


**Buy Range** ₹800 – 820

**Target** ₹970 – 990

**Recommendation** BUY

**Highlights**

- GRSE is primarily in the business of ship building requirements of the Indian Navy and the Indian Coast Guard. In addition to the shipbuilding, GRSE also builds and supplies various boats, pontoons, barge, sailing dinghy, fishing trawler, fire float tug, dredger passenger ferry, motor cutter, deck whaler, etc. to various other customers. Over the years GRSE has established capabilities for in-house design and shipbuilding and has made considerable contributions to the indigenous warship construction program (+85% indigenous content onboard). The Shipbuilding product line spans from technologically sophisticated Frigates and Corvettes to Fast Patrol Vessels (FPV). In last five decades the company has built and delivered ships ranging from small to large and advanced vessels including frigates, Anti-submarine warfare corvettes, missile corvettes, landing ship tanks, landing craft utilities, survey vessels, fleet replenishment tankers, fast patrol vessels, offshore patrol vessels inshore patrol vessels, Fast Attack craft (WJ-FAC), hover crafts and fast interceptor boats to the Indian Navy, Indian Coast Guard, MHA and Governments of other countries.
- GRSE has an advantage over global shipyards in securing contracts to build vessels for the Indian Navy and Indian Coast Guard, because, it qualifies for the 'Make in India' initiative under the DPP. The 'Make in India' initiative grants indigenous manufacturers a competitive advantage when supplying to the domestic market.
- The MoD has given the highest priority to Indigenously Designed, Developed, and Manufactured ("IDDM") products for capital procurement. The **Indian Navy and Indian Coast Guard are the repeat customers of the Company, and these constitute part of the domestic market.**
- As of end-Jun'23, GRSE's orderbook stands at ₹245.5bn, comprising 6 projects: 1) Three P-17A projects (₹137.45bn), 2) Four survey vessel ships (₹13.82bn), and 3) Eight Anti-submarine shallow watercrafts (₹54.38bn) – i.e. total 15 ships from 3 projects of Indian Navy. The other projects include: i) One Fast Patrol vehicle (FPV) ship for Indian Coast Guard, ii) Electric ferry ship for West Bengal government delivery in Nov-Dec'23, iii) one project (six patrol boats) for the government of Bangladesh.
- Till 2027, GRSE sees ₹4.5tn opportunity in Naval expenditure as Indian Navy (IN) plans for 200 ships by 2027. GRSE expects the following bids opening during Q2/Q3FY24: 1) 14 fast patrol projects for Indian Coast Guard (submitted bid, technical evaluation process is on; ₹12-14bn), 2) six ocean-going patrol vessels for Indian Coast Guard ₹20bn; bid opening is expected in Q2FY24) and 3) polar-research vessel for National Centre for Polar and Ocean Research (NCPOR) (DRDO organisation; ₹7.5-9bn).
- Likely upcoming orders: 1) Two multi-purpose vessels for Indian Navy (RFP expected by CY23; ₹15bn), 2) Five next-gen survey vessels (RFP expect by early CY24; ₹35bn), 3) 21 Nos. Water jet FGTs with (RFP expected by CY24; ₹24-25bn), 4) Eight next-gen corvettes (RFP expected by end-CY24; ₹360bn) and 5) Four landing platform docks (LPD) (RFP is expected by CY25; ₹250-300bn).
- GRSE focus on export of Patrol Boats/Vessels acting as an enabler for Government of India aims to triple the value of India's annual defense exports to \$5bn over the next two years and capture at least 5-10% of the global patrol boat manufacturing market.**
- The Ship Repair complements the core business of shipbuilding.** GRSE has diversified into the business of Portable Steel Bridges, various Deck Machinery items and Assembling/ Overhauling and Testing of Marine Diesel Engines. Further, the diversification into Deck Machinery and Diesel Engines are vertical integration with the core business enabling GRSE to deliver warships in a more time efficient manner. Order book position as on 31 March 2023 for Engg and Engines division was at ₹1.34bn and ₹1.21bn respectively.
- GRSE has signed a MoU with DEMPO Group to launch a collaboration model to build commercial vessels in three premier shipyards of DEMPO at Goa and Bhavnagar. The DEMPO group shipyards give a positional advantage to these clients for shifting the delivered vessels from India in comparison to China, Vietnam, and Turkey.
- A new department focusing on Innovation & New Technology** has been created to nurture start-ups and work on emerging technologies such as Autonomous Vessels, Ship based Autonomous Drones /UAV (in partnership with TUNGA Aerospace), Green Vessels and implementation of Industry 4.0 process.

**GARDEN REACH SHIPBUILDERS & ENGINEERS LTD (GRSE)**
**Company Background**

**Garden Reach Shipbuilders & Engineers Limited (GRSE)** was incorporated on 26 February 1934 and later on converted into a Public Company on 17 November 2017. On 05 September 2006 the company was conferred with the status of Schedule-B & Mini Ratna-Category-I company by the Department of Public Enterprises under the Ministry of Heavy Industries and Public Enterprises Government of India. The Government of India offloaded 29.2mn equity shares of the company by way of an IPO during the period from 24 September 2018 to 01 October 2018. **The IPO was priced at ₹118 per share. The stock made its debut on the bourses on 10 October 2018 at ₹104.** GRSE is primarily in the business of ship building requirements of the Indian Navy and the Indian Coast Guard. In addition to the shipbuilding GRSE also builds and supplies various boats, pontoons, barge, sailing dinghy, fishing trawler, fire float tug, dredger passenger ferry, motor cutter, deck whaler, etc to various other customers. Over the years GRSE has established capabilities for in-house design and shipbuilding and has made considerable contributions to the indigenous warship construction program (+85% indigenous content onboard). The Shipbuilding product line spans from technologically sophisticated **Frigates and Corvettes to Fast Patrol Vessels (FPV).** In last five decades the company has built and delivered ships ranging from small to large and advanced vessels including frigates, Anti-submarine warfare corvettes, missile corvettes, landing ship tanks, landing craft utilities, survey vessels, fleet replenishment tankers, fast patrol vessels, offshore patrol vessels inshore patrol vessels, Fast Attack craft (WJ-FAC), hover crafts and fast interceptor boats to the Indian Navy, Indian Coast Guard, MHA and Governments of other countries. Presently the company has **three separate facilities for shipbuilding** all of which are located in close vicinity of each other at Kolkata, India. **The Company builds ships at the Main Works Unit and the Rajabagan Dockyard** (acquired in 2006 from Central Inland Water Transport Corporation Limited). **Third facility the Fitting Out Jetty (FOJ) Unit is primarily used for fitting out and repair of ships.** During FY22, It signed an agreement with Syama Prasad Mookherjee Port Kolkata for 03 existing Dry Docks for shipbuilding including repair & refit of ships enabling to successfully complete refits of 15 ships during FY23, generating a revenue of ₹276.5mn. The Engineering segment (61 Park and Taratala Units) is engaged in the manufacturing and fabrication of portable steel bridges deck, machineries of ships and marine pumps. In 1997 the company designed & developed portable steel bridges for the first time in India. The Diesel Engine Plant (DEP), Ranchi is engaged in the testing and overhauling of marine propulsion engines and assembly of semi-knocked down units of diesel engines. On 30 March 2019, GRSE became the first Indian Shipyard to build and deliver 100 warships with delivery of Landing Craft Utility (LCU) IN L-56 with over 90% indigenous content to Indian Navy. It is the only shipyard to deliver 9 corvettes. For instance, it is the first Indian shipyard to integrate carbon composite superstructure with steel hull for the construction of its third ASW Corvette for the Indian Navy which resulted in a reduction in weight and increase in stability of the ships.

