

Retail Equity Research (South India Focus)

# Cochin Shipyard Ltd.

Capital Goods and Engineering

BSE CODE : 540678

NSE CODE: COCHINSHIP

BLOOMBERG CODE: COCHIN:IN

SENSEX : 29,816

**BUY**

12M Investment Period

Rating as per Small Cap

**CMP Rs244**

**TARGET Rs301**

**RETURN 23%** ↑

(Closing: 27-03-20)

**KEY CHANGES:**

**TARGET** ↓

**RATING** ↔

**EARNINGS** ↑

## IAC execution drives earnings...

Cochin Shipyard Ltd (CSL) is the largest public sector shipyard in India deriving major revenue from Navy. The main sources of revenue are ship building for navy, coast guard, commercial and ship repair.

- Given CSL's strong balance sheet, dividend of 5.3%, improvement in order book visibility and capacity expansion, we remain constructive on the stock.
- Order backlog is at ~Rs15,253cr, including recently booked orders- Anti submarine warfare vessel (ASW Corvettes-Rs6,300), IAC Phase - III (Rs3,235), has enhanced earnings visibility in the near future.
- Management's focus is on doubling of ship building & repair business led by ramp-up of ship repair facilities and construction of new dry dock.
- 9MFY20 Revenue & PAT grew by robust 20% & 30% respectively, led by pick-up in execution of IAC (Indigenous Aircraft Carrier) and ship repair business.
- We value CSL at a P/E multiple of 6x on FY21E and maintain our Buy rating with a target price of Rs301.

## Order backlog healthy...

The current order backlog is healthy at ~Rs15,253cr, which has improved the earnings visibility for next 1-2 years. Recently, CSL has bagged IAC III phase and ASW corvettes amounting to Rs.3,235cr and Rs.6,300cr, respectively. Mini bulk carriers (4 nos.) order from JSW steel amounting to Rs300cr, to be executed by December 2020. 9 FBOPs( Floating Border Outpost vessels) orders amounting to Rs270cr is expected to be executed within 18-24 months. The order pipeline is expected to improve going ahead, with upcoming projects including 4-LPD platform dock, new generation missile vessel, 8-Fast petrol vehicle, 12-Air cushion vessel and multi purpose vessels for Navy. The estimated project amounts to 25000cr. However given the lower budgetary allocation the order booking timeline might get extended.

## Capacity expansion to drive growth...

CSL plans to expand its capacity of Dry Dock (Rs1,790cr) in the existing premises and ISRF (International Ship Repair Facility) (Rs970cr) in Cochin Port Trust premises, which is expected to be operational by FY21-22. This is expected to double the operational capability of the yard by enabling it to construct and repair larger vessels like LNG carriers, new generation Air Craft carriers etc. Being the only yard in India to have undertaken the repairs of Aircraft carriers, CSL has proven track record in ship building and ship repair. CSL has also signed MoUs with Mumbai, Kolkata and Andaman & Nicobar port administrations to operate ship repair facilities which is likely to drive ship repair revenue. We expect the revenue to witness robust growth with healthy margins aided by diversified product mix (repair and shipbuilding) from FY23 onwards.

## 9MFY20 Revenue and profitability growth strong...

CSL's 9MFY20 revenue grew by 20% largely driven by higher contribution from shipbuilding which grew by 46% YoY to Rs2,137cr as execution from IAC (Indigenous Aircraft Carrier) picked-up. Ship repair revenue declined by 34% to Rs465cr due to docking of IAC and completion of repairs of INS Vikramaditya. 9MFY20 EBITDA grew by 15% YoY. Led by tax cuts PAT grew by 30% YoY to Rs499cr. We expect overall revenue to grow by 21.5% CAGR over FY19E-21E. Going forward, we expect PAT to grow by 7.6% CAGR over FY19E-21E.

## Valuation

Given improvement in order book visibility, capacity expansion and strong execution capabilities, we continue to maintain our positive view on the stock. We value CSL at a P/E multiple of 6x on FY21E with a target price of Rs301 and maintain BUY rating.

