



“Mazagon Dock Shipbuilders  
Q2 FY2022 Results Conference Call”

November 13, 2021



**ANALYST:**

**MR. ABHIJIT MITRA – ICICI SECURITIES LIMITED**

**MANAGEMENT:**

**VICE ADMIRAL NARAYAN PRASAD - INDIAN NAVY  
RETIRED, CHAIRMAN AND MANAGING DIRECTOR –  
MAZAGON DOCK SHIPBUILDERS LIMITED  
MR. SANJEEV SINGHAL – DIRECTOR (FINANCE) –  
MAZAGON DOCK SHIPBUILDERS LIMITED**



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**Moderator:** Ladies and gentlemen, good day and welcome to Mazagon Dock Shipbuilders Limited Q2 FY2022 results Conference Call hosted by ICICI Securities 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 '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhijit Mitra from ICICI Securities. Thank you, and over to you Sir!

**Abhijit Mitra:** Thanks operator and good morning to all the participants and thanks for joining in. We are here today to discuss Q2 and H1 FY2022 results of Mazagon Dock Shipbuilders Limited. We have from the management Chairman and Managing Director – Vice Admiral Narayana Prasad, Retired Indian Navy, and Director of Finance – Mr. Sanjeev Singhal to discuss the results and take question and answers. So, without further ado, over to the management for their opening remarks! Thank you.

**Narayan Prasad:** Good morning to you. This is Vice Admiral Narayan Prasad, Indian Navy Retired and presently Chairman – Managing Director of Mazagon Dock Shipbuilders Limited. It is indeed a matter of great honor, pride and privilege for me to welcome you all to present the credentials of Mazagon Dock Shipbuilders Limited. As you all know historically Mazagon Dock Shipbuilders Limited is the oldest shipyard in India with inception in 1974 incorporated in 1934 and taken over by the Government of India in 1960. MDL is the only shipyard in India to have built destroyer class of warships and two different types of submarines for the Indian Navy and is also one of the unique shipyards in the world with such diverse range of product.

From the time it was taken over by the Government of India in 1960, MDL has built 796 vessels including 26 warships and 6 submarines. The first warship built by MDL was brought into the Indian Navy in 1972 and the first submarine in 1992 which demonstrates our resolve towards Atmanirbhar Bharat and make in India initiatives since that time. MDL's recent deliveries over a past five years have been project 15 alpha destroyers, INS Kolkata, Kochi, Chennai and three Scorpène Submarines Kalvari, Khanderi and Karanj. I am happy to inform that MDL has delivered Visakhapatnam, a destroyer under Project-15 Bravo and Vela submarine under Project-75 on October 28, 2021 and November 9, 2021 respectively and these are soon going to be commissioned into the Indian Navy in the next two weeks, one is on November 21, and the other one is November 25.

I am very sure these platforms will certainly give impetus to the National Maritime Security for the nation and it is heartening to report that despite all the COVID constraints imposed on Mazagon Dock Shipbuilders Limited in which the entire supply chain and the productivity got disrupted and there was no oxygen supply for the industrial applications, Mazagon Dock



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Shipbuilders Limited in this year 2021 has produced and delivered two Scorpène Submarines and one Project-15 Bravo destroyer to the Navy.

With this, we will take your questions on all the matter. I have finished my initial inaugural talk. I can now take the questions.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Umesh Raut from Dolat Capital Markets. Please go ahead.

**Umesh Raut:** Good morning and congratulations for the good set of numbers in challenging quarter. My first question is about the ordering pipeline, couple of quarters back you have mentioned about Rs.3000 Crores worth of contracts from the domestic market related to the cadet training ship, ACV and fast patrol vessel, so just wanted to know how is the update over all these particular contracts right now? How soon I mean all these contracts are coming up for the bidding and secondly, in the export market, you have also mentioned one order from Argentina which was flee around Rs. 1800 Crores, so just wanted to know update on that?

**Narayan Prasad:** Thank you very much. MDL, as you are aware has a robust order book of over about 47,900 Crores presently comprising of 4 in number Project-15 Bravo Destroyer, 4 in number Project-17 Alpha stealth frigates and 6 in numbers Scorpène Submarines and besides that a medium refit life certification of a submarine which is pegged at about 1300 Crores, out of these, we have delivered four Scorpène submarines and one 15-Bravo Destroyer to the Indian Navy. As regarding to your question, what do we have in the immediate future, outlook as per the maritime capability perspective plan for Indian Navy and the Coast Guard and is essentially comprises of 7+4 next generation of offshore patrol vessels, which is pegged at about 10,000 Crores. We have already submitted the bids and we are a very, very strong contender. In another about two months' time, they would be taking out the entire consideration and we will get to know where do we stand, besides that we also have in the pipeline eight fast patrol vessels for the Coast Guard which is pegged at about 803 Crores. 7 in number Next Generation Corvettes which is likely to come up, six in number high speed Landing Craft, one in number Polar Research Vessel which is for the National Center for Polar and Ocean Research, One Survey Training Vessel, and Acoustic Research Ship for NPOL Kochi, these all are roughly pegged at about 21,000 Crores to 22,000 Crores. Whilst the response to RFPs amounting to Rs. 10,000 Crores have already been submitted and the bid for the 25,000 Crores are expected in the horizon, in the next about one to two years. Now, categorically on the cadet training ships, these bids have already been opened and the New Generation Missile Vessels/NGMV have been won by CSL and the cadet training ship has been won by L&T.

