

### Subscribe for Long Term

Issue Details	
Price Band (Rs)	Rs. 135 - 145
Face Value (Rs)	10
Issue Size (Rs)	443.69Cr
Issue Type	Book Building
Minimum lot	103
Issue Opens	September 29, 2020
Issue Closes	October 01, 2020
Listing on	BSE, NSE

Indicative Timeline	On or before
Finalization of Basis of Allotment	October 07, 2020
Unblocking of Funds	October 08, 2020
Credit of shares to Demat Account	October 09, 2020
Listing on exchange	October 12, 2020

Other Detail	
Book Running Lead Managers	YES SECURITIES (INDIA) LIMITED, AXIS CAPITAL LIMITED, EDELWEISS FINANCIAL SERVICES LIMITED, IDFC SECURITIES LIMITED, JM FINANCIAL LIMITED
Registrar	ALANKIT ASSIGNMENTS LIMITED

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## Mazagon Dock Shipbuilders Ltd

### Company Background

Incorporated on February 26, 1934, Mazagon Dock Shipbuilders Limited ("MDL"), conferred with the 'Mini-ratna-I' status, is a defence public sector undertaking shipyard under the Department of Defence Production, Ministry of Defence ("MoD"), engaged in the construction and repair of warships and submarines for the MoD for use by the Indian Navy and other vessels for commercial clients. The shipyard builds warships and conventional submarines at its facilities in Mumbai and Nhava. Major customers for the shipyard include Indian Navy and Coast Guard.

### Issue Details

The offer comprises of Offer for sale of Equity shares aggregating upto Rs.443.69Cr at upper price band.

### OFS Details

Name	Shares offered for sale
The President Of India, Acting Through The Ministry Of Defence, Government Of India	Up to 30,599,017 Equity Shares

### Issue Objectives :

- To carry out the disinvestment plan by selling shareholder.
- Achieve the benefits of listing the Equity Shares.

### IPO share allotment pattern

Category	Allocation	Number of Shares	Issue Size at Rs.135 (Rs.Cr)	Issue Size at Rs.145 (Rs.Cr)
QIB	50%	15,126,750	204.21	219.34
Non-Institutional	15%	4,538,025	61.26	65.80
Retail	35%	10,588,725	142.95	153.54
Employee		345,517	4.66	5.01
<b>Total</b>		<b>30,599,017</b>	<b>413.09</b>	<b>443.69</b>

Source: Company RHP, ACMIIL Research

### Outlook and Valuations

MDL is primarily engaged in the defence shipbuilding segment catering to the needs of the MoD. They are India's only shipyard to have built destroyers and conventional submarines for the Indian Navy. MDL has orders on hand worth Rs. 54,074 Cr to be executed in the next 6 to 7 years. MDL has a proven track record of operational excellence as well as an order book that gives good visibility for the near term. At the upper price band of Rs.145/-, the stock trades at 6.79x its FY20 EPS of Rs.21.36/-. **We recommend to subscribe the issue from a long-term prospective.**

### Business Overview

MDL is a defence public sector undertaking shipyard under the Department of Defence Production, Ministry of Defence with a maximum shipbuilding and submarine capacity of 40,000 DWT, engaged in the construction and repair of warships and submarines for the MoD for use by the Indian Navy and other vessels for commercial clients. They are India's only shipyard to have built destroyers and conventional submarines for the Indian Navy. They are also one of the initial shipyards to manufacture Corvettes (Veer and Khukri Class) in India.

The business divisions in which MDL operates are:

- 1. Shipbuilding:** The shipbuilding division includes the building and repair of naval ships. The company is currently building 4 P-15 B destroyers and 4 P-17A stealth frigates and undertaking repair and refit of a ship for the MoD for use by the Indian Navy.
- 2. Submarine and heavy engineering:** The submarine and heavy engineering division includes building, repair and refits of diesel electric submarines. The company currently building/ in the process of delivering 4 Scorpene class submarines under a transfer of technology agreement with Naval Group as well as 1 medium refit and life certification of a submarine for the MoD for use by the Indian Navy.

Since 1960, MDL has built a total of 795 vessels including 25 warships, from advanced destroyers to missile boats and 3 submarines. They have also delivered cargo ships, passenger ships, supply vessels, multipurpose support vessels, water tankers, tugs, dredgers, fishing travellers, barges and border outposts for various customers in India as well as abroad.

Some of the vessels built and delivered by the MDL in the past include, **6 Leander class frigates, 3 Godavari class frigates, 3 corvettes, 4 missile boats, 6 destroyers, 3 submarines and 3 Shivalik class frigates** for the MoD for use by the Indian Navy and constructed and delivered 7 offshore patrol vessels to the Indian Coast Guard. The company has fabricated and delivered jackets, main decks of wellhead platforms, process platforms and jack up rigs, etc.

