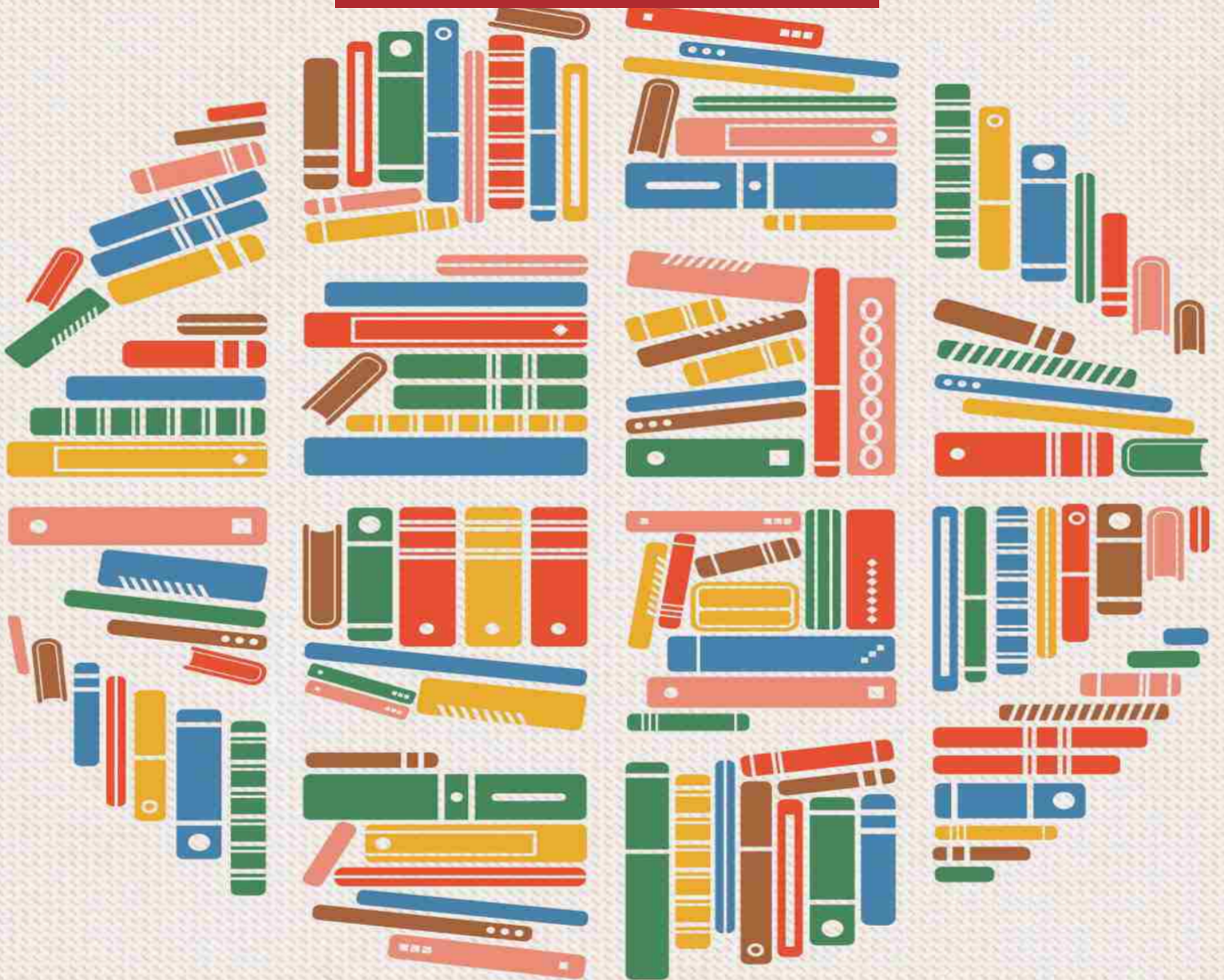


Stock TALES



Stock Tales are concise, holistic stock reports across wider spectrum of sectors. Updates will not be periodical but based on significant events or change in price.

CMP: ₹ 466

Target: ₹ 630 (36%)

Target Period: 12 months

January 11, 2023

Execution picking up; strong growth ahead...

About the stock: Garden Reach Shipbuilders & Engineers (GRSE), one of India's leading defence public sector undertaking shipyards, primarily caters to the shipbuilding requirements of the Indian Navy and the Indian Coast Guard

- The company has delivered 107 warships to the Indian Navy, Indian Coast Guard and friendly countries till date. The shipyard has built and supplied more than 780 vessels for maritime security
- GRSE's order backlog was at ₹ 22,930 crore as of September 2022 (~10x TTM revenue), of which ~98% comprises ship-building segment
- The company recorded the highest ever turnover of ₹ 1,750 crore for FY22, reflecting YoY growth of 53%. In the last five years, revenues increased at 13.5% CAGR over FY17-22 while PAT increased at 73% CAGR

What should investors do? GRSE's revenue recognition is set to increase during FY22-25E in its major contracts. Moreover, pick-up in execution will be supported by increasing indigenisation of platforms/sub-systems. Revenue is expected at 52.3% CAGR over FY22-25E vs. 8.2% CAGR in FY19-22. EBITDA CAGR is expected at 61.8% during the same period led by strong revenue growth and improvement in margins

- We initiate coverage under the Stock Tales format with a **BUY** rating

Target Price and Valuation: We value GRSE at ₹ 630 i.e. 15x FY24E EPS

Key triggers for future price performance:

- Defence budget for indigenous procurement is likely to increase considerably for FY24E with share of imports further coming down. For FY23, ₹ 84,598 crore (68% of total procurement budget) has been kept for purchasing locally produced weapons and systems
- With an already strong order backlog of ₹ 22930 crore as of September 2022 (~10x TTM revenues), GRSE is well placed to benefit from Indian Navy's big procurement plan for the next three to four years
- Revenue is expected to grow at ~52% CAGR over FY22-25E led by significant revenue recognition in its major contracts in hand (P-17A frigates, ASW-SWC, Survey Vessels)
- Next generation corvettes are the largest contract opportunity in the pipeline for GRSE (value ₹ 36000 crore), the RFP of which is expected by 2023 end. GRSE is expected to be the L1 with contract value of ₹ 22500 crore
- A ₹ 3200-crore contract expected by FY23 end for construction of Next Generation Ocean Going Patrol Vessels (NGOPV) for the Indian Navy
- Execution expected to pick up in the coming period led by indigenous manufacturing of surface warships/vessels and associated sub-systems/components. Out of 1238 sub-systems notified for indigenisation, 31 such components would be indigenously procured by GRSE

