

IPO NOTE

SUBSCRIBE

28th July, 2017

Issue Details

Price Band (Rs)	424 - 432
Face Value(Rs)	10
Issue Size(Rs)	1,440 -1,468 Cr
Issue Type	Book Building
Minimum lot	30 Shares
Issue Opens	August 1, 2017
Issue Closes	August 3, 2017
Listing on	BSE, NSE

Finalization of Basis of Allotment	August 8,2017
Unblocking of Funds	August 9,2017
Credit of shares to Demat Account	August 10,2017
Listing on exchange	August 11,2017

Other Detail

Book Running Lead Managers	SBI Capital Markets Limited, Edelweiss Financial Services Limited, JM Financials Institutional Securities Ltd
Registrar	Link Intime India Private Limited

“Retail Discount of Rs.21 per Equity Share to the Issue Price will be offered to the Retail Individual Bidders and Employee.”

Distribution Team

E: ipo@acm.co.in
D: +91 22 6132 5931

Analyst

Vrinda Aditya
E: vrinda.aditya@acm.co.in
D: +91 22 2858 3211

Cochin Shipyard Limited

Company Background

Incorporated in 1972 as a PSU company, Cochin Shipyard Limited (CSL) is India's first Greenfield ship building yard. Currently, it is the largest ship building yard in terms of dock capacity. The yard commenced ship building operations in 1978, ship repairing in 1981, Marine Engineering Training in 1993, and Offshore Upgradation in 1999.

This “Miniratna” has collaboration with several leading technology firms such as SIGBA, Clipper, NPCC, Wartsila, GTT, and Rolls Royce Marine (Norway). CSL is the largest ship repairing company with 39% domestic market share and provides services in defense and commercial segments. The company has undertaken key repair works that include “INS Viraat” of the Indian Navy, Mobile Offshore Drilling Unit ‘Sagar Vijay’ of ONGC, tankers, and bulk carriers of Shipping Corporation of India. CSL's technical efficiency capability has secured ship building orders from internationally renowned companies from Europe and Middle East. Currently, they are building the country's first indigenous Air Defense Ship.

Issue Objectives

The IPO offers 3.39Cr shares of face value Rs.10 each amounting to Rs.1468Cr on the upper price band which is 25% of post issue paid up capital. Out of total shares, 2.26Cr shares will be fresh issue and 1.13Cr shares are under offer for sale by President of India, promoter of company. Around 8.24 lac shares are allotted for employees and there will be no anchor investment. Retail Discount of Rs.21 per Equity Share to the Issue Price will be offered to the Retail Individual Bidders and Employee.

Following are the objectives of the issue:

- Setting up of Dry Dock for which Rs.443Cr will be used
- Setting up of ISRF using Rs.229.5Cr from the proceeds
- Remaining proceeds will be used for general corporate purposes

IPO Share Allotment Pattern

Category	Allocation	Number of Shares	Issue Size (Rs.Cr) at	
			Lower Band (Rs. 424)	Upper Band (Rs.432)
QIB	50%	1,65,80,000	702.99	716.26
Non-Institutional	15%	49,74,000	210.90	214.88
Retail	35%	1,16,06,000	492.09	501.38
Employees		8,24,000	34.93	35.60
Total	100%	3,39,84,000	1,440.92	1,468.10

Outlook and Valuations

Cochin Shipyard is the largest dock in country with expertise in ship building and repairing. Moving further, it is planning to foray into heavy engineering vehicles, and on expanding its ship building and repairing capabilities, which will enhance its order book, helping it compete well with international peers. At the upper price band, asking price is at a P/E of 16X at FY17 EPS of Rs. 27.56. We recommend to SUBSCRIBE the issue for listing gains and for a long-term prospective as well.

Business Overview

Situated at West coast of India adjacent to the port of Cochin, CSL yard is built up on 170 acres of land. Its forte lies in ship building and vessel repairing. The company has established alliances with select specialist firms from near-east, far-east, south-east, Europe, and USA for technology transfer and material packages for shipbuilding, ship repair, platforms, rigs, and upgradation of yard facilities.

Ship Building: It was commenced in 1978. CSL builds a wide range of products such as tankers, product carriers, bulk carriers, passenger vessels, high bollard pull tugs, and air defense ships. The company has allied with the renowned ship builder M/s Ishikawajima Harima Heavy Industries (IHI), Japan and with Shipping Research Services (SRS), Norway for building crude oil tankers and for gaining other technology know how, which helped it enter Europe and Japan. CSL has world class infrastructure with more than 80 workstations where it undertakes basic design, structural, machinery, and electrical design. Moreover, it has an in-house laboratory, which undertakes all NDT tests and carry quality control requirements.

