



माझगांव डॉक शिपबिल्डर्स लिमिटेड

(भारत सरकार का उपक्रम)

Mazagon Dock Shipbuilders Ltd.

(Formerly Mazagon Dock Limited)

(A Govt. of India Undertaking)

डॉकयार्ड रोड, माझगांव, मुंबई-400 010

Dockyard Road, Mazagon, Mumbai - 400 010

Certified - ISO 9001 Company

CIN : L35100MH1934GOI002079

संदर्भ क्रमांक:

Ref. No. :

दिनांक :

Date :

17 Oct 2023

To
BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street,
Mumbai- 400 001
Scrip Code: **543237**

To
National Stock Exchange of
India Limited
Exchange Plaza, C-1, Block G
Bandra Kurla Complex
Bandra (E), Mumbai - 400 051
NSE Symbol: MAZDOCK

Sub: Intimation under Regulation 30 of SEBI (Listing Obligations and Disclosures Requirements) Regulations, 2015 –Publication.

Dear Sir,

1. We are enclosing herewith write-ups on Mazagon Dock Shipbuilders Limited which may be released in Seasonal magazine and Dalal Street Investment Journal (Questionnaire) in October 2023.
2. The above information is submitted in terms of Regulation 30 of SEBI (Listing Obligations and Disclosures Requirements) Regulations, 2015.

This is for your kind information.

Thanking You,
Yours Faithfully,
For MAZAGON DOCK SHIPBUILDERS LIMITED

Vijayalakshmi
i Kamal
Kumar

Digitally signed by
Vijayalakshmi Kamal
Kumar
Date: 2023.10.17
14:31:53 +05'30'

(Vijayalakshmi Kumar)
Company Secretary

Encl: as above

फोन +91(22) 2376 2000
Phone +91(22) 2376 3000
+91(22) 2376 4000

फैक्स (Design) +91(22) 2373 8159
Fax (Material)+91(22) 2373 8151
(Finance)+91(22) 2373 8338

(Proj-C) +91(22) 2373 8147
(East Yd.) +91(22) 2373 8333

वेबसाईट : www.mazdock.com
Website : www.mazdock.com



--Mazagon Cover Story Corrected--

MAZAGON DOCK SHIPBUILDERS The PSU Multibagger

PSU Multibagger might sound like an oxymoron, as despite their best intentions, many listed PSU companies have traditionally struggled to emerge as multibaggers for their investors, as they try to do the delicate act of balancing their nation building mandate with the kind of returns that markets appreciate. However, in recent years, spurred on by the government's focus on defence manufacturing, a few state-owned defence stocks have turned multibaggers in the market, and leading this niche pack is India's largest defence shipbuilder Mazagon Dock Shipbuilders.

On October 12, 2023, Mazagon Dock Shipbuilders Ltd (MDL), completed three years as a listed entity. After a blockbuster IPO that was oversubscribed by over 157 times, Mazagon Dock Shipbuilders started trading on October 12, 2020, opening at around Rs. 215 in NSE as against its final issue price of Rs. 145, and saw hectic trading before closing at around Rs. 172 levels.

The irony of the stock market is that both the buyer and the seller in any stock at any level are hoping that their decision is the right one. Obviously, only one of them can be right, and the other will be sorely wrong. In the case of October 12, 2020 and MDL, it was a date and counter that the sellers would badly regret for the rest of their lives. Because, MDL stock has appreciated by over 17 times from its IPO price within three short years!

While most brokerages and analysts had advised to subscribe to MDL's IPO, and the market had heeded that call too, it is clear that almost none of them could have predicted Mazagon's march from Rs. 145 to as high as Rs. 2484 within less than 36 months. This was especially so, as the MDL public issue happened when the pandemic was raging on, and there were big uncertainties surrounding how this manufacturing business will cope, as shipbuilding can't be done remotely or on a work-from-home basis!

What is actually driving MDL's stupendous march on the bourses? It is not an easy answer in any way. Several factors have come together synergistically to catapult the market value of MDL from just Rs. 2693 crores during the IPO time to over Rs. 45,783 crores now. But to cut a long story short, Mazagon's rise is both a case of incredible revenue and profit growth, as well as an incredible rerating it received due to that growth, like how the best and unbelievable multibaggers are made.

MDL's annual revenue had soared from Rs. 4047 crores in FY'21 to Rs. 7827 crores by FY'23. And its annual profit had surged even higher, from Rs. 453 crore in fiscal 2021 to Rs. 1046 crore in fiscal 2023. In terms of compounded annual growth rate, this translates to a three-year revenue CAGR of 26.33% and a three-year net profit CAGR of 66.54% And that was not all.

