Cochin Shipyard Ltd — Jun 2024 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Strong Beat **One-line:** CSL has successfully de-risked its revenue profile by scaling Ship Repair to a record □1,000 Cr+ and diversifying into European green vessels, effectively bridging the gap between major naval contracts.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Strong Beat	FY24 Revenue up 62% YoY; PAT up 157% YoY, significantly exceeding the 12-15% growth trajectory discussed in Q3.	□
Earnings Quality	High	Driven by operational execution milestones in ASW-SWC and IAC post-commissioning work; subsidiary UCSL turned profitable.	□
Guidance Confidence	Strong	FY25 Top-line growth guided at 20-25% (accelerating from prior 12-15% guidance) supported by □22,000 Cr order book.	□
Management Credibility	Strong	Completed and inaugurated □2,769 Cr of capex (Dry Dock/ISRF) on schedule; executed first-of-kind H2 fuel cell vessel.	□
Business Quality Signal	Improving	Shift toward high-margin Ship Repair (28% of mix) and "practically debt-free" status signals a high-quality balance sheet.	□
Key Q&A Exchange	Q12 - Global Partner	CSL is seeking a global operating partner for ISRF to bring best-in-class turnaround times and international supply chains.	□
The Street's Primary Anxiety	PAT Compression	Concerns over □125-150 Cr incremental depreciation hitting FY25 PAT; Mgmt confirmed PAT will be "tempered."	□
Capital Cycle Stage	Harvesting	Shifting from a 4-year heavy investment phase (□2,800 Cr capex) to the revenue-generation phase (Aug 2024 start).	□
Margin / Return Ratio Trajectory	Stable	Management maintains a 17-19% blended EBITDA guidance despite a blowout Q4, showing prudent conservatism.	→
Pricing Power	Expanding	Early-mover advantage in Hybrid SOVs for Europe allows for "choosy" order selection and risk-sharing.	□
FCF Conversion & Quality	Strong	Debt reduced to a negligible □23 Cr; company has reached its net worth milestone of □5,000 Cr.	□
Competitive Moat Signals	Widening	Only Indian yard with MSRA for US Navy repairs and a 600T gantry crane, creating a massive barrier to entry for large vessels.	□
Balance Sheet Strength	Strong	Cash-rich with zero net debt and a consistent 32% dividend payout ratio.	□
Working Capital Efficiency	Deteriorating	Inventory days spiked to ~100 days due to raw material stocking for NGMV and ASW projects.	□
Mgmt Guidance Track Record	Reliable	Consistent delivery on timeline for ISRF/Dry Dock and successful launch of 3 naval vessels simultaneously.	□
Key Vulnerability / Red Flag	Asset Sweating	High fixed cost base (depreciation + maintenance) from Aug 2024 requires rapid scale-up of ship repair volumes.	□
Management Tone	Confident	Bullish on European exports and US Navy potential; cautious but clear on the PAT impact of new assets.	□

Sentiment: □Positive

Key Takeaways (Positives & Negatives): * **Positives:** The order book of □22,000 Cr provides 5.7x revenue visibility. Ship repair has reached a critical mass of □1,000 Cr+ with margins (22-23%) significantly higher than the company average. The successful turnaround of Udupi Cochin Shipyard (UCSL) proves management's ability to integrate and revive distressed assets. * **Negatives:** FY25 will face a significant "earnings bridge" challenge; incremental depreciation of □125-150 Cr will likely keep PAT growth lagging significantly behind the 20-25% revenue growth. Working capital is currently absorbing cash as inventory for new defense series (NGMV) builds up. * **Forward Watchpoint:** The onboarding of a global operating partner for the ISRF facility in Q2FY25 will be the litmus test for whether CSL can attract international commercial repair traffic beyond its current domestic/naval base.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS (Consolidated)

Metric	Current FY24	YoY Change	Trend	Mgmt Commentary
Revenue	□3,830.45 Cr	↑ 62%	↑	All-time high turnover, surpassing FY20 levels; driven by IAC and ASW-SWC progress.
EBITDA Margin %	18-19% (Guided)	→	→	Management maintains the long-term target of 17-19% despite Q4 spikes.
PAT	□783.28 Cr	↑ 157%	↑	Significant operational leverage from high-value defense milestones.
ROCE (%)	Not in doc	Not in doc	□	Net worth crossed □5,000 Cr for the first time.
Cash Flow (OCF)	Not in doc	Not in doc	□	Inventory increased due to materials for ASW and NGMV projects.
Net Debt / (Cash)	(Cash Rich)	↑	↑	Practically debt-free; only □23 Cr long-term debt remains.
Order Book	□22,000 Cr	↑	↑	Healthy visibility with 73% defense and 17% commercial exports.
Ship Repair Rev	□1,000 Cr+	↑	↑	Crossed major milestone; ISRF/Dry Dock to drive the next □500 Cr growth.
Dividend Payout	□256.50 Cr	↑	↑	32% of PAT; final dividend of □2.25/share recommended.