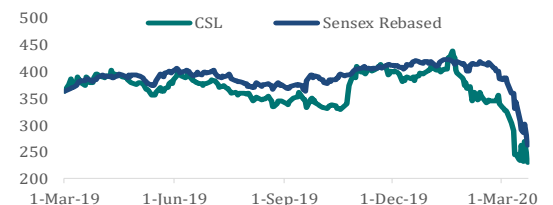
## Company Data

Market Cap (cr)	Rs.3,204
Enterprise Value (cr)	Rs.1,344
Outstanding Shares (cr)	13.2
Free Float	25%
Dividend Yield	5.3%
52 week high	Rs.491
52 week low	Rs.209
6m average volume (cr)	0.1
Beta	0.7
Face value	Rs.10

Shareholding (%)	Q1FY20	Q2FY20	Q3FY20
Promoters	75.2	75.2	75.2
FII's	3.3	3.1	2.0
MFs/Institutions	9.3	10.8	11.7
Public	8.7	8.8	8.8
Others	3.5	2.1	2.3
Total	100.0	100.0	100.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	-42.1%	-33.1%	-39.3%
Absolute Sensex	-37.3%	-32.7%	-31.9%
Relative Return*	-4.7%	-0.4%	-7.4%

over or under performance to benchmark index\*



Consolidated (cr)	FY20E	FY21E	FY22E
Sales	3,240	3,840	4,414
Growth (%)	9.4	18.5	14.9
EBITDA	650	805	918
EBITDA Margin(%)	20.1	21.0	20.8
Adjusted PAT	592	660	692
Growth (%)	23.0	11.5	4.9
Adjusted EPS	45.0	50.2	52.6
Growth (%)	23.0	11.5	4.9
P/E	5.4	4.9	4.6
P/B	0.9	0.8	0.7
EV/EBITDA	0.7	1.7	1.3
ROE (%)	15.8	15.7	14.7
D/E	0.0	0.0	0.0

Anil R

Research Analyst

## Quarterly Financials (Standalone)

### Profit & Loss

Rs cr)	Q3FY20	Q3FY19	YoY Growth %	9MFY20	9MFY19	YoY Growth %
<b>Sales</b>	<b>896</b>	<b>716</b>	25.1	<b>2,603</b>	<b>2,175</b>	20.0
<b>EBITDA</b>	<b>198</b>	<b>158</b>	25.2	<b>546</b>	<b>462</b>	18.2
EBITDA margins	22.1	22.1	-	21.0	21.2	(20bps)
Depreciation	12	9	44.0	37	25	44.0
<b>EBIT</b>	<b>186</b>	<b>150</b>	24.1	<b>509</b>	<b>436</b>	16.7
Interest	11	3	320.0	33	9	270.3
Other Income	55	50	10.3	203	163	24.4
Exceptional Items	-	-	-	-	-	-
<b>PBT</b>	<b>230</b>	<b>197</b>	16.6	<b>679</b>	<b>590</b>	15.0
Tax	59	67	(13.0)	180	207	(13.0)
Share of profit from Associate	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-
<b>Reported PAT</b>	<b>171</b>	<b>130</b>	32.0	<b>499</b>	<b>384</b>	30.0
Adjustments	-	-	-	-	-	-
<b>Adjusted PAT</b>	<b>171</b>	<b>130</b>	32.0	<b>499</b>	<b>384</b>	30.0
No. of Shares	13.6	13.6	-	13.6	13.6	-
<b>EPS (Rs)</b>	<b>13.0</b>	<b>9.5</b>	32.0	<b>37.9</b>	<b>29.2</b>	30.0

### Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	3,790		3,240	3,840	(14.5)	-
EBITDA	635		650	805	3.2	-
Margins (%)	17.0		20.1	21.0	+310bps	-
Adj. PAT	500		592	657	18.4	-
EPS	37.0		45.0	49.9	21.6	-

