

MAZAGON DOCK SHIPBUILDERS LIMITED

LKP

Company Background

Mazagon Dock Shipbuilders Limited ("MDL") was incorporated on February 26, 1934 and was conferred with the 'Mini-ratna-I' status in 2006. Since the company was acquired by the Government of India ("GoI") in the year 1960, the company became a government company on May 13, 1960. MDL is a defence public sector undertaking shipyard under the Department of Defence Production, Ministry of Defence ("MoD"), 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 shipyard builds warships and conventional submarines at its facilities in Mumbai and Nhava. Major customers for the shipyard include Indian Navy and Coast Guard. Since 1960, MDL has built a total of 795 vessels including 25 warships, from advanced destroyers to missile boats and three submarines. MDL had 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 has also fabricated and delivered jackets, main decks of wellhead platform, process platforms, jack up rigs etc.

Their manufacturing facilities at east yard, north yard, south yard and Alcock yard are all located at Mazagaon, Mumbai. Its storage facilities are operational at Anik located at Chembur. They are currently using the property owned by the Indian Navy at Sewri for the purpose of storing the property of Indian Navy. Further, with the intention of setting up a drydock, MDL had pursued the acquisition of 11.47 acres of land belonging to the Mumbai Post Trust ("MbPT") which was adjacent to the company on a long term lease of 29 years (extendable twice by a further period of 29 years each) from the MbPT. With a shipbuilding capacity of 40,000 DWT, MDL is India's only shipyard to build destroyers and conventional submarines for the Indian Navy. MDL has been India's one of the initial shipyards to manufacture Corvettes (Veer and Khukri Class) in India. It is also one of the ship builders for P17-A project for building next generation guided missile stealth frigates through collaboration with Fincantieri, Italy and is also executing orders for 5 scorpene submarines through collaboration with DCNS, France. For outfitting work, the company has several workshops with sophisticated equipment and machines specific to hull fabrication and ship construction. Further, as of July 31, 2020, the Order Book for shipbuilding and submarines and heavy engineering was ₹540.7 bn comprising of 3 major shipbuilding projects and 2 submarine projects.

Offer Summary

The President of India acting through The Ministry of Defence, GOI is selling ~31 mn equity shares of Face Value of ₹10 each through an OFS. The offer shall constitute 15.17% of the post offer paid-up equity share capital. The issue size is ₹4.13bn-₹4.44bn. The employee reservation is 0.345 mn shares. The price band is ₹135-145, with a bid lot size of 103 shares. Post issue implied market cap will be ₹27bn-₹29bn.

Robust Financials

The company has grown at 9% CAGR over the last 4 years at the topline, while its stated EBITDA margins were reported at 8.5% in FY 20. In times when the GOI has been cutting down on defence budget, the company has consistently delivered profits at the bottomline, considering its strong order book. The company has a strong balance sheet, 15% ROE and >100% dividend payout in FY 20.

Outlook and Valuation

At the higher price band of ₹145, the stock is valued at 6.7x FY20 earnings of ₹21.4, which looks quite attractive considering its healthy order book, long term visibility of topline growth, competitive edge, profitability, return ratios and dividend payout policy. We recommend investors to SUBSCRIBE with a target of ₹250 over a time horizon of 6 months.

Issue Details

Offer for sale of up to 30,599,017 Equity Shares

(The offer shall constitute 15.17% of the post-offer paid-up equity share capital)

Issue highlights

Issue size:	₹ 4.13bn – 4.44bn
No. of shares:	30,599,017 Equity Shares
Face value:	₹ 10
Reservation for Employee:	345,517 Shares
Listing:	BSE & NSE
Issue opens on:	Tuesday, 29th Sep'2020
Issue closes on:	Thursday, 1st Oct'2020
Price band :	₹ 135 – 145
Bid Lot:	103 Shares and in multiple thereof.

Post Issue Implied Market Cap

₹ 27.23bn – 29.25bn

BRLMs:

Axis Capital, Yes Securities, Edelweiss Financial, IDFC Securities, JM Financial

Registrar:

Alankit Assignments Ltd.