**Investment Rationale**

1. **GRSE with its state of the art facilities with vast technical expertise gives it a significant edge over other domestic defense Shipyards.**

GRSE has dedicated Central Design Office with 100 skilled & multi-disciplined design engineers to undertake design, research and development activities. GRSE has already developed infrastructure like Virtual Reality Lab (VR-Lab), Secure Centralized Data Centre and various design and analysis software to implement an efficient design philosophy. Over the years, it has significantly improved its manufacturing and other functional process by modernization of its facilities and adoption of Information Technology. The Shipyard has capacity to build 20 ships (08 large & 12 medium/ small) concurrently with the state-of-the-art infrastructure. **The shipyard's Integrated Shipbuilding Facility which includes designated hull shop, dry docks and building berths enables construction of quality ships in reduced timeframe with Modular Construction Technology in line with global standards enabling them to have strong and established Relationships with customers like Indian Navy and Indian Coast Guard. It has an advantage over global shipyards in securing contracts to build vessels for**

**Important Data**

Nifty	19,575
Sensex	65,762
<b>Key Stock Data</b>	
CMP	₹817.2
Market Cap (bn)	₹93.6
52W High/Low	₹844/302
Shares o/s (mn)	114.55
Daily Vol. (3M NSE Avg.)	7.849,269
BSE Code	542011
NSE Code	GRSE
Bloomberg Code	GRSE:IN

**Shareholding Pattern (%) – Jun'23**

Promoter	74.5
DII's	7.5
FII's	3.1
Public	14.9

**Financials**

(₹ mn)			
Particulars	FY20	FY21	FY22
Revenue	14,333	11,408	17,544
EBITDA	404	721	1,408
EBITDA Margin (%)	2.8	6.3	8.0
Net Profit	2,313	4,320	712
EPS (₹)	14.3	13.4	16.5
DPS (₹)	7.1	5.0	5.8
RoE (%)	15.7	13.5	15.1
RoCE (%)	0.9	3.5	7.6
P/E (x)	57.3	61.0	49.4
EV/EBITDA (x)	167.0	98.2	48.4
P/BV (x)	9.0	8.2	7.4

Particulars	FY23	FY24E	FY25E
Revenue	25,611	31,469	47,562
EBITDA	1,490	2,298	3,932
EBITDA Margin (%)	5.8	7.3	8.3
Net Profit	2,281	2,691	3,943
EPS (₹)	19.9	23.5	34.4
DPS (₹)	6.2	7.0	9.0
RoE (%)	16.1	20.2	25.1
RoCE (%)	7.2	9.5	11.2
P/E (x)	41.0	34.8	23.7
EV/EBITDA (x)	35.9	31.8	21.5
P/BV (x)	6.6	3.7	3.4

Source: Company, Way2Wealth

**Relative Performance**

Return (%)	1 Yr	3Yr	5 Yr
GRSE	133.9	307.8	705.9
Nifty 50	10.4	72.7	68.9
Sensex	11.4	71.4	71.3

Source: Company, Way2Wealth

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the Indian Navy and Indian Coast Guard, because, it qualifies for the 'Make in India' initiative under the Defense Procurement Procedure (DPP). The 'Make in India' initiative grants indigenous manufacturers a competitive advantage when supplying to the domestic market. The MoD has given the highest priority to Indigenously Designed, Developed, and Manufactured ("IDDM") products for capital procurement. The Indian Navy and Indian Coast Guard are the repeat customers of the company, and these constitute part of the domestic market

Major and ongoing projects GRSE has been involved in:

- During FY21, *INS Kavaratti* the last ship of four Anti-submarine Warfare *Kamorta-class Corvettes (ASW- Project 28)* built by GRSE was commissioned at Visakhapatnam on 22 October 2020 at Visakhapatnam. Project-28 was worth ₹78bn with ₹19.5bn per Corvette. The company delivered 1 ship (Fast Patrol Vessel) to Government of Seychelles (GoS) taking the total deliveries during the year to 3. It completed the Landing Craft Utility (LCU) Mk IV Project by delivering last 8<sup>th</sup> ship of the Class Yard 2099 (LCU L-58) which was handed over to Indian Navy on 31 December 2020. The LCU Mk IV Project was worth ₹21bn.
- During the FY22, GRSE completed the refit of MCGS Barracuda a Mauritius Ship. Also exported a Fast Patrol Vessel 'SCG PS Zoroaster' to the Govt. of Seychelles and completed its Guarantee Refit & Dry Docking (GRDD) on 31 March 22. Delivered MV MA Lisha, the Ocean-Going Cargo cum Passenger Vessel, built at a cost of US\$ 12.73mn to Republic of Guyana on 23 Apr 2023.
- GRSE signed a contract worth ₹63.11bn with the Indian Navy for construction and delivery of 8 Anti-Submarine Warfare Shallow Watercraft (ASW-SWC- 80% indigenous content) on 29 April 2019 to be delivered in 42 months. As per build strategy, four ships are being built at GRSE, Kolkata and construction of balance four ships has been sub-contracted to M/s L&T Shipbuilding, Kattupalli. *Arnala, Androth* and *Anjadip* was launched on 20 December 2022, 21 March 2023 and 13 June 2023 respectively. Deliveries estimated to be 2024-26.
- GRSE is part of the *Nilgiri class - Project 17-Alpha frigates (3 out 7- ₹47bn per frigate; rest 4 by MDL)* with its Yard 3022 used to build the first ship which was launched on 14 December 2020. The latest Vindhyagiri frigate was launched on 17 August 2023 and expected to be commissioned in 2025-26.
- GRSE has also received order on 30 March 2023 for next-gen ocean-going patrol vessels with order value of ₹34bn; production is likely to commence from Q2FY24. It is part of acquisition of 11 Next Generation Offshore Patrol Vessels under Buy (Indian-IDDM) category was signed with Goa Shipyard Ltd (GSL) and Garden Reach Shipbuilders and Engineers (GRSE), Kolkata at a total cost of ₹97.81bn. Of the 11 ships, seven will be indigenously designed, developed & manufactured by GSL and four by GRSE. The delivery of the ships is scheduled to commence from Sep'26.
- On 24 May 2023, GRSE was awarded the contract worth ₹2.5bn for supply of Ten 30 mm Naval Surface Guns by the Ministry of Defense (MoD)/ Indian Navy with delivery likely by FY25. The Ministry of Defense (MoD) has designated GRSE as the nodal agency for the indigenisation of Close in Weapons Systems (CIWS) guns for Naval applications in Mar'22. Under this mandate, GRSE has achieved this breakthrough in indigenizing the 30 mm Naval Surface Gun (NSG) a vital equipment to be indigenized under the CIWS. The 30 mm NSG is a key weapon system fitted on small Warships and Auxiliary vessels of the Indian Navy and Indian Coast Guard.
- As of end-Jun'23, GRSE's orderbook stands at ₹245.5bn, comprising 6 projects: 1) Three P-17A projects (₹137.45bn), 2) Four survey vessel ships (₹13.82bn), and 3) Eight Anti-submarine shallow watercrafts (₹54.38bn) – i.e. total 15 ships from 3 projects of Indian Navy. The other projects include: i) One Fast Patrol vehicle (FPV) ship for Indian Coast Guard, ii) Electric ferry ship for West Bengal government delivery in Nov-Dec'23, iii) one project (six patrol boats) for the government of Bangladesh.