Company's shipyard is strategically located on the west coast of India, on the sea route connecting Europe, West Asia and the Pacific Rim, a busy international maritime route. The company has headquartered in Mumbai which is also the headquarters of the Western Naval Command of the Indian Navy. MDL is exploring the possibility of **developing a greenfield shipyard at Nhava, Navi Mumbai** with shiplift, wet basin, workshops, stores and buildings and a ship repair facility spread over an area of 37 acres.

## Investment Rationale

### Only public sector defence shipyard constructing conventional submarines

MDL is primarily engaged in the defence shipbuilding segment catering to the needs of the MoD. They are India's only shipyard to have built destroyers and conventional submarines for the Indian Navy. They have in the past constructed 2 SSK submarines, modernized and refitted 4 SSK submarines. This has enhanced their capability of handling construction of conventional submarines. They have also entered into a technology transfer agreement with Naval Group, France for Scorpene submarines which are currently manufactured by MDL. They have recently delivered 2 of the Scorpene submarines, INS Kalvari and INS Khanderi to the MoD.

### World class infrastructure facilities

The infrastructure and facilities available at company's shipyard combined with their vast expertise gives them a significant edge over their domestic peers. Their facilities currently comprise of 3 dry docks, 2 wet basins, 3 slipways, production shops, assembly shops, module shop with painting chamber for integrated construction, sheet metal shop, pipe shop, machine and fitting shop, ship dry dock and dredging, electrical repair shop and instrumentation shop for their shipbuilding division. The submarine division infrastructure includes shops for fabrication of frame, sub-section assembly and section formation, cradle assembly shop for structural and equipment outfitting and final assembly, 1 dry dock and submarine section assembly shop. The shipbuilding and submarine and heavy engineering divisions are both ISO 9001:2015 certified.

MDL undertook and completed the "Mazdock Modernization Project" which comprised of a new wet basin, goliath cranes, module workshop, cradle assembly shop, store building and associated ancillary structures enabling integrated modular construction which would substantially reduce the build period. Post completion of the modernization project, the capacity of outfitting warships increased from 8 warships to 10 warships since 2014 and submarine capacity has increased from 6 submarines to 11 submarines since 2016

### Strategic location at Mumbai on the west coast of India

Company's shipyard is strategically located in Mumbai on the west coast of India, on the sea route connecting Europe, West Asia and the Pacific Rim, a busy international maritime route. Their customers, being the MoD and Indian Coast Guard and their vendors are based in Mumbai which results in closer co-ordination and greater efficiencies. Further, a majority of their subcontractors are based in and around Mumbai which provides them with an ease of access to labour. The location of their facilities provide them a strategic competitive advantage over their peers.

### Increase in indigenisation of the vessels

The company intends to increase the quantum of indigenised components for their warships and submarines in order to give an impetus to the GoI's "Make in India" campaign. MDL has successfully indigenised certain equipment such as sonar dome, ship installed chemical agent detection system, bridge window glass, main batteries for Scorpene submarines, multiple cable transit glands and remote controlled valves with various companies. Increase in indigenisation has enabled them to reduce their reliance on third party component manufacturers and the cost of construction for their vessels.

### Established track record with strong financial position and strong Order Book

Company has established a consistent track record of financial performance and growth. Further, company has strong order book of Rs.54,074cr as on July 2020. We believe this gives revenue visibility for next multi years. During FY17-20, company's revenue & operating profit has grown at a CAGR of 12% & 29% respectively. During the same period, operating margin improved to 5.4% in FY20 from 3.6% in FY17. The company is a debt free company. Moreover, the company's dividend payout ratio has improved from 33% in FY17 to 46% as on FY20

Particulars	Nos.	Client	Value (In Cr)
<b>Shipbuilding</b>			
P15B Destroyers	4	MoD	26,385
P17A Stealth Frigates	4	MoD	23,649
Repair, refit and services of a ship	1	MoD	11
Submarine and heavy engineering			
P75 Scorpene Submarines	4	MoD	3,202
Medium Refit and Life Certification (MRLC) of a submarine	1	MoD	827
<b>Total Order Book</b>			<b>54,074</b>
Source: Company RHP, ACMIIL Research			

### Risk and Concern

1. The continuing effect of the COVID-19 pandemic on business and operations is highly uncertain and cannot be predicted.
2. MDL predominantly depends on the MoD for defence orders and have mostly been awarded such orders on a nomination basis by the MoD for use by the Indian Navy. There is no assurance that future defence orders will be awarded to MDL by the MoD.