BUY



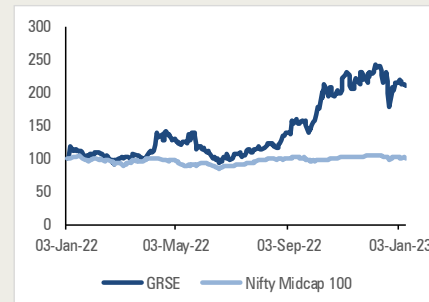
Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	5,338
Total Debt (₹ Crore)	0
Cash (₹ Crore)	2,558
EV (₹ Crore)	2,780
52 Week H/L (Rs)	557/199
Equity Capital	114.6
Face Value	10.0

Shareholding Pattern

	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	74.5	74.5	74.5	74.5
FII	1.6	1.8	2.0	2.5
DII	10.7	9.2	8.4	7.6
Others	13.3	14.6	15.2	15.4

Price Performance



Research Analyst

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Key Financial Summary

(₹ crore)	FY19	FY20	FY21	FY22	4 Year CAGR (FY17-22)	FY23E	FY24E	FY25E	2 Year CAGR (FY22-24E)
Revenues	1,386	1,433	1,141	1,758	4.9	3,922	5,588	6,205	78.3
EBITDA	42	40	72	141	27.3	346	535	596	95.0
EBITDA margin (%)	3.0	2.8	6.3	8.0		8.8	9.6	9.6	
Net Profit	110	163	153	190	11.5	349	482	522	59.5
EPS (₹)	9.6	14.3	13.4	16.5		30.5	42.1	45.5	
P/E (x)	48.0	31.2	31.6	27.3		15.3	11.1	10.2	
EV/EBITDA (x)	79.5	66.2	31.0	18.4		9.8	4.9	4.0	
RoCE (%)	17.9	22.7	20.1	21.1		32.2	37.2	34.4	
RoE (%)	10.7	16.5	14.8	15.5		23.7	27.4	25.4	

Source: Company, ICICI Direct Research

Company Background

Garden Reach Shipbuilders & Engineers (GRSE), incorporated in 1934, is one of India's leading defence public sector undertaking shipyards, operating under the Ministry of Defence (MoD). The company primarily caters to the shipbuilding requirements of the Indian Navy and the Indian Coast Guard. The company has delivered 107 warships to the Indian Navy, Indian Coast Guard and friendly countries till date. The shipyard has built and supplied more than 780 vessels for maritime security.

The company recorded the highest ever turnover of ₹ 1,750 crore for FY22, reflecting YoY growth of 53%. The order backlog of the company was at ₹ 22,930 crore as of September 2022, of which ~98% is constituted by the ship-building segment.

The company's shipbuilding division is engaged in the construction of warships/vessels for clients mainly in the defence sector, Indian Navy & Indian Coast Guard. GRSE has three separate facilities for shipbuilding, all of which are located in close vicinity of each other in Kolkata and interconnected by the Hooghly river. The three shipbuilding facilities are: main works unit, fitting out jetty unit and Rajabagan Dockyard.

Exhibit 1: GRSE Main Works Unit - Kolkata

Main Works

Main Works is the epicentre of GRSE's operations. The centrepiece of Main Works is an Integrated Shipbuilding Facility located in Kolkata. The facility which occupies approximately 48 acres of land consists of one dry dock of 10,000 DWT launching capacity and one inclined berth of 4,500 DWT capacity and both comes with portable shelters. This facility also consists of module hall for constructing large pre-outfitted block of upto to 200 tonnes, blast and paint cell, two additional river jetties etc. A 80 × 25 × 8 M fully covered Non-tidal Wet Basin with 2 × 10 tonnes EOT Cranes suited for all weather fitting-out of medium and small ships and 160 × 25 × 8 M Dry Dock with 2 × 40 tonnes Goliath Cranes suited for the construction and repair of ships. The Building Berth Measures 180 × 25 M and is equipped with 2 × 40/10 tonnes Cranes and supporting fabrication shops.

Two (2) River Jetties which enable berthing of vessels up to 60 M in length and suited for out-fitting/ repair of smaller vessels. Additional Facilities - Boat Shed for manufacturing of Fast Interceptor Boat. Two air-conditioned and humidity-controlled shops with six bays ranging from 18 to 40 M in length capable of building crafts up to 20 M.



Source: Company, ICICI Direct Research

Exhibit 2: Two other units of GRSE in Kolkata

Fitting Out Jetty

The Fitting Out Jetty (FOJ) Unit occupies 18 acres of land in Kolkata, India. It is dedicated to fitting out and repair of ships. The facilities at FOJ Unit include: Naval Complex Jetty (229 × 10 × 8 M with one 25 tonnes Tower Crane), Finger Jetty (184.50 × 11.43 × 7 M with one 15 tonnes Level Luffing Crane). Even though primarily meant for large ships, our FOJ Unit is capable of fitting out small, medium and large ships. The FOJ Unit is capable of fitting out up to four (4) large ships at one time.

Source: Company, ICICI Direct Research

Rajabagan Dockyard

Rajabagan Dockyard is spread over 31.15 acres with a 550 M open river front in Kolkata and is capable of prelaunch activities of three (3) 50 M-sized ships and postlaunch outfitting of four (4) ships at one time at open river. The facilities at Rajabagan Dockyard include one (1) dry dock which can accommodate ships having draft facility upto 4 M.

In addition to ship-building activities, the company offers diversified products and services to its customers including portable bridges, deck machinery items, pump, and engines. GRSE has a dedicated deck machinery equipment facility and an engine assembling and testing facility, both of which are essential for the shipbuilding and testing process.

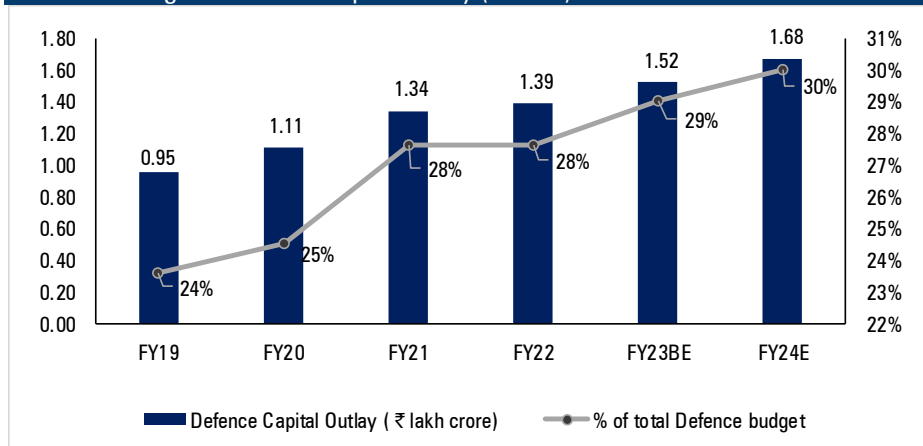
Investment Rationale

Defence procurement outlay increasing with rise in indigenisation

We believe the Indian defence sector is going through a major transformational phase as the government looks committed to reducing imports and increasing indigenisation of various key defence platforms, systems and associated equipment required for these platforms. The structural shift in the Indian defence budget is clearly visible with increased allocation for modernisation platforms and equipment. In the FY23E budget, the government earmarked ₹ 1.52 lakh crore of capital outlay in defence, which has grown at 11% CAGR over FY20-23BE.