- As per the management, the current orderbook execution is expected to peak out in FY25, though management is hopeful of maintaining EBITDA margin at 6-6.5% as Q1FY24 for rest of the year
- GRSE has in the past and continues to associate with several technology firms in their industry like MTU and other international/ domestic entities for their different business segments. During FY20, GRSE signed a MoU with M/s. Elbit Systems, Israel for indigenous development and supply of Unmanned Surface Vessels (USV). **Launched an Autonomous Underwater Vehicle (AUV) on 28 July 2023. The AUV is lightweight and man-portable one that GRSE developed in collaboration with M/s Aerospace Engineering Pvt Ltd. (AEPL) as an industry partner.**

## 2. Till 2027, GRSE sees ₹4.5tn opportunity in Naval expenditure as Indian Navy (IN) plans for 200 ships by 2027

The Indian Navy's (IN) present force level comprises about 150 ships and submarines. The Indian Navy's perspective-planning in terms of 'force-levels' is now driven by a conceptual shift from 'numbers' of platforms to the one that concentrates upon 'capabilities'. In terms of force accretions in the immediate future, the IN is acquiring ships in accordance with the **IN's Maritime Capability Perspective Plan (MCP) which targets a force level of about 200 ships by 2027.** The IN has the vision of transforming it from a buyer's navy to a builder's navy. The Navy is also looking towards the private shipbuilders to accelerate the production rate. To achieve fleet of 200 ships, Government of India (GoI) has embarked on a program that **can open up ₹4.5tn in overall opportunity. This includes ₹2.2tn in submarine programs, ₹900bn in destroyers and frigates, ₹450bn in aircraft carriers, corvettes, and landing platform. Further, GoI has approved ₹320bn for coast guards.** Annually, Indian naval expenditure is over ₹330bn, which, with borrowings, is expected to shore up and support the targeted expenditure.

India is positioned as the 3rd largest military spender in the world, with its defense budget accounting for 2.15% of the country's total GDP. Over the next 5-7 years, the Government of India plans to spend US\$130bn for fleet modernisation across all armed services. Indian Defense industry gets ₹5.94tn in Budget 2023-24, a jump of 13% over previous year. Capital Outlay on Defense Services saw an increase of 6.7% from ₹1.52tn to ₹1.63tn. Defense Services (Revenue) constitutes 45.5%, while Capital Outlay on Defense Services constitutes 27.4% of the total allocations. Defense Pensions make up 23.28%, while MoD (Civil) stands at 3.8% of the allocations. The percentage share of Capital Outlay in BE 2022-23 though was higher at 29.01% of the total allocations. Defense Services (Revenue) stood at 44.3%, Defense Pensions at 22.8% and MoD (Civil) at 3.8% of the BE 2022-23 allocations.

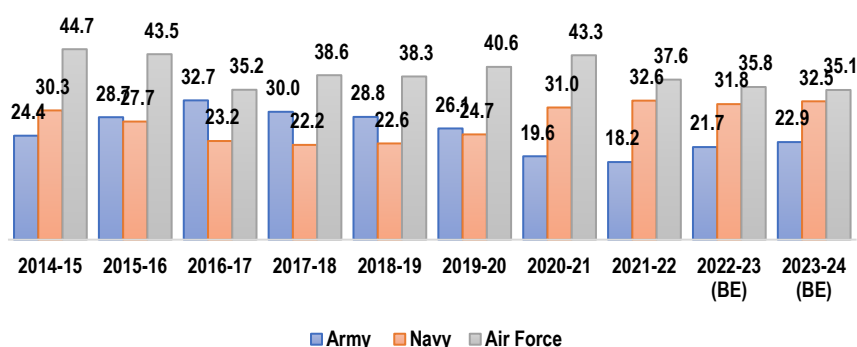
**Defense Budget 2022-23 (BE) and 2023-24 (BE)**

₹ Cr	MoD Civil	Defense Services Revenue	Capital Outlay on Defense Services	Defense Pensions	Total Defense Budget
<b>2022-2023(BE)</b>	20,100	2,33,000.54	1,52,369.61	1,19,696	5,25,166.15
<b>2023-2024(BE)</b>	22,612.5	2,70,120.14	1,62,600	1,38,205	5,93,537.64

Source – Union Budget, 2023-24 and 2022-23, Ministry of Finance, Government of India

As for capital budget allocations for individual services, the Air Force leads the way with 35% in 2023-24 (BE), followed by the Navy (at 32.5%) and the Army (at 23%). The average annual share of the Air Force's capital budget since 2014 has stood at about 39%, while that of the Navy has been at 28% and the Army has been at 25%.



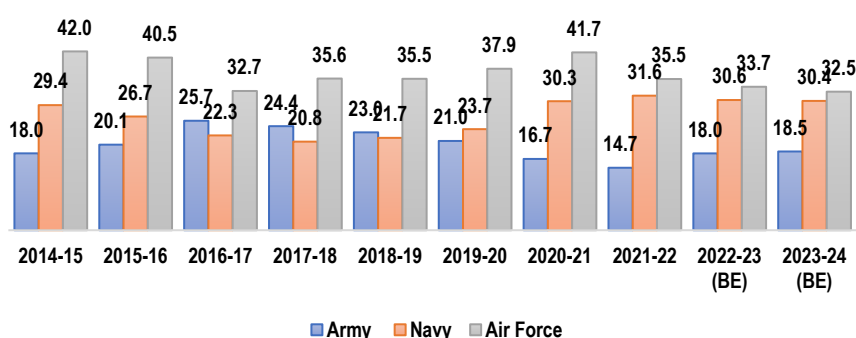
**Capital Outlay (%) Budget: Army, Navy, Air Force (2014–24)**


Source –Based on data from Union Budget, Ministry of Finance, Government of India, Various Years

In BE 2023–24, out of the capital outlay of ₹372.15bn to the Army, ₹300.63bn relates to what is termed as modernisation budget. The Army's modernisation budget constitutes 18.48% of the MoD's capital outlay budget. While the Army's modernisation budget as a percentage of MoD's capital allocations reached a high of 25.69% in 2016–17, it has seen an average annual growth rate of 20% over the past 10 years, as against 36.8% for the Air Force and 26.7% for the Navy. In BE 2023–24, the Navy's modernisation budget stood at ₹493.54bn while that of the Air Force stood at ₹528.93bn, about 30.35% and 32.52% of the capital outlay budget respectively.

