



“Mazagon Dock Shipbuilders Limited
Q1 FY '25 Earnings Conference Call”
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MODERATOR: **MS. JYOTI GUPTA – NIRMAL BANG EQUITIES**

Moderator: Ladies and gentlemen, good day and welcome to Mazagon Dock Shipbuilders Limited. Q1 FY '25 Earnings Conference Call, hosted by Nirmal Bang Equities Private Limited. 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 assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Jyoti Gupta from Nirmal Bang Equities. Thank you and over to you ma'am.

Jyoti Gupta: Thank you Manav. Hello everyone. On behalf of Nirmal Bang Institutional Equities, I welcome you all to the Q1 FY '25 Earnings Conference Call with Mazagon Dock Shipbuilders Limited management. We have with us Shri Sanjeev Singhal, Chairman and Managing Director, Additional Charge and Director Finance, Shri Biju George, Director, Shipbuilding, Commander Vasudev Puranik, Retired Director, Corporate Planning and Personnel and Director, Submarine and Heavy Engineering, Additional Charge. Without further ado, I request Shri Sanjeev Singhal to start with the opening comments after which we can open the floor for questions-and-answers. Thank you and over to you sir.

Sanjeev Singhal: Very good afternoon and welcome to all the participants. This is from Mazagon Dock Shipbuilders, Sanjeev Singhal. The results have already been declared today afternoon. I believe that the investors would be happy with the results. As far as MDL is concerned, the company has been performing strongly and consistently and we believe, going ahead, to continue with a similar kind of a performance improving upon quarter-to-quarter. With this brief introduction we can start the question answer session.

Moderator: Sir, should we begin the question answer session?

Sanjeev Singhal: Yes, please.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Amit Dixit from ICICI Securities. Please go ahead.

Amit Dixit: Yes sir, good evening everyone and thanks for the opportunity. Congratulations for a good set of numbers. I have three questions. The first one is if you could let us know the status of P75 and P75I. There were media reports indicating that P75I we were successful in the field trials while the other bidder, there were some observations. Just wanted your comments on that and when do we expect this to be closed? That is the first question I have.

Sanjeev Singhal: We don't have any comments with respect to the media reports. As far as the status of the project is concerned, with respect to P75 additional Scorpene submarines, we have already submitted the prices. Two rounds of assessment by the costing committee have happened.

I believe that the costing committee is close to finalizing their recommendations and with that the further processes should start with respect to order placement and other formalities once the prices are considered to be in acceptable range.

With regard to P75I, the information available with us is that the field evaluation trials with respect to the proposal of MDL and TKMS combined, they have been found to be successful. So, this evaluation is done. So now we are waiting for the next phase for technical discussions, if any, from the naval side.

Amit Dixit: Okay. Okay, sir. The second question is with respect to the margins. We see margins are pretty high in this quarter. So, were there some LD refunds in this quarter?

Sanjeev Singhal: No, there was no LD refund per se as far as this quarter is concerned. Although there are two more submarines for which we expect LD refund. They are at different stages of discussions. So may be in the coming quarters, those LD refunds should be coming in. As far as this quarter is concerned, there was no LD refund. But yes, with regard to our destroyer deliveries, the second destroyer is also close to the completion of the D-448 liability.

So whatever provisions were catered for the second destroyer as well as for the first destroyer, the warranty period is already done. And for the second destroyer also, because we are now close to completing our D-448 liabilities, so whatever provisions were required or they were catered for, so now they are being released. Whatever excess provisions have been there.

Amit Dixit: Okay, sir. That is helpful. So, the third question is on P-77 project. Any light you can share on this? Are we involved in developing this with DRDO or any color you can shed on this?

Sanjeev Singhal: Right now, nothing to share.

Moderator: Thank you. The next question is from the line of Kriti Tripathi from NVS Brokerage. Please go ahead.

Nalin Shah: Yes, this is Nalin Shah, NVS brokerage. Yes. At the outset, I would like to congratulate the management for, I would say, bumper performance this time. And we are very happy to see this performance. Particularly, the margins have improved, I mean, dramatically from 15% to 26%. In the beginning, sir, you have already said that we see the similar performance throughout the year. So, can we assume that what is the kind of trend, which was there in the previous full year, FY '24, Can we assume the similar trend to be in FY '25 and the similar margins to be maintained? That is one. Secondly, what is the total book size, order book size today and how much it is implementable before March 25?