This capital outlay in defence for FY23E is at ~29% of the total defence budget of ₹ 5.25 lakh crore against ~24% in FY19. The total procurement budget for defence equipment is estimated to be ~₹ 1.24 lakh crore for FY23E.

Exhibit 3: Budgeted defence capital outlay (₹ crore)

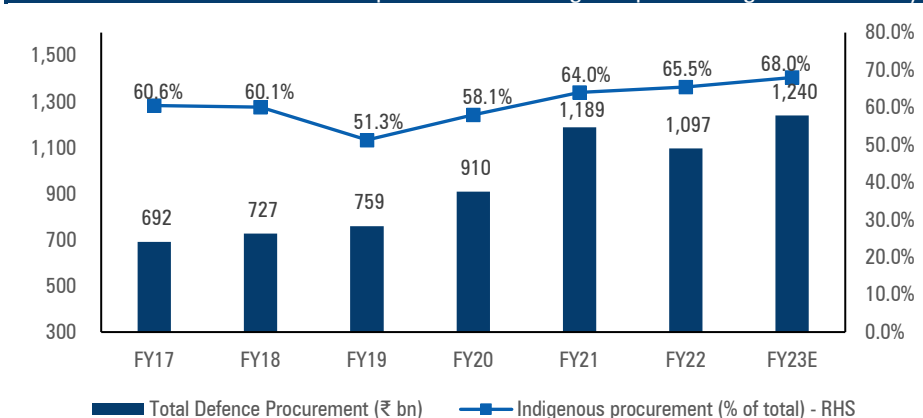


Source: ICICI Direct Research, Company

The total defence equipment procurement budget was at ₹ 1.24 lakh crore for FY23E of which ₹ 84,598 crore (68% of procurement budget) has been kept for purchasing locally produced weapons and systems to boost self-reliance in the defence sector. The MoD has notified 411 major equipment/platforms in the last 2.5 years through four separate lists, which included combat aircraft, trainer aircraft, combat helicopters, utility helicopters, submarines, next generation corvettes, tank engines, MRSAM system, vessels, torpedoes, etc. These platforms are planned to be indigenised progressively till 2027.

Moreover, during the same period, 1238 strategically important line replacement units (LRUs), sub-systems/components (used in the major platforms & equipment) have also been notified by the MoD through three other separate lists.

Exhibit 4: 68% of FY23E defence procurement budget kept for indigenous industry



Source: ICICI Direct Research, Company

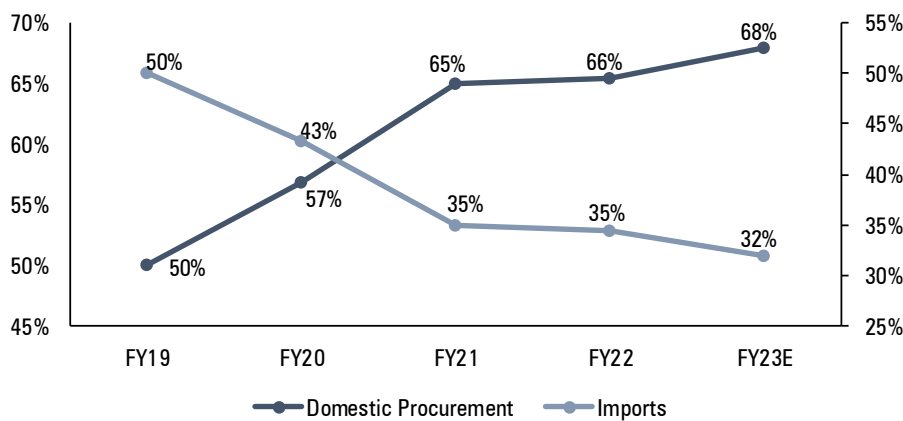
The R&D budget for DRDO was at ₹ 11982 crore for FY23E. It has also grown at 11% CAGR over FY20-23BE. The Ministry of Defence has also identified the 18 major platforms for industry led design & development under various routes. Moreover,

DRDO has signed 30 transfer of technology (ToT) agreements with 25 domestic players and handed over 21 technologies.

As mentioned earlier, 1238 sub-systems/components have also been notified in the last two years that will be indigenised in phases over the next five years. The government has already indigenised 351 such components so far (247 from first list, seven from the second and four from the third). Moreover, 2500 components had already been indigenised by the government before announcing the first list. We believe indigenous manufacturing of these components by private players or MSMEs will further help defence companies in picking up the execution rate as the procurement time will get reduced.

The share of defence imports, which is ~35% of the total defence procurement budget, has come down in the last two to three years. We believe the share of imports will come down further in coming years as the government continues to focus on allocating a higher budget to DRDO for indigenous development of new generation & modernised equipment, signing large scale orders for these equipment/platforms with defence PSUs and encouraging more domestic private players, MSMEs and start-ups to manufacture key components that India used to import from other countries.

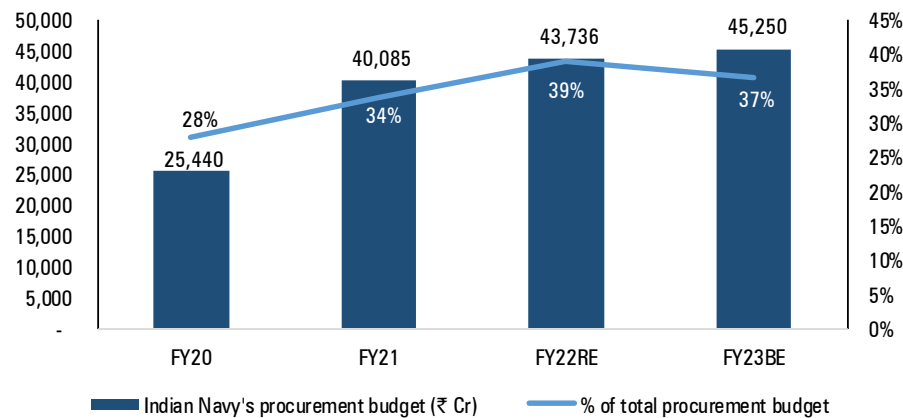
Exhibit 5: Rising Indigenisation; imports decline to 32% of total procurement



Source: ICICI Direct Research, Company

The Indian Navy’s defence procurement budget has increased at a CAGR of 21.2% over FY20-23E to ₹ 45250 crore in FY23BE against ₹ 25440 crore allocated in FY20. The share of the Navy’s procurement budget has also increased to 37% in FY23BE against 28% in FY20.

