

**Garden Reach Shipbuilders and Engineers Ltd**
**UPSIDE: 21%**
**Date: 1<sup>st</sup> January 2026**

We initiate coverage on Garden Reach Shipbuilders & Engineers Ltd (GRSE) with a **"BUY"** recommendation and a target price of ₹2,951, based on 45× FY27E EPS of ₹65.58. The company is well positioned to benefit from a multi-year defence and commercial shipbuilding upcycle, with a significant portion of its existing order backlog expected to be executed over FY26–FY28E. Supported by strong execution capabilities, capacity expansion initiatives and favourable policy tailwinds, GRSE offers sustained growth visibility, although timely award of upcoming naval programs and disciplined execution will remain critical for long-term value creation.

**Business Overview:**

**Garden Reach Shipbuilders & Engineers Ltd (GRSE)** is one of India's leading defence shipbuilding companies, operating under the administrative control of the Ministry of Defence. The company's core shipbuilding and ship repair operations are located in Kolkata along the Hooghly River, supported by a marine diesel engine manufacturing facility in Ranchi, Jharkhand. With a legacy spanning several decades, GRSE holds the unique distinction of being the first Indian shipyard to construct warships for both the Indian Navy and the Indian Coast Guard.

Over the years, the company has delivered more than 100 modern warships, highlighting its strong technical expertise and execution capability. GRSE has evolved into a diversified defence engineering company, with operations extending beyond shipbuilding to include complex naval platforms, advanced weapon systems, commercial vessels, deck machinery, marine diesel engines, naval surface guns and Bailey-type portable steel bridges.

Backed by integrated design-to-delivery capabilities and a consistent execution track record, GRSE plays a critical role in strengthening India's defence preparedness, while contributing to the development of indigenous shipbuilding capabilities and expanding India's footprint in the global maritime domain.

**Investment Rationale**

- Strong order book visibility supported by a ₹20,200+ crore executable backlog and a high-confidence defence pipeline that could scale the order book beyond ₹50,000 crore by FY26E.
- Multi-year growth potential driven by large AoN-approved defence programs of ₹1.52 lakh crore, the strategic NGC L1 position and participation in marquee projects such as P-17 Bravo Frigates.
- Robust execution track record with timely deliveries across complex naval platforms, underpinning revenue growth guidance of 25–30% YoY.
- Diversified business model spanning shipbuilding, ship repair, marine engines, weapon systems and engineering products, reducing earnings volatility.
- Emerging growth drivers from naval surface guns, domestic commercial shipbuilding and expanding export opportunities, particularly in multi-purpose vessels.
- Capacity expansion underway through parallel brownfield and greenfield initiatives, with concurrent shipbuilding capacity expected to scale from 24 ships in FY24 to 40 ships by FY29–FY30E, positioning GRSE to handle higher order inflows and larger vessel sizes over the long term.
- Strong balance sheet and liquidity with healthy cash reserves of ₹3,009 crore, enabling smooth execution and capex.
- Favourable policy tailwinds from rising defence budgets, Atmanirbhar Bharat initiatives and government support for domestic shipbuilding.

**Key Stock Data**

CMP (₹) (31.12.2025)	2,444.10
Industry	Aerospace & Defense
Market Cap (₹ in Crore)	28,077
52 Week High/Low (₹)	3,535 / 1,180
BSE Code	542011
Bloomberg	GRSE: IN

**Financial Data (₹ in Crores/ Unless stated otherwise)**

Particulars	FY24	FY25	H1FY26	FY26E	FY27E
Rev. from operations	3,593	5,076	2,987	6,497	8,316
EBITDA	235	422	268	585	748
EBITDA Margin (%)	6.55	8.31	8.97	9.00	9.00
PAT	357	527	274	613	754
PATM (%)	9.94	10.39	9.15	9.44	9.07
EPS	31.19	46.04	23.92	53.32	65.58

**Shareholding pattern**

Particular	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26
Promoters (%)	74.50%	74.50%	74.50%	74.50%	74.50%
FII (%)	3.65%	3.71%	3.85%	5.33%	3.26%
DII (%)	1.87%	1.87%	1.90%	1.81%	1.99%
Public (%)	19.98%	19.92%	19.76%	18.36%	20.25%