The Army's modernisation budget has seen a 48.6% jump in 2023–24 (BE), as against 2021–22 (Actual), from ₹202.31bn to ₹300.63bn. The Navy's modernisation budget has seen a 13.25% increase, while that of the Air Force has seen an increase of around 8%, during the corresponding time period.

Adequate funds for the modernisation purposes of the armed forces have been a long- running theme of debate. The MoD, in its submission to the 15th Finance Commission in Aug'20, had projected a capital budget requirement of ₹3.46tn and had expected an estimated allocation of ₹1.76tn in 2023–24. The 2023–24 BE capital allocation at ₹1.63tn is less than that estimated allocation by ₹137.46bn.

**Modernisation Budget as Percentage of Capital Outlay Budget: Army, Navy, Air Force (2014–24)**


Source: Based on data from Union Budget, Ministry of Finance, Government of India, Various Years

- GRSE focus on export of Patrol Boats/Vessels acting as an enabler for Government of India aim to triple the value of India's annual defense exports to \$5bn over the next two years and capture at least 5-10% of the global patrol boat manufacturing market

It is estimated that the current global inventory of patrol boats in the world's navies alone comprises over 1,190 vessels. This is also the reason for the steady growth in the global market size for patrol boats, which was \$226.7mn in 2020 and is expected to reach \$371.3mn by the end of 2027, with a CAGR of 7.3% between 2021 and 2027. The patrol boats market is generally classified into Small Patrol Boats, Medium

**Patrol Boats and Large Patrol Boats, with the small and medium sized patrol boats being used for 'brown water' operations and large patrol boats designed for 'blue water' roles.** The global patrol boat industry has been historically concentrated in Europe, North America and Australia, with China, Israel, UAE, Turkey, etc being relatively new entrants in this segment. Not surprisingly, they have the lion's share of the global export market for patrol boats

**GRSE was the first Indian Shipyard to export MCGS Barracuda to national Coast Guard Mauritius on 20 Dec 2014. GRSE also exported a Fast Patrol Vessel 'SCG PS Zoroaster' to the Govt. of Seychelles and completed its Guarantee Refit & Dry Docking (GRDD) on 31 March 22. Under the 'Make in India' and Atmanirbhar Bharat programmes, the aim for Indian shipyards is to capture at least 5-10% of the global patrol boat manufacturing market in the years ahead.** While India today possesses the capability to design and build the entire range of warships, from aircraft carriers to submarines, these platforms have a limited market, as the numbers required by the Indian Navy and other maritime forces of the world are limited and episodic. **On the other hand, vessels such as patrol boats and offshore patrol vessels (OPV) – though not as 'glamorous' as aircraft carriers, destroyers, frigates and submarines – have the greatest export potential in terms of quantity. Export of patrol boats is also less troublesome in terms of transfer of technology (ToT) and the optics to the international community, as they are not designed for high intensity warfare and mainly contribute to ensuring the safety of the global commons.** It is therefore, imperative, that this segment of warships, which is often taken for granted, receives due attention.

For the Navy, **Patrol boats/vessels occupy the bottom of the 'food chain'**, as far as navies and coast guards of the world are concerned. Yet, like the bottom of the food chain in other aspects of life, they are indispensable and carry out roles that bigger warships either cannot or are uneconomical for them to do so due to their designed capability for high intensity warfare, higher operating costs and ineffective utilisation of valuable human capital for low end tasks. The major advantages of patrol boats include the facts that: they have a low capital cost; are economical to operate and maintain; can enter shallow waters and small harbours due to their lower draught; do not require extensive berthing arrangements; and have high speeds and excellent manoeuvring capabilities. Of course, patrol boats have their drawbacks – principally lesser endurance and armament (than bigger ships) and limitations of operation in higher sea states.

**The variety of roles carried out by patrol boats include: shore assault; anti-submarine and anti-surface operations; mine laying, mine-hunting and towing of minesweeping dyads; low intensity maritime operations (which includes a range of tasks from anti-piracy operations to anti-terrorist operations); close coast patrolling; search and rescue; EEZ patrols; fishery protection; surveillance and tracking of other vessels; boarding and/or seizure of merchant vessels; diving operations; harbour patrolling; international maritime boundary line (IMBL)/border patrol; immigration law enforcement; and a host of other miscellaneous tasks such as range clearance for firing operations by bigger ships, escort of smaller boats in the open sea, etc.**

**In today's maritime environment, where low intensity maritime operations and operations in the grey zone of warfare occupy most of the time of navies, the role and relevance of patrol boats is only going to grow. This growth will also be fed by the emergence of unmanned autonomous patrol boats, based on the new technologies of artificial intelligence, information and communication technology and propulsion which GRSE has already launched on 28 July 2023.**

**During FY 23, GRSE has generated revenue of ₹597.8mn from export orders which includes ₹584.9mn from Shipbuilding and ₹13mn from the Bailey Bridges. Since FY14, GRSE has indigenized 27 items worth ₹2.17bn. Another 12 items worth ~₹5.35bn (approx.) have been planned to be indigenised by FY25. Government of India aims to triple the value of India's annual defense exports to \$5bn over the next two years. India's defense exports have reached an all-time high, surging from ₹6.86bn in FY14 to ~₹152bn in FY23. This remarkable 23-fold increase reflects India's progress in the global defense manufacturing sector. With exports reaching more than 85 countries, India's defense industry has shown its capability of design and development to**

the world, with 100 firms exporting defense products at present. Export procedures have been simplified and made industry-friendly with end-to-end online export authorisation curtailing delays and bringing Ease of Doing Business. India, once known primarily as a defense equipment importer, now exports a wide range of major platforms, including aircraft like the Dornier-228, artillery guns, Brahmos Missiles, PINAKA rockets & launchers, radars, simulators, armoured vehicles, etc. The global demand for India's indigenous products, such as the LCA-Tejas, Light Combat Helicopters, Aircraft Carriers, and MRO activities, is also on the rise. Recently, General Electric Co's GE Aerospace signed an MoU with Hindustan Aeronautics Limited (HAL), the maker of LCA Tejas Mk1, to jointly produce in India the fighter jet engine, GE414. The GE414 engines will be used for the LCA Tejas Mk2, but also for the future Twin Engine Based Fighter (TEDBF) and the Advanced Medium Combat Aircraft (AMCA) Mk1 projects. The deal between GE Aerospace and HAL, will aid in Government's effort to triple the exports and give India's defense ecosystem a much needed boost. Further, the "Atmanirbhar Bharat" initiatives have helped the country by encouraging indigenous design, development and manufacture of defense equipment in the country, thereby reducing dependency on imports in the long run. The expenditure on defense procurement from foreign sources has reduced from 46% of overall expenditure in 2018-19 to 36.7% in Dec'22.

