



“Mazagon Dock Shipbuilders Limited Q2 FY’24 Earnings Conference Call”

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MODERATOR: MR. AMIT DIXIT – ICICI SECURITIES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Mazagon Dock Shipbuilders Limited Q2-FY24 conference call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need any assistance during the conference call, please signal an operator by pressing star and then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Amit Dixit from ICICI Securities. Thank you and over to you, Amit.

Amit Dixit: Yes, thanks, Malcolm. Good afternoon, everyone, and thanks for joining the call today. At the outset, I would like to thank the management for giving us an opportunity to host the call.

From the management side, we have Shri Sanjeev Singhal, Chairman and Managing Director, Additional Charge and Director Finance, Commander Jasbir Singh, Indian Navy, Retired, Director Submarine and Heavy Engineering, Shri Biju George, Director Shipbuilding, and Commander Vasudev Puranik, Director Corporate Planning and Personnel. Without much ado,

I would invite Mr. Singhal for opening remarks on company's performance and outlook, post which we will open the floor for an interactive Q&A session. Over to you, sir.

Sanjeev Singhal: Yes, thank you Amit, and good afternoon everybody who is present over there. Wish you a very, very happy Diwali and the related festivities. As regards Mazagon Dock Shipbuilders Limited, I believe all the investors are fully aware that as a yard we started with a small dry dock in 1774 and were nationalised in the year 1960. And since then, we have constructed 802 vessels, out of which 28 have been warships from advanced Destroyers to Missile boats, etc., and seven have been submarines on two different platforms. Mazagon Dock Shipbuilders Limited is the India's only shipyard with a proven track record of building Destroyers as well as Conventional Submarines for the Indian Navy.

Between 2017 and 22, although the period also witnessed and a substantial portion of it was impacted by COVID, corresponding oxygen shortage, and subsequently global shortage of chips, in spite of that, between 2017 and 2022, Mazagon Dock Shipbuilders delivered five submarines to Indian Navy.

In addition, from 2014 to 2023, if we consider this period, during these nine years, Mazagon Dock Shipbuilders has delivered six number of Destroyers, which are the most advanced warships to the Indian Navy, this amounts to an average delivery rate of one destroyer every 18 months. This would favorably compare with the best shipyards globally, in spite of an inferior auxiliary infrastructure available within India.

In addition, we are proud to inform that the last three destroyers of Project 15 Bravo, we have delivered over a period of three years, one in October 21, which was delivered as per the scheduled timelines, another in November 22, which was delivered almost three months ahead of the delivery timelines, and recently on 20th of October 23, which is almost five months before the contractual timelines. So, this is something which is unheard of in this industry, these kind of complicated and large platforms, where the telescopic design concepts are there, and the

design keeps undergoing change, delivering platforms before the contractual timelines is a very significant milestone.

As far as the financials are concerned, I believe the financials are available with you, and we will be discussing about the financials in detail. In addition, I would like to inform that recently on 17th of October, Mazagon Dock Shipbuilders has signed a contract with Indian Coast Guard, a small contract of INR310 crores with respect to construction of one number Cadet training ship.

In addition, against a tender for six number next generation offshore petrol vessels, again from Indian Coast Guard, MDL has been declared L1, and currently we are in the process of finalizing the contract, and we expect to sign this contract by this month end. This will be around INR1,400 crores. In addition to this, what has been informed to SEBI earlier, we have received a LOI with respect to an export order from a European client, and this also we expect the finalization within next two months.

These together would be in the range of around INR2,000 crores-INR2,500 crores, all these orders, but this also provides us a very significant foothold in the export market, and we believe going ahead, this can be a significant opportunity. With this, I would like to hand over to Mr. Amit Dixit back again to take the things forward.

Amit Dixit: Yes, hi Malcolm, maybe you will open for Q&A.

Moderator: Surely, sir. Thank you very much. The first question we have is from the line of Arvind from ValueQuest Investment Advisors Private Limited. Please go ahead.

Arvind: Fantastic, sir. Congratulations on a good set of numbers and best wishes for the festive season. A few questions from my side. First of all, sir, in terms of orders and execution, what would be our order book as of present? What was executed in this quarter, if you are able to tell that?