Ship Repairing: The shipyard commenced ship repair operations in the year 1981 and has undertaken repairs of all types of vessels including upgradation of ships of oil exploration industry as well as periodical layup repairs and life extension of ships of Navy, UTL, Coast Guard, Fisheries, and Port Trust besides merchant fleet. The yard has, over the years, developed adequate capabilities to handle complex and sophisticated repair jobs.

Training: CSL's Marine Engineering Training Institute facilitates the DGS approved residential course for mechanical and naval architect engineering graduates. It has partnered with SMSSC (Strategic Manufacturing Sector Skill Council) of GOI under the skill India Mission.

Investment Rationale

Healthy Order Book

CSL is the largest shipyard with shipbuilding capacity of up to 110,000 DWT with dock measuring 255 x 42.8x 9 M. Ship repair dock measures 270 x 45 x 12 M, which enables the company to undertake repair of vessels of up to 125,000 DWT. Until date, the company has undertaken 2000 repair projects besides exporting 50 vessels. For domestic clients, it has built 40 vessels and 20 fast patrolling vehicles for the Indian coast guard. Currently, CSL has an order book of Rs. 3078.33Cr comprising:

- 4 passenger cum cargo vessels for Andaman and Nicobar administration
- FPV for Indian Coast Guard
- Indigenous aircraft for Indian Navy
- 2 Double ended Ro Ro Ferry for Kochi Municipal Corporation
- A confidential government project

Expanding Dry Dock

CSL is augmenting its ship building capacity by building a new dry dock inside their premises. It will be a stepped dock with minimum clear length of 310 metre, width of 75 metre at the wider part, and 60 metre at the narrower part having depth of 13 metre with draught of up to 9.5 metre. It will help to undertake technologically advanced larger vessels such as LNG and IAC. Project will cost Rs.1798.99Cr and is estimated to be functional in next 30 months. Once the dock will be complete, it will on an average add 80 building/repairing projects every year.

International Ship Repair Facility

The yard has, over the years, developed adequate capabilities to handle complex and sophisticated repair jobs. CSL to strengthen its foot hold in global market is creating an international ship repair facility, which will place the shipyard as a major ship repair hub in Asia. It will facilitate ship lift for vessels, a transfer system, six work stations, approximately eight afloat berths, jetties, administrative buildings, and allied facilities. Ship lift will be designed for vessels up to a length of 130 metre with a lifting capacity of 6,000 tonnes. Ship repairing capability of the company will be enhanced by 70-90 ships per annum and will help in acquiring new international clients, especially from Europe and the Middle East. The project will cost ~Rs. 969.41 Cr and will be completed in 25-35 months. Consortium of Inros Lackner SE and Tata Consulting Engineers Limited has been appointed as project consultants.

Government Projects

CSL carries our most of the government projects. The company is expecting a large order from GOI for LNG carriers as GAIL has contracted with the US for importing LPG. CSL is certified from GTT France for LNG vessels.

Being skilled in cargo vessels, CSL is focused to expertise in core engineering heavy vehicles. Mixed skills will result in robust order book and revenue.

Emerging inland water field

In India, trade through waterways is only 3-5% of cargo shipment compared with developed countries China and USA where 35% cargo is through waterways. The under-progress US\$16bn Sagarmala project, which aims to transform existing ports and create new ones with world-class technology and infrastructure will integrate ports with industrial clusters and the hinterland through rail, road, inland, and coastal waterways. It will increase the waterways cargo leading to rise in vessel demand.

Further, CSL has recently formed a joint venture with the Hubli government to develop inland water space at eastern coast of India.

Strong Financials despite of subdued industry growth

CSL's revenue grew to Rs.2208Cr in FY17 where ship building contributed ~73.6% of the total revenue and remaining 26.4% came from ship repairing segment. Dip in oil demand and recession has led to de-growth in the shipping industry, but CSL was able to maintain a CAGR of 9.5% during FY12-17 backed by strong government and defense orders. Five years back, the ship building and repairing segments used to contribute equally in terms of revenue, and the company expects to achieve the same proportion with its new dry dock and ISRF, growing its revenue at a CAGR of 15%. Return on net worth is maintained at 15%.