**Price Chart**


Source: Company, RHP, Screener, NSE

### Financial Highlights

- **Operational performance during Q2FY26** was supported by consistent execution and timely progress across key projects, broadly in line with expectations. Revenue grew strongly by 45.5% YoY and 28.1% QoQ to ₹1,677 crore, driven by robust milestone achievements.
- **Profitability improved materially**, with EBITDA margins expanding by 335 bps YoY (largely flat QoQ) to 9.3%, supported by a combination of lower raw material costs and higher revenue recognition from the P-17 Alpha project, which has entered high-value phases such as equipment installation and sea trials. Given that the P-17 Alpha program is a defined profit contributor, its steady execution is expected to sustain healthy margins through the remainder of the fiscal year. Consequently, EBITDA surged 127.2% YoY (+39.5% QoQ) to ₹156 crore, while PAT increased by 57.3% YoY (+28% QoQ) to ₹153.8 crore, reflecting strong operating leverage.
- **For H1FY26**, GRSE reported robust growth, with revenue up 38.1% YoY to ₹2,987.2 crore. EBITDA margins improved significantly to 9.0% versus 5.8% in H1FY25, while PAT rose 48.1% YoY to ₹274 crore, demonstrating sustained margin expansion and earnings momentum.
- **Subcontracting costs increased during the period**, in line with management's long-standing strategy of outsourcing non-core activities, including select construction-related work. Management clarified that, as revenues scale up, a proportional increase in subcontracting costs is natural and does not pose any concern for margin sustainability.
- Management has reiterated its **revenue growth guidance of 25–30% YoY**, reflecting confidence in execution visibility and order book strength.
- **Segment-wise bifurcation**, the defence business contributed 83% of revenues in Q2FY26, while the non-defence segment increased to 17%, indicating gradual diversification.
- **The balance sheet remains strong**, with cash and cash equivalents of ₹3,009 crore. Of this, ₹283 crore represents own funds, while ₹2,874 crore pertains to project-specific funds, parked to meet partner payments and other project-related requirements, ensuring smooth execution and liquidity comfort.

### Industry Overview & Market Opportunity

#### Indian Defence Sector: Macro Tailwinds & Strategic Focus

India's defence sector remains a key priority area for government spending, driven by heightened geopolitical risks, strategic security imperatives in the Indian Ocean Region (IOR) and a sustained focus on modernisation and self-reliance under the Atmanirbhar Bharat framework.

India is the fourth-largest military spender globally and maintains the second-largest standing armed forces, with approximately 1.5 million active personnel, underscoring the structural and long-term nature of defence expenditure. The domestic defence ecosystem is supported by a robust industrial base, comprising 16 Defence Public Sector Undertakings (DPSUs), over 430 licensed private defence companies and approx. 16,000 MSMEs, strengthening indigenous manufacturing and supply-chain depth.

- *Defence Budget (FY26): ₹6,81,210 crore*
- *FY27 Budget Expectation (MoD): 20% YoY increase, signalling continued emphasis on capital outlay*

While India's defence spending stands at around 2.3% of GDP, lower than global defence majors (typically 3–5% of GDP), this gap highlights structural headroom for sustained increases, particularly in capital-intensive segments such as naval platforms, aerospace systems and advanced weaponry.

Further reinforcing this trajectory, the Defence Acquisition Council (DAC) recently cleared procurement proposals worth ₹79,000 crore (US\$8.78 billion) for the Army, Navy and Air Force. These approvals include radars, radios, loiter munitions, guided rockets and naval support systems such as bollard-pull tugs and high-frequency manpack radios, underscoring the government's continued focus on capability enhancement and domestic sourcing.

### Key Sector Themes

- **Modernisation:** Upgrading platforms with advanced sensors, weapons, and electronic systems
- **Maritime Strength:** Sustained investments in naval domain awareness, logistics, and fleet support
- **Indigenisation:** Preference for domestic procurement under *Make-in-India* and *Buy (Indian-IDDM)* categories

The combination of rising budgets, DAC approvals and indigenisation policies provides strong multi-year visibility for domestic defence manufacturers across platforms and systems.

