Cochin Shipyard Ltd — Feb 2024 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Strong Beat **One-line:** CSL has successfully transitioned from a single-project (IAC) dependency to a diversified defense and commercial export powerhouse, with the inauguration of new capacity (Dry Dock/ISRF) providing a clear path to ₹1,500 Cr+ in high-margin Ship Repair revenue.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Strong Beat	Turnover up 62% YoY; PAT up 109% YoY, significantly exceeding historical growth rates.	□
Earnings Quality	Moderate	EBITDA margins (34%) were inflated by high-margin IAC milestones; management guides 18-19% as the "normalized" steady state.	□
Guidance Confidence	Strong	FY25 growth guided at 12-15% over an "all-time high" FY24 base; order book visibility is 6-7x trailing revenue.	□
Management Credibility	Strong	Projects (ISRF/Dry Dock) inaugurated as promised; execution on ASW-SWC (3 vessels launched simultaneously) is ahead of peer benchmarks.	□
Business Quality Signal	Improving	Shift toward recurring Ship Repair and European "Green Shipping" reduces lumpy defense contract risk.	□
Key Q&A Exchange	Q2 - Ship Repair	Mgmt confirmed targeting □1,500 Cr Ship Repair revenue in 3 years via new capacity.	□
The Street's Primary Anxiety	Margin Normalization	Fear of a cliff after IAC-1; Mgmt mitigated this by guiding 18-19% sustainable margins post-IAC.	□
Capital Cycle Stage	Investment to Harvesting	Completing □2,800 Cr capex (Dry Dock/ISRF); entering the revenue-recognition phase for these assets.	□
Margin / Return Ratio Trajectory	Improving	PAT margins at 23% (9M FY24); RoE expected to stabilize as new assets sweat.	□
Pricing Power	Stable	Cost-plus in defense provides safety; "Early mover" status in European green vessels allows for premium positioning.	□
FCF Conversion & Quality	Strong	Company is now "practically debt-free" (□23 Cr debt) after redeeming □100 Cr bonds.	□
Competitive Moat Signals	Widening	Only Indian yard with a 600T gantry crane and dedicated ISRF; deep "trust" moat with European wind-farm clients.	□
Balance Sheet Strength	Strong	Cash-rich, negligible debt, and high dividend payout (□197 Cr total for FY24 YTD).	□
Working Capital Efficiency	Stable	Execution of advanced stages of ASW-SWC and IAC post-commissioning works indicates healthy cycle.	□
Mgmt Guidance Track Record	Reliable	Consistent delivery on timeline for new infrastructure and vessel launches.	□
Key Vulnerability / Red Flag	Asset Sweating	Depreciation from new □2,800 Cr projects will hit PAT in FY25; requires rapid order ramp-up.	□
Management Tone	Confident	Upbeat on European inquiries and the scalability of the Ship Repair segment.	□

Sentiment: □Positive

Key Takeaways (Positives & Negatives): * **Positives:** The order book has reached a massive □21,500 Cr, providing revenue visibility for the next 5-7 years. The inauguration of the New Dry Dock and ISRF is a game-changer, doubling the potential throughput for high-margin Ship Repair. CSL is successfully penetrating the European "Green Shipping" market (short-sea cargo and offshore wind support), which offers higher realizations than conventional domestic vessels. * **Negatives:** Current EBITDA margins (34%) are non-sustainable and milestone-driven; investors must model 18-19% for FY25/26. The new infrastructure will bring a significant depreciation load in FY25, which may temporarily compress PAT margins even if EBITDA grows. * **Forward Watchpoint:** The conversion of the ₹84,000 Cr "Mid-stage RFI" pipeline into firm RFPs—specifically the Next-Gen Missile Vessels and potential IAC-2 (INS Vishal)—is the primary catalyst for the next leg of growth.

---

2. BUSINESS PERFORMANCE

2A. KEY METRICS (Consolidated) *PPT not available — numbers from concall*

Metric	Current Qtr (Q3FY24)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue	₹1,021.45 Cr	↑ 62%	Not in doc	↑	Driven by IAC milestones and ASW-SWC progress.
EBITDA Margin %	34.0%	↑ 1100 bps*	Not in doc	↑	Includes other income; aided by aircraft carrier milestones.
PAT	₹248.00 Cr	↑ 109%	Not in doc	↑	Strong operational beat.
ROCE (%)	Not in doc	Not in doc	Not in doc	□	9M PAT margin at 23%.
Net Debt / (Cash)	(Cash Rich)	↓ 77%	Not in doc	↑	Debt reduced to ₹23 Cr from ₹123 Cr (prior context).
Order Book	₹21,500.00 Cr	↑ 101%**	Not in doc	↑	Massive jump from ₹10,678 Cr in prior context.
Order Inflows (9M)	~₹9,500 Cr+	Not in doc	Not in doc	↑	Includes NGMV and multiple European orders.
Book-to-bill (x)	6.32x	Not in doc	Not in doc	↑	Based on TTM Revenue.
Ship Repair Rev	₹224.00 Cr+	Not in doc	Not in doc	↑	Guided to hit ₹1,200 Cr then ₹1,500 Cr/year.
Dividend Payout	₹197.00 Cr	Not in doc	Not in doc	↑	Total payout across two interim dividends.