Sanjeev Singhal: Yes, with respect to the margins and moving forward, how does it continue? We expect in case there are no surprises and there are no liabilities, because these are long gestation period orders, executed over 10 to 15 years. They have long period post-delivery and commissioning also where the liabilities with the company continue. With respect to the first ship, the warranty period, which was delivered in '21, the warranty period, etcetera, got over

Okay. With respect to the second ship also, we are now close to completing our D-448 liabilities. So, the similar position would be with respect to third ship and the fourth ship when we deliver it. So, there is a very long period post-delivery also. So, this is a period where the liabilities can accrue or arise. So in case there are no surprises, no major liabilities accrue, we expect that a similar kind of performance, what we registered last year, this should continue.

- Nalin Shah:** Okay.
- Sanjeev Singhal:** This is with regard to the performance. With regard to your second query regarding the order book, the order book as of today, I am not giving as on 30th of June, it is slightly dated, as on today, the order book is 40,400 odd crores. Okay.
- And as far as the revenue for the current year is concerned, we are targeting may be some increase over next year, over previous year, still to firm up the numbers. As we move ahead, the clarity would be available may be after second quarter.
- Nalin Shah:** Okay. But margins, you feel that continue to be maintained like Q1?
- Sanjeev Singhal:** For the existing projects, in case there are no surprises, we believe a similar kind of a position should be there.
- Moderator:** Thank you. The next question is from the line of Jayesh, a shareholder. Please go ahead.
- Jayesh:** Thank you for this opportunity, sir. I had one question. What would be the order book of your 47% associate company, Goa Shipyard Limited? What would be the value of work unexecuted for GSL? Can you give us that number also? I did find it in the presentation.
- Sanjeev Singhal:** Although Goa Shipyard happens to be our associate company, where we are holding around 47% of the equity. We do not have any kind of a management control. It is a pure investment, and we are concerned with the dividend only.
- Beyond that, we do not entertain any queries with regard to Goa Shipyard. For accounting purposes, whatever profit is there, it impacts MDL's net worth and the profit, whatever proportionate share is there, that is added to MDL's profit in consolidated accounts.
- Moderator:** Thank you. The next question is from the line of Praveen Desai, an individual investor. Please go ahead.
- Praveen Desai:** Good evening, sir. And congratulations for a good set of results. Sir, my request is to split up the share value because now it is a high share value. So, everybody cannot take part in that, and liquidity can also increase. And one more thing, when we get Navratna status, you did not elaborate much about that thing, sir. We were eager to hear something from you regarding that. So, please elaborate something on that. How far we are progressing and how far status has been advantageous to us like that. Thank you very much.
- Sanjeev Singhal:** As far as splitting of shares is concerned, being a government company, this decision is taken by Department of Investment Planning and Asset Management, DIPAM. So, whatever is their decision in this regard or any other issue, as a company, we will be abiding by that. We don't have any information as of now.
- With regard to Navratna, as a corporate governance abiding citizen, as a company, we had intimated this information immediately when we were conferred the Navratna status. As a Navratna company, it provides a significant advantage to the company as significantly higher

powers are available with the board. Capex decisions can be taken without any kind of a restriction or without any reference to the ministry, which facilitates quicker decisions.

With respect to joint ventures and collaborations also, compared to the...as a non-Navratna company and a Navratna company, we can collaborate up to a significantly higher financial exposure, up to INR1000 crores for each collaboration or JV. So, there are certain advantages - as far as the customers are concerned, particularly the foreign customers. There are also a company with a tag of Navratna, has a better standing or a rating with respect to servicing of the orders. So, these are the few advantages which we believe would be accruing to MDL as the time passes by.

Moderator: Thank you. The next question is from the line of Gagan Thareja from ASK Investment Managers. Please go ahead.

Gagan Thareja: The provision write-back that you indicated, can you give the value for that? How much is the magnitude of the provision write-back?

Sanjeev Singhal: These provisions write-back are, actually for a shipbuilding industry, this is a different accounting altogether. There are no provisions per se created. It is the estimated cost to completion. The difference between the order value and the estimated cost to completion is for an accounting period. So, depending upon what kind of a cost to completion is technically estimated, what kind of expenses may be there, the cost to completion fluctuates on each assessment date, on a quarterly basis or a yearly basis. So, depending upon the, in case the cost to completion is coming down, it raises our profits.

So, it better happens as we come close to the completion of the project or completion of a milestone. Like in case of a delivered project, the milestone would be completion of D448 liabilities, completion of warranty periods, completion of all pending issues. So, certain costs are considered while calculating the cost to completion towards these milestones. In case the company does not incur those costs, they add to our profit. I hope I have been able to explain you.