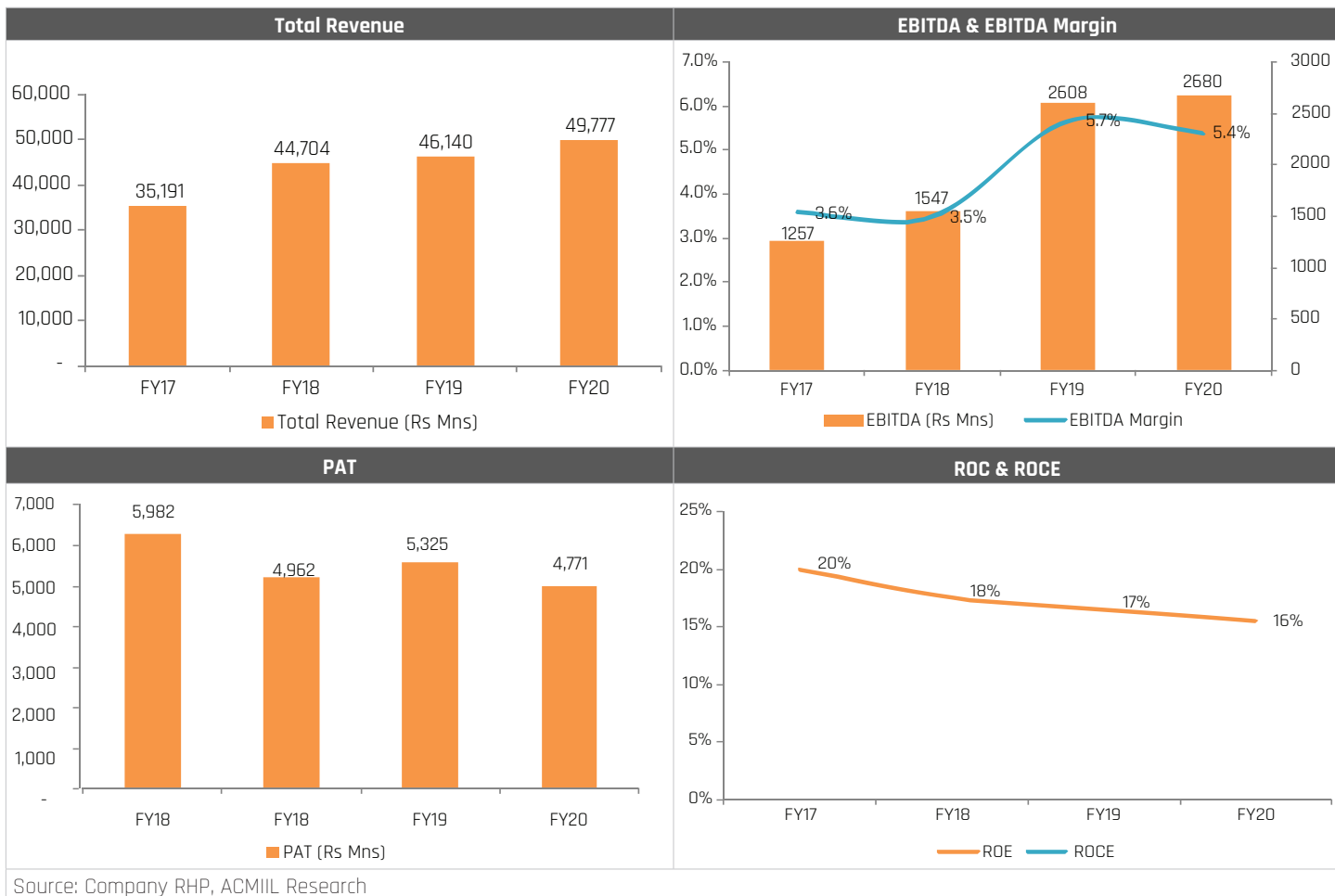
### Peer Comparison (AS ON 31st March 2020)

Name of the Company	Consolidated/ Unconsolidated	P/E	EPS	"Return on Net Worth (%)"	"NAV per share (₹)"
Mazagon Dock Shipbuilders Ltd	Consolidated	6.79	21.36	15.54%	152.17
Cochin Shipyard Ltd	Consolidated	7.6	48.05	16.98%	283.02
Reliance Naval and Engineering Ltd	Consolidated	N.A	-23.87	N.A	-165.10
Garden Reach Shipbuilders & Engineers Ltd	Unconsolidated	14.91	14.27	7.01%	90.81

\* At Upper Price band of 145

All the financial information for listed industry peers mentioned above is sourced from the Consolidated audited financial statements of the relevant companies for Fiscal 2020. P/E figures for the peers is computed based on closing market price as on August 27, 2020 as available at BSE website.