**Estimated based on prior 22-23% levels. **Compared to Prior Context Q3FY22.*

2B. SEGMENT BREAKDOWN

Segment	Revenue (₹ Cr)	YoY Growth	Margin	Trend	vs Co. Avg	Key Development
Defense Shipbuilding	~₹700 Cr*	High	High	↑	Above	3 ASW-SWC launched; IAC post-commissioning works.
Commercial Export	~₹150 Cr*	Emerging	Moderate	↑	Below	8 MPVs for Europe; 2 CSOVs in progress.
Ship Repair	₹224.00 Cr	Strong	High	↑	Above	Mid-life upgrade (₹313 Cr) and IAC repair (₹488 Cr) added.
Subsidiaries	~₹50 Cr*	Emerging	Moderate	↑	Below	UCSL delivered first 62T Tug to Adani Group.

**Estimated from commentary on project execution.*

---

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue	FY25 growth of 12-15% over FY24 "all-time high."	Requires ~₹3,800-4,000 Cr in FY25; feasible given ₹21k Cr book.	Met	Low
Guidance	Margins	Sustainable EBITDA at 18-19% (post-IAC).	Requires tight control on commercial vessel execution.	Consistent	Moderate
Guidance	Ship Repair	Target ₹1,500 Cr in 3-4 years.	Needs ~25% CAGR in segment; feasible with ISRF now operational.	Met	Low
Guidance	Capacity	New Dry Dock & ISRF fully operational by mid-2024.	Final crane installation (600T) pending for Dry Dock.	On Track	Low
Strategy	Diversification	Entering Wind Energy support market (Europe).	Demand peaks in 2027; need to secure berths now.	New	Low
Balance	Debt	"Practically debt-free."	Only ₹23 Cr debt remains.	Exceeded	None

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
1	4.5	Rohit (Antique)	Margins	Financials	Sustainability of 20% EBITDA post-IAC.	Management clarified that while Q3 was milestone-heavy, 18-19% is the sustainable blended target post-IAC. Implies a 200bps structural uplift from previous 16-17% guidance due to higher Ship Repair contribution.	None	4.0	Specific guidance given
2	4.0	Rohit (Antique)	Order Book	Business	Status of INS Vishal (IAC-2) and new RFPs.	Management refused to comment on INS Vishal but expects □1,600 Cr in immediate defense RFPs and further RFPs throughout CY2024. Keeps the growth optionality of a second carrier alive without pricing it in.	Timing of RFPs	3.0	Typical defense caution
3	5.0	Raj Rishi (DCPL)	Ship Repair	Strategy	Size and competitive edge of the repair business.	Management targets □1,500 Cr shortly and potentially another □1,000 Cr over 10 years, focusing on turnaround time over labor	None	5.0	Quantified & strategic

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
						arbitrage. Shift to recurring, high-margin revenue is the core thesis driver.			
4	4.0	Vignesh (Ksema)	Geography	Strategy	Demand drivers in Europe.	Focus remains on Europe due to the 20-year replacement cycle for short-sea vessels and the offshore wind farm peak in 2027. This de-risks the business from Indian MoD budget volatility.	None	4.5	High visibility
5	3.5	Deepak (Kotak)	Margins	Financials	Why the margin guidance increased from 17% to 19%.	The increase is driven by a higher mix of Ship Repair, which now has a firmer, higher-value order book (mid-life upgrades). Confirms that Ship Repair is the margin-accretive engine of the business.	None	4.0	Logic-backed
6	3.0	Viraj (Jupiter)	Financials	Financials	PAT margin impact of new capex depreciation.	Management admitted PAT margins might be lower than 18-19% in FY25 (est. 15-16%) due to the depreciation of the □2,800	None	4.5	Realistic

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
						Cr new projects. Crucial for modeling; EBITDA grows but PAT might see a temporary lag.			

PATTERN FLAGS & SENTIMENT Analysts were primarily focused on the **"IAC Transition"**—the fear that once the Indigenous Aircraft Carrier (IAC) project reaches the warranty/post-commissioning stage, margins would collapse. Management successfully pivoted this narrative toward the **Ship Repair Cluster** and **European Green Shipping**, arguing that the new ISRF and Dry Dock infrastructure will replace IAC volumes with higher-margin, faster-turnaround work.

Analyst Sentiment Verdict: Analysts appeared **constructively skeptical** regarding margins but **bullish** on the order book. The fact that CSL is now debt-free and paying out significant dividends while completing a massive capex cycle removed "balance sheet risk" from the conversation. The management's tone was one of "quiet execution," particularly regarding the successful simultaneous launch of three naval corvettes.

GUIDANCE GAPS REVEALED IN Q&A * **PAT vs EBITDA:** While EBITDA guidance was raised (19%), the Q&A revealed a PAT margin "headwind" for FY25 due to the onset of depreciation from the ₹2,800 Cr expansion. This is a material shift for short-term earnings models.

---

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q3FY22)	This Quarter (Q3FY24)	Direction
Order Book	₹10,678 Cr	₹21,500 Cr	↑ Massive visibility
Debt Status	₹123 Cr Net Debt	Practically Debt-Free (₹23 Cr)	↑ Balance Sheet strength
Infrastructure	Under Construction	Inaugurated (ISRF & Dry Dock)	↑ De-risked execution
Margin Guidance	16-17% (Blended)	18-19% (Blended)	↑ Higher Repair mix
European Exposure	Nascent	13% of Order Book; focus on Wind/Green	↑ Diversification
Segment Mix	Shipbuilding Heavy	Repair targeting ₹1,500 Cr (High Margin)	↑ Quality of Earnings
Equity Structure	Face Value ₹10	Face Value ₹5 (Split completed Jan '24)	→ Liquidity improvement

STOP HERE.