Sanjeev Singhal: As far as order book is concerned, as on 30th September, the order book stands at 37,500 crores. With respect to the execution on a quarter to quarter basis, we do not give any numbers. We have indicated earlier that we expect a 12% to 15% increase in the top line over 2022-23.

For the present, we continue to maintain this guidance, although there are certain challenges post the issues relating to Israel, but still, we are hopeful and we are working on it that we maintain this guidance.

Arvind: Yes, sir. You have told the revenue guidance, sir. Regarding the Navy side, the P-75(I) or destroyers' side, sir, some color on that? For some new destroyers, there was always some talks of P-15 Bravo follow-ups would be announced. Any developments on that side, sir, or we are still awaiting clarity from the Navy on that?

Sanjeev Singhal: You have raised two issues. One is with respect to destroyers and another is with respect to submarines.

Arvind: Yes, sir.

- Sanjeev Singhal:** So, I request my director shipbuilding to clarify on the destroyers. And our director submarine and heavy engineering commander Jasbir Singh, he will give the details with respect to the submarines.
- Arvind:** Yes, sir.
- Sanjeev Singhal:** Mr. Biju George.
- Biju George:** Yes. For the destroyers, there is no project in the pipeline as a follow-on order. Navy is considering a follow-on for P-17A that is not yet crystallized, that is still at the discussion stage in the naval headquarters. And the destroyers, it is the next generation destroyers which are there, that is still not in the horizon. So, right now, we are unable to say anything unless it is firmed up.
- So, these are the expectations which are in Navy's pipeline for new Builds. Navy wants to increase their force levels. And these are the projects in the pipeline for which we are strong contenders. That is what we can say at this moment in time.
- Arvind:** Very good, sir.
- Sanjeev Singhal:** The information that is available, we are not in a position to assign any kind of timelines. But yes, we expect eight number of destroyers, maybe likely to be divided on two shipyards, four each. And on a similar line, a follow-on project of P-17A as P-17B, again eight number of frigates expected to be divided over two shipyards. So, considering that MDL has a proven track record with respect to destroyers and MDL is executing the project of P-17A, we are quite hopeful with respect to both these orders as and when they materialize.
- Arvind:** Yes, sir.
- Sanjeev Singhal:** I would request Commander Jasbir Singh to elaborate.
- Jasbir Singh:** There are two projects that are in the pipeline. One is the P(75I), which is in collaboration with the foreign OEM.
- Arvind:** Right, sir.
- Jasbir Singh:** Already made a bid for that, six submarines. On the 1st of August, we have given the bid to Navy. Now, it will take a certain amount of time for them to complete the technical evaluation and thereafter, they will proceed on to the commercial part. So, this is likely to happen sometime next year, if all goes smoothly. That is one.
- Arvind:** Who is our partner on this, sir? Sorry, to butt in. Who is our partner on this?
- Jasbir Singh:** TKMS Germany.
- Arvind:** Very well. Thank you, sir. Thank you.

- Jasbir Singh:** And the project which is there, for which we have received a letter from the Navy for three additional Scorpene submarines.
- Arvind:** Right.
- Jasbir Singh:** We are preparing the proposal and within a month's time we plan to hand over the proposal to the Navy for further work on their part to work out the negotiations and then IN would come out with the order.
- Arvind:** Very well, sir. Thank you. Just one last thing, sir. This quarter especially, margin performance was exceptionally good. What were the margin levels? Any guidance whether these margin levels can sustain? That is essentially the last question from my side sir, thank you. So the drivers of the margin this time they were very good. Some clarity or some color on that if possible. Thank you.
- Sanjeev Singhal:** I have mentioned earlier also in our interaction with the public that the margins earlier on the submarines, this six submarines of Scorpene project, five we have already delivered and as per the contractual delivery date there were certain delays on account of which Navy had deducted the liquidated damages for delay which was contested by MDL that the delays are not attributable to MDL and there are various reasons including the changes in the design, so as such the delays are not attributable.
- MDL's request has been analyzed and with respect to two of the submarines, submarine number two and submarine number three. Navy has accepted MDL's contention and only a nominal delay has been attributed to MDL and whatever LD was deducted beyond this nominal delay that has been refunded to MDL. So on one of the submarine, number two, we had received the LD refund in the fourth quarter of 2023 and for the third submarine we have received the LD refund in the last quarter.
- So that has contributed significantly towards the higher margins. In addition, as I have already indicated that we have delivered the third destroyer five months ahead of the schedule. So whenever the deliveries we are able to, we are in a position to make any delivery ahead of the schedule, it has a positive impact on the costs and a positive impact on the profit as well. But contractually our margins remain what they are, between 7% to 8%.
- Arvind:** Right sir, right, got it sir. Thank you very much. If there's anything further, I'll come back at the back of the queue again.
- Moderator:** Thank you. The next question is from the line of Rohit Natarajan from Antique. Please go ahead sir.
- Rohit Natarajan:** Thank you. Thank you for this opportunity. Sir, if I understand it correctly, this refund of LD per submarine, it's almost like INR160, INR170-odd crores. So what is that accounting looking like in this quarter? What is that amount provision reversal that you did and which line item is that contributing to?

