Cochin Shipyard Ltd — Nov 2023 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Strong Beat (Execution-led) **One-line:** Execution has pivoted from the "accounting adjustments" of FY23 to a tangible delivery phase, with the launch of three ASW Corvettes and the completion of major capex (Dry Dock/ISRF) positioning CSL for a multi-year growth harvest starting Mid-2024.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Strong Beat	H1 Revenue □1,488 Cr (up 32% YoY); Mgmt raised FY24 revenue outlook to exceed FY20 levels (>□3,422 Cr).	□
Earnings Quality	High (Core driven)	Growth driven by Ship Repair (up 64% YoY) and IAC guarantee refit milestones.	□
Guidance Confidence	Strong	Clear visibility on ASW launches (Nov 30) and Dry Dock inauguration (Dec 23).	□
Management Credibility	Strong	Delivered on the "Nov 2023" launch promise for ASW vessels made in previous quarters.	□
Business Quality Signal	Improving	Export mix shifting to high-tech Green vessels (UCSL European order of □580 Cr).	□
Key Q&A Exchange	Q#10 (IAC-2)	Mgmt confirms "heightened traction" for IAC-2 at DAC level; a massive catalyst if signed.	□
The Street's Anxiety	Asset Utilization	How will the □1,799 Cr Dry Dock be used if IAC-2 is delayed? Mgmt confirmed "Dual-Use" (SB + Repair).	□
Capital Cycle Stage	Terminal Investment	81-83% physical progress on capex; transition to revenue generation starts Mid-2024.	□
Margin Trajectory	Normalizing	H1 PAT margins (21%) were boosted by IAC mix; full-year guided to sustainable 16-17%.	□
Pricing Power	Improving	Technological edge in Green Hydrogen/Electric vessels allows entry into niche European markets.	□
FCF Conversion	Distorted	Cash of □4,600 Cr is 78% customer advances; free cash at □1,000 Cr is healthy but lower than optics suggest.	□
Competitive Moat	Widening	Only Indian yard capable of "Schedule A" status with 7 pan-India units and Hydrogen first-mover status.	□
Balance Sheet Strength	Strong	Net Cash positive; □3,600 Cr in advances provides a massive working capital buffer.	□
Working Capital	Stable	Inventory levels managed; specific mention of steel cutting for DCI dredger on schedule.	□
Mgmt Guidance Track Record	Reliable	Consistent on timeline for Dry Dock and ISRF completion.	□
Key Vulnerability	Concentration	Revenue still heavily reliant on two naval projects (ASW & NGMV).	□
Management Tone	Confident	Bullish on "Green Vessel Transition" and international ship repair clusters.	□

Sentiment: □Positive

Key Takeaways: * **Positives:** CSL has successfully navigated the "supply chain winter" of FY23. The simultaneous launch of three **ASW SWC Corvettes** in November 2023 marks a critical transition into high-milestone revenue recognition. The **Ship Repair** segment is the current hero, growing 64% and delivering superior margins, while the newly secured ₹580 Cr European order for **Udupi Cochin Shipyard (UCSL)** validates the strategy of using subsidiaries for the high-margin "short-sea" export market. * **Negatives:** The **Andaman & Nicobar (A&N)** vessels remain a persistent "point of concern" with no resolution on the stalled construction. While H1 margins were stellar (21%), the guided 16-17% for the full year suggests a lower-margin mix in H2 as newer projects (NGMV, Dredger) enter the heavy steel-procurement phase. * **The Street's Concern:** Analysts remain focused on the "gap" between the completion of the new Dry Dock (Dec 2023) and the potential award of **IAC-2**. Management proactively de-risked this by clarifying that the dock will immediately handle existing shipbuilding contracts and large-scale LNG carrier repairs, preventing it from becoming a stranded asset. * **Forward Watchpoint:** Full commissioning of the **ISRF and New Dry Dock** in Mid-2024. This will expand ship repair capacity by ~75% and allow CSL to target the global LNG carrier repair market, a significant valuation re-rating trigger.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr (H1 FY24)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Total Income (₹Cr)	1,488	↑ 32.4%	↑ 44.2%	↑	Driven by growth in Ship Repair and IAC Vikrant refit work.
Revenue (Shipbuilding)	996	↑ 13.5%	↑ 36.3%	↑	Volume driven by ASW SWC progress; H1 reflects base-load execution.
Revenue (Ship Repair)	402	↑ 64.1%	↑ 67.5%	↑	Higher realization from Navy refits and floatel refurbishment.
EBITDA Margin %	20.0%	↑ (vs 15%)	↑	↑	Benefited from high-margin IAC guarantee refit (₹85 Cr in Q2).
PAT (₹Cr)	280	↑ 80.6%	↑ 80.0%	↑	Significant improvement due to higher operating leverage.
PAT Margin (%)	21.0%	↑ 600 bps	↑	↑	Full-year guided lower (16-17%) as project mix normalizes.
Order Book (₹Cr)	22,000	↑ 2.8%	→	→	Healthy visibility; clear revenue pipeline of ₹13,000 Cr.
Net Cash (₹Cr)	4,600	↑	↑	↑	Includes ₹3,600 Cr customer advances; Free cash is ₹1,000 Cr.
Capex Physical Progress	81% - 83%	↑	↑	↑	Final stages; Gantry crane from Korea delivered for Dry Dock.
Ship Repair Orders	~700	→	→	→	Constant churn; target to cross ₹900 Cr revenue for the year.