Gagan Thareja: I understand conceptually what you are trying to indicate, sir.

Sanjeev Singhal: There would not be an amount which has been kept separately as a provision.

Gagan Thareja: I get your point, sir. It is just that I am trying to assess. Even from that standpoint, when you say that the final cost landed up being lower than the estimated cost, to what extent was the difference? The magnitude can be enumerated.

Sanjeev Singhal: On different dates, the cost to completion would be different. It fluctuates every quarter. We do not have the numbers immediately available with me with respect to what was the CTC last quarter and what is the CTC now. This CTC could be different. This could be on the positive side or a negative side for next quarter, depending upon what liabilities actually accrue.

- Gagan Thareja:** But if that is the case, then ideally you should be having a huge volatility in your -- if not huge, you should definitely be having volatility in your quarter-to-quarter margins. That really would not have been the case if I go at least in the recent past.
- Sanjeev Singhal:** Volatility would be there. At the same time, in case the liabilities do not accrue in a quarter, just for a very crude example, if I am keeping INR100 for one full year and in the first quarter no liability accrues, maybe I can reduce it to INR70-INR75 after the completion of the quarter. Maybe after two quarters, I can bring it down to INR50-INR60. This is just for an example. This is a crude example, of course. But this is an assessment for the balance period, what kind of liability can accrue. This estimate may turn out to be correct, may not turn out to be correct.
- Gagan Thareja:** Right. But you indicated that for platforms which are close to delivery, you have a fairly accurate idea of the difference between your original estimates and your final estimates. Our director shipbuilding will intervene
- Biju George:** One is delivery. Delivery, of course, is a milestone. But our liabilities do not end at delivery. The liabilities extend from the delivery date into the warranty period. Now, this ship is having a number of systems, hundreds of systems, which is having electronic components, which are complex, which are having imported components, which are integrated across systems.
- But we do not know how these are going to behave during the warranty period. In our experience, different ships have behaved in different manner. In one particular ship, it may be X is requiring attention. In another ship, Y is getting disturbed and requires attention. So, we are unable to predict in a fair manner where the liabilities would arise and what would be the nature of guarantees which we need to service to the customer. So, at delivery, of course, the major yard efforts would come to a close.
- But the liabilities would be there, which involves cost. Therefore, we need to cater for that. As progressively we move to the completion of the guarantee period, whatever has been provisioned, as CMD mentioned, that will be released as the same is not utilized.
- Gagan Thareja:** If we refer back to the 1Q call, I think you indicated that there are three to four platforms up for delivery this year. In fact, some of these platforms, the deliveries are going to happen prior to the scheduled date. So, two questions there. One, cumulatively, these deliveries to your estimate add up to what value for this financial year? Two, in case you manage to deliver them before the scheduled or stipulated date, obviously your costs are lower and therefore there is a beneficial impact on margins. Over and above this provisioning or this difference between estimated cost and realized cost. And also, you have, pertaining to the submarines, for two more submarines, for which you negotiated for the extra cost incurred and which has been approved. So, between all of these three, to me it would seem there is a very sizable, sort of positive possibility of increment in margins. So, on these two aspects, one, the total value of orders for delivery in FY '25. Two, between these three, the impact on margins, if you could clarify?
- Sanjeev Singhal:** As far as the provision with respect to impact on margins is concerned, the projections are not prepared in such granularity. As far as deliveries are concerned, yes, we are targeting three deliveries. One for destroyer, which we plan before the contractual delivery schedule.

One frigate, which we are targeting to meet the delivery schedule, because this is the first frigate of the project, so this is the first of the class. There are challenges, but we are targeting that we should be able to meet the contractual delivery timelines. The third is the sixth submarine, the last submarine of the project, which for certain unavoidable reasons has been lingering for some time.

So, we expect these three deliveries to happen. But there are so many variables involved, the projections which you are looking and the granularity which you are desiring, that is not feasible.

Gagan Thareja: I am not stating that this is what will happen. All I am saying is that this is the fact that there is a possible hypothetical case where the deliveries will be met as per your anticipated date?

Sanjeev Singhal: We don't work on hypothetical assumptions. Whatever is the status, this will be available to you in next quarter. 30th June numbers are there, 30th September numbers, if the deliveries are happening, 30th September numbers will be there. We will be coming to the investors every quarter.

Gagan Thareja: And if I recall correctly, I think last quarter you indicated the possibility of delivering even two frigates this year. Do you stand by that?

Sanjeev Singhal: Our target date is February. It could be a touch and go situation. If everything goes well, because it has not reached to that stage.

