



Mazagon Dock Shipbuilders Limited builds warships and conventional submarine at its facilities in Mumbai and Nhava with mar-quee clients such as Indian Navy and Coast Guard. It is the only shipyard to have built destroyers and conventional submarines for the Indian Navy. The revenues of the company have grown at a 3 year CAGR of 12% from INR 3519 crores in FY2017 to INR 4977 crores in FY2020. The company has a strong order book 11x of the revenues, which gives a good revenue visibility. The company's focus on ship repair would also help to diversification of revenues.

The company is available at a P/E 6.79x and a P/B of 0.95x, making it attractive considering its higher RoNW. **We recommend to SUBSCRIBE the issue for listing gains and long term because of its strong order book and attractive valuation.**



## About the Company :

Incorporated as "Mazagon Dock Private Limited" on February 26, 1934 at Mumbai, the company was acquired by the Government of India ("GOI") in the year 1960, the company became a government company on May 13, 1960 and the name of the company was changed to Mazagon Dock Limited. The company was conferred with the "Mini ratna 1" status in 2006.

## Issue details

Price Band (in ₹ per share)	135-145
Issue size (in ₹ Crore)	413.00-444.00
Offer for Sale (Shares in lakhs)	413.00-444.00
Total number of shares (lakhs)	305.99
Issue open date	29-09-2020
Issue close date	01-10-2020
Tentative date of Allotment	07-10-2020
Tentative date of Listing	12-10-2020
Offer Allocation	QIB-50 %, Retail— 35%, NIB-15%
No. of shares eligible for employees (in lakhs)	3
Minimum order quantity	103
Face value (in ₹)	10
Amount for retail investors (1 lot)	13905-14935
Maximum number of shares for Retail investors at lower Band	1442(14 Lots)
Maximum number of shares for Retail investors at upper band	1339(13 Lots)
Maximum amount for retail investors at lower Band-upper band (in ₹)	194670-194155
Exchanges to be listed on	BSE, NSE

## Promoters

- President of India acting through the Ministry of Defence, GOI

## Objective of the Offer

The objects of the Issue are:

- Disinvestment of equity shares by Selling Shareholders constituting 15.17% of the company's pre offer paid up equity share capital
- Achieve the benefits of listing the equity shares on the Stock exchanges

**Brief Financials**

Particulars (Rs. Cr)	FY20	FY19	FY18
Share Capital	201.69	224.10	224.10
Net Worth	3069.13	3216.92	2834.05
Revenue from Operation	4977.65	4613.96	4470.36
PBT	735.37	778.12	650.41
Net Profit	477.06	532.47	496.17
EPS	21.36	23.75	20.61
Net Asset Value (Rs)	152.17	143.55	126.46
P/B*	0.95	1.01	1.15
P/E*	6.79	6.11	7.04

\*Calculated at the upper band

**Industry Review**

The global shipbuilding industry comprises construction and modification of ships, offshore vessels and rigs. The broad categories of ships built are:

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

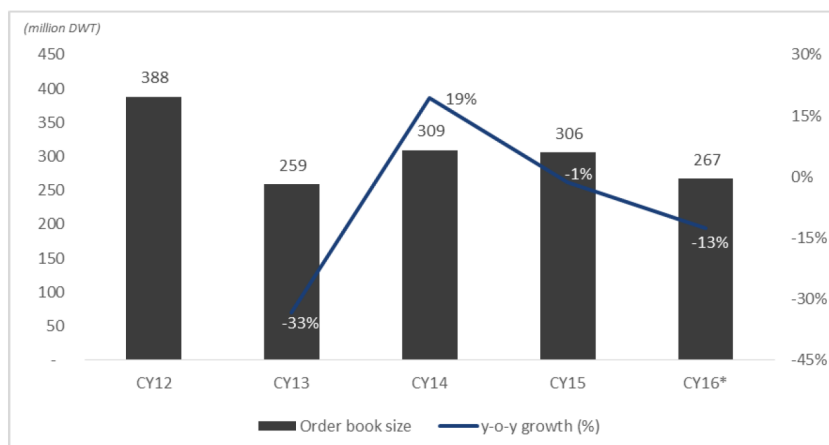
On average, it takes 15-18 months to build a conventional vessel, i.e. a bulk carrier, tanker or container ship, and 28-32 months to construct a 'liquefied natural gas (LNG)' vessel and an 'offshore rig and support' vessel.

China, South Korea and Japan dominate the industry as the industry shifter from Europe to Asia, due to favourable factors such as cheap labour, competitive manufacturing and steel making sectors, as well as state support.

