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## Investor's Delight - Cochin Shipyard Limited



**Investor's delight - Cochin Shipyard Limited (CSL) , - "BUY"; "Leading profitable player in Indian Shipbuilding industry"..**

Incorporated in March 1972 and conferred with "Miniratna" status in 2008, Cochin Shipyard Limited is the largest public sector shipyard in India in terms of dock capacity. It caters to clients engaged in the defence sector in India and clients engaged in the commercial sector worldwide. In addition to shipbuilding and ship repair, it also offers marine engineering training. The Company has the Capacity to build ships up to 1,10,000 DWT and repair ships up to 1,25,000 DWT. The Company is consistently profit making and dividend paying Category I Miniratna company with 'Excellent' rating under MOU with GOI for the last several years.

**Enhanced focus of the Government of India on Self Reliance (Atmanirbhar Bharat Abhiyan), is likely to boost the Company's prospects as CSL is a leading player in shipbuilding and ship repair industry especially in Defence space. Over the next 10 years, CSL has setup a bold ambition to transform from being the leading Indian Shipyard to one of the leading global shipyards. The Company's business model is sound and beneficiary of and has big opportunity to be seized.**

**Shipbuilding**

Cochin Shipyard has an enviable reputation for building high quality ships. The shipyard has built two of India's largest double hull Aframax tankers, each of 93,000 DWT (MV Maharshi Parashuram and MV Abul Kalam Azad, both for SCI). Cochin Shipyard can build a wide variety of ships for the Merchant Navy, Ports , Island territories & commercial ships to national / international owners. **Presently, building the most prestigious and largest warship viz. the Indigenous Aircraft Carrier for the Indian Navy. India is only the fifth nation worldwide to build an Aircraft Carrier of this size In the last decade the company has exported more than 40 Ships to discerning international clients located in West Europe, USA, Saudi Arabia etc.** Its current shipbuilding order book includes Phase-II of the prestigious Indian Aircraft Carrier (IAC) for the Indian Navy, two 500 passenger cum 150 ton cargo vessels and two 1,200 passenger cum 1,000 ton cargo vessels for the Andaman and Nicobar Administration and a vessel for one of the Government of India's projects.

**Ship repair**

CSL's Ship Repair Dock is one of the largest in India and enables it to accommodate vessels with a maximum capacity of 125,000 DWT (Source: CRISIL Report). Its Shipbuilding Dock can accommodate vessels with a maximum capacity of 110,000 DWT (Source: CRISIL Report). The Company's key clients include the Indian Navy, the Indian Coast Guard and the SCI. It has also exported 45 ships to various commercial clients outside India such as NPCC, the Clipper Group (Bahamas) and Vroon Offshore (Netherlands) and SIGBA AS (Norway). The Company has also grown ship repair operations and is the only commercial shipyard to have undertaken repair work of Indian Navy's aircraft carriers, the INS Viraat and INS Vikramaditya.

**New Dry-dock**

CSL is in the process of setting up a new dry-dock. The new dry-dock measuring 310 x 75/60 x 13 m with a 600T Gantry crane will be capable of handling vessels upto Suezmax, Aircraft Carriers of 70000T displacement, Jack-up rigs, LNG vessels etc. This stepped dock will enable longer vessels to fill the length of the dock and wider, shorter vessels and rigs to be built or repaired at the wider part. Despite impact of COVID-19 crisis, the project commissioning is targeted by Dec. 31, 2022.

**International Ship Repair Facility**

The International Ship Repair Facility (ISRF) will modernise and expand the existing ship repair facility in CSL. The ISRF includes 6000T shiplift for ships upto 130 x 25 m with six work stations and allied facilities. Total outfitting berth of 1500 meters approx. More than 95% of the piling works, 50% of the deck concreting & 80% of the dredging activities of the ISRF are completed and the facility is expected to be commissioned in FY 2021-22.