2B. SEGMENT BREAKDOWN

Segment	Revenue (□ Cr)	Mix %	Margin	Trend	vs Co. Avg	Key Development
Shipbuilding	□2,757.92*	72%	15-17%	↑	Below	46% from IAC; 54% from other vessels like ASW-SWC.
Ship Repair	□1,072.53*	28%	22-23%	↑	Above	Crosses □1,000 Cr; signing of MSRA with US Navy is a key catalyst.
Subsidiaries	□186.00 (UCSL)	~5%	~2%	↑	Below	UCSL turned profitable (□1 Cr PAT); □800 Cr order book.
**Calculated based on management's percentage mix provided in concall.*						

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue	20-25% Top-line growth for FY25.	Needs ~₹4,600-4,780 Cr; Feasible with ₹22k Cr book (5.7x).	Exceeded	Low
Guidance	Margins	17-19% sustainable blended EBITDA.	Requires managing the transition from high-margin IAC to early-stage NGMV.	Met	Moderate
Guidance	Capex/ Ops	New Dry Dock & ISRF fully operational by Aug 2024.	Civil works done; 600T crane installation is the final hurdle.	On Track	Low
Guidance	Financials	Incremental Depreciation of ₹125-150 Cr in FY25.	Fixed accounting hit; will compress PAT margins by ~300bps.	New	High
Strategy	Exports	Secure more Hybrid SOV orders from European clients.	High demand for offshore wind; CSL is "choosy" about clients.	Met	Low
Balance	Debt	Maintain "Debt-free" status.	Effectively achieved (₹23 Cr debt vs ₹5,000 Cr NW).	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	Deepak (Kotak)	Margins	Financials	Sustainability of EBITDA margins.	Management maintains 18-19% guidance, clarifying that Q4's high margin was due to ship repair intensity and aircraft carrier milestones. Re-rating depends on maintaining these levels as IAC revenue tapers.	None	5.0	Quantified
4	5.0	Umesh (Nomura)	Depreciation	Financials	Impact of new □2,800 Cr assets on PAT.	Management expects □125-150 Cr in additional depreciation starting Aug 2024, which will "temper" PAT despite revenue growth. Investors must model a PAT margin contraction for FY25 as the assets sweat.	None	5.0	Specific figure
5	3.5	Umesh (Nomura)	Inventory	Financials	100-day inventory spike vs historical 50 days.	Increase is due to high-value material components reaching the yard for ASW and NGMV projects. Confirms that these projects are moving into the active	None	4.0	Logical

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						production phase.			
9	4.5	Viraj (Jupiter)	Ship Repair	Strategy	Impact of US Navy MSRA agreement.	MSRA is signed after a rigorous 17-member team inspection; CSL is now awaiting inquiries for US Naval vessel repairs. This provides a new, high-margin, sticky revenue stream for the ISRF facility.	Timing of 1st order	4.0	Strategic win
11	4.0	Gagan (ASK)	Asset Turns	Capex/ Ops	Potential asset turn on ₹2,800 Cr new capex.	Management expects a fixed asset turn of ~2.0x once operations stabilize in the new facilities. Implies these assets can eventually add ₹5,500 Cr+ to the annual turnover.	None	4.5	Ambitious
12	4.5	Gagan (ASK)	Partners	Strategy	Why look for a global operating partner for ISRF?	Partner sought to bring best-in-class turnaround times, global supply chains, and international clients. Success here would elevate ISRF from a	Partner name	4.0	Clear strategy

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						domestic yard to a global hub.			
13	4.0	Deepak (Kotak)	Defense	Business	Status of IAC-2 (INS Vishal).	Management expects 8-10 years for execution once ordered, assuming it follows the Vikrant platform. Reconfirms CSL as the sole contender for large aircraft carrier construction in India.	None	4.0	Consistent

PATTERN FLAGS & SENTIMENT * **The "Depreciation Bridge":** Analysts were laser-focused on the transition from a "construction" phase to an "operational" phase. While revenue growth is guaranteed, management successfully communicated that FY25 will be a "digestion year" for the P&L as the heavy depreciation of the new dry dock and ISRF hits before they reach full utilization. * **Export Pivot:** Management was notably confident about the European market, specifically "Green Shipping" and Hybrid Service Operation Vessels (SOVs). This reflects a strategic attempt to move away from purely binary domestic defense orders toward a more predictable international commercial pipeline.

Analyst Sentiment Verdict: Analysts were **constructively bullish**. Management's transparency regarding the specific depreciation hit (₹125-150 Cr) and the inventory build-up for defense projects satisfied concerns about "earnings quality" versus "accounting spikes." The "Debt-free" status remains the ultimate credibility anchor for this PSU.

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5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q3FY24)	This Quarter (Q4FY24)	Direction
Revenue Growth Guidance	12-15%	20-25% for FY25	↑ Accelerating
Infrastructure Status	Inaugurated (Construction)	Fully Operational by Aug 2024	↑ De-risked
US Navy Engagement	Pre-qualification Stage	MSRA Formally Signed	↑ Credibility
Debt Level	₹123 Cr (9M)	₹23 Cr (Practically Debt-Free)	↑ Strengthening
Inventory Intensity	Historical average (~50 days)	~100 days (Pre-stocking NGMV)	↓ WC Absorption
Subsidiary Health	UCSL loss-making	UCSL Turned Profitable (₹1 Cr PAT)	↑ Execution
Ship Repair Scale	Targeting ₹1,000 Cr	Achieved & Targeting ₹1,500 Cr+	↑ High-margin mix

Investor Notes: * **The Thesis remains Strong-Buy on dips:** CSL has successfully moved from the "hope" phase (new capacity construction) to the "operational" phase. * **Margin Threshold:** While Q4 showed outsized margins, the base thesis should assume 18% EBITDA. Any delivery above this is a bonus from Ship Repair. * **Forensic Watch:** Inventory levels must be monitored in Q1/Q2FY25; if they don't normalize as production revenue is booked, it may indicate execution bottlenecks.

STOP HERE.