In 2015, China, South Korea and Japan together accounted for 91% of global deliveries, with China commanding the largest share of 36% followed by South Korea and Japan at 34% and 21% respectively.

**Shipbuilding order book**

Year-wise shipbuilding order book (in million DWT)



\*Note: Data as on January 1, 2016

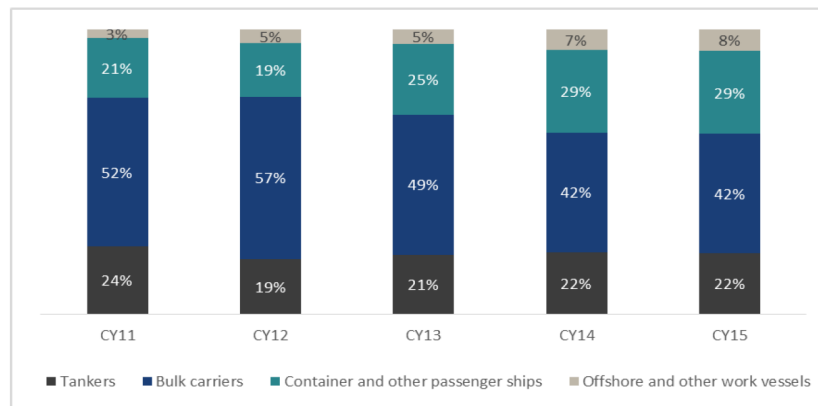
Source: UNCTAD - Review of Maritime Transport, published in 2016; CRISIL Research



## Composition of ships delivered, by ship type

Bulk carriers lead ships delivered based on ship type; share of container ship rises

Year-wise trend in ships delivered by major countries



Note: Data does not include ships with tonnage capacity below 100 GRT.

Source: UNCTAD-Review of Maritime Transport published in 2016, CRISIL Research

## Review of the Indian shipbuilding industry

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

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

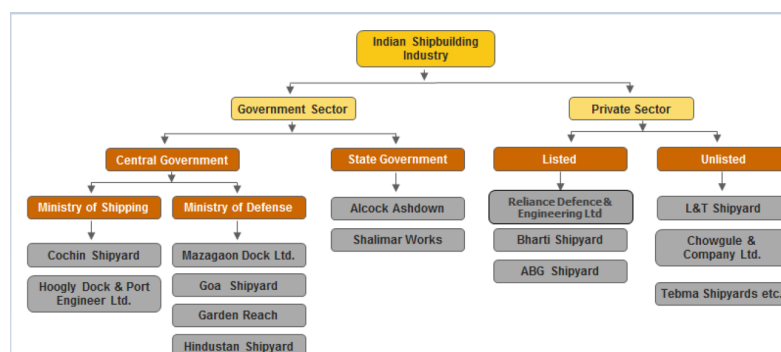
According to the Statistics of India's Ship Building and Ship Repair Industry of 2014-15, there were 34 dry docks for repairing ships in India, both in the public and private sectors. These dry docks included the 11 dry docks operated by seven major ports. The major ports without dry dock facilities are the Jawaharlal Nehru Port Trust (JNPT), the ports at New Mangalore, Chennai, Ennore, and Haldia Dock Complex of the Kolkata port.

## Sectorwise classification

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.

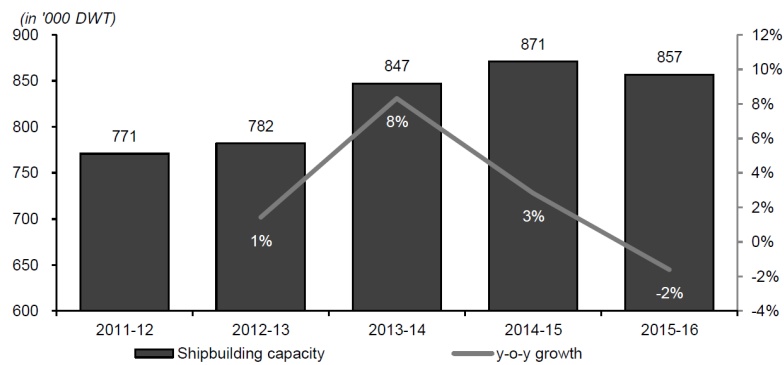
**Private shipyards:** The three listed private-sector shipbuilding companies are Bharati Defence & Infrastructure Ltd (BDIL), ABG Shipyard Ltd and Reliance Defence and Engineering Ltd (RDEL), formerly known as Pipavav Defence and Offshore Engineering Company Limited (PDOECL). Additionally, Larsen &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