## Consolidated Financials

### PROFIT & LOSS

Y.E March (Rs Cr)	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Sales</b>	<b>2,355</b>	<b>2,962</b>	<b>3,240</b>	<b>3,840</b>	<b>4,414</b>
% change	14.4	25.8	9.4	18.5	14.9
<b>EBITDA</b>	<b>465</b>	<b>572</b>	<b>650</b>	<b>805</b>	<b>918</b>
% change	22.6	23.0	13.7	23.8	14.0
Depreciation	38	34	52	74	109
EBIT	427	538	598	731	809
Interest	11	14	44	49	55
Other Income	189	228	233	198	168
<b>PBT</b>	<b>605</b>	<b>751</b>	<b>787</b>	<b>879</b>	<b>921</b>
% change	22.6	24.2	4.7	11.7	4.8
Tax	208	270	197	220	230
Tax Rate (%)	34.0	36.0	25.0	25.0	25.0
<b>Reported PAT</b>	<b>397</b>	<b>481</b>	<b>590</b>	<b>660</b>	<b>691</b>
Adj.*	-	-	-	-	-
<b>Adj. PAT</b>	<b>397</b>	<b>481</b>	<b>590</b>	<b>660</b>	<b>691</b>
% change	23.4	21.3	22.6	11.7	4.8
No. of shares (cr)	13.6	13.2	13.2	13.2	13.2
<b>Adj EPS (Rs)</b>	<b>29.2</b>	<b>36.6</b>	<b>44.9</b>	<b>50.1</b>	<b>52.5</b>
% change	23.4	25.3	22.6	11.7	4.8
DPS (Rs)	9.0	14.9	14.9	14.9	14.9

### CASH FLOW

Y.E March (Rs Cr)	FY18A	FY19A	FY20E	FY21E	FY22E
Net inc. + Depn.	642	786	839	953	1,030
Non-cash adj.	(303)	(382)	(152)	(171)	(175)
Changes in W.C	293	(852)	931	(336)	371
<b>C.F. Operation</b>	<b>632</b>	<b>(448)</b>	<b>1,617</b>	<b>446</b>	<b>1,226</b>
Capital exp.	(14)	(57)	(437)	(607)	(807)
Change in inv.	(61)	(226)	(559)	(500)	-
Other invest.CF	145	218	38	-	-
<b>C.F - Investment</b>	<b>(1,328)</b>	<b>1,044</b>	<b>(958)</b>	<b>(1,107)</b>	<b>(807)</b>
Issue of equity	962	-	-	-	-
Issue/repay debt	(11)	(12)	(44)	(49)	(55)
Dividends paid	(122)	(196)	(196)	(196)	(196)
Other finance.CF	(16)	-	-	-	-
<b>C.F - Finance</b>	<b>812</b>	<b>(409)</b>	<b>(57)</b>	<b>(246)</b>	<b>(252)</b>
Chg. in cash	116	186	602	(906)	168
Closing cash	2,101	2,287	2,890	1,984	2,151