- Sanjeev Singhal:** The line item is 'Other Operating Income' and the approximate amount is INR162 crores for quarter ended 30th September. In addition, I would like to add that our request with respect to delivery number four and delivery number five, i.e, submarine number four and five, this is also under active consideration and we expect that these two also would get decided in favor of MDL anytime.
- Rohit Natarajan:** Okay. Okay. My second question is on the P75 Scorpene part, the price submission which will be submitted in the month of December, how long would the Indian Navy take the call to finalize the order? I mean, I know it's not in your domain as such, but still from your expertise, you could possibly guess the tentative timeline when can this particular order get translated?
- Jasbir Singh:** It could take the negotiations, as the earlier experience goes, could take up to six months also.
- Rohit Natarajan:** Okay. Kind of timeline
- Jasbir Singh:** Because yes, six months and above, usually that is the timeline, but we don't know. I mean, there are a lot of variables.
- Sanjeev Singhal:** A lot of variables are there, so difficult to assign any specific timeline. This can happen really fast also because this is a follow-on, these are follow-on submarines of an existing platform.
- Rohit Natarajan:** Okay.
- Sanjeev Singhal:** And a number of agencies would be involved which are beyond MDL.
- Rohit Natarajan:** Okay. My third question is on this NGO PV orders. I understand that you are doing marquee orders like destroyers and frigates. Why do we have to confine ourselves to something like a patrol vessel? Is there a strategic rationale for this?
- Sanjeev Singhal:** This is not confining to a lower category vessel. We are definitely, we are the only one who manufacture destroyers and large vessels, but at the same time, there could be periods where the orders for the large vessels are not there. So simply keeping the yard idle and the facilities idle do not make sense and it is always better to have multiple customers and multiple products in your portfolio, which always aids in a better top line and a better bottom line as well.
- Rohit Natarajan:** Sure. Sir, my final question will be on the, we understand that the Next-Generation Corvettes RFP is not yet out. AoN for 8 NGD is also not yet determined as such. So what gives that picture ahead as in how do we say that, yes, we will get this order Corvette maybe by next year and NGD by technically you are qualified to do that because you have already done destroyer. So what gives that confidence that these things will probably translate in a year or two?
- Biju George:** Yes, see, the Navy has assessed our capacities to build this and also on the capability, there is no question mark. So now the decision has to be taken for the AoN etc. So that is not in our direct control. So all requisite inputs, whenever it is sought, we are transmitting to the naval headquarters and MOD and it has to get processed there. So right now as CMD mentioned earlier, we are unable to put any firm timelines by when we will get this order. So we are ready to receive the order. Our capacities and capabilities are in place.