Biju George In the third quarter, we have to pass an important milestone which is the basin trials. If that happens, we are confident of delivering in Q4.

Gagan Thareja: Given that, is it not reasonable to surmise that sales growth itself should push up from what we have seen in 1Q? I am not looking for values, but it would seem to me to be a very reasonable surmise that top line growth should push up and push up well in the balance three quarters.

Sanjeev Singhal: We have indicated that we are looking for top line higher than last year. Numbers that we are not assigning right now.

Gagan Thareja: The final one, sir. On order pipeline, if you could discuss what RFPs are there in the pipeline over the next three years or three to five years' time frame.

Biju George: We will be bidding for eight next generation Corvettes. So that is the first one where we are bidding. Secondly, other projects are all at certain stage. Navy is considering a number of projects that have not gone into the AoN stage, we will be able to comment on that only after the AoN comes and where all we have the potential to participate. Next Generation destroyers, next generation frigates, etc. In parallel, we are also bidding for some export orders. As of now, these are the things we can mention to you.

Sanjeev Singhal: And with respect to submarines, I have already elaborated. Three number additional submarines, what is their status, Six number P-75I submarines, what is their status, I have already elaborated that. With respect to next generation destroyers and next generation frigates, there is a requirement, likely to take some time before it firms up.

- Gagan Thareja:** Thank you, sir. I will get back in the queue if I have more questions. Thanks for taking my questions.
- Moderator:** Thank you. We have our next question from the line of Rajesh Hemdev from Re Infra. Please go ahead.
- Rajesh Hemdev:** Good evening and congratulations to the Mazagon team. Thankfully, my questions have already been answered by the previous person who fielded his questions. Similar questions I had. So thank you so much and congratulations again. Wish you all a happy Independence Day tomorrow.
- Sanjeev Singhal:** Thank you.
- Moderator:** Thank you. We have a follow-up question from the line of Naleen Shah from NVS Brokerage. Please go ahead, Naleen sir. Mr. Naleen, as there is no response, we will move on to the next question. The next question is from the line of V K Vishnoi, an Individual Investor. Please go ahead.
- V K Vishnoi:** Good evening, sir. First of all, accept my heartiest congratulations for giving wonderful results. Results are simply out of this world. And my second statement would be that I want to convey my gratitude to you. I am a retired civil servant, and I invested heavily in your company when it was at about INR250. And your company, your management has simply changed my life. I would request you to explain one thing.
- Earlier one question was raised about division of shares or about issue of bonus shares. Have you given some proposal to ministry for dividing the shares or for issuing bonus shares? Or if not, would you like to do it now? Thank you very much.
- Sanjeev Singhal:** No, this is an area which I have already clarified, which is taken care by Department of Investment Planning and Asset Management, DIPAM. And there is no requirement of any kind of a proposal from our side. The complete set of information is shared with DIPAM on a regular basis.
- So they are fully aware of what is the status of the company. So whatever decision the government intends to take, that would be conveyed to us. And whatever procedural formalities are required, we will process that.
- V K Vishnoi:** Okay. Thank you. Thank you very much. And congratulations.
- Sanjeev Singhal:** Thank you.
- Moderator:** Thank you. We have our next question from the line of Praveen Desai, an Individual Investor. Please go ahead.
- Praveen Desai:** Yes, thank you. I got the answer regarding splitting of the shares that I wanted to convey you that you can also convey on our behalf to the government. And your committee management can convey on our part that shareholders were asking for splitting up the share. Because now the share value is INR5000. So split of value, if it is as low as five, then also it becomes 1,000.

So it is a high value stock. But you told that it is not in our hand to recommend them. They manage themselves. So I got the answer. And thank you very much, Singhal sir. And best of luck to you, everybody. Thank you.

Sanjeev Singhal: Thank you very much.

Moderator: Thank you. We have our next question from the line of Jayesh, an Individual Investor. Please go ahead.

Jayesh: Thanks. This is actually a follow-up question. Sir, our profitability has been very good and is likely to continue to remain so. Our dividend policy has been in line with what government companies typically, what is specified typically for government companies in terms of 25% of the PAT numbers plus or minus a certain percentage. Any thoughts around increasing the dividend payout ratio, given that our profitability in this year has been quite good compared to previous years?

Sanjeev Singhal: In fact, we are looking for substantial capex and infrastructure augmentation. So I believe that also the growth of the company should be more important than distribution of profits by way of dividend. In any case, considering the share market price today, our dividend, the company declares, would be, in terms of percentage terms it would be a very paltry amount. So we have significant plans with respect to infrastructure augmentation. We will be focusing, like to, focus on that.

