

15 August 2024

India | Equity Research | Q1FY25 Concall Update

Garden Reach Shipbuilders

Defence

Impressive growth in store, but it is all in the price

We attended the Q1FY25 concall of Garden Reach Shipbuilders (GRSE). Key points: i) Orderbook at end-Q1FY25 was INR 252.3bn, ii) four major contracts worth INR 15-16bn (exports INR 7bn) were executed in Q1, iii) RFPs of projects worth INR 85-90bn are likely within a year and there is a healthy prospective pipeline of >INR 1,300bn beyond that, iv) current orderbook may be executed by FY27, v) RFP of next gen corvette (NGC) is out, and management expects L1 to be declared in next four months. Going ahead, management has guided for revenue growth of 25-30% for FY25-26 while maintaining its PAT margins at 7.5-8%. Despite our estimates being at the higher end of the management's guidance, we believe returns are capped. Maintain **SELL** with DCF-based TP of INR 515.

GRSE concall takeaways

- **Orderbook:** Total orderbook stands at INR 252.3bn as of Q1FY25-end. Breakup i) P-17 (A)- INR 143.9bn, ii) anti-submarine shallow water craft- INR 46bn, iii) survey vessel large - INR 8.55bn, iv) next gen ocean going vessels - INR 31.8bn, v) exports orders - INR 7.5bn, vi) oceanography vessel - INR 8bn and vii) other orders worth INR 2-2.5bn.
- **Current projects under execution:** The Indian Navy projects include: i) Three nos. of P17 (A) frigates, ii) eight anti-submarine shallow water craft, iii) three survey vessels large, iv) four next-generation ocean-going patrol vessels. Apart from this, GRSE is also executing an oceanographic research vessel (Ministry of Earth Sciences), four export projects, one Ocean-Going tug, an advanced 1,000-meter cube copper trencher, three fast patrol boats, and four multipurpose vessels.
- **Anticipated orders:** 1) Two coastal research vessels for Geological Survey of India; 2) two advanced hybrid vessels for Government of West Bengal, from Indian Navy; 3) two multipurpose vessels worth ~INR 12bn; 4) five NG survey vessels; 5) 21 Water Jet FAC; 5) 12 mine countermeasure vessels; 6) 22 interceptor boats; 7) P17 Bravo; 8) landing platform dock, from Indian Coast Guard; 9) 6 NG Ocean-Going vessels; and 10) 18 NG fast patrol vessels.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	25,611	35,926	50,141	60,884
EBITDA	1,490	2,341	2,664	3,377
EBITDA Margin (%)	0.1	0.1	0.1	0.1
Net Profit	2,281	3,573	4,264	6,101
EPS (INR)	19.9	31.2	37.2	53.3
EPS % Chg YoY	0.2	0.6	0.2	0.4
P/E (x)	98.8	63.1	52.8	36.9
EV/EBITDA (x)	127.4	84.7	51.3	42.0
RoCE (%)	0.1	0.1	0.1	0.1
RoE (%)	0.2	0.2	0.3	0.3

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Market Data

Market Cap (INR)	225bn
Market Cap (USD)	2,686mn
Bloomberg Code	GRSE IN
Reuters Code	GRSE BO
52-week Range (INR)	2,835 /595
Free Float (%)	26.0
ADTV-3M (mn) (USD)	97.8

Price Performance (%)	3m	6m	12m
Absolute	99.6	142.4	199.1
Relative to Sensex	91.4	132.3	178.2

Previous Reports

10-08-2024: [Q1FY25 results review](#)
28-05-2024: [Q4FY24 concall update](#)

GRSE concall takeaways (Cont.)

- **P17-A project:** 1st ship has reached ~75% of construction - expected delivery by end-FY26; 2nd ship has reached ~60% of construction - expected delivery by Feb'26; and 3) 3rd ship has reached ~50% of construction - expected delivery Sep'26.
- **Survey vessel large project:** 1st ship has been delivered; 2nd ship has completed all trails - delivery likely to be done by Sep'24; 3rd ship has reached ~74% of construction; and 4th ship has reached ~70% of construction.
- **Anti-Submarine Shallow Water Craft project** (8 ships for GRSE out of total 16 ships): 1st ship is getting ready for trials; 2nd ship has reached ~65% of construction; and 3rd ship has reached ~55% of construction.
- **NG OPV project (4ships):** 1st ship has reached ~25% of construction; 2nd ship has reached ~25% of construction; and rest two ships have gone under production.