**Umesh Raut:** Got it Sir, also update on the P-75I submarine program would be helpful?



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- Narayan Prasad:** Now as regarding P75 I is concerned, you are aware that RFP for P75 I was issued on July 20, 2021 to shortlisted strategic partners which are MDL and Larsen & Toubro. MDL being one of the shortlisted strategic partner is in the process of selection of one foreign collaborator which is called FC out of total five in number and the value of this project as per the AON by the DAC is about 43,000 Crores. The revised extended date as per the Indian Navy now is up to January 4, 2022 for final bid submission and as per DPP 2016, which is relevant in this category, the time duration required for scrutiny and finalization of contract is about 52 weeks which will be about January or February of 2023, so this is what stands right now and we are still in the process of finalizing our foreign collaborator and in conjunction with them getting all the queries resolved by the Indian Navy and then finally submit the bids.
- Umesh Raut:** On this particular matter our tie up with the foreign OEM, there was a talk about the technology hindrance for the propulsion technique, which is used for the submarine, so how are we coping with this particular issue?
- Narayan Prasad:** In this conventional submarine they have used a new concept of for enhancing submerged endurance of Air Independent Propulsion system, which is called AIPS. This AIPS is fuel cell based. Now all the OEMs are supposed to have this fitted on their boats and already operationalized into their Navies, so as far as this technology is concerned, right now both OEMs which is TKMS Germany and DSME have a proven technology installed on their-boats while the other three are also claiming, at least two of them that they also have proven technologies and the fitment on board submarine is still in the process.
- Umesh Raut:** Got it Sir. My last question is more of a bookkeeping question, if I look at the half year numbers then provisions from the cost items has gone up significantly, so any particular reason for this?
- Sanjeev Singhal:** No specific reason. This is based on the review of the claims, and we have not yet closed the year 2021-2022, so these provisions will be reviewed in the last quarter, and we expect there could be a write back, for the present this has been created at the instance of the auditors.
- Umesh Raut:** Okay, got it Sir. Thank you so much for the opportunity. I will join back the queue.
- Moderator:** Thank you very much. The next question is from the line of Dixit Doshi from Whitestone Financial Advisors Private Limited. Please go ahead.
- Dixit Doshi:** Thanks for the opportunity. Sir, first is just one clarification in P75I you mentioned 5 units, 43,000 Crores value, if I remember correctly couple of quarters back it was 6 units 50,000 Crores order?
- Narayan Prasad:** This is never 5 in number. This is 6 in number submarines, at DAC Acceptance of Necessity value of 43,000 Crores.



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- Dixit Doshi:** Sir any update on the RAC of five destroyers of 50,000 Crores?
- Narayan Prasad:** Right now, with the funds availability with the Navy and as per the maritime perspective plans, they have to decide and this does feature in their five yearly plan. We do not know as to when they are going to formulate and come with an RFP, but it is very much of part of their Maritime Capability Perspective.
- Dixit Doshi:** My last question is in terms of execution, so now looking at everything is open up and let us say hopefully there is no third wave, how do you see execution going forward and sometime back we have mentioned that FY2023-2024 and 2025 will see a big jump in the revenue, so if you can guide something for FY2023, it will be helpful and let us say in this three years what kind of peak revenue we can do?
- Sanjeev Singhal:** As far as 2021-2022 is concerned, we are expecting we should be able to match the performance of 2019-2020 and going ahead, we definitely expect a growth of 10% or beyond in 2023. Just as a clarification because there are certain big ticket items which are very much touch and go during 2022-2023, so in case I am able to get these items on board within financial year 2023, there could be a significant jump, if there is a spillover to 2024 in the early part of 2023-2024 then revenue booking would be coming in 2023-2024.
- Dixit Doshi:** Okay, let us say if it falls in FY2024 then can we do 8,000 Crores - 9,000 Crores peak revenue in 2024?
- Sanjeev Singhal:** We will not be assigning any specific numbers but yes what I have told that there are certain big-ticket items which we are expecting by end of FY2023, so depending upon the deliveries because in spite of normalization the imports and the timelines with respect to foreign suppliers are still a bit dicey.
- Dixit Doshi:** Okay, that is it from my side. Thank you.
- Moderator:** Thank you very much. The next question is from the line of Venkatesh Subramanian from Logictree Investment Advisers Private Limited. Please go ahead.
- Venkatesh Subramanian:** Thank you for the opportunity. I think my question was actually answered in the previous one but just a little bit being bit more specific, if I were to get to the kind of targeted revenue by FY2023, what does it take, you meant some critical equipment coming in from abroad, if you could just expand on that and FY2022 would we see the similar numbers of FY2020 or slightly better?
- Narayan Prasad:** I will just give you a one small example. We have a technology transfer and productionisation and the trials of a product called MF-STAR. It is a radar system and expensive proposition that itself each ship has cost about 1000 Crores. Each ship is fitted with one system. Now that itself



