

## Mazagon Dock Shipbuilders Ltd.

SSIS IPO GRADE 4.75/5 (Apply)

25<sup>th</sup> September, 2020

### Rating Overview

Incorporated on February 26, 1934, Mazagon Dock Shipbuilders Limited, 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.

The Indian shipbuilding industry comprises eight public sector shipyards out of which four naval shipyards come under the purview of India's Ministry of Defence, namely HSL, MDSL, GSL and GRSE. MDL and GRSE are engaged in building complex weapon-intensive vessels such as destroyers, stealth frigates and corvettes. GSL and HSL have the capability to build various categories of vessels, such as patrol vessels, tankers, landing platform docks, survey vessels, tugs and barges. MDL is also constructing submarines for Indian Navy. The majority of ship orders for clients engaged in the defence sector are with public sector players.

MDSL intends to foray into segments like exporting its products, focus on ship repair facility and also enhancing infrastructure & manufacturing capacity that would help the company to diversify its revenue in future.

In terms of valuations, the pre-issue P/E works out to 6.1x FY20 earnings (at the upper end of the issue price band), which is lower vs. peers like Garden Reach Shipbuilders and Cochin Shipyard (trading at 12.2x and 6.6x of its FY20 earnings, respectively). Further, MDSL has healthy ROE of ~16% coupled with highest dividend yield (7.4%) and higher cash on balance sheet among its peers. Hence, considering the above positive factors, we recommend SUBSCRIBE to the issue with a long-term horizon.

Our overall rating of Mazagon Docks is fundamentally strong and it holds a fair valuation post issue. Investors pay a fair price and they can purchase it for medium to long term share appreciation.

Note: The analyst plans to subscribe to the offer, but does not hold any shares in the company prior to, or at the time of writing this review.

## Business Overview

Mazagon Dock Shipbuilders Ltd. (MDSL) is a defence public sector undertaking shipyard under the department of defence production, MoD (Ministry of Defence) with a maximum shipbuilding and submarine capacity of 40000 DWT (Source CRISIL Report). The company is 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. It is a wholly-owned Government of India company, conferred with the 'Mini Ratna-I' status in 2006, by the DPE. MDSL is India's only shipyard to have built destroyers and conventional submarines for the India Navy. It is also one of the initial shipyards to manufacture Corvettes (Veer and Khukri class) in India.

Thus MDSL has business divisions in which it operates are Shipbuilding (includes building and repairs of naval ships), Submarine and heavy Engineering. The company is currently building four P-15 B destroyers and four P-17A stealth frigates and undertaking repair and refit of a ship for the Mod for use by the Indian Navy. The company has also delivered cargo ships, passenger ships, supply vessels, multipurpose support vessels, water tankers, tugs, dredgers, fishing trawlers, barges and border outposts for various customers in India as well as abroad (source CRISIL).

MDSL'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. Some of the vessels built and delivered by MDSL in the past include six Leander class frigates, three Godavari class frigates, three corvettes, four missile boards, six destroyers, four submarines and three Shivalik class frigates for the Mod for the use by the Indian Navy and constructed and delivered seven offshore patrol vessels to the Indian Coast Guard.

**As on the date of filing RHP, the company has a healthy order book worth Rs. 54000 cr. which is to be executed in the next six to seven years. MDSL suffered a severe setback in 2003 to 2005. The company has an uninterrupted dividend track record for the last 15 years.**

## Financial Performance

On financial performance front, for the last four fiscals, on a consolidated basis MDSL has posted revenue/comprehensive net profits of Rs. 4274.86 cr. / Rs. 598.26 cr. (FY17), Rs. 5027.63 cr. / Rs. 496.17 cr. (FY18), Rs. 5204.67 cr./ Rs. 532.47 cr. (FY19) and Rs. 5535.31 cr. / Rs. 477.06 cr. (FY20).

For the last three fiscals, on a consolidated basis, MDSL has posted an average EPS of Rs. 22.03 and an average RoNW of 16.21%. The issue is priced at a P/BV of 0.95 based on its NAV of Rs. 152.17 as on June 30, 2020 (based on upper price band). For the last three fiscals, MDSL has distributed on an average Rs. 23.4 cr. as yearly dividend payouts.

