



GARDEN REACH SHIPBUILDERS & ENGINEERS LTD.

A GOVERNMENT OF INDIA UNDERTAKING - MINISTRY OF DEFENCE

"An ISO 9001:2015 Certified Company"

SMC Ranking

★ ★ ☆ ☆ ☆ (2/5)

Issue Highlights

Industry	Defence
Offer for sale (Shares)	29,210,760
Employee reservation	572,760
Net Offer to the Public	28,638,000
Issue Size (Rs. Cr.)	335-345
Price Band (Rs.)	115-118
Discount offered to Retail & Employee investors	Rs. 5
Offer Date	24-Sep-18
Close Date	26-Sep-18
Face Value	10
Lot Size	120

Issue Composition

	In shares
Total Issue for Sale	28,638,000
QIB	14,319,000
NIB	4,295,700
Retail	10,023,300

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	100.00%	74.50%
QIB	0.00%	12.50%
NIB	0.00%	3.75%
Employee reservation	0.00%	0.50%
Retail	0.00%	8.75%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

- (i) to carry out the disinvestment of 29,210,760 Equity Shares by the Selling Shareholder;
- (ii) to achieve the benefits of listing the Equity Shares on the Stock Exchanges

Book Running Lead Manager

- IDBI Capital Markets & Securities Limited
- YES Securities (India) Limited

Name of the registrar

Alankit Assignment Ltd

About the Company

The company is a shipbuilding company in India under the administrative control of the MoD and primarily adhere to the shipbuilding requirements of the Indian Navy and the Indian Coast Guard. As a part of its engineering division, it manufactures deck machinery items, pre-fabricated portable steel bridges and marine pumps. The shipbuilding division contributes a significant majority of its revenue from operations. The company has derived 94.14%, 90.13%, 92.19% and 94.76% of its gross revenue from operations in Fiscals 2018, 2017, 2016 and 2015 respectively from its shipbuilding division. Presently, it has three (3) separate facilities for shipbuilding, all of which are located in close vicinity of each other at Kolkata, India. As of July 31, 2018, its order book for all its product categories was Rs. 20313.61 cr, of which its shipbuilding order book consisted orders of thirteen (13) vessels with an aggregate outstanding revenue value of Rs.20029.42 cr. its order book only represents business that is considered firm.

Strength

Modern Manufacturing Platform and Integrated Shipbuilding Facilities to deliver quality products:

The company has undertaken major modernization of its infrastructure. Its facilities allow the company to produce eight (8) large ships and twelve (12) medium/small ships concurrently. In addition, it has constructed new hull Shop, module shop for mega block integration, dry dock and building berth. It believes its advanced modular construction technique enables the company to simultaneously build a greater number of large warships in a more truncated time period at Main Works Unit.

Provide End-to-End Solutions:

The company has a dedicated Central Design Office ("CDO") undertaking design and research and development, which comprises of highly skilled workforce of one hundred (100) members. The company believes that its ability to provide end-to-end solutions to its customers, ranging from product conceptualization, design, system integration and project management increases its capability to meet customer demands.

Strong and Established Relationships with Indian Navy and Indian Coast Guard:

It has long-standing relationships with the Indian Navy and Indian Coast Guard. Its relationship and experience with the Indian Navy is over five (5) decades. It has delivered ninety six (96) ships to the Indian Navy and Indian Coast Guard on an aggregate basis. The company also has several ongoing projects with the Indian Navy and Indian Coast Guard. In the Fiscals 2018, 2017 and 2016, it has built and delivered a total of nine (9) ships to the Indian Navy.

Strong Order Book:

The company's aggregate order book as on July 31, 2018 was Rs. 20313.61 cr, comprising gross order value in the shipbuilding segment, engineering segment and the engine segment of Rs.20029.42 cr, Rs.85.17 cr and Rs.199.02 cr respectively. The company contracts to deliver twenty (20) ships to the Indian Navy and Indian Coast Guard, out of which seven (7) ships have been delivered.

Business Diversification:

Shipbuilding is its key product offering. In addition to its core manufacturing activities for shipbuilding, it offers diversified products and services to its customers including portable bridges, deck machinery items, pumps and engines. The company believes its vertical integration enables it to produce ships in a more time efficient manner because of its non-reliance on third-parties.

Strategy

Further Strengthen Its Relationship with Indian Navy and Indian Coast Guard:

The company intends to continue to further strengthen its strong relationships with the Indian Navy and Indian Coast Guard in order to generate revenue from their acquisition plan,

which the company believe aims to significantly expand the fleet ship size of the Indian Navy and Indian Coast Guard. The company intends to focus on securing orders for the construction of major weapon vessel platforms (frigates and corvettes) to optimize the capacity utilization of its facilities.