- Moderator:** Sir, I am sorry to interrupt you, but could you speak a little louder or closer to the mic because your voice is sounding at a distance.
- Biju George:** Yes, so what I was saying is that, see, the timeline we are unable to commit at this point when we will get the NGC or when we will get the NGD. And NGC is of course by competition. So we have to commercially compete with other shipyards. So we will put our best foot forward in this project and our expectation is that some of these orders will come to us.
- Rohit Natarajan:** Got it, sir. But if I have to look at from a realistic timeline perspective, maybe by FY '26, Corvette will be awarded. Is that the right way to look at it or is there much more color to it?
- Sanjeev Singhal:** Actually, we would not like to be speculative. That the strength based on which we are able to say that these orders are there in the pipeline is that number of steps are involved. As Director of Shipbuilding has already mentioned, there is an assessment which has been taken by the Indian Navy with respect to yards which are capable of constructing these kind of vessels.
- So this capability -- capacity assessment has been done with respect to MDL also. So based on this assessment and based on other steps about which we are privy, we have a fair assessment that these projects are there in the pipeline. Timeline is dynamic and dependent on many factors including the geopolitical situation and the government priorities which keep on fluctuating as per the requirements.
- Rohit Natarajan:** Got it, sir. I will get back into the queue. Thank you for answering it.
- Moderator:** Thank you very much. The next question is from the line of Dipen Vakil from InCred Equities. Please go ahead.
- Dipen Vakil:** Thank you for the opportunity, sir and congratulations on a good set of numbers. Sir, my first question is on the line of, sir, can you broadly share the breakup of our current order book and its execution period?
- Sanjeev Singhal:** Yes, as far as the current order book is concerned, out of the project 15 Bravo which comprises of four destroyers, we have already delivered three. So only one more destroyer remains to be delivered which we are targeting to deliver by sometime next year. The balance order book is around INR12,000 crores, INR13,000 crores. As far as 17 Alpha stealth frigates are concerned, MDL is entrusted with four number of stealth frigates. We will be starting the delivery of the first vessel next year and subsequently one vessel each year. The approximate value is INR17,500 crores.
- With respect to Scorpene submarines, the balance value with respect to the last Scorpene submarine, which we are targeting for delivery sometime within this financial year or early next financial year, would be around INR4,000 crores and Medium Refit with Life Certification, the major order which we received this year in the month of June, '23, is around INR2,500 crores. So total is INR37,500-odd crores.
- Dipen Vakil:** Okay. Thank you so much, sir. So my next question on the line of, sir, you mentioned Israel-Hamas war has impacted your execution to some level. So can you give us a little more detail

around which product is, which platform is impacted because of which and what is, what will, what do you expect going ahead?

Sanjeev Singhal: Mitigation measures are in place. We are not sure whether, exactly whether the impact will be there or not. This is with respect to 17 Alpha frigates. So considering the sensitivity of the issue, we may not like to discuss it in detail. For the current financial year, we believe that we'll be able to maintain the guidance and going ahead also in between, alternate measures will be developed which can take care of the requirements.

Dipen Vakil: Got it, sir. So from the order pipeline that you shared earlier, so which ones are the ones that you expect to realize in this financial year?

Sanjeev Singhal: I didn't get you clearly. Can you come back again, please?

Dipen Vakil: Yes. Sir, I mentioned that from the order pipeline that you mentioned to an earlier participant, what will -- what, which are the orders that you expect to realize in this financial year in the second half?

Sanjeev Singhal: I already detailed it out in my introductory opening remarks. We are expecting another order with respect to six number Next Generation OPVs from Coast Guard, approximately INR1,400 crores. And most probably one export order from a European client, around INR600 crores to INR700 crores, maybe another two months. So total one order of INR310 crores we have received this financial year, INR1,400 crores from Coast Guard by this month and another INR700 crores export order by December and INR2,700 crores MRLC which we received in June-July this year. So this would take approximately, INR5,000 crores of orders for this financial year.

Dipen Vakil: That's very encouraging, sir. Thank you so much for answering my questions and all the best.

Moderator: Thank you. The next question is from the line of Mr. Amit Dixit from ICICI Securities. Please go ahead, sir.

Amit Dixit: Yes, thanks very much for taking my questions. Sir, three or four questions, if I may. The first one is that since we have delivered platforms ahead of time, so the INR37,500 crores order book that you have, when do you expect it to get exhausted? And when can we expect the peak revenue? Will it be FY '25 or FY '26?

