

Mazagon Dock Shipbuilders Limited is leading defence public sector undertaking shipyard under the Ministry of Defence in India.

They have maximum shipbuilding and submarine capacity of 40,000 DWT, engaged in the construction and repair of warships and submarines for the MoD for use by the Indian Navy and other vessels for commercial clients. They are a wholly owned GoI company, conferred with the 'Mini-ratna-I' status in 2006, by the DPE. They are India's only shipyard to have built destroyers and conventional submarines for the Indian Navy. They are also one of the initial shipyards to manufacture Corvettes (Veer and Khukri Class) in India.

IPO Date	Sep 29, 2020 to Oct 1, 2020
Face Value	Rs 10 per equity share
IPO Price band	Rs 135 to Rs 145 per share
Issue Size	Total of Rs 443.69 Crores
Offer for Sale	Rs 443.69 Crores
IPO Lot Size	103 shares
Lead Managers	Yes Securities, Axis Capital, Edelweiss Financial Services, IDFC Securities and JM Financials
Listing at	BSE and NSE

Offer Open	29-Sep-20
Offer close	01-Oct-20
Finalization of Basis of Allotment	07-Oct-20
Unblocking of ABSA and Initiation of Refunds	08-Oct-20
Credit of shares to Demat Accounts	09-Oct-20
IPO Shares Listing Date	12-Oct-20

Company Financials

Here is the summary of the financial information of the company.

Fin. Year ending	Total Revenues (Rs in Crores)	Profits after tax (Rs in Crores)	Profit %
Mar-2017	4,274.8	598.2	14.0%
Mar-2018	5,027.6	496.1	9.9%
Mar-2019	5,204.6	532.4	10.2%
Mar-2020	5,535.3	477.0	8.6%

Its EPS for FY2020 is Rs 21.36 and last 3 years average EPS is Rs 22.03.

Comparison with peers

Company	FV/Share (₹)	EPS (Basic)	RONW (%)	NAV (₹ per share)	P/E (times)
Mazagon Dock Shipbuilders Ltd*	10	21.36	15.54	152.17	-
Cochin Shipyard Ltd**	10	48.05 ⁽¹⁾	16.98 ⁽³⁾	283.02 ⁽²⁾	7.60
Reliance Naval and Engg Ltd**	10	(23.87) ⁽¹⁾	NA ⁽⁴⁾	(165.10) ⁽²⁾	NA ⁽⁴⁾
Garden Reach Shipbuilders & Engineers Ltd**	10	14.27 ⁽¹⁾	7.01 ⁽³⁾	90.81 ⁽²⁾	14.91

*Based on Restated Financial Statements as on and for the year ended March 31, 2020.

**Source: Based on audited financial statements as on and for the year ended March 31, 2020 available at www.bseindia.com

\$P/E figures for the peers is computed based on closing market price as on August 27, 2020 as available at BSE website (available at www.bseindia.com) divided by Basic EPS for Fiscal 2020 in the filings made with stock exchanges

(1) Basic and diluted EPS refer to basic and diluted EPS sourced from the audited financial statements for Fiscal 2020

(2) Computed as equity share capital + other equity divided by closing outstanding number of fully paid up equity shares as sourced from the audited financial statements for Fiscal 2020

(3) Computed as net profit after tax for the year divided by equity share capital + other equity as sourced from the audited financial statements for Fiscal 2020

(4) P/E ratio and RoNW for the aforesaid peer is not applicable since the aforesaid peer reported loss for Fiscal 2020

Reasons to invest in this IPO

- 1) Mazagon Dock Shipbuilders Limited is leading defence public sector undertaking shipyard under the Ministry of Defence in India.
- 2) Company has posted steady revenue growth in the last 4 years. Its revenues grew from Rs 4,274 Crores in FY2017 to Rs 5,535 Crores in FY2020.

Risk Factors of investing in this IPO

- 1) Its margins are on declining mode. Its margins declined from Rs 598 Crores in FY2017 to Rs 477 Crores in FY2020.

2) They are in non-compliance with the provisions of Section 149 of the Companies Act in relation to the appointment of a woman director. They cannot assure whether the RoC or any other government authority will impose penalties on them on account of such non-compliance.

3) The continuing effect of the COVID-19 pandemic on its business and operations is highly uncertain and cannot be predicted.

4) Company is currently not in compliance with certain provisions of the SEBI Listing Regulations and / or Companies Act.

5) They predominantly depend on the MoD for defence orders and have mostly been awarded such orders on a nomination basis by the MoD for use by the Indian Navy. There is no assurance that future defence orders will be awarded to us by the MoD. Further, recent changes in the policy framework governing defence procurement and manufacturing in India may result in company no longer being given such orders which may have an adverse effect on its business growth, financial condition and results of operations.

6) Imposition of liquidated damages and invocation of performance bank guarantees / indemnity bonds by its customers could impact its results of operations and they may face potential liabilities from lawsuits and claims by customers in the future.

7) For complete internal and external risk factors, you can refer the RHP of the company.

Our View

1) On the upper price band of Rs 145 and EPS of Rs 21.36 for FY20, the P/E ratio works out to be 6.8x. 2) For last 3 years EPS of Rs 22.03, the PE ratio is 6.58x.

3) Means, the company is asking the issue price of Rs 145 of the upper price band in the P/E range of 6.5x to 6.8x.

4) There are listed peers like Garden Reach Shipbuilders whose shares are trading at P/E of 14.9x (Highest) and Cochin Shipyard at P/E of 7.6x (Lowest) and the industry average is 11.25x. Hence the company share price of Rs 145 at P/E of 6.5x to 6.8x is under priced and available at attractive valuations.

5) One can look for listing gains. For Long Term, we feel PSU companies suffer problems of mismanagement & government control. Hence we do not recommend the stock for long term investment.