Source: CRISIL Research

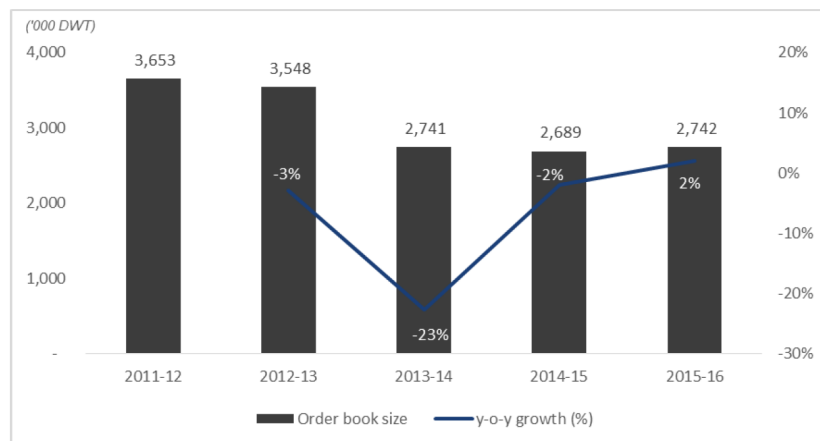


## Shipbuilding capacity in India (in '000 DWT)



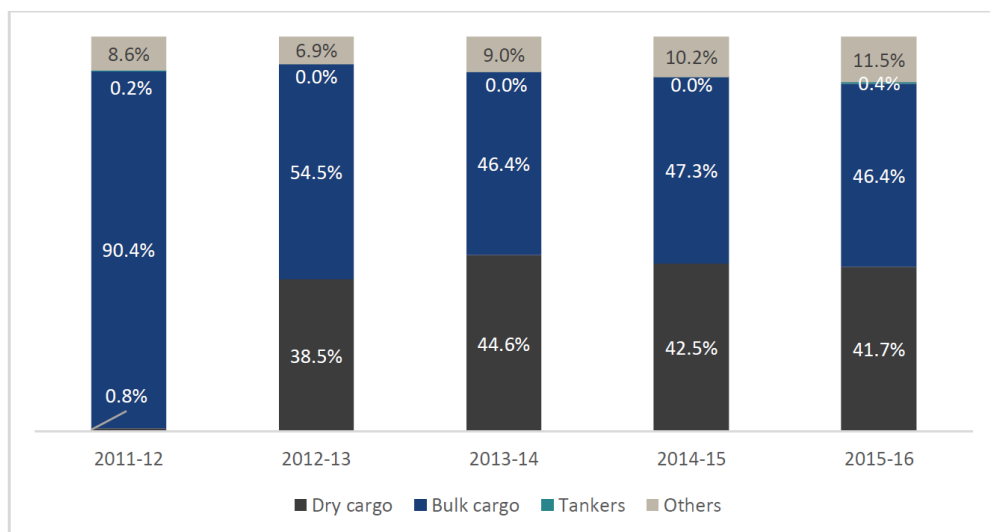
Source: Statistics of India's shipbuilding and ship repairing industry (2015-16), published by the Ministry of Shipping and considering MDL's shipbuilding capacity from annual report, CRISIL Research

## India shipbuilding order book



Source: Statistics of India's shipbuilding and ship repairing industry (2015-16), published by the Ministry of Shipping; CRISIL Research.

## Order book breakup- By vessel category



Source: Statistics of India's shipbuilding and ship repairing industry (2015-16), published by the Ministry of Shipping; CRISIL Research



## Warship building industry in India

Naval shipbuilding is a key segment of the Indian shipbuilding industry. It is characterised by value addition of 65% during construction of ships, which is contributed by ancillary industries such as steel producers, main engine builders, and equipment suppliers. Growth of the domestic shipbuilding sector, which imports 45% of its input requirement, can provide a major trigger for large-scale indigenisation of heavy-engineering products and ancillaries.

The domestic shipbuilding industry primarily caters to two sub-segments: the Indian Navy and Indian Coast Guard. Currently, its fleet consists of aircraft carriers, amphibious transport dock, landing ship tanks, destroyers, frigates, nuclear-powered attack submarine, conventionally powered attack submarines, corvettes, mine counter measure vessels (MCMVs), large offshore patrol vessels, fleet tankers and various auxiliary vessels and small patrol boats. The Indian Coast Guard's fleet comprises patrol vessels, patrol boats, patrol craft and a hovercraft.

