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Issue Details	
Price Band (Rs)	115-118
Face Value (Rs)	10/-
Issue Size (Rs)	344.7 Cr
Issue Type	Book Building
Minimum lot	120 Shares
Issue Opens	September 24, 2018
Issue Closes	September 26, 2018
Listing on	BSE, NSE

Indicative Timeline	On or before
Finalization of Basis of Allotment	October 01, 2018
Unblocking of Funds	October 03, 2018
Credit of shares to Demat Account	October 03, 2018
Listing on exchange	October 05, 2018

“A discount of Rs 5/- per equity share will be offered to eligible employees and retail individual bidders”

Other Detail	
Book Running Lead Managers	IDBI Capital Markets & Securities Limited, Yes Securities (India) Ltd.
Registrar	Alankit Assignments Ltd

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Garden Reach Shipbuilders & Engineers Ltd.

Company Background

Headquartered at Kolkata, Garden Reach Shipbuilders & Engineers Ltd (GRSEL) is a shipbuilding company in India under the administrative control of the Ministry of Defence (MoD) and primarily adheres to the shipbuilding requirements of the Indian Navy and the Indian Coast Guard. In addition to ship and warship building capabilities, they are also engaged in engineering and engine production activities.

GRSEL was incorporated in 1934 under the Indian Companies Act, 1913, and was later acquired by the Government of India from Macneill & Barry Limited on May 19, 1960. Shortly after becoming a CPSE in 1960, they built India's first indigenous warship-the INS Ajay, in the year 1961. On September 5, 2006, the company was conferred with the status of Schedule B & Mini Ratna-Category I Company by the Department of Public Enterprises under the Ministry of Heavy Industries and Public Enterprises.

Issue Details

The President of India acting through and represented by the Ministry of Defense (MoD), Government of India, the promoter of GRSEL, is coming out with the Offer for Sale of up to 2,92,10,760 equity shares of face value of Rs. 10/- each, representing a stake dilution of about 25% and raising Rs. 344.7cr at the upper price band. Around 5.7lacs share are to be allotted for eligible employees and there will be no anchor investment. A discount of Rs 5/- per equity share will be offered to eligible employees and retail individual bidders. Achieving the benefits of listing the equity shares on the stock exchanges is the only prime objective of the offer. The company will not receive any proceeds from the offer.

IPO share allotment pattern

Category	Allocation	Number of Shares	Issue Size (Rs.Cr) at	
			Lower Band (Rs.115)	Upper Band (Rs.118)
QIB	50%	1,43,19,000	164.7	168.9
Non-Institutional	15%	42,95,700	49.4	50.7
Retail	35%	1,00,23,300	115.3	118.3
Employees		5,72,760	6.5	6.8
Total	100%	2,92,10,760	335.9	344.7

Source: Company RHP, ACMIIL

Outlook and Valuations

GRSEL is a shipbuilding company primarily adhering to the shipbuilding requirement of Indian Navy & Indian Coast Guard. The company had strong order book position of Rs. 20314cr. This provides revenue visibility for the next multi years. Moreover, the management expects massive orders worth Rs. 4.5lac crore from the Indian Navy through a nomination basis and competitive bidding over next one decade. Also, the Indian Coast Guard plans to take its fleet count to 200 ships by 2022 from 130 ships currently & this may boost additional spending. We believe robust order book, increasing budgetary allocation, and strong balance sheet with robust cash & bank balance will place GRSEL in a sweet spot to capture future market opportunity. At the upper price band, the company's stock trades at 16.6x its FY18 EPS of Rs 7.1/- . **We recommend to SUBSCRIBE the issue from a long-term perspective.**