Jayesh: No, absolutely, sir. First, capital allocation should be towards growth and only then for dividend. So, yes, I mean, my question was that, okay, what would be that number that you would be looking at for, let us say, infrastructure augmentation in terms of capital commitment out of your current profits?

Sanjeev Singhal: See currently, we are expecting an expenditure of INR 4,000 crores to INR 5,000 crores over the next four to five years. And recently incurred around INR800 crores in acquisition of land on long-term lease basis and settlement of our existing long-term lease. Approximately INR800 crores has already been spent. And now this land and the Nhava land is to be developed. Whatever infrastructure constraints are there we are targeting to address those.

Jayesh: Sure. Perfect, sir. I think that is the right approach. Thank you. My question is done.

Moderator: We have our next question from the line of Gagan Thareja from ASK Investment Managers. Please go ahead.

Gagan Thareja: Yes, thanks for taking my question, sir. You indicated that this year you have three deliveries, possibly four. For '26, is it possible to give with some broad brush what could be the possible deliveries?

Biju George: For '26, we are planning to deliver the third frigate. And then we have -- in case second is not happening this year, then second and third. In case second is not happening this financial year, in the financial year '25- '26, we will have to deliver two frigates. Then we have also one delivery

in financial year '26 for the merchant ship. So, then there is also delivery of the fast patrol vessels. So, these are the four deliveries that will be there.

Gagan Thareja: On fast patrol vessels, how many will you be delivering in '26?

Biju George: So, we are expecting one delivery.

Gagan Thareja: So, one to two frigates and...

Biju George: Two frigates, one merchant vessel.

Gagan Thareja: One merchant vessel and...

Biju George: Yes, one fast patrol vessel.

Gagan Thareja: And one fast patrol vessel. Alright. And in terms of margins, while '24 -'25 would have the benefit of, the submarine cost escalation being provided to you, that will go away in '26. So, on a normal, normative basis, what should we think of as broadly a sustainable band of operating margins for you beyond FY '25?

Sanjeev Singhal: As far as our normal sustainable margins are concerned, these orders are on nomination basis, where the margins are around 8%. However, whatever efficiencies have incurred, because these are long duration projects, during execution, whatever R&D has been done, whatever processes have been developed, whatever efficiencies have been incurred, they have a smoothening effect or a positive effect on the profits. And in case the deliveries are happening prior to the schedule, that also has a positive impact on the profits.

So, moving ahead, these contracts which were awarded to us, the frigates contract was also awarded to us in 2015. So, I don't see a structural change in the contract. As and when the new contracts are awarded, then maybe we can take an assessment or a relook with regard to the margins corresponding to those contracts. Right now, we continue to execute the projects which were awarded long back.

Gagan Thareja: So, when you say 8%, which margin are you referring to, PAT, PBT or OPM?

Sanjeev Singhal: 8% is the PBT.

Gagan Thareja: PBT margin. But you have been well above that number for quite some time now.

Sanjeev Singhal: I have already given the explanation also, why the margins are high. 8% is at the time of the signing of the contract based on the estimated cost delivered by the costing committee and assessed by the customer as well as us. So, on the way, during execution, if any efficiencies are there, they add to our profits. If any procedures are changed, new procedures are developed, new R&D takes place, which brings down our cost. So those benefits accrue to the company.

Gagan Thareja: So, is 12% a sustainable margin or you moved from 12% to 15% perhaps last year?

Sanjeev Singhal: That is for you to assess. We would not be assigning numbers.

