

## Execution likely to pick up...

**About the stock:** Cochin Shipyard (CSL) was incorporated in 1972 as a Government of India company, with the first phase of facilities coming online in 1982. CSL is the largest shipbuilding and maintenance facility in India.

- The yard has facilities to build vessels up to 1.1 lakh tonnes (lt) and repair vessels up to 1.25 lt annually
- CSL has secured shipbuilding orders from internationally renowned companies from Europe and the Middle East in the recent past

**Q3FY23 Results:** Below expected performance in the ship-building segment.

- Revenue was at ₹ 641.7 crore, down 32.7% YoY on account of weak execution in ship-building segment. Ship-repair showing improvement QoQ
- EBIDTA came in at ₹ 148.8 crore, up 5.2% YoY on lower RM and better performance in high margin ship-repair segment
- PAT was at ₹ 110.4 crore, down 14.7% YoY

**What should investors do?** Execution is expected to improve significantly over FY24-25E, which would drive revenues. Margins are also expected to improve led by improving performance in ship repair segment and operating leverage benefits.

- We maintain our **BUY** rating on the stock

**Target Price and Valuation:** We value CSL at ₹ 620 i.e. 13x PE (FY25E).

**Key triggers for future price performance:**

- Order backlog is estimated at ~₹ 21000 crore (~7x TTM revenues) including contract for six NG missile vessels. Majority of large contracts in the order book are expected to witness meaningful execution from FY24E onwards
- Healthy order book and strong pipeline of projects in the coming two to three years from Indian Navy and other international customers
- Capacity expansion for ship-repair activities to help get more orders in this segment, which is also a higher margin business

**Alternate Stock Idea:** We also like Bharat Electronics in the defence space.

- Strong order book and healthy pipeline in defence electronics offers strong visibility; diversifying into non-defence to help improve margins
- BUY with a target price of ₹ 130 per share



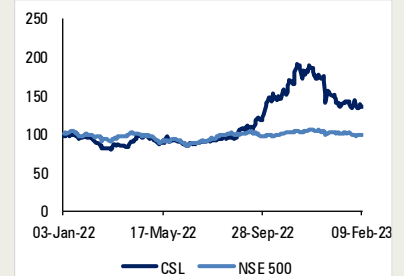
### Particulars

Particular	Amount
Market Capitalization*	₹ 6196 Crore
Total Debt (FY22)	₹ 123 Crore
Cash & Inv (FY22)	₹ 3213 crore
EV (FY22)	₹ 3106 Crore
52 week H/L (₹) (BSE)	687/281
Equity capital**	₹ 131.5 Crore
Face value	₹ 10

### Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	72.9	72.9	72.9	72.9
FII	2.7	2.8	3.7	6.9
DII	2.3	2.3	2.7	2.2
Others	22.1	22.1	20.7	18.1

### Price Chart



### Recent event & key risks

- Receiving order from Europe
- Key Risk:** (i) Rising input cost (ii) No order from Navy in coming quarters

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### Key Financial Summary

(₹ Crore)	FY20	FY21	FY22	3 Year CAGR (FY19-FY22)	FY23E	FY24E	FY25E	2 Year CAGR (FY23E-25E)
Revenues	3,422	2,819	3,191	2.2	2,840	3,354	3,955	18.0
EBITDA	709	716	623	2.3	542	654	771	19.2
EBITDA margins	20.7	25.4	19.5		19.1	19.5	19.5	
Net Profit	638	611	564	2.5	456	540	629	17.5
EPS (₹)	48.5	46.4	42.9		34.7	41.1	47.8	
P/E (x)	9.7	10.1	11.0		13.6	11.5	9.8	
Price / Book (x)	1.7	1.5	1.4		1.3	1.3	1.2	
EV/EBITDA (x)	5.8	5.7	5.0		6.8	5.8	5.0	
RoCE (%)	17.6	14.1	11.4		9.8	10.5	11.0	
RoE (%)	17.1	14.9	12.7		9.9	11.0	12.0	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter

### Q3FY23 Results

- Revenue came in at ₹ 641.7 crore (down 32.7% YoY); lower than our estimate of ₹ 962.4 crore. Both segments, shipbuilding and ship-repair, have witnessed weak execution and reported a decline in revenues by 36.7% YoY and 19.6%, respectively, during the quarter. Sequentially, total revenue is down 6.1% (ship building revenue is down 12.5% QoQ while ship-repair revenue increased 15.8% QoQ). Shipbuilding contributed ~72% to total revenues in Q3FY23
- The 9MFY23 revenue is down 10.8% YoY to ₹ 1765.7 crore as ship building revenues were down 13.6% YoY during the period. Ship repair revenues during 9MFY23 have been flat YoY
- Gross margin was at 47%; improved substantially from 29.6% in Q3FY23 as total raw material cost has declined 49.4% YoY. Sequentially, the margin is up by 744 bps
- EBIDTA margin was at 23.2%; up 835 bps YoY (vs. our estimate of 17.3%). Sequentially, EBITDA margin was up 339 bps. The 9MFY23 EBITDA margin was at 17.9% (up 136 bps YoY)
- EBITDA came in at ₹ 148.8 crore (vs. estimate of ₹ 166.9 crore); increased 5.2% as better margins negated the impact of decline in revenues. The 9MFY23 EBITDA was down 3.4% YoY to ₹ 315.5 crore
- EBIT from ship-building segment was at ₹ 112.5 crore (down 14.5% YoY) while ship-repair segment EBIT increased sharply by 117.3% YoY to ₹ 59 crore. EBIT margin for ship-building segment was at 24.4% (up 633 bps YoY, 610 bps QoQ). EBIT margin for ship repair segment was at 32.7%, similar to Q2FY23 levels but significantly better on a YoY basis (the margin was at 12.1% in Q3FY22)
- PAT came in at ₹ 110.4 crore (down 14.7% YoY) as other income was down 63.2% YoY. This was lower than our estimate of ₹ 149.8 crore

Exhibit 1: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	
Revenue	641.7	962.4	952.9	-32.7	683.2	-6.1	Execution remained weak YoY in both ship building & ship repair segments; ship repair witnessing
Other Income	23.2	65.0	63.0	-63.2	61.7	-62.4	
Total Revenue	664.8	1027.4	1015.9	-34.6	744.9	-10.7	
Total Raw Material Costs	339.9	635.2	671.2	-49.4	412.7	-17.6	
Employee Expenses	85.1	82.8	73.2	16.3	81.2	4.8	
Other expenses	65.8	62.6	53.7	22.4	52.7	24.7	
Provision for losses & exp.	2.2	15.0	13.5	-83.9	1.3	69.8	
Operating Profit (EBITDA)	148.8	166.9	141.4	5.2	135.3	10.0	
EBITDA margin (%)	23.2%	17.3%	14.8%	835 bps	19.8%	339 bps	Margin improved on lower RM & better performance in high margin ship repair segment
Interest	12.3	12.2	11.8	3.9	12.2	0.8	
Depreciation	19.2	20.0	17.5	9.5	19.8	-2.9	
Total Tax	30.1	49.9	45.7	-34.1	52.2	-42.4	
PAT	110.4	149.8	129.4	-14.7	112.8	-2.1	

Key Metrics	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	
<b>Revenue (Segment-wise)</b>						
Shipbuilding	461.4	728.7	-36.7	527.6	-12.5	Delay in execution impacted ship-building revenues
As a % of Sales	71.9%	76.5%		77.2%		
Shiprepair	180.3	224.2	-19.6	155.6	15.8	Ship repair performance improving QoQ
As a % of Sales	28.1%	23.5%		22.8%		
<b>EBIT (Segment-wise)</b>						
Shipbuilding	112.5	131.5	-14.5	96.4	16.7	
EBIT Margins(%)	24.4%	18.0%		18.3%		Margin improved on lower RM
As a % of EBIT	73.7%	70.4%		54.4%		
Shiprepair	59.0	27.1	117.3	50.6	16.5	
EBIT Margins (%)	32.7%	12.1%		32.5%		Ship-repair margins remained higher YoY
As a % of EBIT	38.6%	14.5%		28.6%		

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(` Crore)	FY23E			FY24E			FY25E		
	Old	New	Change(%)	Old	New	Change(%)	Old	New	Change(%)
Revenue	3110.6	2840.0	-8.7	3493.9	3353.8	-4.0	4072.6	3954.6	-2.9
EBITDA	566.1	542.4	-4.2	642.9	654.0	1.7	769.7	771.2	0.2
EBITDA Margin (%)	18.2	19.1	90 bps	18.4	19.5	110 bps	18.9	19.5	60 bps
PAT	513.1	456.0	-11.1	562.8	540.3	-4.0	652.0	629.1	-3.5
EPS (`)	39.0	34.7	-11.1	42.8	41.1	-4.0	49.6	47.8	-3.5

Source: ICICI Direct Research

## Financial Summary

Exhibit 3: Profit and loss statement ₹ crore

(₹ Crore)	FY22	FY23E	FY24E	FY25E
Net Sales	3,191	2,840	3,354	3,955
Revenue	3,191	2,840	3,354	3,955
% Growth	13.2	(11.0)	18.1	17.9
Other income	262	200	210	220
Total	3,453	3,040	3,564	4,175
% Growth	14.7	(12.0)	17.2	17.1
Raw Mtl costs	2,026	1,704	2,012	2,412
Employee Expenses	311	341	386	435
other expenses	183	241	285	316
Total Operating Exp.	2,568	2,298	2,700	3,183
EBITDA	623	542	654	771
% Growth	(13.1)	(12.9)	20.6	17.9
Interest	47	49	50	50
PBDT	838	693	814	941
Depreciation	70	77	84	91
PBT & Except. items	769	616	730	850
Total Tax	202	160	190	221
PAT before MI	564	456	540	629
PAT	564	456	540	629
% Growth	(7.7)	(19.1)	18.5	16.4
EPS	43	35	41	48