Report date	December 29, 2020
CMP	Rs. 362.90 (Face value: Rs. 10)
EPS (TTM) and P/E	Rs. 34.66/10.5x
Book value per share	Rs. 282 as on H1FY21
Dividend yield	4.58 percent
Target price & upside	Rs. 450
Upside	24%
52 week high/low	Rs. 491.15 /Rs. 209
Market Cap:	Rs. 4,773 crores

Particulars (Rs. in crores)	H1FY21	FY20	FY19	FY18
Revenue	990	3,422	2,966	2,355
EBITDA	248	956	800	654
EBITDA (%)	25	27.95	26.97	27.76
Profit before tax	202	863	751	605
Profit after tax	149	638	481	397
PAT margin (%)	15	18.6	16.2	16.9
Equity share cap.	131.54	131.54	131.54	135.94
Networth	3,705	3,722	3,332	3,256
Debt/Equity (x)	0.03	0.03	0.04	0.04
Book value (Rs.)	281	283	253	240
EPS (Rs.)	11.32	48.48	35.72	31.03
P/E (x)	-	13	10	13
RoNW (%)	-	17.09	14.44	12.19

Source: Company

**Investment recommendation and rationale**

**We like the Company owing to factors like a) biggest beneficiary of Atmanirbhar Bharat Abhiyan, b) one of India's leading public – sector shipyards catering to both commercial clients as well as clients engaged in the defence sector with a multitude of offerings for a broad range of vessels across life cycles, c) modern facilities, infrastructure and integrated capabilities to deliver quality products and services, d) order book with a strong customer base of reputable ship owners and marquee clients, e) competitive cost structure and efficient operations, f) continuous profits leading to decent financial performance as compared to peers suffering heavy losses, g) executing GOI orders in defence, h) building a strong order book by bidding vigorously for projects to be awarded by Indian PSUs and defence sector pursuant to "Make in India" initiative. Post correction from a peak of Rs. 491.15, we believe there is high margin of safety at CMP of Rs. 362.90 (attractively valued at P/BV of 1.29x. With opening of the economy, the Company's operations are expected to near normalcy levels. At CMP of Rs. 362.9, the stock is attractively valued at a P/E of 7.5x at reported FY20 EPS of Rs. 48.48 and P/E of 11x on trailing twelve month EPS of Rs. 34.66. The Company has strong Balance Sheet with low debt/equity of 0.03x which provides significant headroom for growth, enjoys decent return ratios (ROE: 17.09%) and credit rating of AA+ and offering good dividend yield of around 4 percent. Although H1FY21 earnings were subdued as Q1FY21 was badly affected, we expect earnings to improve in H2FY21 and FY22. One quarter of good performance will lead to re-rating of the stock and will catch investors' eye. We expect an upside of 24 percent for investors with a horizon of 12 months with a target of Rs. 450 (12x at estimated FY22 EPS of Rs. 41).**



## Key highlights of Cochin Shipyard Q2FY21 concall

- 1) The Company's CMD, Shri Madhu S. Nair, term got extended for another five years. His original term of five years was supposed to end in this December, and now he has got another five years more to serve the company.
  - 2) The Company has signed contracts for construction of two autonomous, electric ferry vessels for Norway. It is an export order for Norway. The Company has also signed a MoU with Fincantieri, Italy for technical collaboration for technical supports in different areas and for jointly bidding for the new Ship Building project for Navy and other Defense sector.
  - 3) The Company delivered five fishing vessels for Tamil Nadu Fishermen, two numbers of RO-RO vessels to Inland Waterways Authority of India and has delivered one marine ambulance boat to Kerala State Fisheries Department.
  - 4) The Company also acquired Tebma Shipyard Limited at Malpe through the IBC process and has paid the bid amount on 15th September 2020. And from that date onwards, the Tebma Shipyards has become 100% subsidiary of Cochin Shipyard Limited. The Company plans to start the operations by January 2021 onwards.
  - 5) The construction activities in its another subsidiary, Hooghly Cochin Shipyard Limited is also progressing. And though there were some delays due to the COVID pandemic, the Company is now targeting the commissioning by March this financial year itself.
  - 6) Regarding the infra projects, the two major infra projects which are under construction. The International Ship Repair Facility at Cochin Port Trust, the percentage of completion is ~73% as of 30th September '20 and as of now, the Company is planning to complete the projects by December '21. And out of the Rs.970 crores of total project cost, the Company has already spent around Rs.466 crores as on September 2020. Regarding the dry dock, the physical percentage completion is 35% as on date and has spent around Rs.585 crores out of Rs.1,799 crores. And the target of completion is December '22. On the operational front, while it was able to substantially ramp up the production activities compared to Q1, the Company could not achieve the turnover and profits reported for the same period last year due to various constraints due to the COVID pandemic and its aftereffects still persists.
  - 7) The major constraint faced by the Company during the quarter was mainly because of the restrictions on international and interstate travel. The Company was not able to get OEM service engineers for the critical commissioning of the equipment and systems on board ships. These factors have adversely affected the commissioning of equipments in certain ships and affected delivery of these ships as on Q2FY21 concall date. Despite the above, the company is taking all efforts to improve the level of operations with various proactive measures and moving forward.
  - 8) CSL said it is also expanding geographically and has commenced ship repair units at Mumbai, Kolkata and Port Blair in addition to its Kochi facilities. Besides, it is also setting up fully-owned subsidiary shipyards at Kolkata and Malpe, Karnataka to cater to construction of small and medium vessels as well as inland water vessels. It is also augmenting its infrastructure in Kochi and is currently investing around Rs. 2,800 crore in construction of a new dry dock at CSL and a ship lift based ship repair yard at Willingdon Island, Kochi
- 1) Capex - For ISRF as of 31st March '20, the Company had incurred capex of Rs.438 crores and for FY'2021, the Company will be spending another Rs.143 crores and for FY'21-22 Rs.130 crores. For the drydock, 31st March '20 was Rs.556 crores, FY'21 Rs.201 crores and FY'22 Rs.200 crores.
  - 2) The total cash position is around Rs.3,440 crores on 30th September, 2020. Out of that the IAC and customer advances around Rs.1,800 crores and CSL cash is around Rs.1,400 crores which excludes the IPO funds also.