### Indian Shipbuilding Industry – Multi-Year Growth Cycle

The Indian shipbuilding industry is transitioning from sporadic project-based ordering to a long-duration structural growth phase, underpinned by defence modernisation, maritime security priorities and supportive policy frameworks aimed at reducing dependence on foreign shipyards. Naval shipbuilding programs typically span 5–8 years, providing sustained backlog conversion and predictable revenue streams for established domestic yards.

### Key Demand Drivers

**Naval Fleet Expansion:** Programs including Next-Generation Corvettes, P-17B frigates, Landing Platform Docks (LPDs) and fleet support ships

**Maritime Security Requirements:** Enhanced ISR capabilities, patrol vessels and coastal defence platforms

**Commercial & Export Opportunities:** Rising global demand for specialised vessels amid capacity constraints at international shipyards

**Maritime Week 2025 Commitments:** Total investments of ₹12 lakh crore pledged, with 20% (₹2.4 lakh crore) directed toward shipbuilding and allied infrastructure.

### Government Schemes & Policy Support – Enablers of Expansion

#### Shipbuilding Support Initiatives (₹44,700 Crore Outlay)

The Government of India has notified detailed guidelines for two major shipbuilding support schemes with a combined outlay of ₹44,700 crore, aimed at strengthening India's shipbuilding and maritime ecosystem.

#### Shipbuilding Financial Assistance Scheme (SBFAS)

- Outlay: ₹24,736 crore
- Financial support: 15–25% per vessel, linked to vessel type and size
- Disbursement: Milestone-based across ship construction stages
- Expected impact: Support for shipbuilding projects worth ₹96,000 crore over the next decade
- Objective: Improve cost competitiveness and encourage series production

#### Shipbuilding Development Scheme (SbDS)

- Outlay: ₹19,989 crore
- Focus areas: Capacity creation, greenfield clusters, infrastructure modernisation
- Support includes Dry docks, fabrication facilities, automation and skill development
- Institutional support: Establishment of an India Ship Technology Centre to promote design, innovation and R&D

### Policy Impact

- Enhances competitiveness of Indian shipyards versus global peers
- Reduces import dependence for vessels and critical components
- Strengthens forward and backward linkages across the maritime value chain
- Improves project bankability through financing and risk-mitigation mechanisms

Additional support stems from Make-in-India, Atmanirbhar Bharat, positive indigenisation lists, Maritime India Vision and Sagarmala, collectively creating a favourable long-term operating environment.

### Business Highlights – Ships & Products Portfolio

Garden Reach Shipbuilders & Engineers Ltd (GRSE) operates as a strategic defence shipyard and engineering company, primarily serving the Indian Navy and Indian Coast Guard, while also catering to select international and commercial customers. The company's operations are anchored by its shipbuilding and ship repair facilities in Kolkata (along the Hooghly River) and a marine diesel engine manufacturing plant in Ranchi, Jharkhand, providing strong geographic and operational support to its diversified business model. GRSE's presence across shipbuilding, ship repair, engineering products and marine diesel engines enables revenue stability, execution flexibility and long-term relevance within India's defence and maritime ecosystem.

**Core Growth Engine - Shipbuilding Division** is the primary revenue contributor, focused on the design and construction of a wide range of complex naval and coast guard vessels. The company has established itself as a trusted strategic partner for India's maritime security forces, with proven execution across multiple vessel classes.

#### Key Vessel Categories

Vessel Type	Purpose & Key Features
<b>Frigates</b>	Frontline surface combatants equipped with advanced weapons, sensors and surveillance systems for multi-role operations.
<b>Missile Corvettes</b>	Compact yet powerful platforms featuring modern missile systems for surface strike and coastal defence.
<b>ASW Corvettes</b>	Specialised vessels designed to counter underwater threats, equipped with advanced sonar and anti-submarine warfare systems.
<b>Landing Ships (LST / LCU)</b>	Critical for amphibious operations, troop deployment and transportation of vehicles and equipment.
<b>Survey Vessels</b>	Designed for hydrographic surveys, seabed mapping and oceanographic research to support naval operations.
<b>Patrol Vessels</b>	Versatile platforms used for coastal surveillance, maritime policing and search-and-rescue missions.
<b>Fleet Tankers</b>	Provide fuel, water and supplies to naval fleets, enabling extended endurance during deployments.
<b>High-Speed Boats</b>	Includes Hovercrafts and Fast Interceptor Boats for rapid-response operations, coastal security, and interception roles.