## Review of government policies for shipbuilding industry in India

The government has taken some key initiatives to develop and promote the country's shipbuilding industry.

In December 2015, the Cabinet approved the new shipbuilding policy, which aims to provide financial assistance to shipbuilders and grant infrastructure status for the industry. The government has set aside Rs 40 billion to implement the scheme over 10 years.

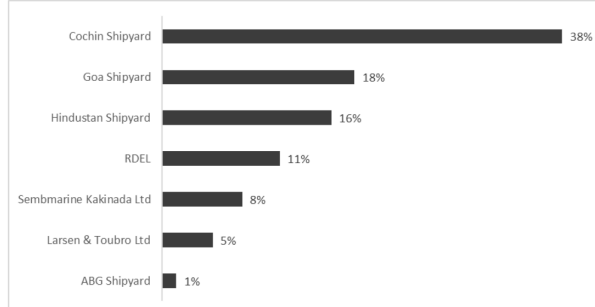
### Key features of the policy

- Grants financial assistance to both state-owned and private shipbuilders on each ship they build, except for smaller boats and fishing vessels
- Quantum of financial assistance would be scaled down by three percentage points every three years, starting with 20% in first three years, 17% in next three, 14% in subsequent three years and 11% in the tenth year
- Assistance will be given on contract or fair price, whichever is lower
- Both state-owned and private yards will get assistance only after they construct and hand over a ship to its buyer
- The right of first refusal is given to Indian shipyards for government purchases, implying that even if the shipyard is not the lowest bidder, an option is provided to the yard to match the lowest foreign bid and secure the contract
- Grants infrastructure status to shipbuilding and ship-repair industry, thereby entitling it to various government incentives and tax benefits

## A review of the Indian ship repairing industry

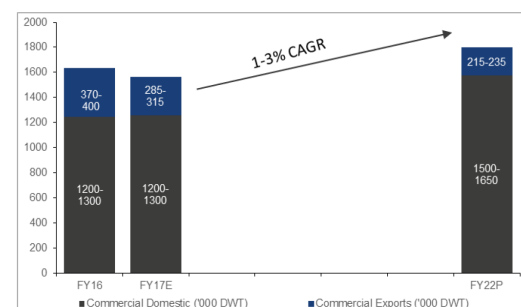
According to a report published by the Ministry of Shipping at the India Maritime Summit 2016, the global ship repair market is estimated to be around USD 12 billion. Shipyards in Singapore, Bahrain, Dubai and Middle East account for a major share of this market. These locations have achieved a dominant position despite higher cost of ship repair services compared to other Asian countries, largely because of availability of skilled workforce and latest technology. This has helped these shipyards attract demand from other low-cost locations like India, Malaysia and Indonesia. The report also estimates Indian ship repair industry's market potential to be around USD 1.5 billion (~ Rs 102 billion).

Market share of major players in the Indian ship repairing industry (as of 2015-16)



Source: Statistics of India's shipbuilding and ship repairing industry (2015-16), published by the Ministry of Shipping; CRISIL Research

India's commercial order book to grow at a modest pace of 1-3% CAGR over next 5 years



Source: CRISIL Research

Note: Due to the uncertain business position of Bharti Shipyard and ABG Shipyard, and considering their delivery record over the past two years, we have kept their order book unchanged till 2020-21.



## Company Review

Mazagon Dock Shipbuilders Ltd is a defence public sector understanding shipyard under the Department of Defence Production, MoD with a maximum shipbuilding and submarine capacity of 40000 DWT engaged in the construction and repair of warships and submarines for the MoD for use by the Indian Navy and other vessels for commercial clients.

The business divisions in which company operates are 1. Shipbuilding and 2. Submarine and heavy engineering. The shipbuilding division includes the building and repair of naval ships, whereas submarine and heavy engineering division includes building, repair and refit of diesel electric submarines. The company has also delivered cargo ships, passenger ships, supply vessels , multipurpose support vessels, water tankers , tugs dredgers , fishing trawlers, barges and border outposts for various customers in India as well as abroad.

The company is headquartered in Mumbai and exploring the possibilities of developing a greenfield shipyard at Nhava, Navi Mumbai with a shiplift , wet basin , workshops, stores and building and a ship repair facility spread over an area of 37 acres.

## Competitive Strengths

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

Company is the India's only shipyard to have built destroyers and conventional submarines for the Indian Navy. The company has entered into a technology transfer agreement with Naval Group, France for Scorpene submarines which are currently manufactured by company.