## Impressive background

In the last two decades, it has built and delivered vessels across broad classifications including bulk carriers, tankers, Platform Supply Vessels ("PSVs"), Anchor Handling Tug Supply vessels ("AHTSs"), barges, bollard pull tugs, passenger vessels and Fast Patrol Vessels ("FPVs"). It is currently building India's first Indigenous Aircraft Carrier ("IAC") for the Indian Navy.

First shipyard in India to have implemented Integrated Management System comprising of Quality Management System (ISO 9001:2008), Environment Management System (ISO 14001:2004 ) and Occupational Health and Safety Management System (OHSAS 18001:2007).

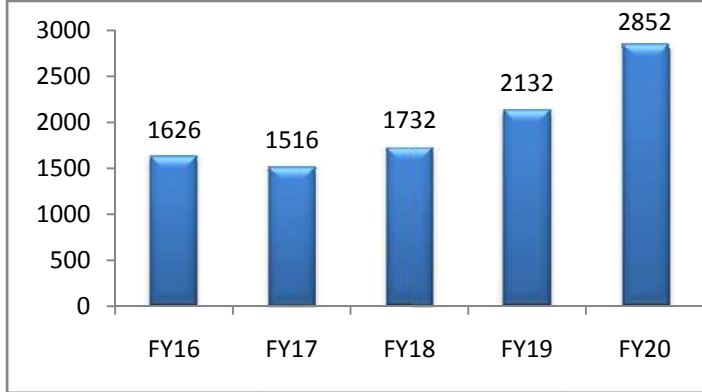
The Company built various types of vessels including Oil Tankers, Bulk Carriers, Tugs, Dredger, Platform Supply Vessels, Passenger Vessels, Anchor Handling Tug Supply Vessels etc. The Company is currently building Aircraft Carrier, Technology Demonstration Vessels, Passenger



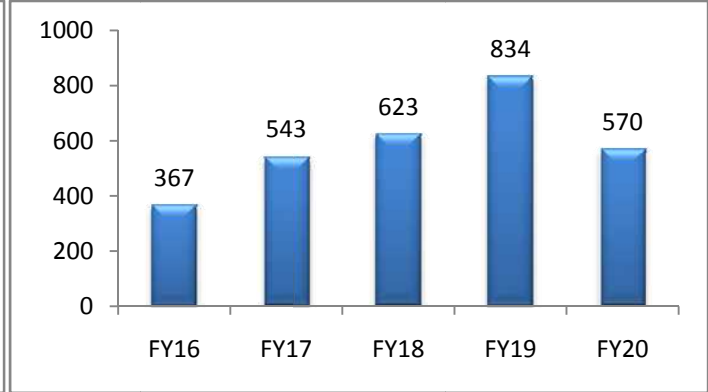
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Vessels, Floating Border Outpost Vessels, Ro-Ro Vessels, Marine Ambulance Boats, Fishing Vessels, Mini General Cargo Ships, ASW Corvettes, Hybrid Electric – Passenger Vessels etc. Only yard in India which has undertaken dry-dock repairs of Aircraft Carriers INS Viraat and INS Vikramaditya. The Company can undertake complex and sophisticated repairs to all types of vessels including Oil Rigs, Naval and Coast Guard Vessels, Offshore Vessels, Dredgers, Fishing Vessels, Passenger Ships, Port Crafts, and all other Merchant Vessels.

