

Garden Reach Shipbuilders & Engineers Ltd.

Garden Reach Shipbuilders and Engineers Limited (GRSE), a shipbuilding company, primarily caters to the shipbuilding requirements of the Indian Navy and the Indian Coast Guard. GRSE was incorporated in Calcutta on February 26, 1934. GRSE is a Schedule B company conferred with Mini Ratna-Category I status since September 2006. The company has three divisions i.e. (1) Shipbuilding, (2) Engineering, and (3) Engine Production.

Positives: (a) Robust order book with potential for growth under the 'Make in India' initiative of the Government of India (GOI); (b) Established relationships with Indian Navy and Coast Guard; (c) Experienced workforce backed by strong management.

Investment concerns: (a) Over the last two years, GRSE had reported poor performance on both top-line and bottom-line fronts; (b) Company has reported core operating losses in last two years; (c) Delay in execution of order book.

Outlook & Valuation:

On the valuations front, GRSE's pre-issue P/E works out to 15.6x FY2018 annualized earnings (at the upper end of the issue price band), which is higher compared to its peer Cochin Shipyard (trading at 14x its FY2018 annualized earnings). Further, the company's return ratios are also lower vs. other peers. Thus, we recommend **NEUTRAL** rating on the issue.

Key Financials

Y/E March (₹ cr)	FY2015	FY2016	FY2017	FY2018
Net Sales	1,563	1,658	922	1,345
% chg	-	6.1	(44.4)	45.9
Net Profit	52	164	11	87
% chg		217.9	(93.0)	657.1
OPM (%)	4.0	5.6	(17.5)	(1.1)
EPS (₹)	4.5	14.4	1.0	7.6
P/E (x)	26.1	8.2	117.9	15.6
P/BV (x)	1.3	1.2	1.2	1.3
RoE (%)	5.1	14.5	1.1	8.5
RoCE (%)	12.8	38.2	-	-
EV/Sales (x)	-0.1	-0.3	-0.2	0.3
EV/EBITDA (x)	-	-	1.3	-

Angel Research; Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

NEUTRAL

Issue Open: Sep 24, 2018

Issue Close: Sep 26, 2018

Issue Details

Face Value: ₹10

Present Eq. Paid up Capital: ₹114.6cr

Fresh Issue: Nil

Post Eq. Paid up Capital: ₹114.6cr

Issue size (amount): ₹345cr

Price Band: ₹115-118

Lot Size: 120 shares and in multiple thereafter

Post-issue implied mkt. cap: ₹1,317cr - ₹1,352cr

Promoters holding Pre-Issue: 100.0%

Promoters holding Post-Issue: 74.0%

*Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

Post Issue Shareholding Pattern

Promoters	74.5%
Others	25.5%

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Company background

Garden Reach Shipbuilders and Engineers Limited (GRSE), a shipbuilding company, primarily caters to the shipbuilding requirements of the Indian Navy and the Indian Coast Guard. GRSE was incorporated in Calcutta on February 26, 1934. GRSE is a Schedule B company conferred with Mini Ratna-Category I status since September 2006. The company has the following three divisions:

Shipbuilding: Construction of vessels for the Indian Navy and the Indian Coast Guard. GRSE has built and supplied more than 750 vessels for maritime security.

Engineering: Develops and manufactures (a) Portable Steel Bridges, (b) Deck Machinery Items, and (c) Marine Pumps.

Engine Production: Undertakes assembly, testing, servicing and repair of various models of diesel engines used for marine propulsion and power generation through collaboration with the MTU of Germany.

Exhibit 1: Wide variety of offerings with established track record

Major Shipbuilding Products (# Delivered)			
			
P-16A Frigate (3)	ASW Corvette (3)	Fleet Replenishment Tanker (1)	Offshore Patrol Vessel (1)
			
Missile Corvette (5)	Landing Ship Tank (5)	Inshore Patrol Vessels (8)	Water Jet Fast Attack Craft (14)
			
Landing Craft Utility (4)	Survey Vessel (6)	Hover Craft (6)	Fast Interceptor Boats (88)

Source: Company, Angel Research

Issue details

GRSE is raising ~` 345cr through Offer for Sale of equity shares in the price band of ` 115-118. The company will dilute 26% (at upper price band) of its post offer paid-up equity share capital.

Exhibit 2: Pre and Post IPO shareholding pattern

	No of shares (Pre-issue)	%	No of shares (Post-issue)	%
Promoters	114,552,000	100	85,341,240	75
Others	-	-	29210760	26
Total	114,552,000	100	114,552,000	100

Source: Source: RHP, Note: Calculated on upper price band

Objectives of the Offer

The objects of the Offer are to achieve the benefits of listing the Equity Shares on the Stock Exchanges and to carry out the Offer for Sale by Selling Shareholders.