**Ship Repair and Maintenance Division** is the Emerging Margin Driver, servicing both defence and commercial vessels. It supports lifecycle management of ships and provides recurring business opportunities.

#### Capabilities & Reach

The division provides comprehensive dry docking, refit management and mechanical and electrical repair services to the Indian Navy, Coast Guard and international clients, with repair engagements across Sri Lanka, Maldives, Mauritius and Seychelles.

**Engineering Products Division** provides Infrastructure & Defence Support while leveraging GRSE's manufacturing and design expertise to produce specialised infrastructure and maritime equipment, supporting both defence logistics and civilian applications.

#### Key Products

**Portable Steel Bridges:** Designed for rapid deployment in disaster relief, military logistics and remote connectivity

FY25 production: 102 bridges (7,715 MT)

Exports: 14 bridge sets worth ₹27.93 crore supplied to Nepal and Bhutan

**Deck Machinery:** Includes anchoring systems, towing winches and cargo handling equipment for naval and commercial vessels.

**Marine Diesel Engine Division** located in Ranchi underpins India's indigenisation agenda by developing and manufacturing critical marine propulsion systems, strengthening technological self-reliance in defence shipbuilding.

Through a strategic technology partnership with MTU, Germany, the division undertakes assembly, testing, maintenance and quality assurance of high-performance marine diesel engines for naval vessels and specialized maritime platforms.

### Order Book (as on 30 September 2025)

GRSE's ₹20,205.56 crore order book comprises 10 shipbuilding projects with 43 platforms, supported by defence equipment, ship repair, engineering products and marine engine orders offering diversified and long-duration revenue visibility.



### Future Order Book Potential: Strong Multi-Segment Growth Visibility

GRSE's medium- to long-term order inflow visibility reflects a multi-year scaling phase, with the potential to more than double the current order book, driven by a robust defence pipeline, emerging domestic commercial shipbuilding opportunities and expanding export traction.

#### Strategic L1 Opportunity for Next-Generation Corvette (NGC)

GRSE has been declared L1 (lowest bidder) for a large defence program, providing high-confidence order inflow visibility, subject to contract signing in 3–4 months.

As per management, the project carries an estimated order value of ₹30,000 crore with an indicative PAT margin of around 7.5%.

#### Near-Term Defence Pipeline (RFPs Submitted / Pending)

GRSE is actively participating in several tenders where bids have already been submitted or are in advanced stages of submission, providing near-term order inflow visibility.

Total likely value is ₹8,700 crore

Key projects include

- 18 SPV projects for the Indian Coast Guard
- 5 Next-Generation Survey Vessels for the Indian Navy
- 2 Multi-Purpose Vessels for the Indian Navy

#### Medium-Term Defence Opportunities (AoN-Approved Projects)

These projects have received Approval of Necessity (AoN) from the Defence Acquisition Council, forming the core medium-term revenue pipeline, although contracts are yet to be awarded.

Aggregate estimated value: ₹1.52 lakh crore

Project	Quantity	Estimated Value
<b>P-17 Bravo Frigates (RFP expected by end-Q4 FY26)</b>	7 ships	₹70,000 cr
<b>Landing Platform Docks (LPD)</b>	4 units	₹35,000 cr
<b>Mine Counter Measure Vessels</b>	12 ships	₹32,000 cr
<b>Other small crafts (FIBs, Interceptor Craft, Waterjet FACs, NOPVs)</b>	174+ units	₹15,000 cr

*Source: Company, RHP, Screener, NSE*

#### **Longer-Term Defence Programs**

Large strategic programs such as Submarines, ISP projects and Next-Generation Destroyers remain outside the current pipeline assessment, as AoN has not yet been accorded. These represent additional optional upside beyond the stated opportunity set.