**Shipbuilding Income (Rs. in crores)**



**Ship Repair Income (Rs. in crores)**



Source: Company, Ajcon Research

### Order book position

Sr.No.	Project	Total no. of vessels	Balance of orders in hand (Rs. in crs.)
1	<b>Order from Indian Navy (IAC &amp; ASW Corvette)</b>	<b>1</b>	<b>12,062.38</b>
2	<b>Orders from GoI, MOS</b>	<b>4</b>	<b>554.55</b>
3	<b>Orders from GOI Ministry of Defence (MOD) &amp; MHA</b>	<b>10</b>	<b>308.39</b>
4	<b>Small passenger ferry (KMRL) &amp; other Commercial Shipbuilding Orders</b>	<b>30</b>	<b>437.03</b>
5	<b>Ship repair orders*</b>	<b>-</b>	<b>500</b>

Source: Company

### Contributed to Fisheries sector under Blue Revolution scheme; rare sight in Indian shipbuilding sector..

In March 2020, CSL delivered 8 Ro-Pax vessels to the Inland Waterways Authority of India (IWAI). The vessels designed to carry both passengers and vehicles would be operated in strategic locations in National Waterways 1 and 2. In FY20, CSL delivered 8 fishing vessels and 5 vessels were ready for delivery. The vessels have been built for the beneficiaries of Tamil Nadu Fisheries Department under the 'Blue Revolution Scheme' introduced by the Government of India. These vessels targets to promote sustainable fishing practices such as Gill netting and Long lining in the deep sea and also to provide necessary fishing infrastructural facilities to support deep sea fishing. This indeed is reflection of the commitment of CSL Shipbuilding division.

### New Initiatives

#### Hooghly Cochin Shipyard Limited

Hooghly Cochin Shipyard Limited (HCSL) was initially set up as a joint venture (JV) between CSL and Hooghly Dock & Port Engineers Limited (HDPEL) and pursuant to the Union Cabinet approval, HCSL has become a wholly owned subsidiary of CSL with effect from November 01, 2019. Construction works of two outfitting jetties at the Nazirgunge facility were completed on December 31, 2019 as against MoU target of February 15, 2020, thereby meeting the 'Excellent' rating criteria of the CSL MoU with Ministry of Shipping. The jetties were inaugurated on January 30, 2020 in the presence of distinguished guests. Presently, civil construction work is in progress and has crossed 50% mark. Further, the activities under various other work packages viz., Electrical, Gas Piping, Fire Fighting etc. are also progressing which are planned in line with the progress of the civil works. The project site had to shut down its activities from March 23, 2020 to June 08, 2020 due to the lockdown imposed by the Government Authorities to contain the spread of the Pandemic. Even though the activities at the project site resumed from June 09, 2020, limited manpower is being employed to ensure compliance with the Guidelines issued by the Government Authorities on account of the Pandemic. The HCSL team is constantly monitoring the Project and aiming at earliest completion of the project and commencement of operations. The estimated project cost is Rs. 169 crores. Construction The Company

targets March 2021 as completion date. The facility targets construction and repairs of the Inland Water and Coastal Vessels - will cater to emerging demands of NW-1, NW-2 and NW-5 sector.