If the quantum of growth was this impressive, its quality was even more astounding to the market. MDL's return ratios were very good during its IPO time itself, with its FY'20 consolidated Return on Equity (RoE) being 15.00%, its Return on Capital Employed (RoCE) being 23.86% and Return on Assets (RoA) being 2.25%. But during the next three years, all these three core ratios surged further, with FY'23 consolidated RoE being 25.97%, FY'23 RoCE being 32.70% and FY'23 RoA being 3.78%.

This kind of high quality growth from a complex manufacturing industry was rare in the market, and especially so in the public sector. There were other quality factors too that were unique to MDL. For one, it was a zero debt company during the IPO time, and it has remained a zero debt company despite delivering an unbelievable quantum of growth during these three years.

Secondly, Mazagon Dock Shipbuilders has consistently worked on bettering its margins, and has come across as a strong winner in this regard too. While MDL's Gross Profit Margin (EBIT) has improved from 15.26% in FY'20 to 18.00% in FY'23, its Operating Profit Margin has fared even better, rising from 3.69% in FY'20 to 9.15% in FY'23. But it is in its Net Profit Margin that MDL has really stunned the market, with NPM surging by 49.03%, from 9.59% in FY'20 to 14.30% in FY'23.

This kind of blistering performance is something the whole MDL team and especially its top management can be proud of. MDL has almost always enjoyed a high quality of leadership, and this has turned even better in recent quarters. From February 1 2023, its Director (Finance) and Chief Financial Officer (CFO), Sanjeev Singhal was given the Additional Charge of being Chairman & Managing Director of MDL.

Sanjeev Singhal is a veteran finance professional with over 35 years of experience in PSUs including as Director Finance at Mishra Dhatu Nigam Limited and prior to that at Steel Authority of India Limited. A Cost Accountant by profession from the Institute of Cost Accountants of India, Sanjeev Singhal has been associated with MDL since its IPO days as he was chosen by the firm in January 2020 to helm the IPO among other responsibilities.

This CMD & CFO is ably assisted by a core team of full-time Directors who are all thoroughbred defence & engineering professionals in their respective fields. They include Cdr. Jasbir Singh, IN (Retd.), an alumnus of NDA / JNU, who is the Director in charge of MDL's Submarine & Heavy Engineering Division; Mr. Biju George, an alumnus of IIT Kharagpur, who is the Director in charge of the company's Shipbuilding Division; and Cdr. Vasudev Puranik, Indian Navy (Retd.), an alumnus of INS Shivaji / JNU / Pune University, who heads MDL's Corporate Planning & Personnel Departments.

The beauty of the stock market is that when a company outperforms itself under the leadership of such veteran professionals, the market doesn't stand still, waiting for the earnings to grow, but rewards it by re-rating it to a higher valuation. As mentioned earlier, that is how unbelievable multibaggers are made within the shortest possible time, and the case of MDL too was not different.

Still, in the case of MDL it was a bit surprising, as such rapid re-rating is usually seen in the case of bluechip private sector companies. But then, MDL's performance on most metrics were even better than the best of the private sector manufacturing leaders. When MDL went in for its IPO, its promoter the Government of India, acting through its Ministry of Defence, had asked for only modest valuations. The MDL IPO was offered at a price-to-earnings (P/E) multiple of just 6.39 times on a fully diluted post issue basis on its FY'20 earnings.

While this may sound grossly underpriced by today's standards, this was not so, considering the fact that the market was reeling from the pandemic onslaught back then, and MDL's comparable peer group consisting of Cochin Shipyard, GRSE & Reliance Naval were trading only at an average P/E of 7.5 times.

The issue was also reasonably priced at a price-to-book-value (P/BV) of 0.95 times based on its Net Asset Value (NAV) or Book Value Per Share (BVPS) of Rs. 152.17 per share as on June 30, 2020, and as calculated based on the upper limit of the price band. But as of FY'23, Mazagon Dock Shipbuilders' BVPS stands at Rs. 207.13.

While this is a healthy appreciation within 3 years, it is obvious that it alone was not enough to propel the stock's exponential growth during the last three years. And this is precisely where the magic of re-rating kicked in. From an IPO time P/E of 6.39 times, MDL now trades at 40 P/E and from a P/BV of 0.95 times during its public issue, MDL now commands a P/BV multiple of nearly 11 times.