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement ₹ crore

(₹ Crore)	FY22	FY23E	FY24E	FY25E
Profit after Tax	564	456	540	629
Depreciation	70	77	84	91
Interest	47	49	50	50
CF before WC changes	681	582	674	770
Changes in inventory	128	(5)	(56)	(66)
Changes in debtors	(37)	(154)	(7)	(99)
Changes in loans & Adv	(18)	10	(5)	(5)
Changes in other CA	167	192	(305)	(356)
Net Increase in CA	240	42	(372)	(526)
Changes in creditors	(59)	91	(7)	28
Changes in provisions	(43)	48	28	37
Net Inc in CL	532	(451)	380	486
<b>CF from Operatons</b>	<b>1,453</b>	<b>174</b>	<b>682</b>	<b>730</b>
Changes in deferred tax assets	5	-	-	-
(Purchase)/Sale of FA	(261)	(450)	(500)	(500)
<b>CF from Investing</b>	<b>(198)</b>	<b>(450)</b>	<b>(500)</b>	<b>(500)</b>
Dividend & Dividend Tax	(220)	(220)	(243)	(276)
<b>CF from Financing</b>	<b>(199)</b>	<b>(275)</b>	<b>(296)</b>	<b>(329)</b>
Net Cash flow	1,056	(551)	(113)	(99)
Opening Cash/Cash Eq	2,150	3,206	2,655	2,542
<b>Closing Cash/ Cash Eq</b>	<b>3,206</b>	<b>2,655</b>	<b>2,542</b>	<b>2,443</b>

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet ₹ crore

(₹ Crore)	FY22	FY23E	FY24E	FY25E
Equity Capital	132	132	132	132
Reserve and Surplus	4,262	4,485	4,780	5,130
Total Shareholders funds	4,393	4,617	4,911	5,261
Minority Interest	-	-	-	-
<b>Total Debt</b>	<b>123</b>	<b>123</b>	<b>123</b>	<b>123</b>
<b>Total Liabilities</b>	<b>4,913</b>	<b>5,136</b>	<b>5,430</b>	<b>5,781</b>
<b>Gross Block</b>	<b>1,262</b>	<b>2,076</b>	<b>2,576</b>	<b>3,076</b>
Acc: Depreciation	292	369	453	544
Net Block	970	1,707	2,123	2,532
Capital WIP	1,264	900	900	900
Total Fixed Assets	2,234	2,607	3,023	3,432
Non Current Assets	360	360	360	360
Inventory	306	311	368	433
Debtors	390	545	551	650
Loans and Advances	35	25	29	35
Other Current Assets	1,876	1,684	1,988	2,345
<b>Cash</b>	<b>3,213</b>	<b>2,655</b>	<b>2,542</b>	<b>2,443</b>
Total Current Assets	5,820	5,220	5,479	5,906
Current Liabilities	376	467	459	488
Provisions	522	570	598	635
Net Current Assets	2,319	2,169	2,048	1,989
<b>Total Assets</b>	<b>4,913</b>	<b>5,136</b>	<b>5,430</b>	<b>5,781</b>

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios

(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Per Share Data</b>				
EPS	42.9	34.7	41.1	47.8
Cash per Share	244.2	201.9	193.2	185.7
BV	334.0	351.0	373.4	400.0
Dividend per share	16.8	16.8	18.5	21.0
Dividend payout ratio	39%	48%	45%	44%
<b>Operating Ratios</b>				
EBITDA Margin	19.5	19.1	19.5	19.5
PAT Margin	16.3	15.0	15.2	15.1
<b>Return Ratios</b>				
RoE	12.7	9.9	11.0	12.0
RoCE	11.4	9.8	10.5	11.0
RoIC	20.9	14.5	14.3	14.0
<b>Valuation Ratios</b>				
EV / EBITDA	5.0	6.8	5.8	5.0
P/E	11.0	13.6	11.5	9.8
EV / Net Sales	1.0	1.3	1.1	1.0
Sales / Equity	0.7	0.6	0.7	0.8
Market Cap / Sales	1.9	2.2	1.8	1.6
P/BV	1.4	1.3	1.3	1.2
<b>Turnover Ratios</b>				
Asset Turnover Ratio	2.5	1.4	1.3	1.3
Debtors Turnover Ratio	8.6	6.1	6.1	6.6
Creditors Turnover Ratio	7.9	6.7	7.2	8.4
<b>Solvency Ratios</b>				
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	2.8	2.4	2.7	3.0
Quick Ratio	2.5	2.1	2.4	2.6

Source: Company, ICICI Direct Research

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