Indicative Timetable

Activity	On or about
Finalisation of Basis of Allotment	07-Oct-2020
Refunds/Unblocking ASBA Fund	08-Oct-2020
Credit of equity shares to DP A/c	09-Oct-2020
Trading commences	12-Oct-2020

Issue Break-up

Reservation for	No of Shares	Amount ₹ bn		% of Issue
		Upper	Lower	
QIB	15,126,750	2.04	2.19	50%
NIB	4,538,025	0.61	0.66	15%
Retail	10,588,725	1.43	1.54	35%
Employees	345,517	0.05	0.05	
Total	30,599,017	4.13	4.44	

Shareholding

Pre-Offer and Post-Offer Equity Shares	
No. of shares	201,690,000
Shareholding (%)	
Promoters & Pro. Group	85%
Public	15%
Total	100%

Key Managerial Persons

Name	Designation
Narayan Prasad	Chairman & MD
Jasbir Singh	Director(Submarine and Heavy engineering)
Sanjeev Singhal	Director(Finance)
T V Thomas	Director (Corporate Planning & Personnel)
Anil K Saxena	Director (Shipbuilding)
V L Kantha Rao	Nominee Director
Kamaiah Bandi	Independent Director
Mailareshwar Jeevannavar	Independent Director
Vijayalakshmi Kumar	Company Secretary
Hemant Kareka	Executive Director
Suresh Dadlani	Executive Director
Rohit Srivastava	Executive Director

Source: Company RHP and LKP Research

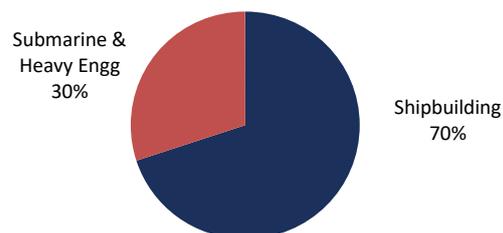
Business Overview

The business divisions in which MDL operates are –

1. Shipbuilding - The shipbuilding division includes the building and repair of naval ships. The company is currently building 4 P-15 B destroyers and 4 P-17A stealth frigates and undertaking repair and refit of a ship for the MoD for use by the Indian Navy.
2. Submarine and heavy Engineering - The submarine and heavy engineering division includes building, repair and refits of diesel electric submarines. The company currently building/ in the process of delivering 4 Scorpene class submarines under a transfer of technology agreement with Naval Group as well as 1 medium refit and life certification of a submarine for the MoD for use by the Indian Navy.

Some of the vessels built and delivered by the MDL in the past include, 6 Leander class frigates, 3 Godavari class frigates, 3 corvettes, 4 missile boats, 6 destroyers, 3 submarines and 3 Shivalik class frigates for the MoD for use by the Indian Navy and constructed and delivered 7 offshore patrol vessels to the Indian Coast Guard. The company has fabricated and delivered jackets, main decks of wellhead platforms, process platforms and jack up rigs, etc. Company's shipyard is strategically located on the west coast of India, on the sea route connecting Europe, West Asia and the Pacific Rim, a busy international maritime route. The company has headquartered in Mumbai which is also the headquarters of the Western Naval Command of the Indian Navy. MDL is exploring the possibility of developing a greenfield shipyard at Nhava, Navi Mumbai with shiplift, wet basin, workshops, stores and buildings and a ship repair facility spread over an area of 37 acres. As of July 31, 2020, MDL had employed 3,939 permanent employees, comprising of 1,033 executives, 305 staff (including 48 sub staff) and 2,601 operative.