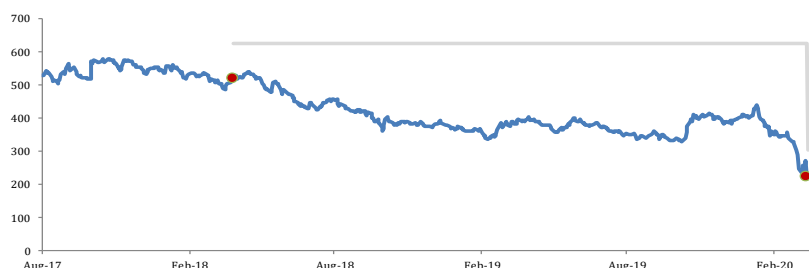
### BALANCE SHEET

Y.E March (Rs Cr)	FY18A	FY19A	FY20E	FY21E	FY22E
Cash	3,490	2,523	2,890	1,984	2,151
Accounts Receivable	580	392	488	631	726
Inventories	315	283	429	500	574
Other Cur. Assets	428	864	938	1,102	1,243
Investments	16	60	22	22	22
Gross Fixed Assets	370	427	857	1,457	2,257
Net Fixed Assets	284	313	691	1,217	1,908
CWIP	115	341	900	1,400	1,400
Intangible Assets	65	62	69	76	83
Def. Tax (Net)	43	66	40	40	40
Other Assets	77	280	75	75	75
<b>Total Assets</b>	<b>5,469</b>	<b>5,244</b>	<b>6,568</b>	<b>7,072</b>	<b>8,248</b>
Current Liabilities	2,065	1,761	2,687	2,723	3,400
Provisions	283	369	324	384	441
Debt Funds	123	123	123	123	123
Other Liabilities	3	3	3	3	3
Equity Capital	136	132	132	132	132
Reserves & Surplus	3,120	3,201	3,595	4,057	4,552
Shareholder's Fund	3,256	3,332	3,726	4,189	4,683
<b>Total Liabilities</b>	<b>5,469</b>	<b>5,244</b>	<b>6,568</b>	<b>7,072</b>	<b>8,248</b>
BVPS	239	245	274	308	344

### RATIOS

Y.E March	FY18A	FY19A	FY20E	FY21E	FY22E
<b>Profitab &amp; Return</b>					
EBITDA margin (%)	19.47	19.3	20.1	21.0	20.8
EBIT margin (%)	18.1	18.1	18.5	19.0	18.3
Net profit mgn.(%)	13.7	15.6	16.8	16.2	18.3
ROE (%)	12.2	14.4	15.8	15.7	14.7
ROCE (%)	16.5	15.3	15.6	16.3	17.8
<b>W.C &amp; Liquidity</b>					
Receivables (days)	68.7	59.9	49.6	53.2	56.1
Inventory (days)	78.4	72.72	77.2	88.3	88.8
Payables (days)	67.8	75.2	92.5	100.8	98.2
Current ratio (x)	2.3	2.3	1.8	1.5	1.4
Quick ratio (x)	2.2	2.1	1.6	1.4	1.2
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	6.5	7.4	5.0	3.3	2.4
Total asset T.O (x)	0.5	0.6	0.5	0.6	0.6
Int. covge. ratio (x)	37.4	37.6	13.5	14.9	14.6
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
<b>Valuation</b>					
EV/Sales (x)		0.3	0.1	0.3	0.3
EV/EBITDA (x)		1.4	0.7	1.7	1.3
P/E (x)		6.7	5.4	4.9	4.6
P/BV (x)		1.0	0.9	0.8	0.7

## Recommendation summary



Dates	Rating	Target
06-April -18	BUY	625
30-March-20	BUY	301

Source: Bloomberg, Geojit Research.

## Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated		-	

### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

**Sell:** Exit from the stock.

**Not rated :** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or down-

## General Disclosures and Disclaimers

### CERTIFICATION

I, Anil R, author of this Report, hereby certify that all the views expressed in this research report reflect our personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of GeojitFinancial Services Limited, hereinafter referred to as Geojit.

### COMPANY OVERVIEW

Geojit Financial Services Limited (hereinafter Geojit), a publically listed company, is engaged in services of retail broking, depository services, portfolio management and marketing investment products including mutual funds, insurance and properties. Geojit is a SEBI registered Research Entity and as such prepares and shares research data and reports periodically with clients, investors, stake holders and general public in compliance with Securities and Exchange Board of India Act, 1992, Securities And Exchange Board Of India (Research Analysts) Regulations, 2014 and/or any other applicable directives, instructions or guidelines issued by the Regulators from time to time.

### DISTRIBUTION OF REPORTS

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Geojit will not treat the recipients of this report as clients by virtue of their receiving this report.

### GENERAL REPRESENTATION

The research reports do not constitute an offer or solicitation for the purchase or sale of any financial instruments, inducements, promise, guarantee, warranty, or as an official confirmation of any transaction or contractual obligations of any kind. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. We have also reviewed the research report for any untrue statements of material facts or any false or misleading information. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

### RISK DISCLOSURE

Geojit and/or its Affiliates and its officers, directors and employees including the analyst/authors shall not be in any way be responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Investors may lose his/her entire investment under certain market conditions so before acting on any advice or recommendation in these material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. This report does not take into account the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved). The price, volume and income of the investments referred to in this report may fluctuate and investors may realize losses that may exceed their original capital.