Business Overview

GRSEL is a shipbuilding company primarily adhering to the shipbuilding requirement of Indian Navy & Indian Coast Guard. Company has established capabilities for in-house design and shipbuilding and has made considerable contributions to the indigenous warship construction program of our country. Over the years, company has built by vessels like frigates, anti-submarine warfare corvette, missile corvette, landing ship tank, landing craft utility, survey vessel, fleet replenishment tanker, fast patrol vessel, offshore patrol vessel, inshore patrol vessel, WJ-FAC, hover craft and fast interceptor boat. Their shipbuilding product line spans from technologically sophisticated Frigates and Corvettes to Fast Patrol Vessels. Presently, they have three separate facilities for shipbuilding, all of which are located in close vicinity of each other at Kolkata, India. They build their ships at the Main Works Unit and the Rajabagan Dockyard. Further, company's third facility, the FOJ Unit is primarily used for fitting out and repair of ships. Company also acquired the Rajabagan Dockyard from Central Inland Water Transport Corporation Limited in the year 2006. Their Diesel Engine Production (DEP) unit is engaged in the testing and overhauling of marine propulsion engines and assembly of semi-knocked down units of diesel engines. Company's engineering segment is engaged in the manufacturing and fabrication of portable steel bridges, deck machineries of ships and marine pumps.

Company has built and supplied more than 750 vessels to carry men and materials as well as for the surveillance of the coast line. Over the years, they have also responded to the varied shipbuilding requirements of the Indian Defence Services and have evolved from building simpler vessels to building bigger and technically advanced warships. Over the years, company has been credited with many firsts in the Indian shipbuilding industry. For instance, they are the first Indian shipyard to integrate carbon composite superstructure with steel hull for the construction of 137 their third ASW Corvette for the Indian Navy, which resulted in a reduction in weight and increase in stability of the ships. In 2000, they became the first and the only Indian shipyard to build and subsequently deliver a fleet tanker to the Indian Navy and to build and subsequently deliver a hovercraft to the Indian Coast Guard among others. These are in addition to pioneering works in supplying the first ever indigenous warship for Indian Navy.

In addition, company continue to associate with several technology firms in industries such as MTU Friedrichshafen GmbH, Germany and other international/ domestic entities for their different business segments, which they believe has added to the credibility in the international market.

Investment Rationale

Company provide End-to-End Solutions

Company manages the entirety of the project, as they have dedicated production lines for independently managing construction of small/ medium and large ships. They believe that this gain efficiencies relative to some of their competitors who participate in the construction of ships, but do not participate in other stages of the project. Company's ability to provide end-to-end solutions to their customers, ranging from product conceptualization, design, system integration and project management increases their capability to meet customer demands. When a customer has a project proposal, company utilizes their resources to fulfill the entire project from the design stage to delivery of the finished product. This provides them an increased level of understanding with respect to meeting their customers' needs. Also, company believes that designing the ship they deliver will allow them to gain a greater understanding of the ship they are expected to build and control over the manufacturing process. Further, company avoids a significant amount of reliance on third-parties to fulfill an order relative to their competitors.

Strong and Established Relationships with Indian Navy and Indian Coast Guard

GRSEL has long-standing relationships with the Indian Navy and Indian Coast Guard. Their relationship and experience with the Indian Navy is over five decades, beginning when they delivered the INS Ajay, the first indigenous warship, to the Indian Navy in 1961. These relationships allow them to secure shipbuilding projects. Over the years, they have delivered 96 ships to the Indian Navy and Indian Coast Guard on an aggregate basis. Company's historical operations and ongoing operations exhibit the level of satisfaction and depth of relationships they possess with respect to the Indian Navy and Indian Coast Guard. Company historically delivered ships to the Indian Navy and Indian Coast Guard that no other indigenous shipbuilding companies have delivered to them. Further, company also has several ongoing projects with the Indian Navy and Indian Coast Guard. In the Fiscals 2018, 2017 and 2016, they have built and delivered a total of nine ships to the Indian Navy.

Business Diversification

Shipbuilding is company's core product offering. In addition to their key manufacturing activities for shipbuilding, company also offer diversified products and services to their customers including portable bridges, deck machinery items, pumps and engines. Company produce bridges at their 61 Park Unit and Taratala Unit which enable them to counterbalance the cyclical nature of the shipbuilding income stream. Company believes that their product diversification allows them to rely on different product areas to generate revenue when the market conditions dictate a decrease in demand for shipbuilding. Further, they are not aware of any other shipyard in India that has a dedicated deck machinery equipment facility or an engine assembling and testing facility, both of which, are essential for the shipbuilding and testing process. In the absence of such facilities, their competitors approach third-parties to complete such tasks related to deck machinery and engine assembly and testing. We believe this vertical integration enables them to produce ships in a more time efficient manner because of their non-reliance on third-parties.