Exhibit 6: Indian Navy’s defence equipment procurement budget



Source: Company, ICICI Direct Research

Though the Navy’s procurement budget has increased significantly over the years, the share of imports in this is also considerably high (45% in FY21). We believe that with the focus on indigenous manufacturing of sub-systems & components for submarines and warships, this share of import in the Navy’s procurement budget will come down, going ahead.

Strong ship-building capabilities

GRSE's state-of-the-art facilities with vast technical expertise gives the company a significant edge over other domestic defence shipyards. Over the years, the company has significantly improved its manufacturing and other functional processes by modernisation of its facilities and adoption of information technology. The company can simultaneously produce eight large ships and 12 medium/small ships in its facilities. In addition, GRSE has constructed a new hull shop, module shop for mega block integration, dry dock and building berth.

The main works facility in Kolkata occupies about 48 acres of land and consists of one dry dock of 10,000 Dead Weight Tonnage (DWT) launching capacity and one inclined berth of 4,500 DWT capacity both comes with portable shelters. This facility also consists of a module hall for constructing a large pre-outfitted block of up to 200 tonnes, blast and paint cell, two additional river jetties, etc.

Exhibit 7: GRSE – Shipbuilding capabilities



Frigate



Anti-Submarine Warfare Corvette



Corvette Missile



Landing Ship Tank



Landing Craft Utility



Survey Vessel



Fleet Tanker



Offshore Patrol Vessel



Hovercraft



Inshore Patrol Vessel



Water Jet Fast Attack Craft



Fast Interceptor Boat

Source: Company, ICICI Direct Research

The Fitting Out Jetty (FOJ) unit, which is dedicated to fitting out and repair of small, medium and large ships, is capable of fitting out up to four large ships at one time. Rajabagan Dockyard is capable of pre-launch activities of three 50 metre sized ships and post-launch outfitting of four ships at one time at open river. The company has a dedicated deck machinery equipment facility and an engine assembling and testing facility also, both of which are essential for the shipbuilding and testing process.

GRSE has a dedicated Central Design Office (CDO), which undertakes design, research and development, with a highly skilled workforce of 100 members. Its CDO team uses various software ranging from Aveva Marine, Naval Association of Physician Assistants (NAPA) for Naval Architectural design, AutoCAD for drafting work and other software for structural analysis. With its dedicated CDO team, it has achieved innovative measures in carrying out complex warship designs. Its ability to provide end to end solutions to its customers, ranging from product conceptualisation, design, system integration and project management increases its capability to meet customer demands.

The company has established relationships with the Indian Navy and Indian Coast Guard since INS Ajay - the first indigenous warship built by GRSE for the Indian Navy in 1961. GRSE has delivered 107 warships to the Indian Navy, Indian Coast Guard and friendly countries till date. The shipyard has built and supplied more than 780 vessels for maritime security.

In addition to the shipbuilding products shown above, GRSE is building anti-submarine shallow water craft (ASW-SWC) and passenger cum ferry cargo vessel, which are current under execution by the company. Over the years, the company has also supplied various boats, pontoons, barge, sailing dinghy, fishing trawler, fire float, tug, dredger, passenger ferry, motor cutter, deck whaler, launch, etc, to various other customers.

During FY22, GRSE also signed an MoU with Naval Group France, a leader in the European naval defence industry, to collaborate in the field of design and construction of advanced warships.

Strong order book; healthy order pipeline

GRSE has an order backlog of ₹ 22930 crore as of September 2022 end (~10x TTM revenues). This comprises seven shipbuilding projects totalling 24 platforms. These seven projects include three projects for Indian Navy, one for the Indian Coast Guard and one each for the Government of Bangladesh, Government of Guyana and state government of West Bengal.

The three projects of Indian Navy comprise 15 warships and 98% of the total order book. These include: 1) the Project-17 Alpha (P-17A - Nilgiri class frigates) project comprising three ships with an order backlog of ₹ 14997 crore, 2) the antisubmarine warfare shallow water crafts (ASW SWC) project comprising eight ships with an order backlog of ₹ 5821 crore and 3) survey vessel large project comprising four ships with an order backlog of ₹ 1600 crore.

In other ship-building contracts, which comprises remaining nine ships/vessels, the company is in the process of building six patrol boats for the Government of Bangladesh, one “passenger cum ocean going ferry vessel” for the Government of Guyana, one “next-generation electric ferry” for the West Bengal government and the last Fast Patrol Vessel (FPV) for the Indian Coast Guard (five FPVs out of total six have been delivered).

More than 98% of the current order backlog comprises ship-building with the balance coming from diversified segments i.e. bailey bridges, deck machinery, diesel engines, and ship repair.

Exhibit 8: Order backlog (as of September 2022)

Projects (₹ Crore)	Customer	Project Cost	No of ships/vessels	Cost per Ship/Vessel	Order Backlog	No of ships/vessels (pending/under execution)
P-17A Frigates	Indian Navy	19,296	3	6,432	14,997	3
ASW SWC	Indian Navy	6,311	8	789	5,821	8
Survey Vessels Large	Indian Navy	2,435	4	609	1,600	4
Fast Patrol Vessels	Indian Coast Guard	354	6	59	23	1
Others					489	
Total					22,930	

Source: Company, ICICI Direct Research

Project-17 Alpha Frigates: The P17-A frigates are a series of stealth guided-missile frigates currently being built by Mazagon Dock Shipbuilders (MDL) and Garden Reach Shipbuilders & Engineers (GRSE) for the Indian Navy by using integrated construction methodology.

The contract for seven frigates was awarded to these two companies in February 2015. These frigates are the design derivative of the Shivalik class stealth frigates with much more advanced stealth features and indigenous weapons and sensors. Out of total seven P-17A frigates, MDL is currently building four while GRSE is building three. Though all seven frigates have been laid down for metal cutting, five have been launched till date (three for MDL and two for GRSE).