Most investors, especially retail investors, fail to understand the power of this kind of re-rating when it is coupled with earnings expansion too. As an old tongue-in-cheek remark in the stock market goes, price is nothing but the result of earnings multiplied by price-to-earnings. But there is hidden wisdom in that joke, as price skyrockets only when both these multiplicative factors soar.

Mazagon Dock Shipbuilders' stock is now taking a breather after its blistering rise, especially during the past 12 months when it soared over 6 times from a 52-Week Low of Rs. 411 to a recent 52-Week High of Rs. 2484. This breather is much in line with almost all other defence stocks, both in the private and public sectors, that have run up. But most analysts don't expect MDL to lose its momentum as the fundamental business remains as strong as ever, and with new opportunities emerging too for it.

MDL has recently signed a master ship repair agreement (MSRA) with the US Government, represented by US Navy's NAVSUP Fleet Logistics Center (FLC) Yokosuka. While this is a non-financial agreement, the

agreement is expected to open-up voyage repairs of US Navy Ships at MDL. Currently apart from MDL, only one private sector shipyard in the country has signed an MSRA with the US Government.

Mazagon Dock Shipbuilders continue to perform well on a quarterly basis. For the most recent published quarter ended June 2023, MDL reported a 39.84% YoY jump in consolidated net profit at Rs 314.34 crore, and 30.51% YoY jump in EBITDA at 404.35 crore, while revenue was flat, falling 2.58% percent to Rs 2,172.76 crore.

The sluggishness in revenue and EBITDA signals execution challenges before the company, as shipbuilding is a complex and time consuming affair. Some of Mazagon Dock's core products like the highly specialised ships and submarines with large project size, take years to execute.

But MDL is gearing up for faster execution by planning a capex of Rs. 500 crore for a new floating dock, among other such infrastructural expansion. This would help the company to construct eight next-generation destroyers for the Indian Navy.

MDL has acquired a strong order book, which provides robust revenue visibility till fiscal 2025. The current order book size stands at Rs 39,117 crore, which is almost 5 times its annual revenue. The order pipeline too has been good. MDL has submitted bids for six submarines, tying up with the Germany-based TKMS. It is also expecting three add-on submarines that are part of the Scorpene platforms.

MDL's trackrecord in delivering complex ships and submarines over the past few decades will keep it in good stead. Its current product portfolio encompasses a diverse range of products for both domestic and International clientele. During its chequered existence since 1960 when it was nationalised, MDL has built a total of 801 vessels, including 27 warships, ranging from advanced destroyers to missile boats as well as 7 submarines.

For both national and global clientele, MDL has also provided cargo ships, passenger ships, supply vessels, multipurpose support vessels, water tankers, tugs, dredgers, fishing trawlers, barges, and border outposts. Jackets, wellhead platform main decks, process platforms, jack up rigs, and other products have also been manufactured and delivered by MDL.

Dalal Street Investment Journal (Questionnaire)

- 1. In Q1FY24, the revenue dipped by 2.58 per cent on YoY basis to Rs 2,172.70 crore, while the net profit surged by 39.84 per cent on YoY basis to Rs 314.30 crore. What were the contributing factors for the company's performance?**

MDL commenced its journey in 1774 with a small Dry Dock that is still operational within the company premises in pristine condition. Over the years the ownership changed hands and finally the yard was nationalised by the Government of India in 1960. Since then, MDL has constructed more than 801 ships including 27 Warships and seven submarines. As a matter of fact, MDL is the only Shipyard in India with a proven track record of successfully delivering the Destroyer class of Warships and Conventional Submarines to the Indian Navy. We're proud to state that the most potent, cutting edge platforms available with the Indian Navy today are all built at MDL. Thus MDL playing a pivotal role in transforming the Indian Navy from a 'Buyers Navy' to 'Makers Navy'

As far as statistics are concerned, I take pride in sharing that between 2014 and 2022, MDL has delivered Five Destroyer class Ships to the Indian Navy, i.e, delivering One Destroyer almost every 20 months. With delivery of one more Destroyer slated soon, we shall be further improving upon these timelines. In addition, between 2017 to 2022, MDL also delivered five number Scorpene Submarines to the Indian Navy. MDL achieved this & more despite massive challenges faced due to Covid, Semiconductor chip shortages, critical equipment challenges on account of the ongoing Russia – Ukrainian war and its cascading effect on the supporting industry. Our consistent Delivery rate, places MDL amongst the front line Shipyards across the globe, though these global shipyards are flanked by a far more robust echo system supporting them.