- Gagan Thareja:** Alright. Okay, sir. And what would be the execution timeline for this INR 40,000 crores approximately order book that you have currently?
- Sanjeev Singhal:** Deliveries are concerned. Deliveries should be by the end of 2026. But as explained by the director, it does not end on delivery. Approximately 1.5 to 2 years, the activities continue. And in between, whatever fresh projects are coming, those executions will take over.
- Gagan Thareja:** So based on the repair, basically the spare that you will supply plus some of the warranties that you have to issue, which you discussed last quarter also could be 15 plus whatever 5, 20 odd percent. So, if I knock out that much, are you saying that by end of FY26 or FY27, whichever it is, this entire order book has to be executed barring this 20% pricing?
- Sanjeev Singhal:** Yes, existing order book.
- Gagan Thareja:** Yes, that's what I'm saying. So, if I knock out 20%, that's INR32,000 crores, you're saying that is by and large a number which should be executed between 25 and 27? Plus, whatever you can do from the intake that happens.
- Sanjeev Singhal:** Yes.
- Gagan Thareja:** Yes. Okay, sir. I get it. Thank you, sir. I'll get back in the queue. Thank you.
- Moderator:** Thank you. We have our next question from the line Of Jyoti Gupta from Nirmal Bang Equities, please go ahead.
- Jyoti Gupta:** Thank you, sir, for the opportunity. My question is, while we see the revenues going up, of course, based on the contracted value, we should also see increase in the raw material consumption. And do you see any changes on the procurement of base and depot spares as well?
- Because while it seems much lower than the last four quarters, I believe next three quarters, one is, of course, what would be the component of imported material versus indigenous products? Could that be one of the reasons why the procurement cost is actually coming down? Or is it that the inventory levels are already maintained, and you don't have to incur any further expenses? Hello? I can't hear you, sir. Hello? I can't hear you, sir. Sanjeev sir.
- Moderator:** Ladies and gentlemen, we have the management line disconnected with us. Please stay connected while we reconnect them. Ladies and gentlemen, thank you for patiently waiting. We have the management back with us. Over to you, sir.
- Sanjeev Singhal:** Yes please continue.
- Jyoti Gupta:** Yes, I asked the question that based on the revenues that we see build up; it will only grow from here. Obviously, it has to be commensurated by the raw material consumption as well and the procurement of base and depot spares. Even that should go up. If it does, then by what proportion are you seeing that going up and will that have a material impact on the raw material cost? Second is the component of imported items versus imported products versus indigenization. What is the proportion of that?

- Biju George:** Yes, so over a period of time we have achieved indigenization component of 75% plus. So remaining 20% to 25% is the import content in capital warships. So that is the answer to your first question. For the second question as I said most of the procurement has already been done. All major high-value procurement has been done and only base and depot spares which has to be handed over to the Navy during delivery as well as beyond the delivery to fulfil the warranty obligations that has to be spent additionally.
- Jyoti Gupta:** Okay. So, will that have a material impact on the raw material cost and what is that 22% of imported cost? What is it in terms of value? I mean what would be the proportion of the 22% versus 78%?
- Sanjeev Singhal:** What is this 22% you are asking about?
- Jyoti Gupta:** So, 22% we say we have become indigenized, 78% of the items are indigenized. What would be that in terms of value?
- Sanjeev Singhal:** So for the project as a whole around 12,000 crores to 13,000 crores.
- Biju George:** Yes 12,000 to 13,000 crores will be the import content.
- Sanjeev Singhal:** For the project as a whole?
- Biju George:** For the project as a whole.
- Sanjeev Singhal:** For destroyers project.
- Jyoti Gupta:** Okay. And what is the percentage of that to the overall product that 22% is equal to 12,000 to 13,000 crores. Okay. I got it.
- Moderator:** Thank you. We have our next question from the line of Darshit, Chartered Accountant. Please go ahead.
- Darshit:** Good evening, sir and very congratulations for working the setup numbers quite impressive. And thank you for giving me an opportunity to ask the question. My question is with regards to Page 75I order from Indian Navy. Wanted to know the total cost of order if the order gets finalized today and what would be the allocation between MDL and TKMS from this portion?
- Sanjeev Singhal:** This is a collaboration agreement. We are not discussing the details with respect to the collaboration agreement. I am sorry.
- Darshit:** Okay. So sir what would be the cost of project, cost of order if the order gets finalized today?
- Sanjeev Singhal:** AON value as of 2018 is 43,000 crores. We have submitted our bid. As and when it is evaluated and discussed the numbers would be out and we will be declaring it to the market.
- Darshit:** All right, sir. Thank you. I am done with my question. Thank you.