INS Nilgiri (the first frigate under this project) is expected to be commissioned this year by MDL. The second frigate – INS Himgiri (first for GRSE) was launched in December 2020 and is expected to be commissioned in FY25E. The second frigate for GRSE (INS Dunagiri) was launched in July 2022 and is expected to be commissioned in FY26. The third frigate for the company is expected to be launched in 2023 and be commissioned by FY27E.

Antisubmarine Warfare Shallow Water Crafts (ASW SWC): The ASW-SWC are a class anti-submarine warfare vessels, currently being built for the Indian Navy, by Cochin Shipyard (CSL) and GRSE. The contract for 16 ASW-SWC was awarded to these two companies in April 2019 (eight each for CSL and GRSE).

These were conceived as a replacement for the ageing Abhay-class corvettes of the Navy and are designed to undertake anti-submarine warfare duties including subsurface surveillance, search-and-attack unit (SAU) missions and coordinated anti-submarine warfare operations with naval aircraft. They were also designed to provide secondary duties including defence against intruding aircraft, minelaying and search-and-rescue.

Out of eight ASW-SWC for GRSE, six have already been laid down for metal cutting while two are yet to be laid down. Moreover, out of six ASW-SWC, which have been laid down, one was launched in December 2022. All eight corvettes are expected to be delivered to Indian Navy by FY27 in a phased manner.

Survey Vessels Large: These vessels are a series of four survey vessels to be built by GRSE for the Indian Navy. The contract was awarded to GRSE in October 2018. The primary role of the vessels would be to conduct coastal and deep-water hydrographic survey of ports, navigational channels, Economic Exclusive Zones and collection of oceanographic data for defence. Their secondary role would be to perform search & rescue, ocean research and function as hospital ships for casualties. All four survey vessels have been laid down while three have been launched.

Exhibit 9: Current status of major projects of GRSE

Projects	Contract Signed	Laid Down	Launched	Commisioned	Status
P-17A Frigates					
	Feb-15				
INS Himgiri (GRSE)		Nov-18	Dec-20	Q2FY26	Under Construction; 43% physical progress
INS Dunagiri (GRSE)		Jan-20	Jul-22	Q4FY26	Under Construction; 35% physical progress
INS Mahendragiri (GRSE)		Mar-21	Mid 2023 (Exp)	Q2FY27	Under pre-launch phase; 16% physical progress
Survey Vessels (Large)					
	Oct-18				
1st (INS Sandhayak)		Nov-19	Dec-21	Q1FY24 end	Under Construction & Fitting out; 65% completed
2nd (INS Nirdeshak)		Dec-20	May-22	Q3FY24 end	Under Construction & Fitting out; 58% completed
3rd (INS Ikshak)		Aug-21	Nov-22	2024	Under Construction & Fitting out; 38% completed
4th		Jun-22		2024	Under pre-launch phase; 14% completed
Anti-Submarine Warfare Shallow Water Craft (ASW - SWC)					
	Apr-19				
1st		Aug-21	Dec-22		Under Construction
2nd		Jun-22	2023 (Exp)		Under Construction
3rd		Jun-22			Under Construction
4th		Dec-21			Under Construction
5th		Dec-22			Under Construction
6th		Dec-22			Under Construction
7th				Yet to be laid down	
8th				Yet to be laid down	
Fast Patrol Vessels (for Indian Coast Guard)					
Priyadarshini		May-17	Dec-17	Apr-19	Delivered in Mar-19
Annie Besant		Aug-17	Mar-18	Jan-20	Delivered in Nov-19
Amrit Kaur		Oct-17	Nov-18	Jan-20	Delivered in Nov-19
Zoroaster (Exported to Government of Seychelles)		Oct-17	Nov-18	Jan-20	Delivered in Feb-21
Kanaklata Barua		Feb-18	Aug-19	Sep-20	Delivered in Jun-20
Kamala Devi		Jul-21	May-22	Q4FY23	Delivered in Dec-22
Ocean Going Passenger cum Cargo Ferry (for Govt. of Guyana)					
	Jan-21	Nov-21	Jun-22	Q4FY23	75% completed as of Nov-22
Six Patrol Boats (for Govt. of Bangladesh)					
	Jul-21				Delivery of all six boats expectd by Q4FY23
Next-generation electric ferry (for the Government of West Bengal)					
	Jul-22				Delivery expected by Q1FY24

Source: Company, ICICI Direct Research

GRSE’s order pipeline looks healthy considering the requirement and strong procurement plan of the Indian Navy and Coast Guard, which are reflected in the Maritime Capability Perspective Plan (MCPPI). The major warships/vessels projects in the pipeline are eight next generation corvettes, 11 next-generation ocean going patrol vessels (NGOPV), 14 fast patrol vessels, 18 next generation fast patrol vessels, two landing platform docks and seven next generation frigates.

Next generation corvettes are the largest contract opportunity in the pipeline for GRSE, the RFP of which is expected in 2023. The management expects the company to be well placed to get the contract. The company has already been declared L2 in an RFP for construction of Next Generation Ocean Going Patrol Vessels (NGOPV) for the Indian Navy. Also, as per the tender conditions, the L2 shipyard will be awarded a contract for construction of four ships.

Exhibit 10: Projects under pipeline/opportunity for GRSE

Projects in Pipeline	Numbers	Customer	Estimated Cost (₹ Cr)	Status
Next Generation Corvettes	8	Navy	36000	Approved by DAC; RFP expected by 2023 end (₹ 22500 crore for L1 & ₹ 13500 crore for L2). GRSE is expected to be L1
Next-Generation Ocean going Patrol Vessels (NGOPV)	11	Navy	3000-3200	RFP already floated; GRSE is L2 (expectd to get contract for 4 vessels in FY23 for ₹ 3200 crore; 7 goes to Goa Shipyard - L1. Contract expected by FY23 end
Next Gen Fast Patrol Vessels	18	Coast Guard	3000	RFP expected in 2023
Fast Patrol vessel	14	Coast Guard	1500-2000	RFP expectd by Dec-22/Jan-23
Landing Platform Dock	2	Navy		RFP expectd in 2024
Water Jet FACs	20	Navy		More clarity on this project is expected in 2023/24
Next Generation Frigates (Repeat of P-17A)	7	Navy		More clarity on this project is expected in 2023/24

Source: Company, ICICI Direct Research

We believe GRSE is also well placed to benefit from rising ship-repair opportunities from both domestic and international markets. The company is targeting orders for annual maintenance contracts & refits of GRSE-built vessels from the Indian Navy, the Indian Coast Guard and Ministry of Home Affairs. The refit and repair business vertical is being progressively strengthened to get a foothold in the refit & repairs of warships and commercial vehicles. During FY22, the company carried out refits of total four ships including CGS Barracuda for the Government of Mauritius.

