

Retail Equity Research
Cochin shipyard Ltd.
Capital goods and Engineering

Accumulate

12 Months Investment Period Rating as per Small Cap

CMP Rs.1,133 TARGET Rs. 1,265 RETURN 12% ↑

(Closing: 28-11-2023)

BSE CODE : 540678

NSE CODE: COCHINSHIP

BLOOMBERG CODE: COCHIN:IN

SENSEX : 66,174

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Strong performance...margins to improve

Cochin Shipyard Ltd. (CSL) is the largest public-sector shipyard in India and derives major revenue from the Navy. CSL core capabilities include Naval vessel construction, coast guard projects, commercial shipbuilding, and vessel repair services.

- In Q2FY24, reported PAT grew by 59% YoY, led by higher execution in shipbuilding and repairs, which grew by 33% & 62%, respectively.
- EBITDA margin remained flat on account of higher expenses. But H2FY24 EBITDA margins are likely to see improvement led by execution of high margin orders.
- The order backlog is Rs.22,000cr, 6x FY24E projected sales will provide strong visibility in the next couple of years. While the order pipeline remains robust at Rs.13,000cr, which is expected to further boost earnings visibility.
- DAC (Defence acquisition council) is anticipated to approve a repeat order of IAC (Indigenous Aircraft Carrier), which will significantly boost earnings visibility upon confirmation.
- We value CSL at a P/E multiple of 26x on FY25E on account of higher execution and likely margin expansion. We maintain an Accumulate rating on stock, with a target price of Rs. 1,265.

Strong performance...H2FY24 execution to pick-up

Q2FY24 revenue was above our estimates; it grew by 40% YoY, led by a 33% YoY increase in shipbuilding and a 62% YoY jump in ship repairs. Reported EBITDA grew by 40% YoY to Rs.195cr. EBITDA margins largely remained flat at 20.4% on account of higher employee costs of 19% YoY and provision & other expenses. Net profit grew by 59% YoY to Rs.191cr, supported by a 42% YoY increase in other income. With overall pick-up order execution and higher repair orders, including IAC, we upgrade our EBITDA margin estimates by 420bps & 210bps, respectively, for FY24E & FY25E. Consequently, EPS estimates are revised upward by 32% & 10.4%, respectively, for FY24 & FY25E.

Order backlog healthy...pipeline remains strong

The current order backlog is healthy at ~Rs22,00cr, which has improved earnings visibility for the next 2-3 years. The order pipeline is expected to be further boosted by repeat orders from IAC, which are under active consideration by the DAC (Defence Acquisition Council). Other opportunities include hybrid electric catamaran passenger vessels, coastal carriers for European clients, tugs, and fast patrol vessels (FPV). The overall order opportunities amount to Rs.13,000cr. FY24 revenue is expected to be boosted by the launch of 3 ASW corvettes, while execution of 2 ASW corvettes will start in Q3. Further, IAC has docked for the guarantee refit, installation of MF-STAR, and concurrent work package agreed with the Indian Navy, and the unfinished order value on IAC will be fully executed, with 40% in FY24 and the remaining in FY25. The current repair order is at Rs.700cr.

Capacity expansion nearing completion...

CSL Dry Dock (Rs1,790cr) expansion and its ISRF (International Ship Repair Facility) (Rs970cr), is expected to be completed by December 2023, while commissioning will be in mid-2024. This is expected to double the operational capability of the yard by enabling it to construct and repair larger vessels like LNG carriers, new-generation aircraft carriers, etc. In the long term, we expect revenue to witness robust growth with healthy margins, aided by a diversified product mix (repair and shipbuilding).

Valuations

Given improvement in order book visibility, capacity expansion, and strong execution capabilities, we continue to maintain our positive view on the stock. We value CSL at a P/E multiple of 26x on FY25E, with a target price of Rs.1,265 and maintain Accumulate rating.