With this background, I would like to state that considering the nature of the Industry, a Quarter to Quarter comparison of financials would not be a fair proposition. MDL has been one of the most consistent Shipyards as far as the Operations or Financials are concerned. Shipbuilding projects are infrastructure projects where the revenue booking is not linear. Further, the revenue booking and the physical progress need not necessarily go hand in hand as the financial inflow is based on pre-defined milestones whereas the physical progress is determined based on Percentage Completion Method.

Coming to the specific query as regards Revenues and Profits, even though the Revenues for Q1FY24 dipped by 2.58%, the Operating margins improved from 6.90% to 6.93% indicating better efficiencies. Further, the Net Profit increased by 39.84%, which is primarily on account of higher Other Income, i.e, Interest Income which rose on account of higher investible surplus and increase in interest rates.

- 2. Could you provide a comprehensive overview of the company's complete order book and its corresponding execution status?**

MDL has a healthy Order book of approx. Rs. 39,000 crores primarily comprising of balance two numbers of Missile Destroyers under project 15B, four numbers Stealth Frigates under project 17A, one number Scorpene class conventional Submarine under project 75, one number class Submarine recently received at MDL for Medium refit and Life Certification (MRLC).

Taking the current execution rate into consideration, the current Order book is expected to be executed over next four years with a slight spill over for supply of B & D spares and attending to the Guarantee Defects, etc.

3. At the moment, what are your top 3 strategic priorities?

Ans: The top three priorities for MDL at the moment are as follows:

- a) Augmentation of Infrastructure at MDL including development of MDL's land parcel at Nhava into a full-fledged Green field shipyard as and when there is a better visibility of large ticket orders. Although, MDL has currently a capacity of building 11 Conventional Submarines and Ten Warships simultaneously at the existing yard, considering future growth prospects adding capacities would always be helpful.

Though such infrastructure developments, particularly in shipbuilding industry, are hugely Capital intensive, it is also a fact that usually the major infrastructures in this industry, like a Dry Dock, a Wet Basin or a Slip Dock etc. have a significantly long life. However, it always makes sense that such large investments are made at an appropriate time when the same are also supported by new Orders of matching magnitude.

- b) Aggressively participate in various RFPs, RFQs issued by Indian Navy, ICG or for any shipbuilding requirement. Over recent years, there is a significant shift in the framework under which the Indian Navy was operating as far as the building of new Platforms is concerned. Till recently, the major Orders for Warships like Destroyers, Frigates, Submarines etc. were primarily placed on Government owned Shipyards on nomination basis. Though the Orders for other smaller ships were placed on competitive basis. More recently, there is a shift to place Orders for larger platforms also on competitive basis. Though this is a paradigm shift, from Nomination based Orders to bagging Orders on a competitive basis, it also provides an opportunity to a mature player like Mazagon Dock Shipbuilders limited to capitalise on its past experience, skillsets and efficiencies developed over the years and improve upon its margins.
- c) To explore and expand the Exports of various Category of marine platforms to friendly foreign Countries / Navies. This is one area that has not been exploited by Mazagon Dock Shipbuilders and we a significant potential. Though the Export market is a highly competitive market, at the same time considering the significant build up in demand in future, establishing a presence in this market has the potential to provide stable additional revenue stream.

4. Could you provide further details about the recently announced Master Ship Repair Agreement (MSRA) between the company and the US Government, represented by NAVSUP Fleet Logistics Centre (FLC) Yokosuka, and discuss its potential impact on the company's future?

MDL has recently signed Master Ship Repair Agreement (MSRA) with the US government represented by NAVSUP Fleet Logistics Centre (FLC) Yokosuka. This agreement makes MDL eligible to quote for Repairs and Refits of US Navy Ships. Extensive assessment of the ship yard was carried out by the US Authorities and post the assessment, the yard was cleared for signing of MSRA. There are only two shipyards in India, including MDL, that have been shortlisted by the US for signing MSRA. Though, the agreement per-se is a non-financial agreement, it holds promise to open-up voyage repairs of US Navy Ships at MDL. Considering the potential the agreement holds, this would be another feather in the cap of MDL.

5. With the Government's ongoing efforts to bolster the defence sector, what is your perspective on the outlook for the shipbuilding segment within the defence industry in the coming quarters?

Considering the prevailing Geo-political situation and the manner in which the same is further likely to pan out, the Defence Shipbuilding in the country is likely to see a significant expansion in the coming years as IN and ICG need to increase their force levels to meet the military scenario. MDL continues to be positive about the future outlook considering its strong footprint in all segments of Defence Shipbuilding.