#### 4. GRSE's Engineering and Engines division enables innovation, diversification and exports

GRSE continues to play an integral role in strengthening India's engineering capabilities by focusing on indigenous solutions, from **Portable Bridges** to specialised **Deck Machinery Items**. **The Ship Repair complements the core business of shipbuilding.** GRSE has diversified in to the business of Portable Steel Bridges, various Deck Machinery items and Assembling/ Overhauling and Testing of Marine Diesel Engines. Further, the diversification into Deck Machinery and Diesel Engines are vertical integration with the core business enabling GRSE to deliver warships in a more time efficient manner. **Portable Bridges** are designed to be easily assembled and disassembled, these bridges play a critical role in emergency situations, facilitating movement in challenging terrains and ensuring seamless transportation when traditional infrastructures are lacking or compromised. In FY23 achieved a Value of Production (VoP) of ₹693mn for 78 bridges. Additionally, the unit received international recognition by exporting bridges to Bhutan and securing an order from the Bangladesh Army. **Deck Machinery Unit**, focusing on manufacturing various deck machinery product range like windlass/anchor capstan; dock capstans; deck cranes; boat davits; special purpose winches, steering gears, electro-hydraulic deck crane, and specialised products like the rail-less and rail-based helo traversing system; designed and built to meet customer specific requirement to support individual vessel. GRSE produce deck machinery items for the Indian Navy, Indian Coast Guard, public and private shipyards and GRSE's own shipbuilding division. The unit has made significant strides in indigenization efforts, especially with the "Telescopic Helicopter Hangar INS Investigator" and a "3T Telescopic Deck Crane" for the large survey vessel project.

Situated in Ranchi, GRSE's state-of-the-art Diesel Engine Plant (₹229.7mn per unit) is responsible for a multitude of tasks - from the intricate assembly of engines to their rigorous testing and overhauling. Equipped with a top-tier test bench facility, the plant ensures that every MTU diesel engine that rolls out meets the stringent quality standards that both GRSE and MTU are renowned for. Successfully completed the Factory Acceptance Trials and delivery of 5 Nos. 1 MW DAs of the Project-17A during FY23. In keeping with India's "Make in India" initiative, GRSE has taken laudable strides to elevate its manufacturing capabilities. The recent modernisation of the Diesel Engine Plant aligns perfectly with this vision. **Strengthening its ties with M/s MTU Germany, GRSE has embarked on an ambitious journey to indigenise 40% of engine parts manufacturing.** The company plan is for the next 4 to 5 years, towards greater self-sufficiency, reducing dependencies and showcasing India's manufacturing prowess on the global stage enabled by MoU with M/s Rolls Royce Solutions, Germany towards localisation & co-production of Marine Diesel Engines. Order book position as on 31 March 2023 for Engg and Engines division was at ₹1.34bn and ₹1.21bn respectively.

## 5. Future projects of GRSE

- **Till Aug'23, the company has launched three warships which includes 3rd ASW, one P17A vessel (17 August 2023) and underwater autonomous vessel.**
- **Physical performance (construction completed).** In P-17A project, as of Jun'23-end; 1st ship has completed 55% of construction (57% in Aug'23), 2nd ship has completed 47% of construction, and 3rd ship has completed 32% of construction (37% in Aug'23). GRSE intends to deliver first ship in mid-CY25, second ship by early CY26 and 3rd ship by mid-CY26. **Pending order value is ₹137.45bn.**
- **In the case of survey vessels (4 Nos. worth ₹13.82bn)** - First ship is undergoing trials and reaching project maturity level (ship is ready for trials and delivery); company intends to deliver the ship by the end of CY23; 2nd ship is planned to be delivered in early CY24 while the 3rd and 4th ships are expected to be delivered during FY25.
- **In the case of Anti-submarine shallow watercraft project.** Already launched three ships; two ships are approaching launch phase, and ships 1 and 2 have achieved 50%+ physical construction. First ship is planned to be delivered by FY24 (Feb-Mar'24), next two by FY25 and the complete project by FY27. **FY25 will be the peak year for this project.** Revenue accruals are based on level of construction and a higher portion of revenue is booked once it cross 40% construction. **Pending order value is of ₹54.38bn.**
- **Current status of Next Generation Corvettes** - Acceptance of Necessity (AoN) was recorded in May'22 estimated at ₹360bn. **The project comprises 8 ships (L1-5 ships and L2-3 ships).** Currently, technical requirements are being finalised by the Navy. Request for Proposal (RFP) is expected in 2HFY24. Contract is expected to be signed in FY24-25. GRSE's strategy is to become L1.
- **Project-17 Bravo (B)**, commonly referred to as 'P-17A repeat order' will feature eight ships rather than the previously mentioned Seven. **The project is likely to be divided between the two shipyards similar to P-17A, presumably 4 hulls each.** The project is estimated to cost around ₹60bn for the 8 ships compared to ₹450bn for 7 ships under P-17A, main reason sighted is inflation and new systems.
- **Next Generation Destroyer (NGD- Project 18)**, which was previously planned as a 5-6 ship class will now feature 8 ships, the project is estimated to cost + ₹800bn (US\$ 9.65bn). The project will be executed in two phases with each phase featuring 4 ships. MDL placed an order for a floating dry dock worth ₹5bn (US\$60mn) in Jun'23, the floating dry dock will be able to accommodate the Next Generation Destroyer with rest to be done by GRSE.

## 6. Active partnership to build vessels concurrently

GRSE has signed a MoU with DEMPO Group to launch a collaboration model to build commercial vessels in three premier shipyards of DEMPO at Goa and Bhavnagar. The DEMPO group shipyards give a positional advantage to these clients for shifting the delivered vessels from India in comparison to China, Vietnam, and Turkey. **A new department focusing on Innovation & New Technology has been created to nurture start-ups and work on emerging technologies such as Autonomous Vessels, Ship based Autonomous Drones /UAV (in partnership with TUNGA Aerospace), Green Vessels and implementation of Industry 4.0 process.**



**KEY RISKS**

- Availability of new competent and highly skilled human resource at all levels.
- Constraints of a riverine shipyard due to limitations in the depth and width of navigable channel with effects of silting in river.
- Location of the company in thickly populated residential areas having narrow roads.
- Weak shipbuilding eco-system in eastern part of India. Availability of large number of vendors with experience in various aspects of shipbuilding components.
- Escalation of Raw material cost impacting margins.
- Delay in tendering and acquisition plans of Government and various departments.
- Conflict or war like situation impacting supply chain leading to delay in execution.