Experienced Workforce

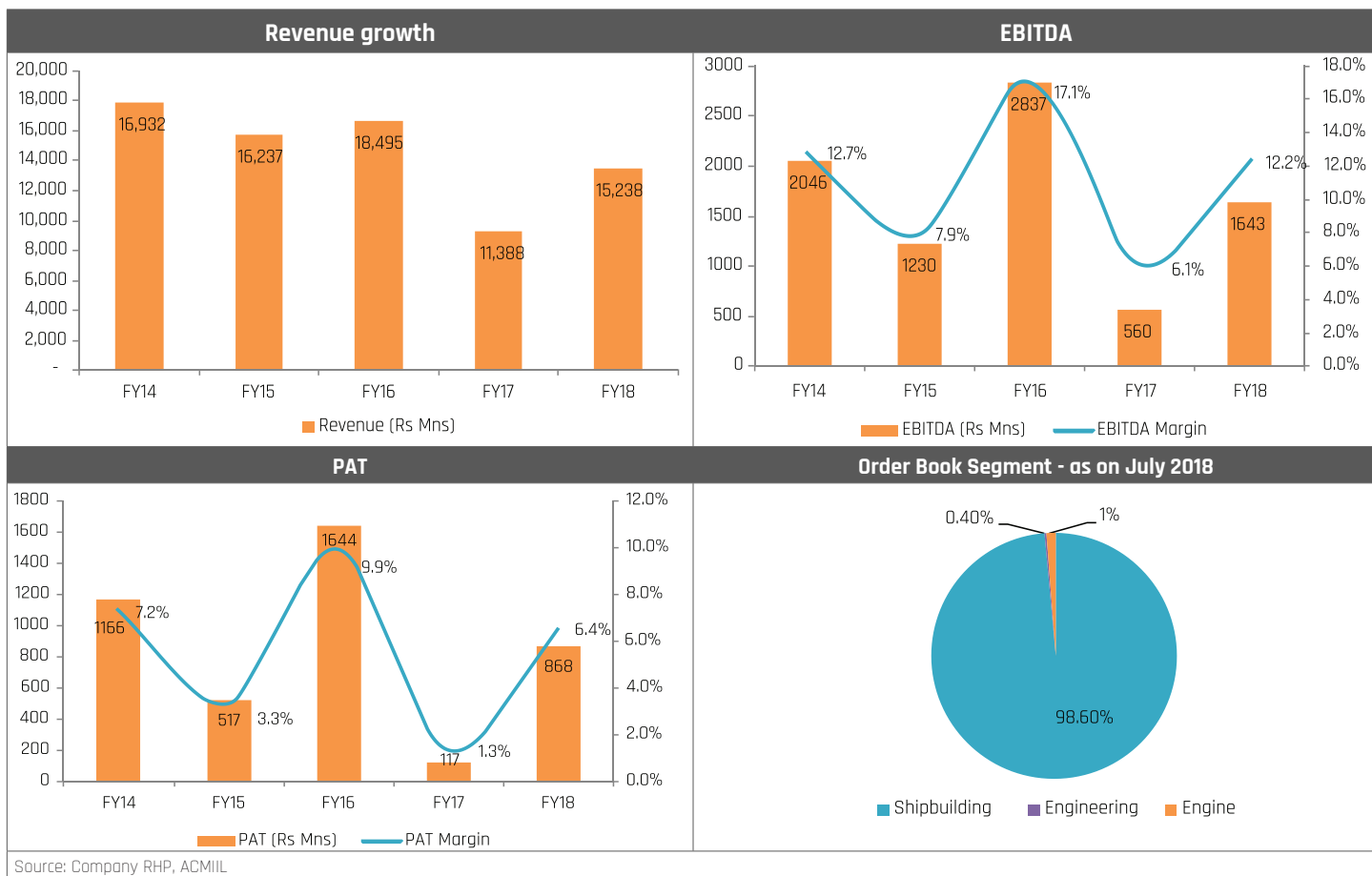
Company believes that their qualified and experienced senior management team and technically skilled employee base have contributed to the growth of their operations and the development of in-house processes and competencies. Company's human resource policies are aimed towards enhancement of institutional knowledge and skills. Their senior management team consists of technically qualified and experienced professionals who bring with them extensive experience in shipbuilding, design and engineering, order management, operations, human resources, finance and after-sales services. They have a large pool of experienced engineers. As of July 31, 2018, engineers constitute 21.30% of their total employees. They believe in high standards of ethical integrity and thus ensure that all their business functions are carried out in a transparent manner.