Repair and Refitting of Indian Navy and Indian Coast Guard Vessels: The company intends to ramp up its focus on repair and refitting of Indian Navy and Indian Coast Guard vessels. Further, the MoD in May 2017, released the “Strategic Partnership” framework for the Indian defence sector as a part of the DPP enabling multiple collaborations and partnerships between the Indian shipyards and foreign original equipment manufacturers and naval technology firms. This establishes a platform for a healthy exchange of technology and manufacturing know-how for the participants and the company believes that this initiative would enable the domestic shipyards to eye global opportunities and lead to higher exports in the long run offering significant opportunities in the area of maintenance, repairs, refits and upgrades.

Upgrading Its Technological Capabilities and Facilities: The company intends to advance and improve its technological capabilities and its facilities. Over the next two (2) years, the company intends to augment the capabilities of the Rajabagan Dockyard and enhance Its shipbuilding capabilities. The company also plans to invest in its research and development capabilities to more completely meet the requirements of the Indian Navy and Indian Coast Guard. As a part of Its strategy, its company continues to evolve and has developed (i) atmospheric-controlled dedicated facility at the Main Works Unit and at 61 Park Unit for construction of FRP boats; (ii) developed new designs for high-speed boats (25-30 meteres length and speed of 25-30 knots) to meet the future requirements of MHA; (iii) built and delivered eighty-eight (88) (58 numbers of 12 tonnes; and 30 numbers of 5 tonnes) fast interceptor boats to the MHA for coastal security.

Enhancing Its Research and Development Capabilities: The company plans to invest a greater amount of capital as a percentage of its revenue with respect to research and development in order to augment its efforts in the development and design of warships along with the development of engineering products. The company is currently developing new hull forms of warships with sizes from 65-115 M that are capable of speeds up to 25-35 knotss. Additionally, the Company has also recently inaugurated Data Centre of CDO at 61 Park Unit on June 1, 2018 which has a capability multiplier essential for critical information technology operations, server availability, safety and security of design data and is mainly emphasized on promoting “GreenConcept” thereby contributing to energy saving and inaugurated a virtual reality lab of CDO at 61 Park Unit on July 7, 2018 for undertaking line out inspection on the CAD model, user reviews of critical departments at a much earlier stage and marketing of future ship designs.

Aligning Its Processes to Changing Market Environments: The company plans on adjusting its processes in order to meet the requirements of shifting market environments. The competitive marketplace for shipbuilding is steadily moving from a nomination process to a competitive bidding process. The company intends to develop strategies that allow it to compete in the bidding process for projects and the procurement of components. The company also intends to implement other strategies to meet the current market environment including enhancing its inventory control and build strategy process, outsourcing its non-core works and services, and enhancing its quality control processes.

Pursuing New Market Opportunities: The company intends to explore the global market for its products. In order to achieve its future strategy, the Company is in the process of upgrading its processes and products in line with latest technology to keep up with the demands of modern shipbuilding. Its export strategy includes participating in the following opportunities in the coming years: • LST (L) for the United Arab Emirates; • OPV and Survey Vessels for Nigeria; and • Corevettes for Philippines.

Risk factors

May incur loss under its fixed price contracts: The company may incur losses under its fixed price contracts because of cost overruns, delays in delivery and or any failures to meet contract specifications. And this may have an adverse effect on its business, financial condition and results of operations.

The Govt has significant influence over the company: The Govt has significant influence over its actions, which may restrict its ability to manage its business. Any change in Govt policy could have a material adverse effect on its financial condition and results of operations.

If fails to keep pace with the technological changes: Continuing technological changes in the market for its products could make its products less competitive or obsolete, either generally or for particular applications. Its inability to keep pace with the technological changes or devote resources for new product development, could affect its market share, revenues and profits.

Its business is cyclical in nature: The company's business, in terms of both revenue and expenses, is cyclical in nature. Its shipbuilding projects have a typical order-to-delivery period of anywhere from twenty-three (23) to sixty-six (66) months.