### FUNDAMENTAL DISCLAIMER

We have prepared this report based on information believed to be reliable. The recommendations herein are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. The stocks always carry the risk of being upgraded to buy or downgraded to a hold, reduce or sell. The opinions expressed are subject to change but we have no obligation to tell our clients when our opinions or recommendations change. This report is non-inclusive and does not consider all the information that the recipients may consider material to investments. This report is issued by Geojit without any liability/

/undertaking/commitment on the part of itself or any of its entities. We may have issued or may issue on the companies covered herein, reports, recommendations or information which is contrary to those contained in this report.

The projections and forecasts described in this report should be evaluated keeping in mind the fact that these are based on estimates and assumptions and will vary from actual results over a period of time. The actual performance of the companies represented in the report may vary from those projected. These are not scientifically proven to guarantee certain intended results and hence, are not published as a warranty and do not carry any evidentiary value whatsoever. These are not to be relied on in or as contractual, legal or tax advice. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

#### JURISDICTION

The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. Distributing/taking/sending/dispatching/transmitting this document in certain foreign jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe any such restrictions. Failure to comply with this restriction may constitute a violation of any foreign jurisdiction laws. Foreign currencies denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. Investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk.

#### REGULATORY DISCLOSURES:

Geojit's Associates consists of privately held companies such as Geojit Technologies Private Limited (GTPL- Software Solutions provider), Geojit Credits Private Limited (GCPL- NBFC Services provider), Geojit Investment Services Limited (GISL- Corporate Agent for Insurance products), Geojit Financial Management Services Private Limited (GFMSL) & Geojit Financial Distribution Private Limited (GFDPL), (Distributors of Insurance and MF Units). In the context of the SEBI Regulations on Research Analysts (2014), Geojit affirms that we are a SEBI registered Research Entity and in the course of our business as a stock market intermediary, we issue research reports /research analysis etc that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities.

In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

##### 1. Disclosures regarding Ownership\*:

*Geojit confirms that:*

It/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein.  
It/its associates have no actual beneficial ownership greater than 1% in relation to the subject company (ies) covered herein.

*Further, the Analyst confirms that:*

he, his associates and his relatives have financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company.  
he, his associates and his relatives have no actual/beneficial ownership greater than 1% in the subject company covered

##### 2. Disclosures regarding Compensation:

During the past 12 months, Geojit or its Associates:

(a) Have not received any compensation from the subject company; (b) Have not managed or co-managed public offering of securities for the subject company (c) Have not received any compensation for investment banking or merchant banking or brokerage services from the subject company. (d) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company (e) Have not received any compensation or other benefits from the subject company or third party in connection with the research report (f) The subject company is / was not a client during twelve months preceding the date of distribution of the research report.

##### 3. Disclosure by Geojit regarding the compensation paid to its Research Analyst:

Geojit hereby confirms that no part of the compensation paid to the persons employed by it as Research Analysts is based on any specific brokerage services or transactions pertaining to trading in securities of companies contained in the Research Reports.

##### 4. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that I Anil R Research Analyst(s) of Geojit have not served as an officer, director or employee of the subject company

##### 5. Disclosure regarding Market Making activity:

Neither Geojit/its Analysts have engaged in market making activities for the subject company.

Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange Board of India before investing.

Geojit Financial Services Ltd. (formerly known as Geojit BNP Paribas Financial Services Ltd.), Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: [www.geojit.com](http://www.geojit.com). For investor queries: [customercare@geojit.com](mailto:customercare@geojit.com). For grievances: [grievance@geojit.com](mailto:grievance@geojit.com). For compliance officer: [compliance@geojit.com](mailto:compliance@geojit.com).

Corporate Identity Number: L67120KL1994PLC008403, SEBI Stock Broker Registration No INZ000104737, Research Entity SEBI Reg No: INH200000345, Investment Adviser SEBI Reg No: INA200002817, Portfolio Manager: INP000003203, Depository Participant: IN-DP-325-2017, ARN Regn.Nos:0098, IRDA Corporate Agent (Composite) No.: CA0226