- Moderator:** Thank you. We have our next question from the line of V K Vishnoi an individual investor. Please go ahead.
- V K Vishnoi:** My query is that just now you said that you are getting these different works from Ministry on nomination basis. You manufacture submarines, frigates, destroyers. Whether it is this nomination system is applicable to all these items or it is applicable only to certain type of items?
- Sanjeev Singhal:** What I said was the current orders, the current large orders which are under execution, these are on nomination. I did not say that we continue to get orders on nomination. As of now, I don't see the nomination era moving ahead. We have received orders during last year around 21 vessels from Coast Guard, some export orders. None of these orders are on nomination basis.
- V K Vishnoi:** But from Ministry of Defence?
- Sanjeev Singhal:** From Ministry of Defence, yes, but not on nomination. All these are competitive orders. The large orders, the frigates order, the destroyers order, the submarine order which were awarded to us in 2005, 2011, 2015. These orders were on nomination basis as there was no other player, no other shipyard capable of manufacturing these items. Even as on date, as far as destroyers are concerned, as far as submarines are concerned no other Indian shipyard has a proven track record of constructing these platforms.
- V K Vishnoi:** So for these items still nomination system will be followed?
- Sanjeev Singhal:** No, I am not saying that.
- V K Vishnoi:** Okay, that means that clarity is still not there. They may go for nomination; they may go for tender also?
- Sanjeev Singhal:** Yes.
- V K Vishnoi:** Okay, thank you very much. And another question are we going for nuclear powered submarines? Is there any scope for that?
- Sanjeev Singhal:** Currently, no. We are focusing on conventional submarines. We have capacity to build 11 submarines simultaneously. Right now I am contesting for two orders which together would be nine submarines. Apart from the medium refit and life certification, which is already continuing, and we expect more to come in future.
- V K Vishnoi:** Okay, thank you. Thank you very much and all the best.
- Moderator:** Thank you. We have a follow-up question from the line of Jyoti Gupta from Nirmal Bang Equities. Please go ahead.
- Jyoti Gupta:** Sir, our employee costs have gone down substantially from 15% on average to something like 9.5% which is on FY24. Do we assume for that to remain 9.5% for the subsequent years or do we expect it to increase over the next two years, given the size of the orders that we are getting?
- Sanjeev Singhal:** In absolute numbers, whatever our wage bill is there...

- Jyoti Gupta:** As a percentage of sales.
- Sanjeev Singhal:** As a percentage of sales in case the sales are going up, this percentage would come down because we do not intend to increase the manpower in a substantial manner.
- Jyoti Gupta:** Okay. So, are we seeing any reduction in the count as well?
- Sanjeev Singhal:** No, there is no layoff, whatever happens in an organic manner, natural separation that would continue.
- Jyoti Gupta:** Okay. Thank you, sir.
- Moderator:** Thank you. We have another follow-up question from the line of Gagan Thareja from ASK Investment Managers. Please go ahead.
- Gagan Thareja:** Yes. Thanks. So there is a very sizable capacity expansion plan that you have sort of earmarked for the next 4-5 years. 5000 crores compared to what your gross profit today is while it may be a depreciated gross profit. So, in terms of incremental capacity, can you give us some idea of what in percentage terms of your current capacity, how much more incremental capacity gets added from this capex?
- Biju George:** Currently, we have like an installed capacity for handling 10 warships, capital warships and 11 submarines. Now, the facility which we are augmenting, infrastructure augmentation in two places. One is adjacent to our existing facility here in Dockyard as well as in Nhava yard. We are planning for bigger dry docks where we will be able to build as well as repair. Capacity will get augmented because primarily it is a graving dock that is coming. So, in terms of building capacity if we can minimize the dock occupancy period, more vessels can churn out.
- And if it is a repair refit so there also depending on the time of refits we can accommodate larger ships which is drawing the capacity of these ships as well, but to put a specific number in terms of number of ships at this point in time, it is slightly premature. We will be appointing a consultant, and the consultant will study and optimize the infrastructure and come out with the correct numbers.
- Gagan Thareja:** Is it possible to give a fixed asset turnover ratio on this investment a minimum fixed asset turnover ratio?
- Sanjeev Singhal:** We expect that a similar ratio we would be maintaining with the additional investment also. With respect to the number, I would like to clarify. Right now, if I can handle 10 ships they are of a certain size. With the increased infrastructure tomorrow also if I handle 10 ships they would be of a much larger dimension. It opens up new markets for us. We have a master ship repair agreement with the US Navy.
- However, majority of their vessels, we are not in a position to take because of the infrastructure constraints. So we expect with the augmentation of infrastructure, such constraints would be removed. Much larger and better markets would be available and open to MDL. So the number, if you are looking the capacity increase in terms of number that would not be possible to assign.

Asset turnover ratio, we expect going ahead. We continue to maintain a similar kind of asset turnover ratio, what we are maintaining now.

Gagan Thareja: Assume that ship repair as a proportion of sales over the next 4-5 years can increase very sizably for you?

Sanjeev Singhal: Not very sizably. That is not our target area.

Gagan Thareja: Okay. Alright. In terms of working capital, how should we think of inventory in receivable days on a sustainable basis going ahead? And is it also subject to how order inflow happens? So in day sales, you could give some idea of what should be sustainable working capital for you?