**VIEW**

GRSE's state-of-the-art facilities with vast technical expertise gives it a significant edge over other domestic defense Shipyards enabling it to improve its manufacturing and other functional process by modernisation of its facilities and adoption of Information Technology. The Shipyard has capacity to build 20 ships (08 large & 12 medium/ small) concurrently with the state-of-the-art infrastructure. Its strong design capabilities and as an end-to-end solutions providing capabilities gives it an advantage over global shipyards in securing contracts to build vessels for the Indian Navy and Indian Coast Guard, because, it qualifies for the 'Make in India' initiative under the DPP with MoD giving the highest priority to Indigenously Designed, Developed, and Manufactured ("IDDM") products for capital procurement thus making the Indian Navy and Indian Coast Guard are the repeat customers of the company. We are likely to see peaking of revenue by FY25 from the current order book of ₹245.5bn with expectation of eight next-gen corvettes worth ₹360bn and Four landing platform docks (LPD) orders worth ₹250-300bn which should witness execution and revenue in FY26. **Hence we recommend it as a BUY stock with Target Range of ₹970-990 trading at P/E 23.7x FY25E EPS of ₹34.4.**

**Q1FY24 Revenue/ EBITDA/ PAT grew 30%/~38%/~53% YoY**

GRSE's Q1FY24 performance was boosted by P-17A frigates project entering the peak revenue booking phase. Revenue grew 30.4% YoY to ₹7.6bn led by two out of three frigates being in the peak revenue booking band of 35-65%; while EBITDA rose 37.6% YoY to ₹460.7mn with EBITDA margin at 6.1%, +32 bps YoY and 269 bps QoQ. Management expects to maintain a similar margin of Q1FY24 for remaining part of the year. Orderbook as at Jun'23-end was at ₹245.5bn, implying orderbook/revenue at 8.96x. An order worth ₹2.5bn for Naval guns from Indian Navy was received; and subcontracted part of its orderbook to L&T for speedy execution. Going ahead, management expects revenue to peak out by FY25, but expects orders related to next-gen corvettes by end-FY26.

Ship repair business is still at a nascent stage and currently contributes ~1.5-2% of overall revenue with outstanding orderbook of ₹0.7bn-0.8bn. Opportunity is phenomenal in this space

GRSE expects the following bids opening during Q2/Q3FY24: 1) 14 fast patrol projects for Indian Coast Guard (submitted bid, technical evaluation process is on; ₹12-14bn), 2) six ocean-going patrol vessels for Indian Coast Guard ₹20bn; bid opening is expected in Q2FY24) and 3) polar-research vessel for National Centre for Polar and Ocean Research (NCPOR) (DRDO organisation; ₹7.5-9bn).

Likely upcoming orders: 1) Two multi-purpose vessels for Indian Navy (RFP expected by CY23; ₹15bn), 2) Five next-gen survey vessels (RFP expect by early FCY24; ₹35bn), 3) 21 Nos. Waterjet FGTs with (RFP expected by CY24; ₹24-25bn), 4) Eight next-gen corvettes (RFP expected by end-CY24; ₹360bn) and 5) Four landing platform docks (LPD) (RFP is expected by CY25; ₹250-300bn).

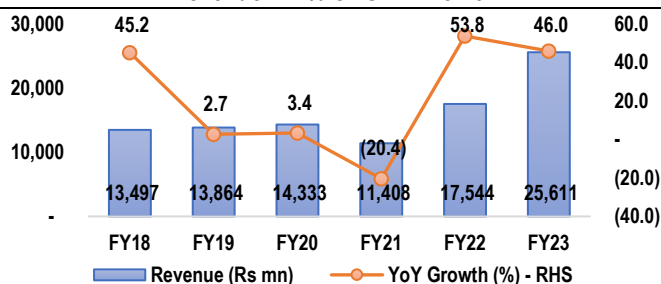
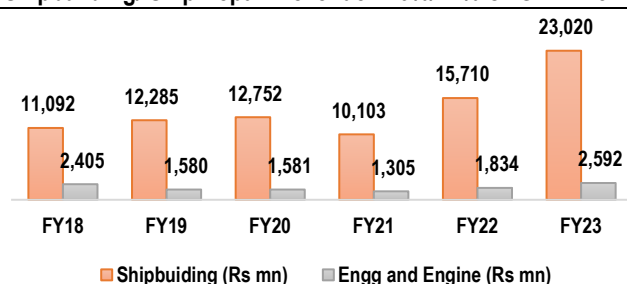
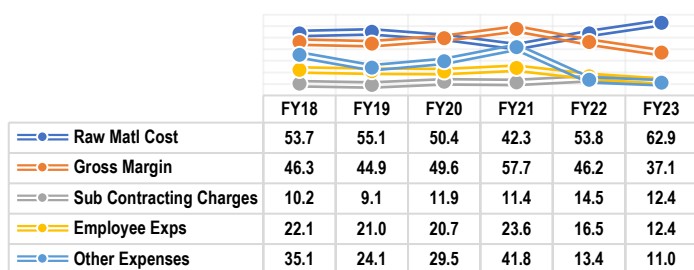
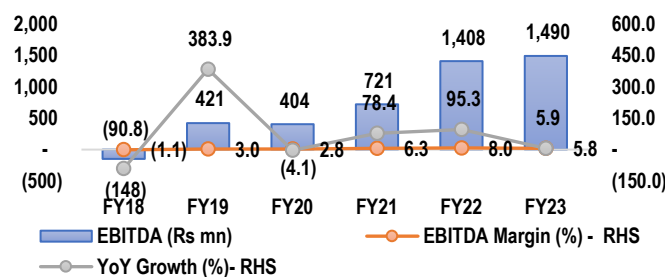
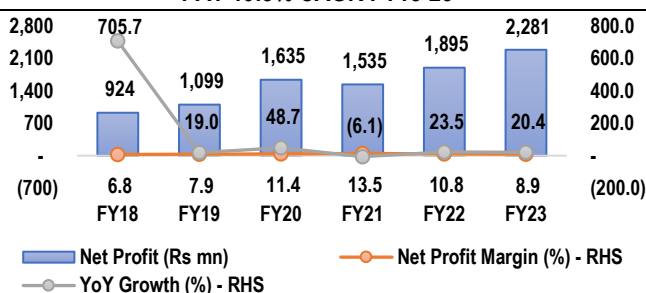
## Q1FY24 FINANCIALS

(₹ mn)