Risk and Concern

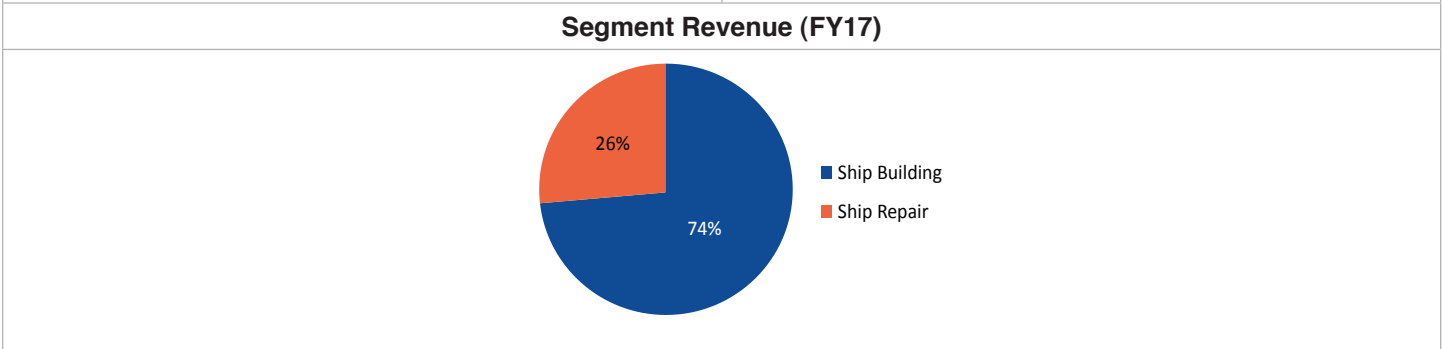
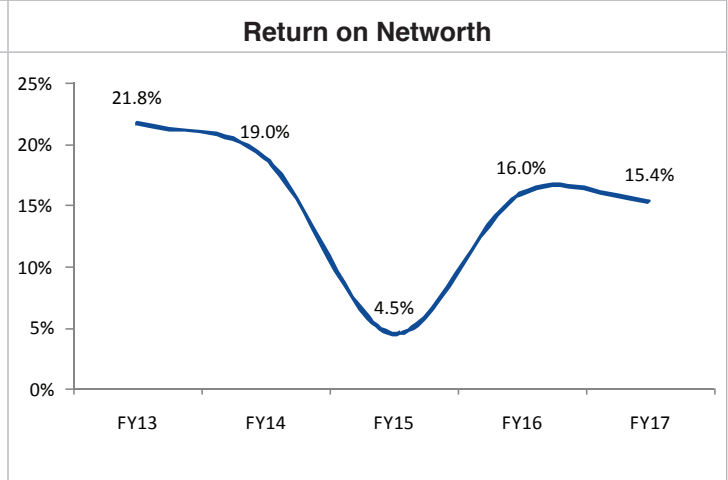
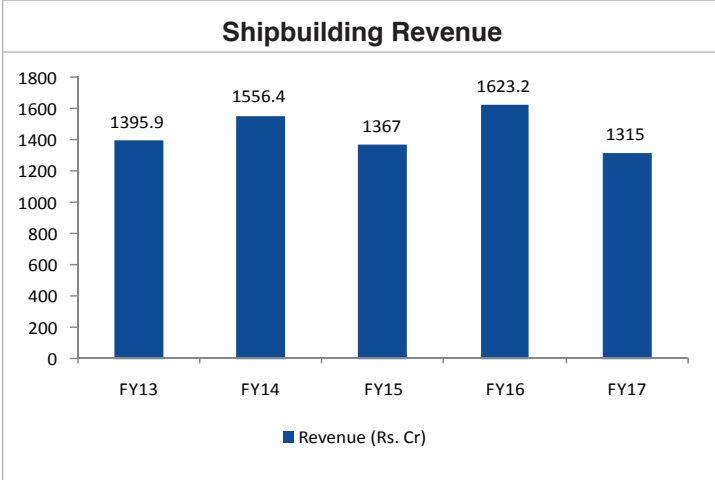
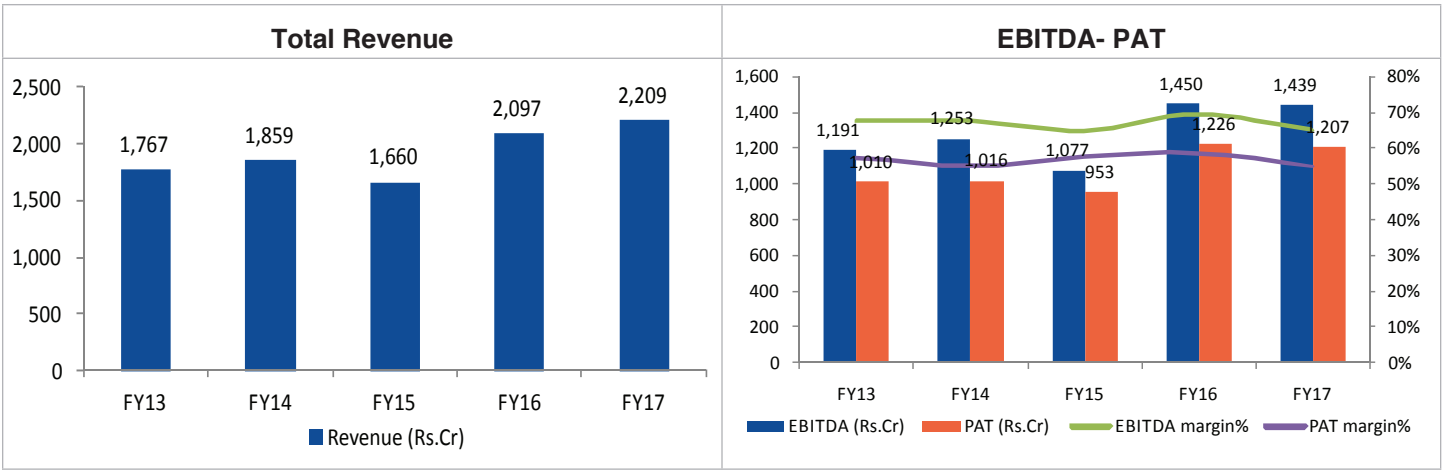
Dependence on major clients: CSL's major clients, Indian Navy and Indian coast Guard generate around 84% of total revenue. We believe the company will add on clients from the commercial segments to decrease its dependence of few clients.