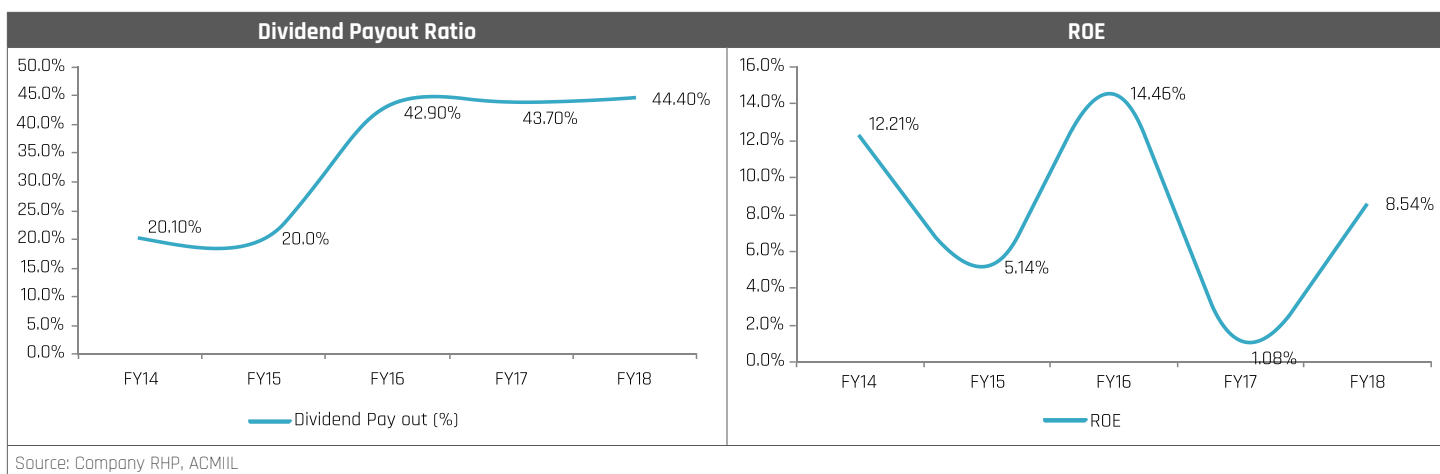
Healthy Order book & strong balance sheet

Company's aggregate order book as on July 31, 2018 was Rs 20,314cr of which 98.6% is from the Indian Navy and the balance 1.4% from the Indian Coast, of which shipbuilding order book consisted orders of thirteen (13) vessels. Company's order book comprises of gross order value in the shipbuilding segment, engineering segment and the engine segment of Rs 20,029cr, Rs85cr and Rs 199cr respectively. The aggregate value of their order book represents the total nominal value of the contracts that have not been completed, excluding the portion of revenue in respect of those orders that they have recognized as of such date. In addition to above firm order book, company has also been adjudged the lowest bidder for four Survey Vessels (Large) and eight Anti Submarine Warfare Shallow Water Craft (ASW SWC) from MoD and one Ocean Going Passenger and Cargo Ferry Vessel, which presently does not form a part of their order book as letters of award have not been issued to them. During FY14-18, company's revenue & profitability including other income has de-grown at 2.6% & 7.1% CAGR respectively. Further, contribution from ship repair business is very miniscule & thus company aggressively looking to increase the same. Also, company's order book provides revenue visibility for multi years, going forward. Moreover, company has strong balance sheet with robust cash & bank balance of Rs 1022cr as on FY18. Company's leverage ratio is also nil. Further, company's dividend payout ratio has improved from 20% in FY14 to 44% in FY18.