GRSE has enhanced its contribution from 1% ship repairs to ~5% of revenue in last 5 years

GRSE has concluded four new contracts in past 2-3 months (worth INR 15-16bn) which include: i) Construction and delivery of an ocean research vessel (valued at INR 8.4bn) for National Centre for Polar and Ocean Research (NCPOR), to be delivered in 42 months; ii) construction of advance ocean-going tug for Ministry of Defence, Bangladesh (valued at USD 21mn); iii) advanced dredger for the Government of Bangladesh (valued at USD 16.6mn) and iv) construction of four multi-purpose vessels for Germany based Carsten Rehder Schiffsmakler and Reederei GmbH & Co. KG (valued at USD 45mn) to be delivered in 33 months. Further, the company was declared L-1 in building research vessel for the DRDO (value INR 5bn); the contract is currently under negotiation. Given the current situation in Bangladesh, we may expect some delays in execution of orders of Bangladesh government.

GRSE has been declared L-1 for i) a project for the DRDO, ii) two coastal research vessels (Geological Survey of India), and iii) two projects for advanced hybrid vessels for WB government.

- **Projects with RFP likely in next one year:** RFPs for two multipurpose vessels (order value: INR 12bn), five next-generation survey vessels (order value: INR 20-30bn), 22 nos. of water jets (order value: INR 22bn), 22 nos. of interceptor boats (order value: INR 12bn), and six next generation ocean going vessels (order value: INR 20bn).
- **Projects with RFP expectation after one year:** 12 nos. of mine countermeasure vessels (AON value: INR 320bn), two nos. of landing platform dock (order value: 250-300bn), 18 nos. of next generation fast patrol vessels (order value: INR 40bn), P17 Bravo ships (order value: INR 700bn).
- **Next-Generation Corvette Project:** RFP is out, bid submission likely by Aug'24 end. It takes around four months to declare L1 and another 6-9 months for contracts to be awarded. L-1 to get five ships and L-2 to get two ships.

The percentage of Bangladesh orders put together is just 1.2% of the total orderbook. The impact is insignificant.

GRSE has guided for revenue growth of 25-30% for FY25 and FY26; it maintains its PAT margins at 7.5-8%.

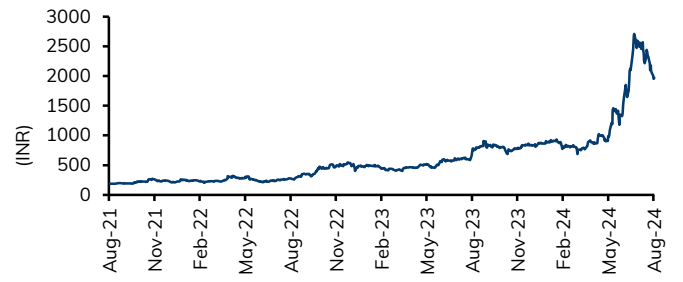
The current shipbuilding capacity is for concurrent construction of 20 platforms, that is 8 large and 12 small and medium. By the end of CY24, shipbuilding capacity will enhance from 20 to 24 ships. Also, it has taken pre-dried-out on long-term for ship repairs.

Exhibit 1: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	74.5	74.5	74.5
Institutional investors	8.9	9.5	7.2
MFs and others	5.3	5.3	2.5
FIs/Banks	0.7	0.7	0.8
Insurance	0.0	0.0	0.0
FIIIs	2.9	3.5	3.9
Others	16.6	16.1	18.3

Source: Bloomberg

Exhibit 2: Price chart



Source: Bloomberg

Financial Summary

Exhibit 3: Profit & Loss

(Rs mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	25,611	35,926	50,141	60,884
Operating Expenses	24,121	33,585	47,477	57,508
EBITDA	1,490	2,341	2,664	3,377
EBITDA Margin (%)	0.1	0.1	0.1	0.1
Depreciation & Amortization	392	413	405	397
EBIT	1,099	1,928	2,259	2,980
Interest expenditure	65	115	50	50
Other Non-operating Income	2,018	2,996	3,531	5,282
Recurring PBT	3,052	4,809	5,740	8,212
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	771	1,237	1,476	2,111
PAT	2,281	3,573	4,264	6,101
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	2,281	3,573	4,264	6,101
Net Income (Adjusted)	2,281	3,573	4,264	6,101