Rising input cost: Any increase in input prices such as expensive raw material might adversely impact operating margin

Peer Comparison (FY17)

Name of Company	Face value (Rs.)	EPS (Rs.)	NAV	P/E	RoNW
Cochin Shipyard Ltd.	10	27.56	179	16x	15.37%
Reliance Defence and Engineering Ltd.	10	-7.84	20	NA	0
ABG Shipyard Ltd.	10	-686.55	-587	NA	NA
Bharati Defence and Infrastructure Ltd	10	-438.92	-673.27	NA	NA

Source: Company RHP, ACMIL Research



Source: Company RHP, ACMIIL Research

Financials

Profit & Loss statement

(Rs. millions)

	FY13	FY14	FY15	FY16	FY17
Revenues					
Revenue from operations	1680	1798	1583	1990	2059
Other income	87	61	77	107	149
Total Revenues	1767	1859	1660	2097	2208
Cost of materials consumed	879	776	1001	1054	1009
Changes in inventories of work-in-progress	-53	40	-19	-16	-14
Total Cost of goods sold	826	816	982	1038	995
Gross Profit	940	1043	679	1059	1214
<i>Gross Profit %</i>	<i>53.23%</i>	<i>56.11%</i>	<i>40.88%</i>	<i>50.50%</i>	<i>54.96%</i>
Sub contract and other direct expenses	203	174	160	192	319
Employee benefits expense	189	209	213	209	217
Other expenses	102	142	113	143	134
	493	525	486	543	670
EBITDA	448	518	193	516	543
<i>EBITDA %</i>	<i>25.33%</i>	<i>27.88%</i>	<i>11.64%</i>	<i>24.59%</i>	<i>24.60%</i>
Depreciation and amortisation expense	19	25	38	37	39
EBIT	429	493	156	479	505
<i>EBIT %</i>	<i>24.27%</i>	<i>26.52%</i>	<i>9.37%</i>	<i>22.82%</i>	<i>22.86%</i>
Finance costs	23	19	18	12	11
Profit before tax and provision	406	474	137	467	494
Provision for anticipated losses and expenditure	9	41	27	17	14
Profit before tax	397	433	110	450	480
Tax expense:					
(1) Current tax	127	151	49	166	160
(2) Deferred tax	5	0	-7	-9	8
Net Profit	266	282	69	292	312
<i>Net Profit %</i>	<i>15.07%</i>	<i>15.17%</i>	<i>4.17%</i>	<i>13.91%</i>	<i>14.14%</i>
Earnings per equity share of Rs 10 each					
Share Equity	11	11	11	11	11
EPS	24	25	6	26	28