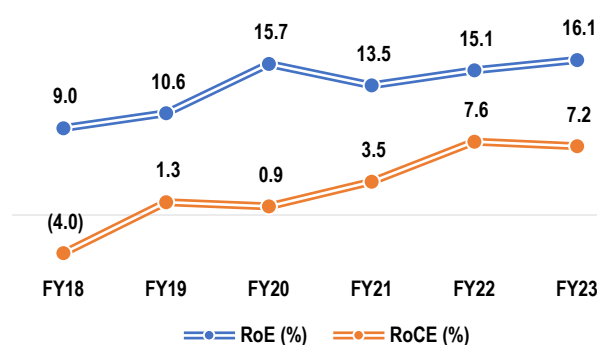
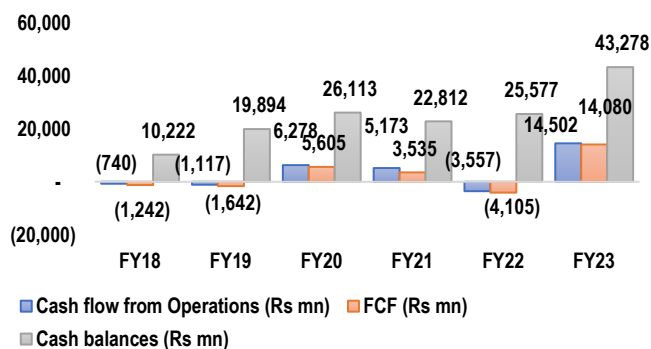
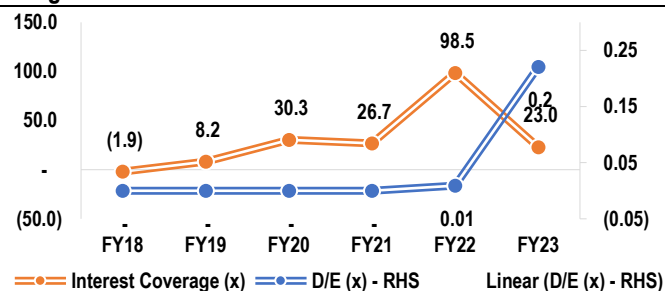
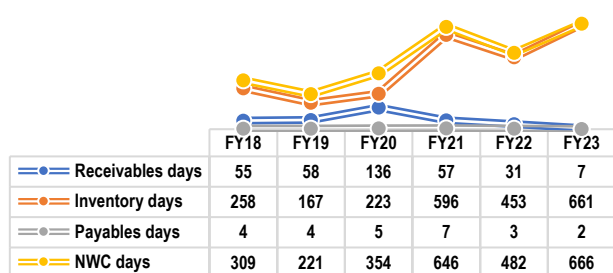
Particulars	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY23	FY22	YoY (%)
<b>Revenue</b>	<b>7,559.0</b>	<b>5,797.7</b>	<b>30.4</b>	<b>6,011.7</b>	<b>25.7</b>	<b>25,611.5</b>	<b>17,544.5</b>	<b>46.0</b>
Cost of Matl	4,454.3	3,735.3	19.2	3,315.1	34.4	14,952.4	9,352.0	59.9
B&D Spares	12.6	57.3	(78.0)	286.3	(95.6)	1,121.0	83.7	1,240.1
Inventory Changes	149.4	32.4	360.6	37.2	301.2	47.3	3.9	1,121.0
Sub Contracting Charges	1,129.2	584.6	93.2	792.5	42.5	3,179.3	2,545.9	24.9
Employee Exps	854.0	798.7	6.9	832.0	2.6	3,169.1	2,902.9	9.2
Other Expenses- Project related	164.1	36.8	345.4	296.4	(44.6)	570.7	234.8	143.1
Other Expenses	334.8	217.8	53.7	247.7	35.2	1,081.3	1,013.8	6.7
<b>EBITDA</b>	<b>460.7</b>	<b>334.7</b>	<b>37.6</b>	<b>204.4</b>	<b>125.4</b>	<b>1,490.3</b>	<b>1,407.6</b>	<b>5.9</b>
<b>EBITDA Margin (%)</b>	<b>6.1</b>	<b>5.8</b>	<b>32</b>	<b>3.4</b>	<b>269</b>	<b>5.8</b>	<b>8.0</b>	<b>(220)</b>
Other Income	706.4	408.5	72.9	699.2	1.0	2,018.4	1,613.2	25.1
Depreciation	101.3	94.7	7.0	100.2	1.1	391.7	357.1	9.7
Finance Cost	46.3	6.1	657.7	40.4	14.6	64.8	14.3	353.6
Exceptional Item	-	-	-	-	-	-	(76.9)	(100.0)
PBT	1,019.4	642.4	58.7	763.0	33.6	3,052.2	2,572.5	18.6
Tax	252.6	140.7	79.6	210.0	20.3	770.9	677.1	13.9
<b>Net Profit</b>	<b>766.8</b>	<b>501.8</b>	<b>52.8</b>	<b>553.0</b>	<b>38.7</b>	<b>2,281.2</b>	<b>1,895.3</b>	<b>20.4</b>
EPS (₹)	6.7	4.4	52.8	4.8	38.7	19.9	16.5	20.4
<b>Adjus.Net Profit</b>	<b>766.8</b>	<b>501.8</b>	<b>52.8</b>	<b>553.0</b>	<b>38.7</b>	<b>2,281.2</b>	<b>1,972.2</b>	<b>15.7</b>
Adjus.EPS (₹)	6.7	4.4	52.8	4.8	38.7	19.9	17.2	15.7

As % to Sales	Q1FY24	Q1FY23	YoY (BPS)	Q4FY23	QoQ (BPS)	FY23	FY22	YoY (BPS)
Raw Matl Cost	61.1	66.0	(490)	60.5	54	62.9	53.8	914
Gross Margin	38.9	34.0	490	39.5	(54)	37.1	46.2	(914)
Sub Contracting Charges	14.9	10.1	486	13.2	176	12.4	14.5	(210)
Employee Exps	11.3	13.8	(248)	13.8	(254)	12.4	16.5	(417)
Other Expenses	11.2	6.8	438	16.4	(521)	11.0	13.4	(230)