Industry Overview

Defence shipbuilding in India is emerging as an area of focus for public and private sector shipyards alike. While the public sector shipyards such as Garden Reach Shipbuilders & Engineers Limited (GRSE), Mazagon Dock Shipbuilders Limited (MDL), Goa Shipyard Limited (GSL) and Cochin Shipyard Limited (CSL) are the frontrunners in the defence shipbuilding space, an increasing number of private shipyards are undertaking specific measures to enhance competence and modify their existing shipbuilding repair facilities to suit the needs of the Indian Navy and the Indian Coast Guard. Among the private shipyards, Reliance Naval and Engineering Limited (RNEL), L&T Shipbuilding, and ABG Shipyard Limited, which entered the shipbuilding market as commercial shipbuilders, have been repositioning themselves as companies with defence shipbuilding capabilities. Recently, there has been a noticeable increase in defence orders for shipbuilding and ship repairs. The MoD is looking at modernisation of existing fleet and addition of new-age warships and submarines in the fleet. The Indian Coast Guard is working out a plan to expand their existing fleet of 127 ships to around 200 ships by 2027. The Indian Coast Guard has an approved plan of Rs. 32000 Cr for fleet expansion up to 2022. Moreover, with the government's measures to encourage private sector participation in executing these orders, defence orders are touted to be the key growth driver of the domestic shipbuilding and ship repair industry.

Peer comparison

There are no comparable listed companies in India engaged in the same line of business as the Company, hence comparison with industry peers are not applicable.

Valuation

Considering the P/E valuation of Rs.7.58 multiple on the upper price band of Rs.118 EPS and P/E of FY2018 is 15.57 multiple and at a lower price band of Rs. 115, P/E multiple is 15.18. Looking at the P/B ratio on the upper price band of Rs.118. , book value and P/B of FY18 are Rs.94.55 and 1.25 multiple respectively and at a lower price band of Rs. 115 P/B multiple is 1.22. No change in pre and post issue EPS and Book Value as the company is not making fresh issue of capital.

Outlook

The company earns more than 90 per cent of its revenue from ship-building, but is also looking at increasing its other engineering activities, and to tap the potential of the proposed inland waterways transportation in the country. The company is focusing on garnering more repairs and retrofit works and lowering material costs to boost margin. A long term investor may opt the issue.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	September 24, 2018
Bid/Offer Closing Date	September 26, 2018
Finalisation of Basis of Allotment with the Designated Stock Exchange	October 03, 2018
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	October 03, 2018
Credit of Equity Shares to depository accounts of Allottees	October 03, 2018
Commencement of trading of the Equity Shares on the Stock Exchanges	October 05, 2018

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 31-Mar-18	Period ended 31-Mar-17	Period ended 31-Mar-16
Total Operating Income	1,346.52	929.32	1,664.59
management fees			
Total expenditure	1361.35	1090.42	1572.32
Operating Profit	-14.83	-161.10	92.27
OPM%	-1.10	-17.34	5.54
Other Income	179.23	216.99	191.47
PBDIT	164.40	55.89	283.74
Depreciation	28.96	26.65	27.80
PBIT	135.45	29.24	255.94
Interest	7.69	9.12	4.40
Profit before tax	127.75	20.12	251.54
tax	40.95	8.65	87.10
Profit After Tax	86.81	11.46	164.45

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 31-Mar-18	As on 31-Mar-17	As on 31-Mar-16
Non-current Assets			
Property, plant and equipment	382.96	352.95	340.69
Capital work-in-progress	16.03	23.18	22.28
Intangible assets	6.21	5.39	3.01
Investments	0.00	0.00	0.00
Trade and other receivables	0.38	1.20	2.03
Other financial assets	1,258.49	781.23	673.41
Non-current tax assets	85.573	94.974	23.856
Other non-current assets	8.395	19.368	14.984
Total non-current assets	1758.04	1278.30	1080.26
Current assets			
Inventories	508.66	485.89	654.56
Trade and other receivables	203.37	198.86	153.83
Cash and cash equivalents	11.89	11.85	26.25
Bank balances other than (ii) above	1010.26	1608.41	1826.25
Other financial assets	472.24	702.49	572.25
Other current assets	295.41	280.46	140.12
Assets classified as held for sale	0.37	0.38	0.38
Total current assets	2502.20	3288.33	3373.63
Total Assets	4260.23	4566.64	4453.89
Non-current liabilities			
Trade payables	7.80	7.96	8.40
Provisions	9.40	11.71	8.12
Deferred tax liabilities (net)	17.13	17.47	16.47
Total non-current liabilities	34.33	37.13	32.99
Current liabilities			
Borrowings	0.00	25.00	0.00
Trade payables	688.83	367.96	528.54
Other financial liabilities	21.55	35.57	44.94
Other current liabilities	2363.65	2868.83	2636.73
Provisions	135.95	149.01	74.04
Total current liabilities	3209.96	3446.36	3284.25
Total	3244.30	3483.49	3317.24
NET Worth	1015.94	1083.14	1136.66
Net worth represented by:			
Share capital	114.55	123.84	123.84
Other Equity	901.39	959.30	1012.82
Net Worth	1015.94	1083.14	1136.66

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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