

Execution pick-up, strong order backlog to aid recovery...

About the stock: Cochin Shipyard (CSL), incorporated in 1972 as a Government of India company, is one of the leading ship-building & ship-repair yard in India

- Company has built and delivered 180 vessels as of Mar-23 including large, medium & small vessels, offshore support vessels and defence vessels
- During FY23, ship-building segment contributed ~74% to total revenues of ₹ 2364.6 crore while ship-repair segment contributed balance ~26%
- Order backlog stands at ~₹ 22000 crore as of Sept-2023, including ~₹ 700 crore worth of contracts in ship-repair segment

Investment Rationale:

- **Execution pick-up of strong order-backlog:** With advanced state-of-the-art infrastructure, CSL is adept with execution of diversified projects in both ship-building and ship-repair segments. Order backlog of ~₹ 22000 crore as of Sept-23 (8.4x TTM revenues) with pick-up in execution, provides strong revenue growth visibility in the coming years. Capex in new dry-dock and ISRF (International Ship Repair Facility) projects to be completed by Q1FY25, would further expand manufacturing capacities. Large scale contracts for India Navy like ASW-SCW corvettes (balance order value of ₹ 5542 crore), Next Gen Missile Vessels (balance order value of ₹ 9803 crore) with post commission works of Indigenous Aircraft Carrier (pending order value of ₹ 1340 crore) are expected to witness meaningful execution during FY24 and FY25. Moreover, on commercial vessels front, all the domestic & export contracts in hand, are under execution as per schedule
- **Order pipeline remains healthy in ship-building and ship-repair segments; provides longer term growth visibility:** Order pipeline remains strong in defence and commercial ship-building and ship-repair segments including exports. About ₹ 13000 crore worth of ship-building contracts are in pipeline; tenders expected to be floated in medium term. Apart from these, ₹ 84000 crore worth of orders are in RFP stage as per the management. In defence segment, we believe that India Navy's future plan of warships procurement presents a strong prospects for CSL. Discussions on another aircraft carrier are also in advanced stages and offers additional order opportunity of ₹ 40000 crore. In commercial segment, electric vessels opportunity emerges from Europe as 2500 vessels are scheduled to be replaced with green vessels. In ship-repair segment too, company sees sizable opportunity in both defence & commercial industries

Rating and Target Price

- We expect CSL to witness significant YoY growth in revenues & profitability over FY24-25E, led by execution pick-up in both the segments and increasing share of margin accretive ship-repair segment. We estimate revenue, EBITDA and PAT to grow at ~34%, ~78% and ~52% CAGR respectively over FY23-25E as against the de-growth seen over FY20-23
- Valuations look attractive considering the multiple growth drivers. We value CSL at ₹ 1340 i.e. 25x FY25E P/E

Key Financial Summary

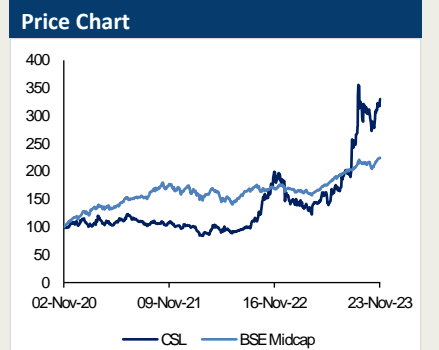
(₹ Crore)	FY20	FY21	FY22	FY23	3 Year CAGR (FY20-FY23)	FY24E	FY25E	2 Year CAGR (FY23-25E)
Revenues	3,422	2,819	3,191	2,366	(11.6)	3,458	4,269	34.3
EBITDA	709	716	623	248	(29.5)	606	787	78.0
EBITDA margins	20.7	25.4	19.5	10.5		17.5	18.4	
Net Profit	638	611	564	305	(21.8)	601	705	52.1
EPS (₹)	48.5	46.4	42.9	23.2		45.7	53.6	
P/E (x)	23.1	24.1	26.1	48.3		24.5	20.9	
Price / Book (x)	3.9	3.6	3.4	3.3		3.1	2.8	
EV/EBITDA (x)	17.9	17.6	18.7	40.6		17.9	14.8	
RoCE (%)	17.6	14.1	11.4	4.3		9.1	10.4	
RoE (%)	17.1	14.9	12.7	7.9		12.5	13.4	

Source: Company, ICICI Direct Research



Particulars	Amount
Market Capitalization	₹ 14719 Crore
Total Debt (FY23)	₹ 132.9 Crore
Cash & Inv (FY23)	₹ 4758 crore
EV (FY23)	₹ 10094 Crore
52 week H/L	1258 / 410
Equity capital	₹ 131.5 Crore
Face value	₹ 10

Shareholding pattern				
	Dec-22	Mar-23	Jun-23	Sep-23
Promoter	72.9	72.9	72.9	72.9
FII	6.9	6.3	5.7	5.8
DII	3.9	3.8	3.2	2.2
Others	16.4	17.1	18.2	19.1



- ### Key risks
- (i) dependence on government contracts in defence segment
 - (ii) dependence on foreign vendors for electronic components/sub-systems

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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