Revenue Contribution FY20



Source: Company RHP and LKP Research

Current order book (As on 31st July 2020)

	Nos	Value (₹ bn)	Client
Shipbuilding			
P15B Destroyers	4	264	MoD
P17A Stealth Frigates	4	236	MoD
Repair, refit and services of a ship	1	0.1	MoD
Submarine & Heavy Engg			
P75 Scorpene submarines	4	32	MoD
Medium Refit and Life Certification of a submarine	1	8.3	MoD
Total order book	14	540.4	

Source: Company RHP and LKP Research

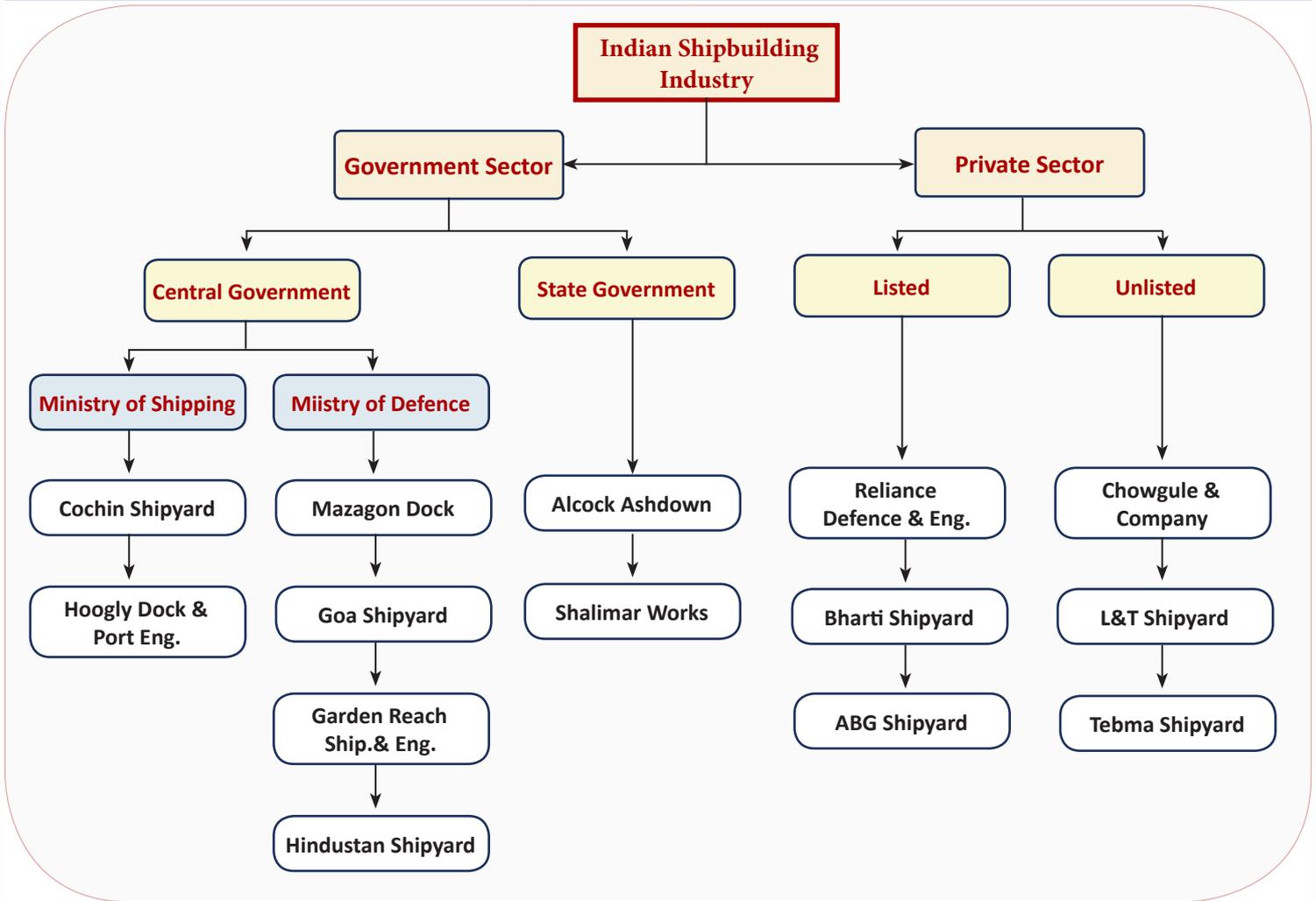
Comparison with listed players (FY 20)