Source Company data, I-Sec research

Exhibit 4: Balance sheet

(Rs mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	98,951	94,458	1,57,648	1,62,377
of which cash & cash eqv.	45,615	37,203	98,598	93,486
Total Current Liabilities & Provisions	93,476	85,645	1,45,911	1,45,888
Net Current Assets	5,475	8,813	11,737	16,489
Investments	-	-	-	-
Net Fixed Assets	5,076	4,926	5,121	5,324
ROU Assets	-	-	-	-
Capital Work-in-Progress	60	248	248	248
Total Intangible Assets	-	-	-	-
Other assets	3,672	2,888	2,888	2,888
Deferred Tax Assets	-	-	-	-
Total Assets	14,283	16,874	19,993	24,948
Liabilities				
Borrowings	-	-	-	-
Deferred Tax Liability	145	140	140	140
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	1,146	1,146	1,146	1,146
Reserves & Surplus	12,993	15,589	18,708	23,663
Total Net Worth	14,138	16,734	19,853	24,808
Minority Interest	-	-	-	-
Total Liabilities	14,283	16,874	19,993	24,948

Source Company data, I-Sec research

Exhibit 5: Quarterly trend

(INR mn, year ending March)

	Sep-23	Dec-23	Mar-24	Jun-24
Net Sales	8,979	9,231	10,157	10,097
% growth (YOY)	31.7	32.1	69.0	33.6
EBITDA	488	487	906	563
Margin %	5.4	5.3	8.9	5.6
Other Income	715	815	759	739
Extraordinaries	-	-	-	-
Adjusted Net Profit	809	884	1,123	875

Source Company data, I-Sec research

Exhibit 6: Cashflow statement

(Rs mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	14,502	(7,069)	59,660	(8,600)
Working Capital Changes	13,621	(8,399)	58,471	(9,865)
Capital Commitments	(423)	(481)	(600)	(600)
Free Cashflow	14,080	(7,550)	59,060	(9,200)
Other investing cashflow	(16,240)	11,038	3,531	5,282
Cashflow from Investing Activities	(16,663)	10,557	2,931	4,682
Issue of Share Capital	-	-	-	-
Interest Cost	(53)	(115)	(50)	(50)
Inc (Dec) in Borrowings	3,000	(2,456)	-	-
Dividend paid	(727)	(987)	(1,146)	(1,146)
Others	-	-	-	-
Cash flow from Financing Activities	2,203	(3,575)	(1,196)	(1,196)
Chg. in Cash & Bank balance	43	(87)	61,395	(5,113)
Closing cash & balance	27,587	45,528	98,598	93,486

Source Company data, I-Sec research

Exhibit 7: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	19.9	31.2	37.2	53.3
Adjusted EPS (Diluted)	19.9	31.2	37.2	53.3
Cash EPS	23.3	34.8	40.8	56.7
Dividend per share (DPS)	5.8	7.0	10.0	10.0
Book Value per share (BV)	123.4	146.1	173.3	216.6
Dividend Payout (%)	29.1	22.4	26.9	18.8
Growth (%)				
Net Sales	0.5	0.4	0.4	0.2
EBITDA	0.1	0.6	0.1	0.3
EPS (INR)	0.2	0.6	0.2	0.4
Valuation Ratios (x)				
P/E	98.8	63.1	52.8	36.9
P/CEPS	84.3	56.5	48.2	34.7
P/BV	15.9	13.5	11.3	9.1
EV / EBITDA	127.4	84.7	51.3	42.0
P / Sales	9.2	6.6	4.7	3.9
Dividend Yield (%)	0.0	0.0	0.0	0.0
Operating Ratios				
Gross Profit Margins (%)	0.4	0.4	0.4	0.4
EBITDA Margins (%)	0.1	0.1	0.1	0.1
Effective Tax Rate (%)	0.3	0.3	0.3	0.3
Net Profit Margins (%)	0.1	0.1	0.1	0.1
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	(3.2)	(2.2)	(5.0)	(3.8)
Net Debt / EBITDA (x)	(30.6)	(15.9)	(37.0)	(27.7)
Profitability Ratios				
RoCE (%)	0.1	0.1	0.1	0.1
RoE (%)	0.2	0.2	0.3	0.3
RoC (%)	0.0	(0.1)	0.0	0.0
Fixed Asset Turnover (x)	4.0	4.9	6.5	7.4
Inventory Turnover Days	585	551	401	374
Receivables Days	10	27	27	25
Payables Days	65	10	7	6

Source Company data, I-Sec research

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