### **Location of facilities promotes closer association with vendors and customers:**

Mazagon Dock Shipbuilders Ltd is strategically located in Mumbai on the west coast of India, on the sea route connecting Europe, West Asia and the Pacific Rim, a busy international maritime route. The customers, being the MoD and Indian Coast Guard and vendors are based in Mumbai which results in closer coordination and greater efficiencies.

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

The company has successfully indigenized certain equipments such as sonar dome, ship installed chemical agent detection system, bridge window glass, main batteries for Scorpene submarines , multiple cable transit glands and remote controlled valves with various companies on a no cost no commitment basis.

## Business Strategies

### **Export of products to international markets:**

The company primarily cater to the defence sector in India at present. However, it is in the process of reviving the exports of defence and commercial products to Latin America , Africa, South East Asia, Middle East and Scandinavian regions and have identified certain defence and civil sectors in such regions. For this purpose, it has entered into agency agreements with sales agents in order to procure customers for products which it proposes to sell in the identified markets of Europe, Far East, South East Asia, Middle East, Indian Ocean Rimcountries , Latin America and Africa regions.

### **Focus on ship repair:**

The shipbuilding and submarine contracts have a long gestation period. Revenues under these contracts are dependent on achievement of certain milestones. In order to diversify revenue streams, company intends to increase ship repair activities in the future as such activities are for a shorter period of time and result in the early booking of revenues. This will help generate more revenues, increase client base and reduce dependency on the MoD for future orders.

### **Augmentation of infrastructure and enhancing manufacturing capacity:**

The company is currently undertaking capital expenditure for submarine and heavy engineering division by way of construction of the submarine launch facility and blasting painting chamber. The submarine launch facility which is currently being constructed will enable the company to execute future submarine orders.



## Risk Factors

### Large dependence on MoD for defence orders:

Company depends on the Ministry of Defence (MoD) and has mostly been awarded such orders on a nomination basis by MoD. 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.

### Decline and delay or reprioritisation of funding under the Indian defence:

A substantial portion of the business is awarded through nomination of contracts by the MoD. These contracts depend upon the continuing availability of funds being extended to the MoD, which in turn allocates such funds to the Indian Navy, company's largest customer. Changes in appropriations by the MoD in subsequent years may impact the funding available for these defence programs. Delays or cuts in funding can impact the timing of available funds or lead to changes in defence program content. Any reduction or unavailability of the funds available to the Indian Navy could have a material adverse impact on the funding of contracts.

### Interest of GoI may conflict with Shareholder:

The GoI has significant influence over company's actions and can issue directives with respect to the conduct of the business or affairs. Any change in GoI policy or goodwill could have a material adverse effect on financial condition and results of operations.

## Peer Comparison

Name of the Company	Revenue (Crores)	FV	Basic EPS	NAV	P/E	P/B	RONW
Mazagon Dock Shipbuilders Ltd.	201	10	21.36	152.17	6.79^	0.95^	15.54%
Cochin Shipyard Ltd	3422	10	48.05	283.02	6.87	1.17	16.98%
Reliance Naval and Engineering Ltd	75	10	(23.87)	(165.10)	NA	NA	NA
Garden Reach Shipbuilders and Engineers Ltd	1433	10	14.27	90.81	12.40	1.95	7.01%

*\*P/E & P/B ratio based on closing market price as on September 25th, 2020, At the upper price band of IPO, financial details consolidated audited results as on FY20*

## External Ratings

As on 6<sup>th</sup> March 2020, Mazagon Dock Shipbuilders Limited has been assigned stable rating for its long term debt by Brickwork Ratings Ltd.

## Our Views

Mazagon Dock Shipbuilders Limited builds warships and conventional submarine at its facilities in Mumbai and Nhava with marquee clients such as Indian Navy and Coast Guard. It is the only shipyard to have built destroyers and conventional submarines for the Indian Navy. The revenues of the company have grown at a 3 year CAGR of 12% from INR 3519 crores in FY2017 to INR 4977 crores in FY2020. The company has a strong order book 11x of the revenues, which gives a good revenue visibility.

The company's focus on ship repair would also help to diversification of revenues. The company is available at a P/E 6.79x and a P/B of 0.95x, making it attractive considering its higher RoNW. We recommend to SUBSCRIBE the issue for listing gains and long term because of its strong order book and attractive valuation.

**Sources: Company Website and red herring prospectus**





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