

Decent performance but FY23 to be muted...

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. Cochin Shipyard (CSL) is the largest shipbuilding and maintenance facility in India.

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

Q4FY22 Results: CSL reported decent Q4FY22 results.

- Revenue for the quarter was at ₹ 1212.5 crore, up 12.2% YoY & 27.2% QoQ
- Absolute EBITDA came in at ₹ 296.3 crore, up 109.6% QoQ and 15% YoY. QoQ increase was due to low base
- PAT was at ₹ 274.6 crore vs. ₹ 236.2 crore in Q4FY21 and ₹ 129.4 crores in Q3FY22

What should investors do? CSL has done well in the past but looking at the current scenario and management commentary FY23 looks muted for CSL.

- We change our rating on the stock from BUY to **HOLD**

Target Price and Valuation: We value CSL at ₹ 340 i.e. 8x PE (FY24E).

Key triggers for future price performance:

- CSL investing in ship repairing facilities, which is a higher margin business, which is also expected to outperform ship building in growth
- Healthy order book but margins remain under pressure due to higher raw material prices, mostly executed IAC project and longer execution cycle. The company received an order enquiry from Europe
- No major order from the Indian Navy in coming quarters

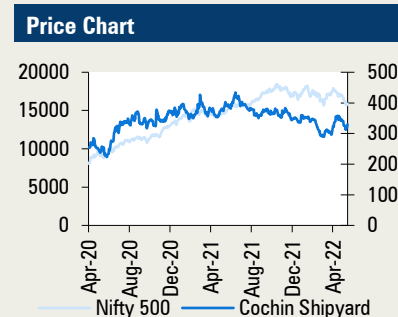
Alternate Stock Idea: We also like NRB in our capital goods coverage.

- It offers a play on needle roller bearings, which are largely used in auto applications
- BUY with a target price of ₹ 220 per share



Particulars	
Particular	Amount
Market Capitalization*	₹ 4222 Crore
Total Debt (FY22)	₹ 123 Crore
Cash & Inv (FY22)	₹ 3213 crore
EV (FY22)	₹ 1133 Crore
52 week H/L (₹) (BSE)	420/280
Equity capital**	₹ 131.5 Crore
Face value	₹ 10

Shareholding pattern				
	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	72.9%	72.9%	72.9%	72.9%
FII	3.0%	3.1%	3.1%	2.7%
DII	5.9%	4.6%	4.1%	4.3%
Others	18.2%	19.5%	19.9%	20.1%



- Recent event & key risks**
- Receiving order from Europe
 - Key Risk:** (i) Rising input cost (ii) No order from Navy for coming quarters

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Key Financial Summary

(₹ crore)	FY19	FY20	FY21	FY22	5 Year CAGR (FY17-FY22)	FY23E	FY24E	2 Year CAGR (FY22-24E)
Revenues	2,962	3,422	2,819	3,191	13.2	3,111	3,494	4.6
EBITDA	569	709	716	623	10.4	566	643	1.6
EBITDA margins	19.2	20.7	25.4	19.5		18.2	18.4	
Net Profit	478	638	611	564	11.9	508	557	(0.6)
EPS (₹)	36.3	48.5	46.4	42.9		38.6	42.3	
P/E (x)	8.8	6.6	6.9	7.5		8.3	7.6	
Price / Book (x)	1.3	1.1	1.1	1.0		0.9	0.8	
EV/EBITDA (x)	3.2	3.1	3.1	1.8		4.1	3.8	
RoCE (%)	19.0	17.6	14.2	10.9		12.5	12.7	
RoE (%)	14.5	17.1	15.1	12.7		10.8	11.1	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q4FY22 Results: Decent performance but FY23 to be muted...