Apart from ship-building and ship-repair activities, the company offers diversified products and services, which includes portable bridges, deck machinery items, pump and engines. The company has an MoU with BRO (Border Roads Organisation) for the fabrication, supply, erection and launching of first-of-its-kind, 27 double-lane Class 70 modular steel bridges in border areas.

Increase in indigenisation of major platforms, sub-systems to drive execution

The company 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, Indian Coast Guard are the repeat customers of the company and these constitute part of the domestic market. Therefore, the company receives preference over global shipyards in certain circumstances.

The government has notified four positive indigenisation lists till now in complex systems for indigenisation manufacturing and which will be procured from domestic companies only. These consist of total 411 platforms like aircraft, helicopters, submarines, warships, missiles, unmanned aerial vehicles, radars, sensors, etc. Out of these 411 major defence platforms, 20 such platforms are under warships/vessels (including major platforms like next generation frigates, landing platform dock, next generation corvettes, missile destroyers, various vessels and water craft).

Exhibit 11: Submarines, warships in positive indigenisation lists

Name of Platform/ Weapon/ System/ Equipment	Indicative Year- Import Embargo
Missile Destroyers	
Multi-Purpose Vessel	
Offshore Patrol Vessel	
Next Generation Missile Vessels	
Anti-Submarine Warfare Shallow Water Crafts	Dec-20
Water Jet Fast Attack Craft	
Survey Vessels	
Floating Dock	
Diving Support Vessels	
Pollution Control Vessels	
Next Generation Corvette	Dec-21
Next Generation Offshore Patrol Vessel	Dec-22
Next Generation Frigates	
Fleet Support Ship (Fuel and Logistic Support) for Navy	
Mine Counter Measure Vessel	Dec-24
Naval Hospital Ship	
Next Generation Fast Attack Craft	Dec-25
Next Generation Fast Interceptor Craft	
Mine Counter Measure (Autonomous Surface Vessel)	Dec-26
Landing Platform Dock	Dec-27

Source: Company, ICICI Direct Research

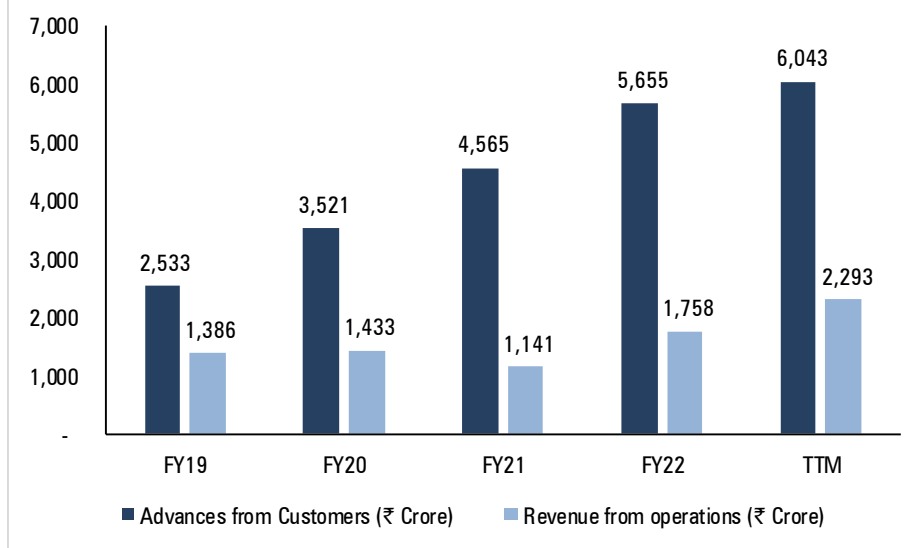
Total 3739 items (including components or sub-systems) have also been notified by the government, which will be procured by PSUs from domestic private players, MSMEs and start-ups. These include 2501 such components, which had already been indigenised by the government before announcing the first list. The balance 1238 items have been notified in the last one year through three different positive indigenisation lists of components/sub-systems. Out of these 1238 notified components, there are 31 such items, which GRSE would be procuring indigenously from domestic sources.

As per the Srijan defence portal, the government has already indigenised 351 such components so far out of 1238 (247 from first list, seven from second and four from the third). Moreover, out of 31 items meant for GRSE, the company has already indigenised two items used in warships (high pressure air fitting system and telescopic halo hanger) while four items are under the prototype stage.

We believe that indigenous manufacturing of surface warships & vessels and associated sub-systems/components would help the company to procure faster from private players, MSMEs or start-ups. Faster procurement from private players/MSMEs would help the company in picking up its execution rate (as the procurement time will be reduced) with a reduction in overall raw material costs.

GRSE also receives significant advances from customers (Indian Navy, MoD) after receiving the order in shipbuilding for working capital support, which helps in timely execution of contracts. The advances from customers was at ₹ 6043 crore as of September 2022 end (that is ~26% of current order backlog, 2.6x of TTM revenues).