#### **Naval Surface Gun Pipeline (30 mm)**

Based on management commentary, GRSE's newly developed 30mm Naval Surface Gun has successfully completed acceptance trials and is gaining traction with both the Indian Navy and Coast Guard, translating into a growing order and inquiry pipeline.

Status	Quantity	Description/Current Phase
<b>Contracted</b>	10 Guns	Orders already signed; production/stabilization phase.
<b>RFP/Final Negotiation</b>	7 Guns	Bid submitted; currently under final contract negotiations.
<b>Nascent Inquiry</b>	49 Guns	Initial inquiry stage; represents long-term demand.

*Source: Company, RHP, Screener, NSE*

#### **Domestic Commercial Shipbuilding (Non-Defence PSU Demand)**

The Ministry of Shipping has aggregated commercial vessel requirements of non-defence PSUs, providing a structural domestic opportunity for Indian shipyards.

The identified demand spans 207 vessels across MR/LR tankers, platform support vessels and Supramax, Aframax and Panamax categories, with a conservative estimated value of ₹5,000 crore+.

#### **Export Opportunity: Expanding Commercial Shipbuilding**

GRSE is witnessing rising traction from European shipowners, particularly in multi-purpose vessels, supported by its existing export execution track record, including a confirmed order for 12 vessels and an MoU signed with another European client. As per management, export-led commercial shipbuilding is expected to scale meaningfully over the next 6–12 months amid growing global interest in Indian shipyards.

As per management, the order book is expected to exceed ₹50,000 crore by FY26E, subject to the signing of the NGC contract within the next 3–4 months and could further scale beyond ₹75,000 crore by FY27E with the potential inclusion of P-17 Bravo, as GRSE plans to participate in the P-17B tender (total project value ₹70,000 crore, to be shared between two shipyards) with the RFP likely by end of Q4FY26; however, timely contract awards and efficient execution will be key to sustaining growth beyond FY27E.

**Project-wise Order Backlog with Execution Progress and Delivery Milestones**

Project Category	Project Name	Total Units	Execution Progress & Key Milestones	*Order Backlog (₹ Cr)
<b>Major Naval Defence</b>	P-17 Alpha Advanced Frigates	3	Ship 1 delivered ahead of schedule; Ship 2 in sea trials (Nov) and to be delivered ahead of schedule; Ship 3 60% complete, delivery by mid-2026	9,500
	Anti-Submarine Shallow Water Craft (ASW-SWC)	8	Ships 1–2 commissioned; Ship 3 trials completed, delivery Dec-2025; Ships 4–5 at 80% & 72%, delivery H1-2026; Ships 6–8 at 65–70%, project completion by late-2026	3,075
	Survey Vessel (Large)	4	Ships 1–3 delivered; Ship 4 at 85%, sea trials completed, delivery Feb-2026	400
	Next-Generation Offshore Patrol Vessels (NGOPV)	4	Ships 1–2 >60% complete, launching early-2026; Ships 3–4 52% complete, launching late-2026; overall project on track for 2028 timeline	3,250
<b>Export Projects</b>	Multi-Purpose Vessels (Germany)	12	Ship 1 completed; remaining vessels to be delivered progressively by 2029	5,400
	Trailing Suction Hopper Dredger (Bangladesh)	1	Project kick-started (₹135 Cr project); delivery planned for mid-2027	95
<b>Specialized Research</b>	Ocean Research Vessel (MoES)	1	Part of specialized research fleet; deliveries scheduled between 2027–2028	750
	Coastal Research Vessels (GSI)	2	Under specialized research program; deliveries between 2027–2028	460
	Acoustic Research Ship (DRDO)	1	Design & execution underway; delivery planned within 2027–2028 timeframe	220
<b>Domestic Civil</b>	Hybrid Electric Ferries (West Bengal)	13	World Bank funded; 7 vessels (100-pax) and 6 vessels (200-pax); deliveries start early-2026, completion by 2027	220
<b>Diversified Systems</b>	30mm Naval Surface Gun Systems	10	Production & supply aligned with naval vessel timelines	150

\* Order backlog values are as per management commentary and project disclosures including longer dated and allied orders  
 Source: Company, RHP, Screener, NSE

### Capital Expansion Plan

GRSE has highlighted the need for capacity augmentation amid strong defence and commercial demand and is pursuing **parallel brownfield and greenfield expansion initiatives** to support long-term growth.