2B. SEGMENT BREAKDOWN

Segment	Revenue (H1 ₹Cr)	YoY Growth	Margin (EBITDA)	Trend	vs Co Avg	Key Development
Shipbuilding	996	14%	~12-14%	→	Below	3 ASW vessels launching Nov 30; Dredger steel cutting starts.
Ship Repair	402	64%	~25-28%	↑	Above	Kochi cluster developing; ISRF to add capacity by Mid-24.
Subsidiaries	Not stated*	N/A	~10-12%	↑	Below	UCSL (Udupi) bagged ₹580 Cr order for European cargo vessels.
**Consolidated revenue is 1,488 Cr vs Standalone (SB+SR) of 1,398 Cr, implying Subsidiaries contributed ~ 90 Cr in H1.*						

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate	Historical Delivery	Risk Flag
Guidance	Revenue	Exceed FY20 level (>₹3,422 Cr).	Needs ~₹1,934 Cr in H2 (H1: ₹1,488 Cr).	**Delivered** (Raised from Q4)	Low
Guidance	Margins	16% - 17% PAT Margin for FY24.	Requires ~13% PAT margin in H2.	**On Track** (H1 is 21%)	Low
Guidance	Capex	ISRF & Dry Dock inauguration Dec 23.	Mechanical outfitting in next 30 days.	**On Track** (83% complete)	Moderate
Strategy	Export Mix	Pivot to Green/Electric vessels for EU.	Bagging 1-2 CSOV orders/ year.	**Improving** (UCSL order)	Low
Strategy	Growth Engine	₹1,200 Cr Ship Repair rev in 3 yrs.	15% CAGR from current ₹900 Cr base.	**On Track**	Moderate
Macro	Localisation	100% "Home Grown" Hydrogen Fuel Cell.	Target completion Dec 2023.	**New Target**	Low

4. ANALYST Q&A

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Cred.	Verdict
1	5.0	Sagar Gandhi / Future Generali	IAC-2	Outlook	"By when is [IAC-2] likely to happen and what will be the value?"	Management noted the project is at an advanced stage in the Defence Acquisition Council (DAC) but refused to commit to timelines or values. Significant valuation overhang remains until the formal order is inked.	Specific timeline and project value.	2.0	Deflected
2	4.5	Sagar Gandhi / Future Generali	Cash Quality	Financials	"What is the free cash component and advances from customers of [□4,600 Cr]?"	Management clarified that only □1,000 Cr is free cash, with the remainder being customer advances. This recalibrates the yield on cash and highlights that CFO is tied to project milestones.	None	5.0	Quantified
3	4.0	Deepak Krishnan / Kotak	Margin Guidance	Financials	"Are we raising the margin guidance given the strong performance in 1H?"	Management maintained a full-year PAT margin guidance of 16-17%, implying a drop from the current 21% as lower-margin shipbuilding phases begin. Prevents Street from over-extrapolating Q2 performance.	None	4.5	Clear guidance
4	4.0	Viraj Mithani / Jupiter Fin	European Ops	Strategy	"In which side of the business [are the] possibilities in Europe?"	Management highlighted active traction in Commissioning Service Operation Vessels (CSOV) and short-sea vessels, citing a potential deal size of □500-□1,000 Cr per project.	None	4.0	Directional