	Order book (Current) (₹ bn)	Revenues (₹ mn)	EBITDA Margins (%)	EPS (₹)	P/E (x)	ROE (%)
Mazgaon Dock	540	49,776	8.5	21.7	6.7*	15.54
Cochin Shipyard	146	34,225	20.7	48	6.6	17.1
Garden Reach Shipbuilders & Eng.	265	14,333	2.8	15.2	11.4	14.3

* Based on higher end of the Price band fo ₹ 135-145

Source: Company RHP and LKP Research

Industry outlook



Shipbuilding capacity of public and private shipyards by type of vessels

Name of player	Tanker	Drycargo	Bulkcarriers	Passenger/ Passenger cum- cargo ships	Productcarriers	Other	Defenceships
Public sector							
Alcock Ashdown (Gujarat) Ltd.(AAL)	√		√			√	
Cochin Shipyard Ltd (CSL)	√	√	√	√	√	√	√
Hindustan Shipyard Ltd.(HSL)	√	√	√	√	√	√	√
Hooghly Dock & Port Engineers Ltd. (HDPE)	√			√		√	
Shalimar Works Ltd. (SWL)						√	
Goa Shipyard Ltd. (GSL)							√
Mazagon Dock Shipbuilders Ltd							√
Garden Reach Shipbuilders & Eng.*(GRSE)							√
Private Sector							
ABG Shipyard Ltd.(ABGS)	√		√			√	
BharatiDefence & Infrastructure.(BDIL)	√	√	√	√		√	
Reliance Defence & Engineering Ltd (RDEL)		√	√	√		√	√

*Rajabagan Dockyard Limited, under Central Inland Water Transport Corporation, Kolkata merged with Garden Reach Shipbuilders & Engineers Ltd, Kolkata w.e.f 1st July 2006

Source: Company RHP and LKP Research

Financials

Profit & Loss				
Particulars (₹ in mn)	FY 17	FY 18	FY 19	FY 20
Total income	35,191	44,703	46,139	49,776
Growth (%)	-	27.0%	3.2%	7.9%
EBITDA as stated	8,815	7,120	8,515	4,256
Margins (%)	25.0%	15.9%	18.5%	8.6%
PBT	8,305	6,504	7,781	7,354
PAT	5,983	4,962	5,325	4,771
Margins (%)	17.0%	11.1%	11.5%	9.6%
EPS (₹)	24	21	24	21

Balance sheet				
Particulars (₹ in mn)	FY 17	FY 18	FY 19	FY 20
Equity & Liabilities				
Total equity	29,901	28,340	32,169	30,691
Non current liabilities	14,336	14,193	14,069	14,361
Current liabilities				
Trade payables	9,262	23,910	29,172	47,708
Contract liabilities	137,595	123,380	129,499	113,831
Total current liabilities	149,673	151,170	162,241	164,607
Total liabilities	193,911	193,703	208,479	209,660
Assets				
Total Non current assets	19,023	23,265	27,700	28,778
Current assets				
Inventory	40,286	37,859	37,903	46,226
Trade receivables	8,117	11,133	14,728	14,587
Cash & Cash Equivalents *	83,628	71,895	74,697	57,983
Total current assets	174,888	170,438	180,778	180,882
Total assets	193,911	193,703	208,479	209,660

*Includes Cash & Cash Equivalents along with bank balances other than cash and cash equivalents

Cashflow statement				
Particulars (₹ in mn)	FY 17	FY 18	FY 19	FY 20
Cash flow from operating activities	(10,027)	4,907	642	(955)
Cashflow from investing activities	4,929	3,479	4,166	4,537
Cash flow from financing activities	(2,451)	(6,079)	(1,257)	(6,045)
Net cash increase/(decrease)	(7,548)	2,307	3,561	(2,464)
Cash at the beginning of the period	8,977	1,428	3,735	7,296
Cash at the end of the period	1,428	3,735	7,296	4,832

Source: Company RHP and LKP Research

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