Sanjeev Singhal: It could be FY '25. It could be, depending upon if there are any equipment delays, it could be FY '26. We are currently expecting FY '25 to be the peak revenue year. And as far as the breakup is concerned and the execution timelines is concerned, for the previous query, I have already detailed it out in full details with respect to what are the pending orders and by what time we plan to execute them.

Amit Dixit: Yes, sure, sir. That's taken. The second question is essentially on P-75(I). So what are the components or subcomponents that we are looking to indigenize in this? That would be, I mean, that would be different from P-75, or over and above P-75?

Jasbir Singh: As far as indigenization for submarines is concerned, our target is to aim for equipment indigenization of as many equipment as possible. Now there are total 165 equipment if you map all the 8,000 components onto the -- of the submarine. Of those 165, we have already indigenized more than 30. And balance, there are a few of them which will be -- which are high or critical technology equipment for which there are tie-ups already happening between the foreign OEMs and Indian partners.

And those would be manufactured in India. In addition, I've been assured there are many items that those are being manufactured in India. So overall, we'll be reaching more than about – about 60%. That is the target.

Amit Dixit: And in P75, it was?

Jasbir Singh: About 30%, 32% right now.

Amit Dixit: So, sir, between 32 and 60, if you can just outline two or three critical high-value components that we are looking to indigenize, that would be great?

Jasbir Singh: Yes. Indigenization of combat system is on the anvil, which comprises the complete set of integrated combat system, the attack periscope, the search optronic mast, sonar, and nav equipment, communication equipment. So these are the ones which are being indigenized. I mean, these are slated for indigenization. Major components, since you asked. In addition to that, there is HP air compressor, which is a critical item for the submarine that is being targeted. So then, these are the major ones.

Amit Dixit: Okay. And these are expected to be indigenized from the first submarine itself, or it will take like time?

Management: It should be from – I mean, the target is to ensure that they are, you know, indigenized from the first submarine. But as we go by, more and more critical items will also be indigenized. There will be – that is how – I mean, it will be on an – what do you call – increasing scale as we go across submarines. So – but we aim to do it from the first submarine onwards.

Amit Dixit: Okay. And in this submarine, since we are taking the QIP system from Thyssenkrupp, so what would be the margins, you know, whether margins would be different for this submarine compared to P-75?

Jasbir Singh: Margins are according to government regulations. So that is according to DAP. And so we are always at about 7.5%.

Amit Dixit: Okay. So margins won't be different from your submarines. Okay. Now, coming to...

Jasbir Singh: And also, you see, we have the other project that we are talking of, additional Scorpene. So that is slightly – if you ask me, slightly ahead of P-75i. So I'm talking in relation to that also.

Amit Dixit: Okay. Okay. Regarding the Frigate that we have, P-71A, now are we deploying Shakti system in this or we still have some way to go?

- Biju George:** EW Shakti is there. The electronic warfare is there.
- Amit Dixit:** So that has been deployed on all the frigates. That will be deployed on all the frigates. That will go, potentially. Okay. So one more question. So, you know, till the time we really get the big orders, I mean, destroyers and all, they might take their own sweet time. There are many RFPs for, you know, small platforms like interceptor boats, patrol vessels, etcetera. So are we going to participate in some of them?
- Sanjeev Singhal:** Yes, we do intend to participate. And we have been participating in submitting bids almost against all the orders, all the tenders with respect to shipbuilding.
- Amit Dixit:** And this MRLC, is it a sort of recurring, revenue that we will get every year or, there is like, there might be times when there would be a little bit of lumpiness in this?
- Sanjeev Singhal:** There is a cycle of normal refit, which is approximately six years from the commissioning of the submarine. So considering that our first Scorpene submarine was commissioned in 2017, we expect the normal refit somewhere in 2025. And between 2017 to 2022, we have delivered five submarines. So there would be a cycle where almost one submarine should be coming for a normal refit every year starting from 2025.
- In addition, there is a proposal for retrofitting these submarines with air independent propulsion system also, depending upon the success of the same by DRDO. So in case the AIP system is available, so these submarines will also be refitted with AIP.
- Amit Dixit:** But these will be fitted with AIP deployed by DRDO, not by TKMS?
- Sanjeev Singhal:** This would, no TKMS role is not there for AIP. AIP would be by DRDO. Maybe some equipments may be manufactured by other manufacturers. And the refitting part and integrating in the submarine would be the responsibility of MDL.
- Amit Dixit:** But for considering the fact that, you know, we might be executing these refits while we get, let us say, P-75i or even the repeat order of P-75. So are we fully equipped to do all these simultaneously or something will be delayed or given to preference over the other?
- Jasbir Singh:** As you must be aware, we have got a capacity for building 11 submarines concurrently. And we have, so we would be moving ahead concurrently on all the projects.
- Sanjeev Singhal:** Right now, we have two submarines. One is the new construction, the sixth submarine of P-75 and two MRLCs. The first MRLC is the target we are targeting for delivery by this year end. And the Scorpene submarine, sixth submarine, we are targeting by last quarter of this financial year or first quarter of next financial year. So this essentially leaves us with only one MRLC. So as such, we do not see any capacity constraints, even if P-75i additional submarine and refits start coming together.
- Amit Dixit:** And there are no constraints with respect to manpower also. We have the skilled manpower in place.
- Jasbir Singh:** Yes.

