

17th November 2021

CMP – ₹368.9/-

View – **ACCUMULATE**

Q2FY22 Result Highlights

- **Repairs segment is making up for the shortfall in shipbuilding segment** – Cochin Shipyard Ltd (CSL) reported ₹6.9bn in revenue, up 6% YoY. This was led by ship-building segment, which reported ₹5.5bn in revenue, down 1.5% YoY. Ship repair segment clocked ₹1.4bn in revenue, up 50% annually. In 1HFY22, ship building remains stagnated with ₹8.2bn in revenue, down 6% annually. The company is making up the shortfall through repairs segment-which clocked ₹2bn, up 83% YoY. This is commendable given lockdown impact spilling over in Q2FY22 given the Covid-19 situation in the state of Kerala. While 1HFY22 was battered by lockdown, we expect execution to pick up in 2HFY22. With residual phase of IAC running strong, the ship-building EBIT margins expanded to 28%, up 657bps annually. The company reported 13% EBIT margin in ship-repair segment presumably due to higher raw material prices weighing in. It is unclear of Tebma shipyard works are incorporated in the current financials. The blended EBIT margin, however, was at 26%, up by 300bps.
- **Cash Balances strong at ₹22.6bn with Net profit at ₹1.3bn +25% YoY** – Unlike 1HFY21, where other income was 53% of PBT, this year other income has gone down to 39% of PBT. The other income was at ₹892mn, down 19% YoY. This is despite cash/cash equivalents moving up to ₹22.6bn, up 5% annually. With stable taxes and other line items, the net profit was at ₹1.3bn, up 25% YoY. We believe if Q2FY22 trend, assuming higher commodity pressure, continues, the company is likely to be in a position to execute ₹5-5.3bn in net profit.
- **Near term milestones missed due to COVID-19** – The company's operations has ramped up two-shifts a day, with workers clocking in time from 7am-10pm, making up for the lost revenue due to lockdown. Yet the workforce is below two-third of peak level, before lower count of Covid-19 cases, or lockdown like restrictions. FY21 milestones were missed due to lack of OEM participation, which involved foreign partners, who could not travel. Perhaps the easing of travel will help to normalise its revenue by FY23.
- **IAC has commenced trials; commissioning aiming at 2022** – The ₹230bn IAC-1, or INS Vikrant, is the largest warship built in the country having a displacement of about 40,000 tonnes. The ship is a steel structure over 21,500 tonnes, with special grade steel developed indigenously and used in Indian Naval Ships for the first time. The former INS Vikrant, acquired from UK in 1961, was decommissioned in 1997. The possibility of IAC-2 could boost to different revenue trajectory of the company. However, the possibility of IAC- 2, winning the project, remains bleak.
- **CRUISE 2030 to unlock 6-8x profit growth over next decade** – In Mar'19, the company kicked off CRUISE 2030 (COCHIN's revenue & profitability Unlock through Integrated Strategic Excellence 2030). The exercise is done along with BCG, a management consultancy firm, to achieve its 2030 vision of 6-8x growth. Over next decade, the company is likely to transform from being the leading Indian shipyard, to one of the leading global shipyards.

Important Statistics

MCAP (₹bn)	48.52
52week H/L (₹)	434/318
NSE Code	COCHINSHIP
BSE Code	540678

Shareholding pattern	Sep'21 (%)
Promoters	72.9
FII	3.1
DII	4.5
Public & Others	19.5

Financials

Particulars	₹ mn			
	FY19	FY20	FY21	1H FY22
Net Revenue	29,656	34,225	28,189	10,257
EBITDA	5,726	7,093	7,203	1,892
<i>EBITDA Margin (%)</i>	<i>19.3</i>	<i>20.7</i>	<i>25.6</i>	<i>18.4</i>
Net Profit	4,812	6,377	6,101	2,681
EPS (₹)	36.6	48.5	46.4	20.4
DPS (₹)	13	15	15.5	6.0
RoE (%)	14.6	18.1	15.6	
RoCE (%)	18.6	14.4	19.6	
P/E (x)	10.1	7.6	8.0	
EV/EBITDA (x)	4.2	4.0	3.5	
P/BV (x)	1.4	1.3	1.2	

Source: Company, Way2Wealth

View

With ₹117bn order backlog (excluding ₹100bn Next Generation Missile Vessels order), CSL has execution schedule of +₹35bn in revenue till FY23. The key of FY24 execution, however, lies in ASW Corvette orders, sustainable ship repairs and gradual ramp up in NGMV order. With lower order backlog and exhaustion risk of legacy orders, the company is likely to see peak revenue in the near-ter. Additional big ticket order wins like IAC-2, or stronger inroads towards dredging and allied will be the booster for the stock with risks from delay in executing ASW Corvettes or NGMV orders. Hence we continue to maintain our **ACCUMULATE** stance, with the stock trading at **P/E 8x** FY21.

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Financial Performance

(₹ mn)								
Particulars	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	1HFY22	1HFY21	YoY (%)
Revenue	6,963	6,574	5.9	3,294	111.4	10,257	9,899	3.6
EBITDA	1,663	1,258	32.2	229	626.2	1,892	1,428	32.5
<i>EBITDA Margin (%)</i>	<i>23.9</i>	<i>19.1</i>		<i>5.1</i>		<i>18.4</i>	<i>14.4</i>	
Net Profit	1,358	1,084	25.3	323	320.4	2,681	1,369	95.8
EPS (₹)	2.0	1.6		0.5		1.0	0.7	

Source: Company, Way2Wealth

Segmental Performance

(₹ mn)								
Revenue	Q2FY21	Q2FY21	YoY (%)	Q1FY21	QoQ (%)	1HFY22	1HFY21	YoY (%)
Ship Building	5,552	5,635	(1.5)	2,684	106.9	8,236	8,797	(6.4)
Ship Repair	1411	939	50.3	610	131.3	2,021	1,102	83.4
EBIT (₹mn)								
Ship Building	1,572	1,225	28.3	573	174.3	2,145	1,850	15.9
<i>% Margin</i>	<i>28.3</i>	<i>21.7</i>		<i>21.3</i>		<i>26.0</i>	<i>21.0</i>	
Ship Repair	182	257	(29.2)	21	766.7	203	168	20.8
<i>% Margin</i>	<i>12.9</i>	<i>27.4</i>		<i>3.4</i>		<i>10.0</i>	<i>15.2</i>	

Source: Company, Way2Wealth

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Disclosure of Interest Statement Cochin Shipyard Ltd. as on 17th November 2021

Name of the Security	Cochin Shipyard Ltd.
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	No
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
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