Consolidated Profit & Loss Statement

Y/E March (₹ cr)	FY2015	FY2016	FY2017	FY2018
Net Sales	1,563	1,658	922	1,345
% chg		6.1	(44.4)	45.9
Total Expenditure	1,501	1,566	1,083	1,359
Raw Material	1,040	1,137	570	859
Personnel	291	292	286	299
Others Expenses	169	137	227	202
EBITDA	62	92	(161)	(15)
% chg		48.6	(274.6)	(90.8)
(% of Net Sales)	4.0	5.6	(17.5)	(1.1)
Depreciation & Amortisation	27	28	27	29
EBIT	35	64	(188)	(44)
% chg		84.3	(391.2)	(76.7)
(% of Net Sales)	2.2	3.9	(20.4)	(3.3)
Interest & other Charges	6	4	9	8
Other Income	61	191	217	179
(% of PBT)	67.6	76.1	1,078.6	140.3
Recurring PBT	90	252	20	128
% chg		179.0	(92.0)	535.0
Tax	38	87	9	41
(% of PBT)	42.6	34.6	43.0	32.1
PAT (reported)	52	164	11	87
Extraordinary Items				-
ADJ. PAT	52	164	11	87
% chg		217.9	(93.0)	657.1
(% of Net Sales)	3.3	9.9	1.2	6.5
Basic EPS (₹)	3.8	12.1	0.8	6.4
Fully Diluted EPS (₹)	3.8	12.1	0.8	6.4
% chg		217.9	(93.0)	657.1

Source: Company, Angel Research

Consolidated Balance Sheet

Y/E March (₹ cr)	FY2015	FY2016	FY2017	FY2018
SOURCES OF FUNDS				
Equity Share Capital	124	124	124	115
Reserves & Surplus	883	1,013	959	901
Shareholders Funds	1,007	1,137	1,083	1,016
Total Loans	149	45	61	22
Deferred Tax Liability	23	16	17	17
Total Liabilities	1,179	1,198	1,161	1,055
APPLICATION OF FUNDS				
Gross Block	629	662	694	764
Less: Acc. Depreciation	263	318	336	375
Net Block	366	344	358	389
Capital Work-in-Progress	11	22	23	16
Investments	0	0	0	0
Current Assets	3,549	4,049	4,070	3,761
Inventories	841	655	486	509
Sundry Debtors	165	156	200	204
Cash	1,734	1,852	1,620	1,022
Loans & Advances	258	673	781	1,258
Other Assets	550	712	983	768
Current Liabilities	2,814	3,248	3,394	3,196
Net Current Assets	735	801	677	564
Deferred Tax Asset	51	24	95	86
Mis. Exp. not written off	-	-	-	-
Total Assets	1,179	1,198	1,161	1,055

Source: Company, Angel Research

Consolidated Cash Flow Statement

Y/E March (Rs cr)	FY2015	FY2016	FY2017	FY2018
Profit before tax	90	249	20	128
Depreciation	27	28	27	29
Change in Working Capital	98	395	42	(100)
Interest / Dividend (Net)	2	1	9	8
Direct taxes paid	(64)	(64)	(79)	37
Others	(46)	(186)	(210)	(176)
Cash Flow from Operations	107	423	(191)	(74)
(Inc.)/ Dec. in Fixed Assets	(23)	(17)	(42)	(50)
(Inc.)/ Dec. in Investments	34	(466)	269	318
Cash Flow from Investing	10	(483)	227	267
Issue of Equity	0	0	0	(96)
Inc./(Dec.) in loans	(3)	0	23	(25)
Dividend Paid (Incl. Tax)	(14)	(30)	(64)	(65)
Interest / Dividend (Net)	(1)	(0)	(9)	(8)
Cash Flow from Financing	(18)	(30)	(50)	(193)
Inc./(Dec.) in Cash	99	(90)	(14)	0
Opening Cash balances	17	116	26	12
Closing Cash balances	116	26	12	12

Source: Company, Angel Research

Key Ratios

Y/E March	FY2015	FY2016	FY2017	FY2018
Valuation Ratio (x)				
P/E (on FDEPS)	26.1	8.2	117.9	15.6
P/CEPS	17.1	7.0	35.5	11.7
P/BV	1.3	1.2	1.2	1.3
EV/Sales	(0.1)	(0.3)	(0.2)	0.3
EV/EBITDA	(3.8)	(4.9)	1.3	(23.7)
EV / Total Assets	(0.2)	(0.4)	(0.2)	0.3
Per Share Data (Rs)				
EPS (Basic)	4.5	14.4	1.0	7.6
EPS (fully diluted)	4.5	14.4	1.0	7.6
Cash EPS	6.9	16.8	3.3	10.1
Book Value	87.9	99.2	94.6	88.7
Returns (%)				
ROCE	12.8%	38.2%	-	-
Angel ROIC (Pre-tax)	-	-	37.6%	6273.5%
ROE	5.1%	14.5%	1.1%	8.5%
Turnover ratios (x)				
Asset Turnover (Gross Block)	2.5	2.5	1.3	1.8
Inventory / Sales (days)	295	210	311	216
Receivables (days)	38	34	79	55
Payables (days)	120	118	148	189
Working capital cycle (ex-cash) (days)	214	127	242	83

Source: Company, Angel Research

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