Source: Company RHP, ACMIIL Research



Source: Company RHP, ACMIIL Research

## Financials

### Income statement

Particulars ( Rs Mns)	FY17	FY18	FY19	FY20
<b>Revenue from Operations</b>	35,191	44,704	46,140	49,777
<b>Less: Operating exp</b>				
Cost of material consumed	21,750	27,846	31,652	28,654
Employee benefits expense	7,288	8,857	6,895	7,929
Sub-contract	1,102	3,227	1,759	7,441
Power and fuel	260	226	193	165
Other expenses	2,941	2,808	2,644	2,521
Provisions	592	192	389	387
<b>Total Expenses</b>	<b>33,934</b>	<b>43,156</b>	<b>43,531</b>	<b>47,097</b>
<b>EBITDA</b>	1,257	1,547	2,608	2,680
EBITDA %	3.6%	3.5%	5.7%	5.4%
Less : Dep & Amortization	417	525	643	687
<b>EBIT</b>	<b>840</b>	<b>1,022</b>	<b>1,965</b>	<b>1,993</b>
Add: other income	7,558	5,573	5,907	5,577
Less : Finance cost	93	91	91	93
<b>PBT before exceptional item</b>	8,305	6,504	7,781	7,477
<b>Exceptional Item</b>	-	-	-	123
Net Profit of associate	554	1,026	621	934
<b>PBT</b>	8,859	7,530	8,402	8,287
Less : Tax	2,877	2,568	3,077	3,516
<b>Net Profit</b>	<b>5,982</b>	<b>4,962</b>	<b>5,325</b>	<b>4,771</b>
<b>PAT %</b>	17.0%	11.1%	11.5%	9.6%
<b>Diluted EPS (Rs)</b>	24.03	20.61	23.75	21.36

Source: Company RHP, ACMIL Research

## Balance sheet

Particulars (Rs Mns)	FY17	FY18	FY19	FY20
Share Capital	2,490	2,241	2,241	2,017
Other Equity	27,411	26,100	29,928	28,674
<b>Total Shareholders Fund</b>	<b>29,901</b>	<b>28,341</b>	<b>32,169</b>	<b>30,691</b>
<b>Non Current Liabilities:</b>				
Trade payables	160	159	158	156
Other Financial liabilities	386	373	355	360
Other long-term liabilities	1,669	1,597	1,578	1,695
Provisions	12,121	12,064	11,978	12,151
<b>Total Non Current Liabilities</b>	<b>14,337</b>	<b>14,193</b>	<b>14,069</b>	<b>14,362</b>
<b>Current Liabilities:</b>				
Trade Payables	9,264	23,911	29,173	47,708
Other Financial Liabilities	1,747	2,579	2,367	1,365
Contract liability	1,37,596	1,23,381	1,29,499	1,13,831
Other Current Liabilities	251	99	221	436
Provisions	816	1,201	982	1,268
<b>Total Current Liabilities</b>	<b>1,49,674</b>	<b>1,51,170</b>	<b>1,62,242</b>	<b>1,64,608</b>
<b>Total Liabilities</b>	<b>1,93,912</b>	<b>1,93,704</b>	<b>2,08,480</b>	<b>2,09,660</b>
<b>Assets</b>				
<b>Non Current Assets</b>				
Property, plant & Equipment	5,441	6,769	7,873	8,312
CWIP	984	854	888	800
Other intangible assets	214	284	230	171
Investments	3,836	4,291	4,307	4,842
Trade receivable	160	159	158	156
Other financial assets	121	124	1,502	1,504
Deferred tax assets (net)	5,068	5,522	5,820	4,117
Non-current tax assets (net)	1,811	2,067	1,934	2,259
Other non-current assets	1,388	3,195	4,990	6,518
<b>Total Non Current Assets</b>	<b>19,023</b>	<b>23,266</b>	<b>27,701</b>	<b>28,779</b>
<b>Current Asset</b>				
Inventories	40,287	37,860	37,903	46,227
Trade Receivables	8,117	11,134	14,729	14,588
Cash and cash equivalents	1,429	3,736	7,297	4,833
Other Balances with Banks	82,200	68,160	67,400	53,150
Others Financial Assets	1,487	1,114	2,256	1,802
Contract assets	11,632	7,379	9,013	555
Other current assets	29,736	41,055	42,181	59,727
<b>Total Current Asset</b>	<b>1,74,888</b>	<b>1,70,438</b>	<b>1,80,779</b>	<b>1,80,881</b>
<b>Total Asset</b>	<b>1,93,912</b>	<b>1,93,704</b>	<b>2,08,480</b>	<b>2,09,660</b>

Source: Company RHP, ACMIIL Research

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