Exhibit 12: Advances from customers

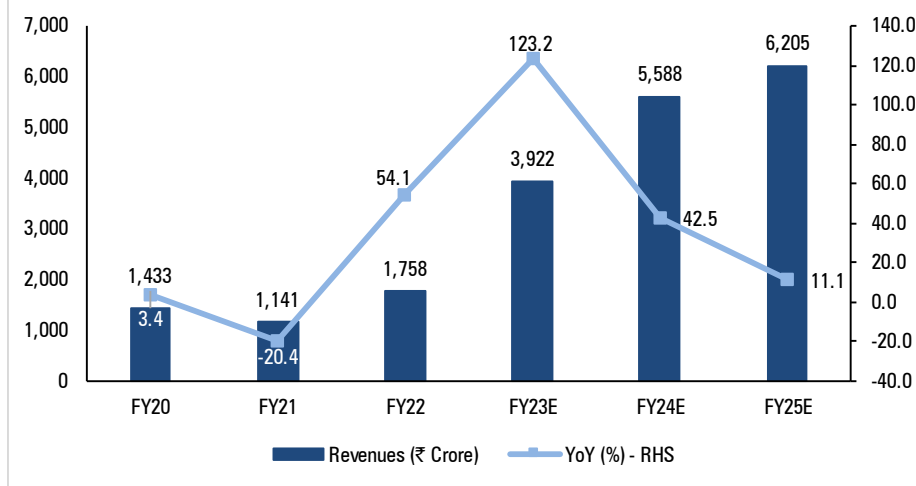


Source: Company, ICICI Direct Research

Financials

Revenues expected to grow at 52.3% CAGR over FY22-25E

Exhibit 13: Revenue to grow at 52.3% CAGR on strong execution



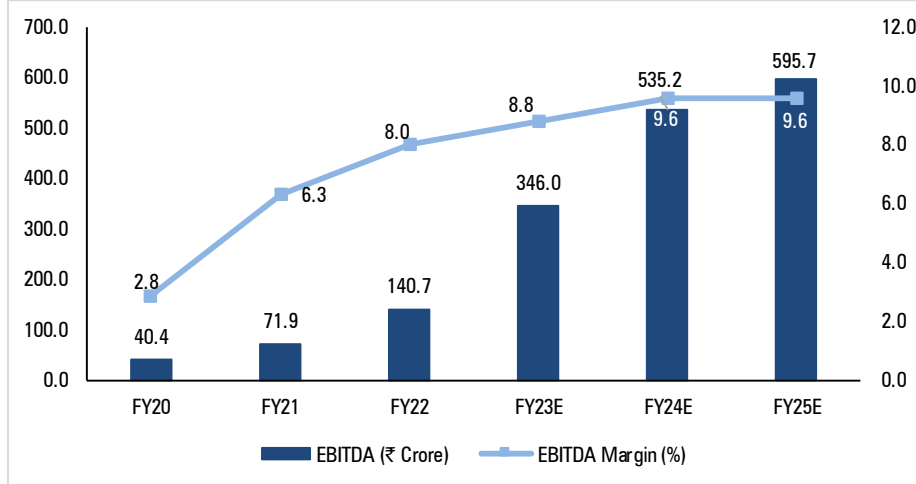
Source: ICICI Direct Research, Company

During FY224-25E, we expect revenue CAGR of 52.3% driven by pick-up in execution in its major contracts (P-17A frigates, ASW SWC and Survey vessels large)

For FY23E, we expect revenue growth to be significant at 123.2% YoY on account of considerable revenue booking in these contracts. During FY22 also, the revenues grew by 54.1% YoY as the period of considerable revenue recognition started in FY22 only

EBITDA expected to grow at 61.8% CAGR (FY22-25E)

Exhibit 14: EBITDA Margins expected at 9.6% over FY24E/25E



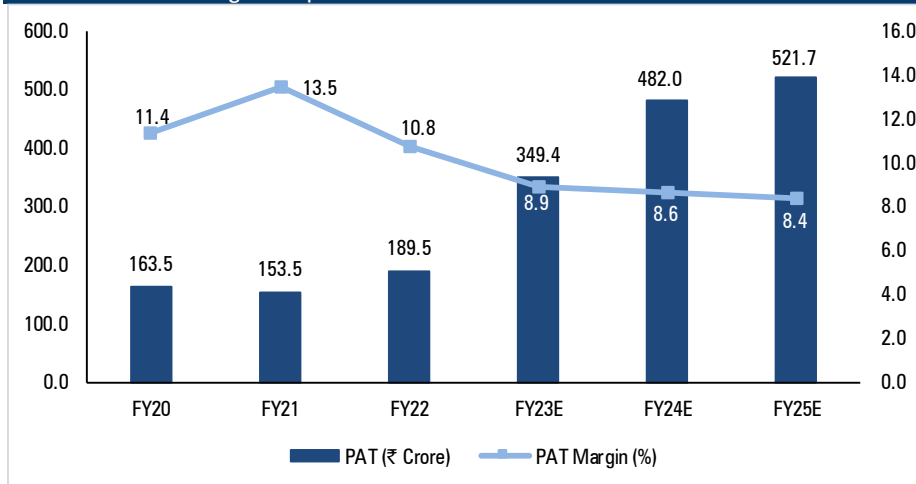
Source: ICICI Direct Research, Company

EBITDA margins improved to 8% in FY22 from 6.3% in FY21 led by positive operating leverage on strong revenue growth

EBITDA margins are expected at 8.8% in FY23E and 9.6% each in FY24E & FY25E led by further operating leverage benefits. Moreover, increase in indenisation of sub-systems and components required in shipbuilding also would help in protecting gross margins. Consequently, EBITDA is expected to grow at 61.8% CAGR over FY22-25E

PAT expected to grow at 40.1% CAGR (FY22-25E)

Exhibit 15: PAT Margins expected at 8.4-8.6% over FY24-25E



Source: ICICI Direct Research, Company

We expect PAT to grow at 40.1% CAGR over FY22-25E led by strong revenue growth and better EBITDA margins

Valuation & Outlook

Garden Reach Shipbuilders & Engineers (GRSE) is well placed to benefit from increasing indigenisation of key platforms under naval surface ships and associated components and sub-systems, going ahead.

GRSE's current order backlog of ₹ 22930 crore already provides strong visibility (~10x TTM revenues). The order book is executable over the next five years (till FY27E). Moreover, we believe there is a healthy pipeline of orders for the company, which includes major projects from Indian Navy and Indian Coast Guard (like next generation corvettes for Navy, next generation corvettes for Navy and various types of vessels for both Navy and Coast Guard).

With a pick-up in execution (led by sourcing of components through domestic players), margins are expected to improve on positive operating leverage. We expect revenue and EBITDA to grow at 52.3% and 61.8% CAGR, respectively, in FY22-25E.

At the CMP, the stock is trading at a valuation of 11.1x and 10.2x on FY24E and FY25E earnings respectively, which is at a significant discount to DPSUs like Hindustan Aeronautics (HAL), Bharat Electronics (BEL), Bharat Dynamics (BDL) and Mazagon Dock Shipbuilders (MDL). Though we believe MDL's valuations are expected to remain at a premium compared to GRSE considering MDL's unique capabilities in building conventional submarines and destroyer warships, we believe the valuation gap between GRSE and MDL should narrow down considering GRSE's expanding capabilities in larger warships and expected strong execution and, thus, earnings growth over the next three years.

GRSE's current valuations look attractive given the strong earnings growth, healthy balance sheet and improvement in return ratios. We initiate coverage on the stock under the Stock Tales format with a **BUY** recommendation and a target price of ₹ 630/share based on 15x FY24E earnings (~30% discount to target valuation multiple given to MDL)

Exhibit 16: Peer Valuation

Company	EPS (Rs)			P/E (x)			RoCE (%)			RoE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Hindustan Aeronautics	151.9	132.7	145.0	16.2	18.6	17.0	27.4	30.5	30.1	26.3	23.1	22.8
Bharat Electronics	3.2	3.8	4.5	31.2	26.6	22.3	26.1	28.4	30.0	19.5	21.2	22.4
Bharat Dynamics	28.1	33.0	42.7	33.0	28.1	21.7	24.7	24.7	28.0	17.0	17.7	20.0
Mazagon Dock	30.8	39.8	46.6	25.6	19.8	16.9	20.0	22.9	23.5	16.1	18.2	18.5
Cochin Shipyard	42.9	39.0	42.8	11.2	12.3	11.2	11.4	10.5	10.6	12.7	11.0	11.3
Data Patterns	18.1	22.0	30.4	64.6	53.3	38.5	23.8	24.9	28.4	16.4	18.2	21.0
Garden Reach Shipbuilders	16.5	30.5	42.1	28.2	15.3	11.1	21.1	32.2	37.2	15.5	23.7	27.4

Source: Company, ICICI Direct Research

Key risk and concerns

Primarily dependent on contracts from Ministry of Defence

GRSE is primarily dependent on MoD and the Indian Navy for contracts under submarines and shipbuilding. Any decline, delay or re-prioritisation of funding under the Indian defence budget or that of customers including the MoD for the Indian Navy's use could adversely affect the company's ability to grow or maintain its sales, earnings and cash flow.