- Revenue for the quarter came in at ₹ 1212.5 crore (vs. I-direct estimate of ₹ 1191.1 crore), up 12.2% YoY & 27.2% QoQ. Segmental performance was as follows. ship building (79.2% of topline) Revenue ₹ 959.8 crore (up 8.1% YoY and 31.7% QoQ), EBIT ₹ 231.3 crore vs. ₹ 131.5 crore in Q3FY22. Ship repair (20.8% of topline) Revenue ₹ 252.7 crore (up 31.4% YoY, 12.7% QoQ), EBIT ₹ 72.9 crore vs. ₹ 27.1 crore in Q3FY22.
- Gross margins increased ~740 bps QoQ and declined 390 bps YoY due to lower raw material expenses. Ensuing EBIDTA margins came in at 24.4% vs. 14.8% in Q3FY22 and 23.8% in Q4FY21 (I-direct estimate: 18.6%). Higher EBITDA margins were due to lower employee & other expenses. Absolute EBITDA rose 15% YoY to ₹ 296.3 crore (I-direct estimate: ₹ 221.2 crore)
- On expenses side, other expenses declined 3.1% YoY, 5.5% QoQ and were at ₹ 50.7 crore. Employee expenses increased 15.7% QoQ, 7.3% YoY and were at ₹ 84.7 crore
- Ensuing PAT came in at ₹ 274.6 crore, up 16.3% YoY, 112.2% QoQ, cushioned by other income of ₹ 111.8 crore

Q4FY22 Earnings Conference Call highlights

- On the revenue front, the company guided a flattish FY23 while FY24 is expected to grow between 16% and 20%. Margins are expected to be in the range of 18-20%, mainly due to majority of execution in IAC, which is a higher margin project. Ship building to perform better in FY23
- CSL delivered the second lot of three out of nine floating border outpost (FBOPs) vessels out of nine FBOPs being built for the Ministry of Home Affairs, Government of India
- Delivered one mini bulk carrier of 8000 DWT to JSW Shipping & Logistics Pvt Ltd. The vessel named "JSW Manikgad" is the fourth and the final vessel in a series of four vessels built at CSL for JSW
- New orders in Q4FY22 - CSL entered into a contract with HS Service GMBH & Co. KG to build eight HS eco freighter 7000 DWT vessels. Approximate value of the contract is ₹ 750 crore. CSL signed contracts with Dredging Corporation of India (DCI) to build India's largest dredger, 12,000 m³ trailing suction hopper dredger (TSHD), in collaboration with IHC Holland for an overall project cost of ~₹ 800 crore. CSL is also expected to have two more order for dredgers
- Infra projects – For international ship repair facility (ISRF), overall physical completion of CME works is 78%. This was due to financial difficulties faced by the contractor appointed for ISRF project. The contract for construction works was eventually terminated on February 4, 2022. New dry-dock's overall physical completion is 60%. Hooghly Cochin Shipyard Ltd (HCSL) at Howrah is now ready for operations. In Udupi Cochin Shipyard Ltd (UCSL) at Malpe, activities for operationalising are in progress
- Current order book is at ₹ 11260 crore, which is ~3.5x FY22 revenues. Most orders are to be executed in five to seven years. The company is positive on receiving orders from Europe, which includes green short range vessels
- Raw material prices, which includes steel, copper and paint may result in pressure on margins

Exhibit 1: Variance Analysis

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	
Revenue	1212.5	1191.1	1080.3	12.2	952.9	27.2	Shipbuilding and shiprepair segment contributed 79.2% and 20.8%, respectively
Other Income	111.8	65.0	67.9	64.5	63.0	77.3	
Total Revenue	1324.3	1256.1	1148.2	15.3	1015.9	30.4	
Total Raw Material Costs	763.4	815.1	638.2	19.6	671.2	13.8	GMs contracted dur to higher raw material costs
Employee Expenses	84.7	89.3	78.9	7.3	73.2	15.7	
Other expenses	50.7	65.5	52.4	-3.1	53.7	-5.5	
Provision for losses & exp.	17.4	0.0	53.3	-67.4	13.5	28.8	
Operating Profit (EBITDA)	296.3	221.2	257.5	15.0	141.4	109.6	Operating leverage coupled with better mix aided EBITDA
EBITDA margin (%)	24.4%	0.2%	23.8%	60 bps	14.8%	960 bps	Better margins led by higher execution of IAC portion
Interest	11.7	10.5	16.7	-29.7	11.8	-0.5	
Depreciation	17.6	19.3	16.9	4.0	17.5	0.4	
Total Tax	99.5	67.9	68.3	45.8	45.7	118.0	
PAT	274.6	188.5	236.2	16.3	129.4	112.2	