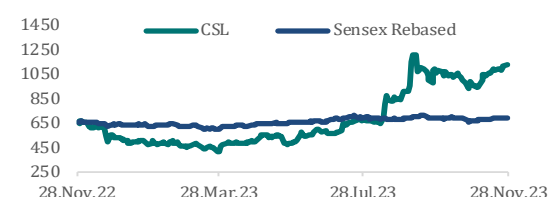
Company Data

Market Cap (cr)	Rs. 14,898
Enterprise Value (cr)	Rs. 13,308
Outstanding Shares (cr)	13.2
Free Float	27.1%
Dividend Yield	1.5%
52 week high	Rs.1,258
52 week low	Rs.411
6m average volume (cr)	0.1
Beta	0.96
Face value	Rs. 10

Shareholding (%)	Q4FY23	Q1FY24	Q2FY24
Promoters	72.9	72.9	72.9
FII's	6.3	5.7	5.8
MFs/Institutions	3.8	3.2	2.3
Public	16.4	17.5	18.5
Others	0.7	0.7	0.6
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	30.3%	127.1%	72.9%
Absolute Sensex	1.7%	6.0%	5.9%
Relative Return*	28.6%	121.1%	67.0%

over or under performance to benchmark index



Standalone (cr)	FY23A	FY24E	FY25E
Sales	2,330	3,813	4,930
Growth (%)	(27.0)	63.6	29.3
EBITDA	265	679	783
EBITDA Margin(%)	11.4	17.8	15.9
PAT Adjusted	273	608	640
Growth (%)	(53.5)	123.0	5.3
Adjusted EPS	20.7	46.2	48.7
Growth (%)	(53.5)	123.0	5.3
P/E	54.6	24.5	23.3
P/B	3.4	3.1	2.9
EV/EBITDA	49.1	19.6	18.8
ROE (%)	7.6	12.7	12.3
D/E	0.0	0.0	0.0

Anil R
Research Analyst

Quarterly Financials

Profit & Loss

Rs.cr	Q2FY24	Q2FY23	YoY Growth (%)	Q1FY24	QoQ Growth (%)	H1FY24	H1FY23	YoY Growth (%)
Sales	954	683	39.7	444	114.8	1,398	1,123	24.6
EBITDA	195	139	39.8	82	137.4	277	173	59.8
EBITDA margin	20.4	20.4	1bps	18.5	194bps	19.8	15.4	437bps
Depreciation	15	15	1.0	13	17.1	28	29	-3.9
EBIT	180	125	44.4	69	159.8	249	144	72.6
Interest	9	12	-21.9	8	11.4	18	24	-25.8
Other Income	88	61	42.5	84	4.0	172	119	44.4
Exceptional Items	-	-	-	-	-	-	-	-
PBT	258	174	48.3	145	77.9	403	240	68.4
Tax	67	54	23.7	36	88.1	103	71	45.3
Share of profit from Associate	-	-	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-	-	-
Reported PAT	191	120	59.4	109	74.6	300	169	78.0
Adjustments	-	-	-	-	-	-	-	-
Adjusted PAT	191	120	59.4	109	74.6	300	169	78.0
No. of Shares	13.2	13.2	-	13.2	-	13.2	13.2	-
EPS (Rs)	14.5	9.1	59.4	8.3	74.6	22.8	12.8	78.0

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	3,844	4,940	3,813	4,930	(0.8)	(0.2)
EBITDA	524	681	679	783	29.7	15.0
Margins (%)	12.3	12.5	17.8	15.9	420bps	210bps
Adjusted PAT	459	580	608	640	32.3	10.4
EPS	34.9	44.1	46.2	48.7	32.3	10.4

Standalone Financials

PROFIT & LOSS

Y.E March (Rs cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Sales	2,819	3,190	2,330	3,844	4,940
% change	-17.6	13.2	-26.9	64.9	28.5
EBITDA	720	631	265	524	681
% change	1.6	(12.5)	(58.0)	97.5	30.1
Depreciation	53	56	51	83	100
EBIT	667	574	214	440	581
Interest	50	46	34	38	38
Other Income	194	266	206	210	230
PBT	811	794	449	613	773
% change	-6	-2	-44	37	26
Tax	200	208	114	153	193
Tax Rate (%)	24.7	26.2	25.4	25.0	25.0
Reported PAT	610	587	334	459	580
Adj.*	-	-	(62)	-	-
Adj. PAT	610	587	273	459	580
% change	(4.3)	(3.9)	(53.5)	68.5	26.2
No. of shares (cr)	13	13	13	13	13
Adj EPS (Rs)	46.4	44.6	20.7	34.9	44.1
% change	-4.3	-3.9	-53.5	68.5	26.2
DPS (Rs)	28.0	15.5	17.7	17.7	17.7
CEPS (Rs)	46.4	44.6	20.7	34.9	44.1