Sanjeev Singhal: Definitely dependent on the order profile and the customer profile and the payment terms. So as of now, I can only say with respect to the orders which are available in hand. We don't see any change in the next 3 years.

Gagan Thareja: Alright. And, you have been indicating that when you bid for a project, you budget for certain costs. And over a period of time, with efficiencies, you manage to improve your margins. But I think this is I get your point. My question is that this is something that the MOD is also well aware of. Do they not ask for their pound of flesh from you?

Because they realize that when you are reasonably conservative and over a period of time, you build your efficiencies. So, I mean, once they have seen that, would they not come back and say that you need to come down on your bids for certain other projects in the pipeline which follow up?

Sanjeev Singhal: For future contracts, definitely yes. Because our numbers are available with them also. But at the same time, we are also not static. We are also learning each day. So it's not that the learning is complete or beyond this the efficiencies are not feasible. Moving ahead, in case I perform my job more efficiently tomorrow, again, there would be opportunities and possibility of better margins.

Gagan Thareja: Right. And in terms of the margin profile of submarines versus ships, is there any notable difference?

Sanjeev Singhal: That would depend upon the order structure. Somehow, it still continues to remain a sort of nomination. So it would depend upon the order structure. Finally, what is the order structure? What is the variable cost component? What is the fixed cost component?

Gagan Thareja: I am also looking at it from the point of view that submarines might have a lesser indigenous content and perhaps a higher degree of imported components. Does that in any case impact margins?

Sanjeev Singhal: Definitely yes.

Gagan Thareja: Right. And even there, between P75 and 75I, 75, this will be your second project. You've learned from the first one. It's also something you're doing completely by yourself. So would margin structures or profitability be different between 75 and 75I?

- Sanjeev Singhal:** I don't see much of a difference because 75 continues to be on nomination basis where the margins would be on cost plus. So they would be by and large fixed. However, submarines provide us a different business profile altogether because a submarine has a working life of around 30 years.
- And with the medium refit and life certification, we can add another 10 to 12 years. So starting from the project execution till end of life, it is a 50-year cycle. And Navy is seriously looking at running all maintenance cycles and all refit cycles through MDL.
- Considering that we have already executed six Scorpène submarines. Sixth one is under execution and three more are coming. So this gives the Company a continuous business cycle over a very long horizon. Which isn't case with respect to ship building. Major substantial refits with respect to ships they are handled by the Navy themselves. Because they have the dedicated naval dockyards.
- Gagan Thareja:** So what you're saying is that submarines give you the advantage of a very recurring revenue stream with the mid-life upgrades.
- Sanjeev Singhal:** For a long period of time.
- Gagan Thareja:** For a long period of time, right. And generally after a submarine is commissioned, when does it come in for a refit? Is it four to five years after commissioning?
- Cdr Puranik:** Yes, I mean typically they have some refit cycles wherein there are some short refits. But the long refits generally are put after.
- Sanjeev Singhal:** Like I can give an example that the first Scorpène submarine which we delivered in 2017. We expect the refit proposal in 2025.
- Gagan Thareja:** And the refits as a proportion of the original order value are how much? In terms of order size typically?
- Cdr Puranik:** It goes boat by boat . So it would be especially the long ones which we are discussing would be around 1/3.
- Gagan Thareja:** 1/3. Okay, so one-third of the original order value.
- Sanjeev Singhal:** Between 25 to 30. Like we have delivered five submarines between 2017 and '22. 17 we delivered, 18 we delivered, 19 then 22. So these would be sequentially coming starting from '25. We expect with a gap of 12 to 18 months.
- One submarine should be coming to us for refit. And how much time does it take? About 2.5 years. So there would be overlap with respect to refit available with us. By that time we believe that the second refit cycle of the first submarine would start.
- Gagan Thareja:** Refits have a higher margin profile perhaps because they are more in the nature of repair and overhaul? Or am I wrong in that inference?

- Sanjeev Singhal:** Refits are negotiated prices. So this can have higher, this can have lower depending upon the assessment and negotiation at that point of time.
- Gagan Thareja:** Thanks for taking my questions. I will get back to you. Thank you.
- Sanjeev Singhal:** I think we have already crossed the time.
- Moderator:** As there are no further questions, I would now like to hand the conference over to Ms. Jyoti Gupta from Nirmal Bang Equities for closing comments.
- Jyoti Gupta:** That concludes the conference. Thank you for joining us and you may now disconnect your lines.
- Moderator:** Thank you for joining us and you may now disconnect your lines.
- Sanjeev Singhal:** Thank you.