Key Metrics	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	
Revenue (Segment-wise)						
Shipbuilding	959.8	888.0	8.1	728.7	31.7	Robust performance on the shipbuilding front
As a % of Sales	79.2%	82.2%		76.5%		
Shiprepair	252.7	192.3	31.4	224.2	12.7	Ship repair better off from previous set backs
As a % of Sales	20.8%	17.8%		23.5%		
EBIT (Segment-wise)						
Shipbuilding	231.3	256.8	-9.9	131.5	75.9	
EBIT Margins(%)	24.1%	28.9%		18.0%		
As a % of EBIT	60.0%	80.0%		70.4%		
Shiprepair	72.9	59.3	23.1	27.1	168.7	
EBIT Margins (%)	28.9%	30.8%		12.1%		
As a % of EBIT	18.9%	18.5%		14.5%		

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY20	FY21	FY22	FY23E	FY23E	FY24E
(₹ Crore)	Actual	Actual	Actual	Old	New	Change(%)
Revenue	3422.5	2818.9	3190.9	4061.0	3110.6	-23.40
EBITDA	709.3	716.5	623.0	893.0	566.1	-36.60
EBITDA Margin (%)	20.7	25.4	19.5	22.0	18.2	-380 bps
PAT	637.7	611.0	564.0	731.0	507.7	-30.54
EPS (₹)	48.5	46.4	42.9	55.6	38.6	-30.58

Source: ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
Net Sales	2,819	3,191	3,111	3,494
Operating income	-	-	-	-
Revenue	2,819	3,191	3,111	3,494
% Growth	(17.6)	13.2	(2.5)	12.3
Other income	193	262	250	250
Total	3,012	3,453	3,361	3,744
% Growth	(18.3)	14.7	(2.7)	11.4
Raw Mtl costs	1,556	2,026	1,960	2,201
Employee Expenses	292	311	327	360
other expenses	162	183	180	203
Total Operating Exp.	2,102	2,568	2,544	2,851
EBITDA	716	623	566	643
% Growth	1.0	(13.1)	(9.1)	13.6
Interest	51	47	45	45
PBDT	858	838	771	848
Depreciation	60	70	85	95
PBT & Except. items	798	769	686	752
Total Tax	200	202	178	196
PAT before MI	611	564	508	557
Minority Interest	-	-	-	-
PAT	611	564	508	557
% Growth	(4.2)	(7.7)	(10.0)	9.7
EPS	46.4	43	39	42

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
Profit after Tax	611	564	508	557
Depreciation	60	70	85	95
Interest	51	47	45	45
CF before WC changes	722	681	638	697
Changes in inventory	(119)	126	(35)	(42)
Changes in debtors	(65)	(37)	(36)	(53)
Changes in loans & Adv	15	(17)	(210)	(30)
Changes in other CA	(440)	234	868	(115)
Net Increase in CA	(608)	306	587	(240)
Changes in creditors	17	(59)	7	47
Changes in provisions	116	(5)	(131)	48
Net Inc in CL	739	607	(1,786)	210
CF from Operatons	852	1,593	(561)	668
Changes in deferred tax assets	(32)	(36)	-	-
(Purchase)/Sale of FA	(338)	(350)	(450)	(500)
CF from Investing	(451)	(264)	(450)	(500)
Dividend & Dividend Tax	(184)	(200)	(224)	(237)
CF from Financing	(347)	(158)	(279)	(284)
Net Cash flow	54	1,171	(1,290)	(116)
Opening Cash/Cash Eq	2,104	2,158	3,329	2,039
Closing Cash/ Cash Eq	2,158	3,329	2,039	1,923

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
Equity Capital	131.5	131.5	131.5	131.5
Reserve and Surplus	3,846	4,262	4,573	4,890.5
Total Shareholders funds	3,978	4,393	4,704	5,022.0
Minority Interest	-	-	-	-
Total Debt	123	123	123	123.0
Total Liabilities	4,487.0	4,909.9	5,221.1	5,538.8
Gross Block	1,223	1,735	2,185	2,683.8
Acc: Depreciation	467	545	630	725.0
Net Block	756	905	1,555	1,958.9
Capital WIP	1,062	1,264	900	901.0
Total Fixed Assets	1,818	2,170	2,455	2,859.9
Non Current Assets	375	328	328	328.3
Inventory	432	306	341	382.9
Debtors	353	390	426	478.6
Loans and Advances	18	35	245	275.1
Other Current Assets	2,035	1,801	933	1,048.2
Cash	2,146	3,213	2,039	1,922.6
Total Current Assets	4,984	5,745	3,984	4,107.4
Current Liabilities	435	376	383	430.8
Provisions	526	522	391	439.4
Net Current Assets	2,072	2,225	2,250	2,163.4
Total Assets	4,487.0	4,909.9	5,220.3	5,538.9