Amit Dixit: Okay. The last question from my end essentially would be that in exports, apart from this, you know, letter of intent that has been signed with the European country, are we also trying to get some more export orders or collaboration like we had with one Russian naval yard? And also, if you can highlight the key aspects of this master ship repair agreement that we have recently executed with US, when we can expect revenue from there?

Biju George: Yes, for export orders, we have been making consistent efforts in the past couple of years. And this is the first order that is almost come to be materialized. Now, we have also explored the export market and we are in touch with a number of clients. So at present, again, as I said, we are unable to predict, forecast whether any order will materialize. But we have given some techno-commercial bids to some of the clients. And depending upon our capacity, we may have to go for a combination of building it in house and through subcontracting if those orders materialize.

And as far as the MRSA is concerned, we have been registered as one of the repair yards in the country, along with Larsen & Toubro. And we will get the future tenders whenever it is getting floated. As of now, they have not given anything. So, and they have also not indicated when the next repair is likely to come.

Moderator: Thank you. The next question is from the line of Arvind from ValueQuest Investment Advisors Private Limited.

Arvind: Hello. Sorry for coming back on. Just one question, sir. At present in our revenues, what would be the breakup between new build versus ship repair? If you can give us some clarity on that, if it is possible.

Sanjeev Singhal: Currently, the repairs is a small fraction only. It is primarily the new builds. The only repair which we are undertaking right now is the medium repeat and life certification, which is in order of INR2700 odd crores. As far as this quarter is concerned, there has been a very small contribution from the repairs.

Moderator: Thank you. The next question is from the line of Amit Dixit from ICICI Securities. Please go ahead.

Amit Dixit: Sir, just one last question, actually. So, the thing is that, can you split the cash balance between advances and our own cash?

Sanjeev Singhal: Our own cash would be to the tune of INR2,400 crores.

Amit Dixit: And this is the, and it is expected to remain at a similar level. I mean, this is the sustainable level of cash that will remain on the balance sheet?

Sanjeev Singhal: Not necessarily. It would depend, the dividend pay out brings it down, if any capex plans are there, it brings it down. Of course, we keep on earning also on a quarter to quarter basis, but this is a fluctuating figure. So, it cannot be a stable or stationary figure that we go on INR2,400 crores.

Moderator: As there are no further questions, I would now like to hand the conference over to Mr. Amit Dixit for closing comments. Please go ahead, sir.

Amit Dixit: Yes. Thanks, Malcolm. Thanks, everyone, for sparing your time this afternoon for this call. And I would especially like to thank management for very patiently answering the questions of participants. Thank you, sir. And I would like to turn the call to Mr. Singhal for any closing remarks, sir.

Sanjeev Singhal: It's always a pleasure to interact with the investors and clarify their issues. And we also get to learn many things and what is the market expectations. We can only state that the company has been doing good and going ahead, we expect the company to do better. So, this is the only assurance to the investors. I once again wish a very happy Diwali to all. Thank you.

Moderator: Thank you. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.