CASH FLOW

Y.E March (Rs cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Net inc. + Deprn.	864	850	505	696	873
Non-cash adj.	(170)	(187)	(210)	(325)	(386)
Changes in W.C	55	751	1,817	(1,939)	(1,278)
C.F. Operation	749	1,415	2,051	(1,652)	(891)
Capital exp.	(344)	(224)	(321)	921	(30)
Change in inv.	(301)	31	(58)	-	-
Other invest.CF	124	74	109	210	230
C.F - Investment	(525)	(1,011)	(226)	1,131	200
Issue of equity	-	-	-	-	-
Issue/repay debt	(27)	(25)	(26)	-	-
Dividends paid	(368)	(204)	(233)	(233)	(233)
Other finance.CF	(10)	(9)	(13)	(38)	(38)
C.F - Finance	(405)	(238)	(272)	(271)	(271)
Chg. in cash	(181)	166	1,553	(792)	(962)
Closing cash	667	456	2,009	1,216	255

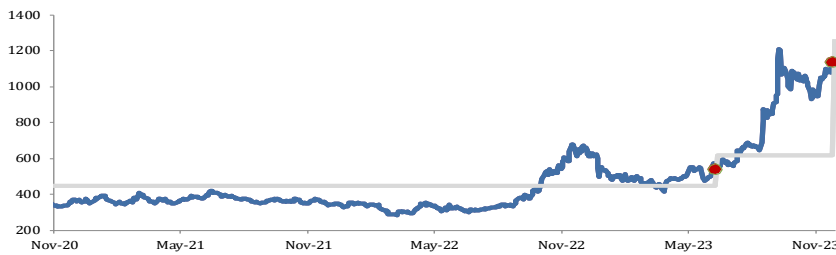
BALANCE SHEET

Y.E March (Rs cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash	667	1,367	2,009	1,216	255
Accounts Receivable	353	390	330	400	609
Inventories	432	296	350	403	518
Other Cur. Assets	3,574	3,728	4,219	4,010	5,153
Investments	214	255	336	336	336
Gross Fixed Assets	904	993	1,015	1,165	1,295
Net Fixed Assets	698	736	707	773	803
CWIP	1,062	1,224	1,587	600	600
Intangible Assets	57	27	25	25	25
Def. Tax (Net)	79	68	57	57	57
Other Assets	214	183	176	201	226
Total Assets	7,400	8,318	9,909	8,134	8,694
Current Liabilities	2,881	3,378	4,977	2,981	3,185
Provisions	495	468	394	384	494
Debt Funds	123	123	23	23	23
Other Liabilities	386	423	446	446	446
Equity Capital	132	132	132	132	132
Reserves & Surplus	3,846	4,228	4,292	4,518	4,864
Shareholder's Fund	3,978	4,359	4,423	4,649	4,996
Total Liabilities	7,400	8,318	9,909	8,134	8,694
BVPS	292	321	325	342	367

RATIOS

Y.E March	FY21A	FY22A	FY23A	FY24E	FY25E
Profitab & Return					
EBITDA margin (%)	12.8	11.0	11.1	12.3	12.5
EBIT margin (%)	11.4	10.0	10.0	11.2	11.3
Net profit mgn.(%)	10.2	10.7	11.2	12.0	12.0
ROE (%)	10.0	13.0	14.4	15.5	15.6
ROCE (%)	11.1	12.1	12.8	13.8	13.8
W.C & Liquidity					
Receivables (days)	42	43	56	35	37
Inventory (days)	112	82	107	70	67
Payables (days)	128	91	96	52	58
Current ratio (x)	2	2	1	2	2
Quick ratio (x)	2	2	1	2	2
Turnover & Leverage					
Gross asset T.O (x)	3.2	3.4	2.3	3.5	4.0
Total asset T.O (x)	0.4	0.4	0.3	0.4	0.6
Int. covge. ratio (x)	13.2	12.4	6.3	11.7	15.4
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	2.3	1.8	2.2	1.6	1.4
EV/EBITDA (x)	9.1	9.3	19.7	11.5	10.2
P/E (x)	11.6	12.1	26.1	15.5	12.3
P/BV (x)	1.8	1.6	1.6	1.5	1.4

Recommendation summary (Last 3 years)



Dates	Rating	Target
06-April -18	BUY	625
30-March-20	BUY	301
20-August-20	BUY	445
12-June-23	ACCUMULATE	617
29-November -23	ACCUMULATE	1,265

Source: Bloomberg, Geojit Research.

Investment Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated/Neutral: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

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