Delay in advances from customers may impact execution

GRSE gets significant advances from customers at the beginning of a project. Any delay in these advances or lower disbursement can impact execution of the project and, thus, profitability and cash flows.

Delays in procurement, nomination or any other decision making by MoD

Any delays in procurement, nomination or any other decision making by the company's customers and collaborators may result in time and cost overruns in completion of the company's shipbuilding and submarine projects, which may have an adverse effect on its business, financial condition and results of operations.

Dependent on foreign suppliers for weapons, propulsion systems

The company is dependent on foreign suppliers for weapons and propulsion systems to be fitted on warships and submarines. Any change in preference of these suppliers or any disturbance in the global supply chain may impact the company's execution and, thus, earnings and cash flows.

Financial Summary

Exhibit 18: Profit & loss statement

(₹ Crore)	FY22	FY23E	FY24E	FY25E
Revenue	1,758	3,922	5,588	6,205
% Growth	54.1	123.2	42.5	11.1
Other income	160.7	171.7	180.0	180.0
Total Revenue	1,758	3,922	5,588	6,205
% Growth	34.6	123.2	42.5	11.1
Total Raw Material Costs	944	2,489	3,671	3,971
Employee Expenses	290	335	389	448
other expenses	383	752	992	1,191
Total Operating Expenditure	1,617	3,576	5,052	5,609
Operating Profit (EBITDA)	141	346	535	596
% Growth	95.7	145.8	54.7	11.3
Interest	1	2	2	2
PBDT	301	515	713	773
Depreciation	36	43	61	68
PBT before Exceptional Items	265	472	651	705
Total Tax	68	123	169	183
PAT before MI	190	349	482	522
PAT	190	349	482	522
% Growth	23.5	84.3	38.0	8.2
EPS	16.5	30.5	42.1	45.5

Source: Company, ICICI Direct Research

Exhibit 19: Cash flow statement

(₹ Crore)	FY22	FY23E	FY24E	FY25E
Profit after Tax	190	349	482	522
Depreciation	36	43	61	68
Interest	1	2	2	2
Cash Flow before WC changes	226	395	546	592
Changes in inventory	(384)	(1,407)	(1,172)	(415)
Changes in debtors	23	(167)	(213)	(59)
Changes in loans & Advances	-	-	-	-
Changes in other current assets	(360)	(811)	(921)	(681)
Net Increase in Current Assets	(705)	(2,477)	(2,306)	(1,155)
Changes in creditors	(371)	502	388	144
Changes in provisions	4	17	78	29
Net Inc in Current Liabilities	711	2,313	4,189	1,408
Net CF from Operating activities	232	230	2,429	846
Changes in deferred tax assets	(37)	(11)	-	-
(Purchase)/Sale of Fixed Assets	(55)	(60)	(60)	(60)
Net CF from Investing activities	114	(892)	(1,452)	(431)
Dividend and Dividend Tax	(70)	(132)	(200)	(223)
Net CF from Financing Activities	(70)	(133)	(203)	(226)
Net Cash flow	277	(794)	774	189
Opening Cash/Cash Equivalent	2,281	2,558	1,763	2,537
Closing Cash/ Cash Equivalent	2,558	1,763	2,537	2,727

Source: Company, ICICI Direct Research

Exhibit 20: Balance Sheet

(₹ Crore)	FY22	FY23E	FY24E	FY25E
Equity Capital	114.6	114.6	114.6	114.6
Reserve and Surplus	1,143	1,361	1,642	1,941
Total Shareholders funds	1,258	1,476	1,757	2,055
Total Debt	-	-	-	-
Total Liabilities	1,376	1,596	1,877	2,175
Gross Block	478	716	776	836
Acc. Depreciation	172	215	276	344
Net Block	495	501	500	491
Capital WIP	10	20	20	20
Total Fixed Assets	510	526	525	516
Non Current Assets	1,295	2,126	3,518	3,888
Inventory	1,172	2,579	3,751	4,165
Debtors	155	322	536	595
Other Current Assets	1,621	2,432	3,353	4,033
Cash	2,558	1,763	2,537	2,727
Total Current Assets	5,633	7,316	10,396	11,740
Current Liabilities	412	913	1,301	1,445
Provisions	89	90	90	90
Total Current Liabilities	6,260	8,573	12,761	14,169
Net Current Assets	(627)	(1,257)	(2,365)	(2,429)
Total Assets	1,376	1,596	1,877	2,175

Source: Company, ICICI Direct Research

Exhibit 21: Key ratios

(Year-end March)	FY22	FY23E	FY24E	FY25E
EPS	16.5	30.5	42.1	45.5
Cash per Share	240.5	171.4	239.0	255.5
BV	109.8	128.8	153.4	179.4
Dividend per share	6.1	11.5	17.5	19.5
Dividend payout ratio	0.4	0.4	0.4	0.4
EBITDA Margin	8.0	8.8	9.6	9.6
PAT Margin	10.8	8.9	8.6	8.4
RoE	15.5	23.7	27.4	25.4
RoCE	21.1	32.2	37.2	34.4
EV / EBITDA	18.4	9.8	4.9	4.0
P/E	27.3	15.3	11.1	10.2
EV / Net Sales	1.5	0.9	0.5	0.4
Sales / Equity	1.4	2.7	3.2	3.0
Market Cap / Sales	3.0	1.4	1.0	0.9
Price to Book Value	4.2	3.6	3.0	2.6
Asset turnover	1.4	2.7	3.2	3.0
Debtors Turnover Ratio	10.6	16.4	13.0	11.0
Creditors Turnover Ratio	2.9	5.9	5.0	4.5
Debt / Equity	-	-	-	-
Current Ratio	4.9	4.8	4.8	5.0
Quick Ratio	2.9	2.5	2.5	2.6

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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