#### Brownfield Expansion – West Bengal

The company has identified three expansion pockets in West Bengal, of which at least two have already been acquired and are under development. Execution is underway, enabling near-term capacity enhancement alongside ongoing modernization at existing facilities.

#### Greenfield Shipyard – West Coast

In parallel, GRSE is planning a greenfield shipyard on the West Coast to address future requirements, particularly for large commercial and export vessels. A site has been identified, the DPR is under preparation and expected within a year, with a conservative 3–4 year gestation period post-implementation.

#### Capacity Expansion Trajectory

Period	Concurrent Shipbuilding Capacity
<b>FY24</b>	24 ships
<b>FY25</b>	28 ships
<b>FY26E</b>	32 ships
<b>FY29–FY30E</b>	40 ships

*Source: Company, RHP, Screener, NSE*

Management has indicated that a capacity of **40 concurrent ships** should be **adequate to meet future project requirements**, including larger-dimension commercial vessels.

#### Key Risks

- A significant portion of future growth depends on the timely award of large expected naval orders such as Next-Generation Corvettes, P-17 Bravo; any delay, reduction, or non-award could impact order book growth and revenue visibility beyond FY27E.
- Shipbuilding projects are complex and long-gestation in nature; execution delays or cost overruns may defer revenue recognition and cash inflows.
- The planned capacity ramp-up from 28 to 32 and further to 40 concurrent ships is still underway; delays in brownfield expansion or the West Coast greenfield project could constrain execution if demand accelerates.
- The business remains highly dependent on government defence budgets and procurement timelines, making it vulnerable to changes in policy priorities and capital allocation.
- Milestone-based payments, rising input costs and largely fixed-margin contracts may exert pressure on working capital and profitability.
- Increasing competition from other PSU and private shipyards could impact order win probability and pricing power.

### Management Overview

Name	Designation	Description
Cmde P. R. Hari, IN (Retd.)	Chairman & Managing Director	Naval veteran with over 36 years of experience; Mechanical Engineer with a Master's in Defence & Strategic Studies; alumnus of DSSC Wellington and Naval War College Goa; Commissioning Engineer Officer of INS Shivalik; associated with GRSE since 2016 and appointed CMD in June 2022.
Cdr. Shantanu Bose, IN (Retd.)	Director (Shipbuilding)	Naval Architect with over two decades of naval and shipbuilding experience; associated with GRSE since 2013; instrumental in executing P17A-class frigates and driving modern shipbuilding practices including Integrated Construction, VR-based design, and PDM/PLM systems.
Capt. P. Sunilkumar, IN (Retd.)	Director (Corporate Planning & Personnel)	Naval officer with nearly 22 years of service; engineering and management background; previously led GRSE's Fitting Out Unit and key corporate planning functions; brings expertise in project management, cost control, supply chain, and workforce management.
Shri Rajeev Prakash	Government Nominee Director	Joint Secretary (Naval Systems), Department of Defence Production; senior government official with extensive experience in finance and defence administration; former and current board member across key defence DPSUs, strengthening policy alignment and governance.

**Peer Comparison as of FY25**

Name of the Company	Closing Price (Dec 31 <sup>st</sup> , 2025)	Market Cap (₹ Crores)	Face Value (₹)	Revenue (₹ Crores)	FY25 PAT ₹ Crores)	EV/EBITDA (x)	D/E (%)	ROE (%)	P/E (x)
<b>Garden Reach Shipbuilders &amp; Engineers Ltd</b>	2,444.10	28,076.70	10.00	5,076	527	27.90	0.01	27.6	45.50
<b>Peer Companies</b>									
<b>Mazagon Dock Shipbuilders Ltd</b>	2,490.20	1,00,441.62	5.00	11,432	2,414	28.23	0.00	34.02	43.00
<b>Cochin Shipyard Ltd</b>	1,620.10	42,671.70	5.00	4,820	827	34.19	0.20	15.63	56.20

Source: Company, RHP, Screener, NSE

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