If we attribute FY20 earnings on fully diluted equity post issue, then asking price is at a P/E of around 6.39 (based on upper price band), against peer group average P/E of 7.5. The issue is reasonably priced leaving something on the table for all.

**As per offer documents, MDSL has shown Cochin Shipyard, Reliance Naval and Garden Reach Shipbuilders as its listed peers. They are currently trading at a P/Es of 7.36, 00 and 13.33 (as on September 24, 2020). However, they are not truly comparable on an apple to apple basis.**

Summary of financial Information (Restated Consolidated)				
Particulars	For the year/period ended (₹ in millions)			
	31-Mar-20	31-Mar-19	31-Mar-18	31-Mar-17
<b>Total Assets</b>	209,660.28	208,479.34	193,703.72	193,911.65
<b>Total Revenue</b>	55,353.07	52,046.74	50,276.29	42,748.63
<b>Profit After Tax</b>	4,770.59	5,324.74	4,961.73	5,982.58

## Issue Details

For listing gains and to disinvest Government of India's stake, MDSL is coming out with a maiden IPO of an offer for sale of 30599017 shares of Rs. 10 each. The issue opens for subscription on September 29, 2020, and will close on October 01, 2020. The company has fixed the price band of Rs. 135 - Rs. 145 per share. Minimum application is to be made for 103 shares and in multiples thereon, thereafter. Post allotment, shares will be listed on BSE and NSE. MDSL mulls mobilizing around Rs. 413.09 cr. - Rs. 443.69 cr. (based on lower and upper price band) through this IPO. Issue constitutes 15.17% of the post issue paid-up capital of the company.

The company has reserved 345517 shares for eligible employees. From the residual portion, it has reserved 50% for QIBs, 15% for HNIs and 35% for retail category.

Having issued/converted entire equity at par, the company issued bonus shares in the ratio of 1 for 4 in March 2017. The company also bought back 24900000 equity shares @ Rs. 101.80 in December 2017 and 22410000 equity shares at Rs. 124 in March 2020.

The average cost of acquisition of shares by the promoters/ selling stakeholders is Rs. 16.47 per share. Post issue, MDSL's current paid-up equity capital of Rs. 201.69 cr. will remain the same as this is a secondary offer. With this issue, the company is looking for a market cap of Rs. 2924.51 cr. (based on upper price band). Current paid-up equity capital stands supported by free reserves of Rs.2867.44 cr. as on March 31, 2020.

The issue is jointly lead managed by Yes Securities Ltd., Axis Capital Ltd., Edelweiss Financial Services Ltd., DAM Capital Advisor Ltd. (erstwhile IDFC Securities Ltd.) and JM Financial Ltd., while Alankit Assignments Ltd. is the registrar to the issue.

<b>Application Dates</b>	<b>Sep 29, 2020 – Oct 1, 2020</b>
<b>Issue Type</b>	Book Built Issue IPO
<b>Face Value</b>	₹10 per equity share
<b>IPO Price</b>	₹135 to ₹145 per equity share
<b>Market Lot</b>	103 Shares
<b>Listing At</b>	BSE, NSE
<b>Issue Size</b>	[.] Eq Shares of ₹10 (Up to ₹443.69Cr)

### Issue Timeline

<b>Basis of Allotment Date</b>	Oct 7, 2020
<b>Initiation of Refunds</b>	Oct 8, 2020
<b>Credit of Shares to Demat Account</b>	Oct 9, 2020
<b>IPO Listing Date</b>	Oct 12, 2020

## Investment Strategy

MDSL, a Mini Ratna-1, has been a profit-making and dividend distributing PSU under MoD. It has orders worth Rs. 54000+ crore on hand which are to be completed in 6 to 7 years. Its financial track record so far has been indicating sustained top line with ups and down in PAT due to certain provisioning. Being a maiden IPO from a shipyard that builds destroyers and submarine is sure to catch fancy post listing. Investors may consider investment for the medium to long term perspective in this reasonably priced issue.