submarine and heavy engineering division includes building, repair and refits of diesel electric submarines. It is currently building/ in the process of delivering four Scorpene class submarines under a transfer of technology agreement with Naval Group as well as one medium refit and life certification of a submarine for the MoD for use by the Indian Navy.

Strengths:

- Only public sector defence shipyard constructing conventional submarines:**

The company is India's only shipyard to have built destroyers and conventional submarines for the Indian Navy. It has in the past constructed two SSK submarines, modernized and refitted four SSK submarines, which has enhanced its capability of handling construction of conventional submarines.

- World class infrastructure capable of serving the requirements of the Ministry of Defence:**

The infrastructure and facilities available at the shipyard combined with vast expertise gives the company a significant edge over its domestic peers. Post completion of the modernization project that the company had undertaken, 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.

- Increase in indigenization of vessels and implementation of the "Make in India" campaign:**

The company intends to increase the quantum of indigenized components for its warships and submarines in order to give an impetus to the Govt's "Make in India" campaign. The entire indigenization process and the list of systems, equipment and items alongwith the necessary technical details which are to be indigenized have been identified. The company has been assigned 40.52 acres of land by the Government of Kerala for setting up the National Institute of Warship/ Submarine design and Indigenization Centre which is currently being used as a head office of National Institute for Research and Development in Defence Shipbuilding. Increase in indigenization has enabled it to reduce reliance on third party component manufacturers and the cost of construction for its vessels.





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Strengths (contd.):

- Established track record with strong financial position and strong Order Book:

Exhibit 3: Revenue Breakup (Rs in mn)

Fiscal	Revenue from Shipbuilding division	Revenue from Submarine and heavy engineering division	Other operating revenue	Revenue from operations
2017	11,546.10	23,602.95	41.77	35,190.82
2018	21,103.84	23,569.98	29.89	44,703.61
2019	24,693.49	21,383.42	62.64	46,139.56
2020	34,766.96	14,935.39	74.15	49,776.50

Source: RHP-Mazagon Dock Shipbuilders Ltd

Current Order Book:

As of July 31, 2020, company's Order Book for shipbuilding and submarines and heavy engineering was Rs540,740mn comprising of three major shipbuilding projects and two submarine projects.

Exhibit 4: Order Book

Particulars	Nos.	Client	Value (Rs in mn)
Shipbuilding			
P15B Destroyers	4	MoD	263,850
P17A Stealth Frigates	4	MoD	236,490
Repair, refit and services of a ship	1	MoD	110
Submarine and heavy engineering			
P75 Scorpene Submarines	4	MoD	32,020
Medium Refit and Life Certification (MRLC) of a submarine	1	MoD	8,270
Total Order Book			540,740

Source: RHP-Mazagon Dock Shipbuilders Ltd

Financials: The total income stood at Rs50,276mn, Rs52,046mn and Rs55,353mn for FY18, FY19 and FY20 respectively which grew at a CAGR of 5.5%. The profits came in at Rs4,962mn, Rs5,325mn and Rs4,771mn for the above mentioned years.

Exhibit 5: Financials

Revenues (Rs mn)	FY18	FY19	FY20
Sales	44,704	46,140	49,777
EBITDA	1,547	2,608	2,680
<i>EBITDA Margin %</i>	3.5	5.7	5.4
Net profit After Tax	4,962	5,325	4,771
<i>Net Profit Margin %</i>	11.1	11.5	9.6
Earning Per Share	20.6	23.75	21.36
<i>RoNW (%)</i>	17.5	16.6	15.5

Source: RHP-Mazagon Dock Shipbuilders Ltd





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Risks & Concerns:

- The continuing effect of the Covid-19 pandemic on the business and operations is highly uncertain and cannot be predicted
- MSDSL predominantly depends on the MoD for defence orders and have mostly been awarded such orders on a nomination basis by the MoD for use by the Indian Navy. There is no assurance that future defence orders will be awarded to them by the MoD. Further, recent changes in the policy framework governing defence procurement and manufacturing in India may result in the company no longer being given such orders which may have an adverse effect on the business growth, financial condition and results of operations
- Any decline, delay or reprioritization of funding under the Indian defence budget or that of customers including the MoD for use by the Indian Navy could adversely affect the ability to grow or maintain sales, earnings, and cash flows
- The future growth and expansion is limited by the location at which the company operates

Outlook and Recommendations:

MDSL has been a profit-making and dividend distributing PSU under MoD. It has a strong order book in hand which is to be completed in 6-7 years. The financial track record so far has indicated a sustained top line with fluctuations in the PAT due to certain provisioning's done. It enjoys a debt free status. On the upper price band of Rs145 and EPS of Rs21.36 for FY20, the P/E ratio works out to be 6.8x. The company is asking the issue price of Rs145 of the upper price band in the P/E range of 6.5x to 6.8x. There are listed peers like Garden Reach Shipbuilders whose shares are trading at P/E of 14.9x and Cochin Shipyard at P/E of 7.6x while the industry average is 11.25x. The company's share price of Rs145 at P/E of 6.5x to 6.8x is under-priced and available at attractive valuations. Being a maiden IPO from a shipyard that builds destroyers and submarines, one can expect a decent listing. **We recommend a SUBSCRIBE to the IPO from a medium to long term perspective.**



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