Source: Company, Way2Wealth

**PAST PERFORMANCE**
**Revenue ~14% CAGR FY18-23**

**Shipbuilding/ Ship Repair Revenue ~16%/~2% CAGR FY18-23**

**Cost as % to sales**

**EBITDA ~259% CAGR FY18-23**

**PAT 19.8% CAGR FY18-23**


Source: Company, Way2Wealth

**Efficient W.C mgmt with low debt enabling Strong Cash flows and Return ratios**


Source: Company, Way2Wealth

**FINANCIALS & VALUATIONS**

Particulars	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Shipbuilding	11,092	12,285	12,752	10,103	15,710	23,020	28,322	43,757
Engg and Engine	2,405	1,580	1,581	1,305	1,834	2,592	3,147	3,805
<b>Revenue</b>	<b>13,497</b>	<b>13,864</b>	<b>14,333</b>	<b>11,408</b>	<b>17,544</b>	<b>25,611</b>	<b>31,469</b>	<b>47,562</b>
<b>EBITDA</b>	<b>(148)</b>	<b>421</b>	<b>404</b>	<b>721</b>	<b>1,408</b>	<b>1,490</b>	<b>2,298</b>	<b>3,932</b>
<b>EBITDA Margin (%)</b>	<b>(1.1)</b>	<b>3.0</b>	<b>2.8</b>	<b>6.3</b>	<b>8.0</b>	<b>5.8</b>	<b>7.3</b>	<b>8.3</b>
Net Profit	924	1,099	1,635	1,535	1,895	2,281	2,691	3,943
EPS (₹)	8.1	9.6	14.3	13.4	16.5	19.9	23.5	34.4
DPS (₹)	4.4	7.0	7.1	5.0	5.8	6.2	7.0	9.0
RoE (%)	9.0	10.6	15.7	13.5	15.1	16.1	20.2	25.1
RoCE (%)	(4.0)	1.3	0.9	3.5	7.6	7.2	9.5	11.2
Cash Balances	10,222	19,894	26,113	22,812	25,577	43,278	45,681	54,271
FCF	(1,242)	(1,642)	5,605	3,535	(4,105)	14,080	15,211	18,071
Receivable Days	55	58	136	57	31	7	12	10
Inventory Days	258	167	223	596	453	661	565	410
Payable Days	4	4	5	7	3	2	3	3
Net Debt/ Equity (x)	(1.0)	(1.9)	(2.5)	(2.0)	(2.0)	(2.8)	(2.3)	(1.8)
P/E (x)	101.3	85.1	57.3	61.0	49.4	41.0	34.8	23.7
EV/EBITDA (x)	(562.0)	175.0	167.0	98.2	48.4	35.9	31.8	21.5
P/BV (x)	9.2	9.0	9.0	8.2	7.4	6.6	3.7	3.4

Source: Company, Way2Wealth

**PEER COMPARISON**

COMPANY	CMP	MCAP	Order Book	Revenue (₹ mn)				EBITDA (₹ mn)				EBITDA Margin (%)			
	(₹)	(₹ mn)	Jun'23 (₹ bn)	FY21	FY22	FY23	Q1FY24	FY21	FY22	FY23	Q1FY24	FY21	FY22	FY23	Q1FY24
GRSE	817.2	93,606.2	245.5	11,408	17,544	25,611	7,559	721	1,408	1,490	461	6.3	8	5.8	6.1
MDL	1,906.50	3,84,522.00	391	40,478	57,333	78,272	21,728	2,259	4,426	7,978	1,717	5.6	7.7	10.2	7.9
Cochin Shipyard	936.7	1,23,207.30	210	28,189	31,900	23,305	4,441	7,198	6,289	2,651	821	25.5	19.7	11.4	18.5

COMPANY	CMP	MCAP	PAT (₹ mn)				EPS (₹)				DPS (₹)		
	(₹)	(₹ mn)	FY21	FY22	FY23	Q1FY24	FY21	FY22	FY23	Q1FY24	FY21	FY22	FY23
GRSE	817.2	93,606.2	1,535	1,895	2,281	767	13.4	16.5	19.9	23.5	5	5.8	6.2
MDL	1,906.50	3,84,522.00	4,796	6,005	10,727	2,866	23.8	29.9	53.3	56.8	7.2	8.6	10
Cochin Shipyard	936.7	1,23,207.30	6,102	5,866	3,345	1,094	19.4	20.2	35.4	8.3	15.5	16.8	17

COMPANY	CMP	MCAP	RoE (%)			RoCE (%)			P/E (x)			EV/EBITDA (x)		
	(₹)	(₹ mn)	FY21	FY22	FY23	FY21	FY22	FY23	FY21	FY22	FY23	FY21	FY22	FY23
GRSE	817.2	93,606.2	13.5	15.1	16.1	3.5	7.6	7.2	61	49.4	41	98.2	48.4	35.9
MDL	1,906.50	3,84,522.00	18.7	17.1	23.5	21.9	23.7	31.3	80.2	63.8	35.7	134.7	60.9	34.3
Cochin Shipyard	936.7	1,23,207.30	15.6	14.1	7.6	14.2	11.2	4.4	48.3	46.4	26.5	15.1	15.7	31.5

COMPANY	CMP	MCAP	P/BV (x)			MCAP/ Sales (x)			Cash flow from Operations (₹ mn)			FCF (₹ mn)		
	(₹)	(₹ mn)	FY21	FY22	FY23	FY21	FY22	FY23	FY21	FY22	FY23	FY21	FY22	FY23
GRSE	817.2	93,606.2	8.2	7.4	6.6	8.2	5.3	3.7	5,173	-3,557	14,502	3,535	(4,105)	14,080
MDL	1,906.50	3,84,522.00	13.2	11.6	6.6	9.5	6.7	4.9	54,365	67,128	11,024	55,083	65,520	8,600
Cochin Shipyard	936.7	1,23,207.30	3.1	2.8	2.8	4.4	3.9	5.3	6,558	14,151	20,511	3,122	11,908	17,226

COMPANY	CMP	MCAP	Cash Balances (₹ mn)			Net D/E (x)			Interest Coverage (x)			NWC Days		
	(₹)	(₹ mn)	FY21	FY22	FY23	FY21	FY22	FY23	FY21	FY22	FY23	FY21	FY22	FY23
GRSE	817.2	93,606.2	22,812	25,577	43,278	-2	-2	-2.8	26.7	98.5	23	646	482	666
MDL	1,906.50	3,84,522.00	80,279	1,14,805	1,10,630	-	-	-	71.1	53.7	225.4	353	419	339
Cochin Shipyard	936.7	1,23,207.30	22,089	32,127	46,718	-0.4	-0.6	-0.9	14.3	13.6	7.7	26	26	37

Source: Company, Way2Wealth



**TECHNICAL VIEW**

The GRSE has given a breakout from the upward sloping channel on the weekly chart and after testing an all-time high of 843, the stock has consolidated in a narrow range with low volumes for the past three weeks. The momentum indicators such as RSI & MACD are suggesting profit booking at higher levels. The trend indicator ADX indicates the current trend is expected to witness further upside if GRSE sustains above 840-843 levels. Technically GRSE is likely to remain a positive bias and higher-level profit booking can be expected at any point in time. The stock has found the resistance level of 840-843. Breakout of 843 levels would invite further buying and then the stock can move towards 870/880 levels. On the lower side, the short to medium term support lies at 735/690 levels. If the stock breaks below 690 then we could see the stock testing at 620.



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## Disclosure of Interest Statement GARDEN REACH SHIPBUILDERS & ENGINEERS LTD (GRSE) as on 06<sup>th</sup> September 2023

Name of the Security	GARDEN REACH SHIPBUILDERS & ENGINEERS LTD (GRSE)
Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	Yes (10 shares on 09Jun23)
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

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