Source: Company RHP, ACMIIL Research

Balance sheet

(Rs. millions)

	FY13	FY14	FY15	FY16	FY17
EQUITY AND LIABILITIES					
Equity					
Equity share capital	113	113	113	113	113
Other equity	1112	1376	1441	1711	1918
Total equity	1225	1490	1554	1824	2031
Liabilities					
Non current liabilities					
Borrowings	0	123	123	123	123
Other financial liabilities	5	6	3	3	3
Provisions	20	18	19	19	21
Total non current liabilities	25	147	145	145	147
Current liabilities					
Trade payables	140	172	171	210	161
Other financial liabilities	0	211	121	164	102
Other current liabilities	684	606	647	772	665
Provisions	326	362	228	215	210
Net current tax liabilities	0	0	25	18	0
Total current liabilities	1150	1351	1192	1380	1138
Total equity and liabilities	2401	2987	2891	3349	3316
ASSETS					
Non current assets					
Property, plant and equipment	240	297	289	296	303
Capital work-in-progress	138	8	13	24	54
Intangible assets	0	73	81	74	68
Investments	0	0	0	0	0
Trade receivables	0	0	30	32	0
Loans	7	14	1	2	1
Other financial assets	0	0	0	166	0
Net income tax assets	0	0	25	27	36
Net deferred tax assets	16	16	24	32	24
Other non-current assets	62	68	10	10	25
Total non current assets	464	476	472	662	511
Current assets					
Inventories	355	396	303	232	186
Trade receivables	684	1203	583	454	307
Cash and cash equivalents	704	556	457	511	676
Bank balances	0	0	963	1309	1315
Loans	63	192	0	0	0
Other financial assets	0	0	32	119	233
Net current tax assets	0	0	0	0	17
Other current assets	130	164	81	61	71
Total current assets	1937	2511	2419	2686	2805
Total assets	2401	2987	2891	3349	3316

Source: Company RHP, ACMIIL Research

Note:

Retail Research Desk:

Akhil Rathi D: 91 22 2858 3210
Hrishikesh Yedve D: 91 22 2858 3207
Vrinda Aditya D: 91 22 2858 3209
Neeraj Sharma D: 91 22 2858 3208
Rohan Gawale D: 91 22 2858 3213
Dhiral Shah D: 91 22 2858 3211

Email: retailresearch@acm.co.in

**Research Analyst Registration
Number: INH000002483**

CIN: U65990MH1993PLC075388

**An ISO 9001:2008
Certified Company**



Follow us on:    

Information pertaining to Asit C. Mehta Investment Intermmediates Limited (ACMIL):

ACMIL is a SEBI registered Stock Broker, Merchant Banker and Depository Participant. It is also a AMFI registered Mutual Fund Distributor. It does not have any disciplinary history. Its associate/group companies are Asit C. Mehta Commodity Services Limited, Asit C. Mehta Realty Services Pvt. Ltd, Asit C. Mehta Forex Pvt. Ltd, Nucleus IT Enabled Services , Asit C. Mehta Financial Services Limited (all providing services other than stock broking and merchant banking).

Disclosures

ACMIL/its associates and its Research analysts have no financial interest in the companies covered on the report. ACMIL/its associates and Research analysts did not have actual/beneficial ownership of one per cent or more in the companies being covered at the end of month immediately preceding the date of publication of the research report. ACMIL/its associates or Research analysts have no material conflict of interest, have not received any compensation/benefits for any reason (including investment banking/merchant banking or brokerage services) from either the companies concerned/third parties with respect to the companies covered in the past 12 months. ACMIL/its associates and research analysts have neither managed or co-managed any public offering of securities of the companies covered nor engaged in market making activity for the companies being covered. Further, the companies covered neither are/nor were a client during the 12 months preceding the date of the research report. Further, the Research analyst/s covering the companies covered herein have not served as an officer/director or employee of the companies being covered

Disclaimer:

This report is based on information that we consider reliable, but we do not represent that it is accurate or complete and it should not be relied upon such. ACMIL or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in the report. To enhance transparency we have incorporated a Disclosure of Interest Statement in this document. This should however not be treated as endorsement of the views expressed in the report