#### **TEBMA Shipyards Limited (TSL)**

As part of CSL's long term strategy, viz., CRUISE 2030, CSL aspires to achieve 6x-8x growth by 2030 and towards this the Company identified deep sea fishing vessel as one of the several opportunities. Since fishing vessel segment calls for a dedicated facility so as to cater to the large volume of business different from the conventional shipbuilding process, CSL was in search of a suitable facility to enter into this segment. During this period, CSL found an opportunity in TSL, Malpe which was undergoing Corporate Insolvency Resolution Process (CIRP) under the Insolvency and Bankruptcy Code, 2016 (IBC) and bidding for TSL through IBC was considered appropriate. Accordingly CSL submitted its Resolution Plan which was approved by the National Company Law Tribunal (NCLT), Chennai on March 04, 2020. Total investment of Rs. 80 crores. CSL is in the process of augmenting and refurbishing facilities to resume operations. It is expected to resume operations in early 2021. The facility targets construction and repairs of small vessels viz., tugs, fishing vessels etc.

#### **CSL-Mumbai Ship Repair Unit (CMSRU)**

CSL entered into an agreement with the Mumbai Port Trust on October 20, 2018 to upgrade, operate and manage Ship Repair Facility at Hughes dry-dock and berth nos. 5, 6, 7 and 8 of Indira Dock of Mumbai Port. Subsequent to the execution of the agreement, CSL has commenced the ship repair operations in Mumbai on January 18, 2019. Post operationalization and repairs of around nine vessels at CMSRU in financial year ending 2019, CSL has successfully undertaken repairs to 24 vessels during the FY 2019-20. This includes submarine separation operation of Indian Naval submarine INS Vela through M/s. MDL & repairs of guided-missile destroyer INS Delhi. Other services undertaken from this new facility this year include - repairs of 5 SCI vessels including the major repair to Samudra Nidhi, 2 vessels of the Indian Coast Guard in addition to providing repair services to many private owners/ agencies. CSL had also taken up repairs for a foreign client and successfully completed repairs to accommodation barge SS-3 of M/s. Bayu Maritim Berkah, Indonesia."

#### **CSL-Kolkata Ship Repair Unit (CKSRU)**

CSL signed the agreement with Kolkata Port Trust on March 28, 2019 for operations and management of ship repair facility at Netaji Subhas Dock (NSD) for a period of 30 years. The new venture is being managed by separate unit of CSL known as "CSL-Kolkata Ship Repair Unit (CKSRU). CSL commenced ship repair operations at NSD on October 10, 2019 with docking of naval vessel 'INS Kavaratti'. The first commercial repair vessel 'Greatship Vidya', an Anchor Handling Offshore Support Vessel was docked at CKSRU in January 2020. The Honorable Prime Minister of India, Shri Narendra Modi formally inaugurated the CKSRU facility on January 12, 2020 at a function held as part of the commencement of the Sesquicentenary Celebrations of the Kolkata Port Trust. CSL is currently in the process of setting up the necessary infrastructure facilities, recruitment of dedicated manpower, vendor empanelment and developing the ship repair ecosystem at CKSRU.

#### **CSL-Andaman & Nicobar Ship Repair Unit (CANSRU)**

CSL has entered into an agreement with the Andaman & Nicobar (A&N) Administration on November 28, 2019 to commence operations at Marine Dockyard, at Port Blair, a facility that is currently being operated directly by the A&N Administration. Under the ambit of this agreement, CANSRU shall assist the Administration in developing an overall ship repair ecosystem at Andaman & Nicobar Islands. CANSRU shall also assist & associate in augmentation and modernization of existing facilities. Focus on skill development in consultation with the Administration and technical institutions located in the Islands, is also part of the mandate of the agreement. The agreement is for a period of 30 years, during which CSL is expected to spruce up the operational efficiency of the dockyard as well as improve the overall ship repair ecosystem in the island to ensure faster turnaround and minimise downtime of the vessels, which are the lifeline for the Islands. CSL has since nominated its first set of executives for CANSRU. A CSL team consisting of officers representing various key departments conducted a dipstick audit of CANSRU as mandated in the agreement and the dipstick audit report has also been prepared. Submission of the same and further progress on the operational aspects will be possible once COVID restrictions are lifted. The recruitment process of CANSRU manning team has also been initiated at CSL.



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## New dry dock





**International Ship Repair Facility**



Source: Company

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**Buy** – Absolute return of 20% and above

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**Book profits:** On achieving the price target given in the research report for a particular Company or on a occurrence of a specific event leading to change in fundamentals of the Company recommended

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