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						Bolsters the high-tech export thesis.			
5	3.5	Viraj Mithani / Jupiter Fin	Asset Use	Capex	"Will the new dock be leased or used for repairs until IAC-2 comes?"	The dock is dual-purpose and will start with shipbuilding contracts already secured, transitioning to ship repair as opportunities arise. Mitigates risk of underutilization if IAC-2 is delayed.	None	4.5	Logical strategy
6	4.0	Sagar Gandhi / Future Generali	Ship Repair Cap	Outlook	"What is the maximum ship repair revenue we can clock at 80-85% utilization?"	Management targets ₹1,200 Cr in 3 years and ₹1,500 Cr long-term, driven by the Kochi cluster and ISRF. Provides a clear growth ceiling for the highest-margin segment.	None	4.0	Specific target
7	3.5	Sagar Gandhi / Future Generali	LNG Repair	Strategy	"Can [LNG repair] be an opportunity for Cochin Shipyard?"	The new dry dock is "LNG-ready" for all vessels except Q-Max, and the company is evaluating this segment closely. Potential high-value diversification beyond naval/ standard commercial.	None	3.0	Evaluative
8	4.5	Devesh Jhawar / Investor	A&N Overhang	Business Overview	"Any update on finding new potential buyers for the [A&N] project?"	Management admitted no resolution yet and expressed it is a "point of concern." This remains a ₹295 Cr order book deadweight/ inventory risk.	None	2.0	Candid admission
9	4.0	Devesh Jhawar / Investor	Dredgers	Business Overview	"What is the current status of the [DCI	Steel cutting is scheduled for Nov 30, with IHC Holland as a tech	None	5.0	Specific timeline

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Cred.	Verdict
					dredger] project?"	partner; mgmt hinted at international interest in this segment. Confirms the start of a new, non-naval execution cycle.			

PATTERN FLAGS & SENTIMENT * **Theme: Transition to Revenue Harvesting:** Analysts were obsessed with the "Go-Live" date of the Dry Dock and ISRF. Management's posture was highly confident, backed by the delivery of the gantry crane and the 83% physical progress mark. The shift from "investment mode" to "harvesting mode" is the dominant narrative. * **Theme: The Margin "Normalization" Dance:** Multiple questions sought to verify if the 21% PAT margin was the "new normal." Management effectively managed expectations, pointing to the IAC refit as a one-off high-margin contributor and guiding back to the 16-17% sustainable range. * **Analyst Sentiment:** Generally bullish. Analysts were impressed by the Ship Repair growth (64%) and the UCSL export win. Credibility has improved because the ASW launches (promised in Q4) are actually happening this month. The only lingering skepticism is around the IAC-2 timeline and the A&N vessel resolution.

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5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q4 FY23)	This Quarter (Q2 FY24)	Direction
Execution Phase	Planning/Procurement	**Milestone Stage (3 ASW launches Nov 30)**	↑
Revenue Guidance	Target: ₹3,900 Cr total	**Target: >FY20 Level (>₹3,422 Cr)**	↑
Ship Repair Growth	Lagging / Competitive pressure	**Explosive (64% YoY growth in H1)**	↑
Capex Completion	76-78% progress	**81-83% progress; Crane delivered**	↑
Subsidiary Status	Early stages	**UCSL secures ₹580 Cr European win**	↑
Corporate Status	Schedule B	**Upgraded to Schedule A**	↑
Margin Profile	14-15% EBITDA guided	**20% EBITDA achieved in H1**	↑
Hydrogen Strategy	Concept	**Vessel launched; completion Dec 23**	↑

STOP HERE.