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per Share Data				
EPS	46.4	42.9	38.6	42.3
Cash per Share	163.2	244.2	155.0	146.2
BV	302.4	334.0	357.6	381.8
Dividend per share	14.0	15.2	17.0	18.0
Dividend payout ratio	30%	35%	0.4	0.4
Operating Ratios				
EBITDA Margin	25.4	19.5	18.2	18.4
PAT Margin	20.3	16.3	15.1	14.9
Return Ratios				
RoE	15.1	12.7	10.8	11.1
RoCE	14.2	10.9	12.5	12.7
RoIC	23.6	18.5	16.6	15.9
Valuation Ratios				
EV / EBITDA	3.1	1.8	4.1	3.8
P/E	6.9	7.5	8.3	7.6
EV / Net Sales	0.8	0.4	0.7	0.7
Sales / Equity	0.7	0.7	0.7	0.7
Market Cap / Sales	1.5	1.3	1.4	1.2
P/BV	1.1	1.0	0.9	0.8
Turnover Ratios				
Asset Turnover Ratio	2.3	1.8	1.4	1.3
Debtors Turnover Ratio	8.8	8.6	7.6	7.7
Creditors Turnover Ratio	6.6	7.9	8.2	8.6
Solvency Ratios				
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	2.7	2.7	2.4	2.4
Quick Ratio	2.3	2.4	2.0	2.0

Source: Company, ICICI Direct Research

Exhibit 7: ICICI Direct coverage universe (Capital Goods)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
L&T (LARTOU)	1603	1,930	Buy	224933	50.2	65.5	72.9	31.9	24.5	22.0	8.0	10.2	11.1	10.8	12.9	13.2
Siemens Ltd	2371	2,900	Buy	84436	29.5	36.6	48.2	80.4	64.8	49.2	13.9	15.7	18.4	10.1	11.6	13.7
AIA Engineering (AIAENG)	2048	2,570	Buy	19317	64.6	76.3	85.7	31.7	26.8	23.9	16.5	17.2	17.1	13.2	13.7	13.7
Thermax (THERMA)	1997	2,450	Buy	23796	26.2	39.3	54.4	76.2	50.8	36.7	11.3	15.6	19.2	9.0	12.2	14.9
KEC International (KECIN)	380	380	Hold	9770	12.7	15.8	25.3	29.9	24.1	15.0	12.3	13.3	16.9	10.7	11.0	15.4
Greaves Cotton (GREAVE)	150	180	Buy	3468	0.7	2.8	3.3	214.3	53.6	45.5	2.7	10.6	12.5	1.4	7.5	8.9
Elgi Equipment (ELGEQU)	333	390	Buy	10553	5.7	6.6	8.7	58.4	50.5	38.3	18.9	17.8	20.2	18.7	18.5	20.3
Bharat Electronics (BHAELE)	231	250	Buy	56285	9.4	11.2	12.5	24.6	20.6	18.5	26.2	28.7	28.6	19.4	21.4	21.3
Cochin Shipyard (COCSHI)	320	340	Hold	4218	42.9	38.6	42.3	7.5	8.3	7.6	10.9	12.5	12.7	12.7	10.8	11.1
SKF (SKFIND)	3274	3,720	Buy	16160	77.0	89.6	103.5	42.5	36.5	31.6	26.0	26.5	27.1	20.6	20.0	20.1
Timken India (TIMIND)	1961	2,405	Hold	14740	37.8	43.3	50.1	51.9	45.3	39.1	21.1	27.1	31.3	16.4	21.1	24.4
NRB Bearing (NRBBEA)	115	220	Buy	1120	7.8	9.2	12.1	30.2	20.6	17.3	15.0	15.3	19.2	12.6	12.6	14.8
Action Construction (ACTCON)	189	230	Buy	2266	9.8	9.8	13.6	19.3	19.3	13.9	22.5	20.9	21.3	15.1	14.5	14.7

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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