Risks and Concern

- Company's primarily order book caters to Indian Navy & Indian Coast Guard & thus higher dependence on few major customers poses risk of overdependence.
- Delay in executing or failure to meet contract specifications may have adverse effect on business.
- Company's inability to keep pace with technological changes or devote resources for new product development could affect company's business operations.





Financials

Income statement

Particulars (Rs Mns)	FY14	FY15	FY16	FY17	FY18
Revenue from Operations	16159	15,685	16,646	9,293	13,465
Less Excise Duty	47	57	65	75	19
Revenue from operations	16,112	15,628	16,581	9,218	13,446
Add: Other Income	820	609	1,914	2,170	1,792
Total Revenue	16,932	16,237	18,495	11,388	15,238
Less: Operating exp					
Cost of raw material consumed	8920	7,650	8,270	3,399	5,815
Changes in inventory	-92	17	-5	80	-13
Purchase of product	1074	1,519	1,864	1,146	1,416
Sub Contracting charges	779	1,216	1,242	1,072	1,370
Employee Benefit Expenses	3198	2,913	2,917	2,858	2,986
Project related exp	425	441	508	505	727
Other Expenses	582	1,251	862	1,768	1,294
Total Expenses	14,886	15,007	15,658	10,828	13,595
EBITDA	2,046	1,230	2,837	560	1,643
EBITDA %	12.7%	7.9%	17.1%	6.1%	12.2%
Less : Dep & Amortization	227	271	278	266	289
EBIT	1,819	959	2,559	294	1,354
Less : Finance cost	6	58	44	91	77
PBT	1,813	901	2,515	203	1,277
Less : Tax	647	384	871	86	409
Net Profit	1166	517	1644	117	868
PAT %	7.2%	3.3%	9.9%	1.3%	6.4%
EPS (Rs)	9.6	4.3	13.3	0.9	7.1

Source: Company RHP, ACMIIL

Balance sheet

Particulars (Rs Mns)	FY14	FY15	FY16	FY17	FY18
Share Capital	1,238	1,238	1,238	1,238	1,145
Reserves	8,311	8,830	10,128	9,593	9,014
Total Shareholders Fund	9,549	10,068	11,366	10,831	10,159
Non Current Liabilities					
Trade payables	240	80	84	79	78
Provisions	33	81	81	117	94
Deferred tax liabilities	164	231	165	175	171
Total Non Current Liabilities	437	392	330	371	343
Current Liabilities					
Short term borrowings	-	-	-	250	-
Trade Payables	3,703	5,079	5,285	3,680	6,888
Other financial liabilities	-	1,491	449	356	215
Other Current Liabilities	49,393	22,317	26,367	28,688	23,636
Short Term Provision	1,241	662	742	1,490	1,361
Total Current Liabilities	54,337	29,549	32,843	34,464	32,100
Total Liabilities	64,323	40,009	44,539	45,666	42,602
Assets					
Property, plant & Equipment	3550	3601	3407	3530	3830
Intangible assets	79	57	30	54	62
CWIP	177	112	223	232	160
Trade , other recieveables & loan	328	67	20	12	4
Other Financial Assets	0	2579	6734	7812	12585
Non current tax assets	0	512	239	949	855
Other Non current assets	346	238	150	194	84
Total Non Current Assets	4480	7166	10803	12783	17580
Current Asset					
Inventories	52410	8412	6545	4859	5087
Trade Receivables	465	1585	1538	1989	2034
Cash & Cash Eq	4479	140	262	118	119
Bank Balance	0	17200	18262	16084	10102
Other financial assets	0	3667	5723	7025	4722
Other Current Assets & loans	2489	1836	1402	2804	2954
Asset classified as held for sale	0	3	4	4	4
Total Current Asset	59843	32843	33736	32883	25022
Total Asset	64,323	40,009	44,539	45,666	42,602

Source: Company RHP, ACMIL

Asit C. Mehta

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