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can add on the value of the revenue from operation. This is being assembled and executed by Bharat Electronics Limited who are in touch with IAE Israel and right now a system is already held by them in which technology transfer is taking place. Whilst they have committed to deliver for the next vessel which is the 70S INS Mormugao but we have been insisting on them but still that process is going on. Now with such kind of equipment which is going to touch and go on their arrival, this could lead to very large variation in the value of production for a particular platform and in the current financial or the next financial year is going to take place. I just gave you one big ticket item, same is the story line on in some other more on the propulsion aggregates. So this would decide how do we fair in 2022-2023 and 2023-2024 but suffice to say that as all the ships have to be produced and delivered to the customer which is Indian Navy by 2026-2027, we will have to brace ourselves and hasten up production, so VOP will certainly increase.

**Venkatesh Subramanian:** Just FY2022 numbers I was asking whether would we match FY2020 or will we get some slightly better numbers for this current financial year.

**Sanjeev Singh:** We had issues in Q1 as are visible with this supply of oxygen etc., we expect that as far as 2021-2022 numbers are concerned, they should be matching with 2019-2020 numbers, no significant variation, slightly up or down but they should be approximately 2019-2020 numbers.

**Venkatesh Subramanian:** Yes, one last question which is, our cost of production actually has gone up in this particular quarter in terms of materials etc., do you see it as a trend and is there any way can we ensure that they have profit margins protected?

**Sanjeev Singh:** As far as the margins are concerned they definitely remain protected and shipbuilding industry is a very different industry from any normal process industry, so please do not look at the cost of production moving up, this is based on the items which are being taken on the board, as far as the labor is concerned this will also depend upon the items which have been taken on the board, so these costs have no significant bearing as far as the margin is concerned because this is based on the percentage completion method, so based on the cost the sale values are decided.

**Venkatesh Subramanian:** Got it. Thank you very much. I will join the queue.

**Moderator:** Thank you very much. The next question is from the line of Bhagyesh Kagalkar from HDFC Mutual Fund. Please go ahead.

**Bhagyesh Kagalkar:** Thanks for outlining the future process for the order book. The issue here is the execution phase for the Destroyer or the frigate or the submarine projects for next 10 years to 20 years, if we see observe in neighborhood, China is delivering already 554 frigates to Pakistan, our projects, once they start it takes very long time, we have seen in Scorpène submarine, so what will change for



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the customer Indian Navy for next 10 years from our side? Can we reduce the delivery time by 30% or 40% what is the internal target?

**Narayan Prasad:**

I will just put it very, simplistically that the 15-Bravo Destroyer original duration of construction of each of the vessel was 72 months and the revised duration has been made to 106 months for the first one and 100 months for the second one, 92 months for the third and 79 months for the fourth one. Now why these changes have been brought in because there are large number of equipment which have been identified by the Indian Navy which is still at the developmental stage, similarly product definition is also a criteria in which may be takes a little while and then the product crystalize, so when we do such kind of construction to induct state-of-the-art technology and when your duration of the construction is going to be from 5 years to 7 years and within 5 years to 7 years, a large number of technology changes, such kind of a scope has to be catered for. Now when you observe what is happening in Chinese shipyards, you will find that they fix all these right at the time of commencement of production which means no variation. Same thing if it is private shipyard and a contract is crystalized, there is no further variation thereafter. So in a scenario of this kind, you can always forge ahead because all the items are defined, all the technologies are defined, all the gun system, weapon system, weapon sensors, everything is defined right at the beginning and you know where to procure from, where there are variables, case in point in the main mounting gun, it was supposed to come from US now still at the government level there are still lot of things which are happening where negotiated thing has not been arrived yet and we are still focusing on guns availability. If it not available, we have to look for another gun may be an indigenous production, so such kind of a thing slightly elongate the production time lines.

**Bhagyesh Kagalkar:**

That is valid. Thanks Sir.

**Moderator:**

Thank you very much. Our next question is from the line of Abhijit Mitra from ICICI Securities. Please go ahead.

**Abhijit Mitra:**

Thanks for taking my question. My question is more on the financial, just to understand the peak revenue potential from the current order book assuming no other order in so happens as you rightly mentioned may be in 2023 will spill over to 2024, what is that peak revenue potential as per you?

**Sanjeev Singhal:**

We have already mentioned that it would be difficult to assign any specific figures but considering that the current order book is approximately 47,907 Crores and we expect the timelines are by 2026-2027, so the numbers are going to rise definitely. It would be difficult to say which particular year, whether this happens in 2023, 2024, 2025 depending upon the high value equipments, their supplies and installation on board, so we would not be risking with respect to assigning any specific numbers linked to any particular financial year.



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- Abhijit Mitra:** Okay and what kind of margin potential you see?
- Sanjeev Singhal:** It is as per the revised timelines, we have delivered the first vessel of 15-Bravo well within time, so there is no LD implication, and we expect that other vessels will also be delivered in time.
- Abhijit Mitra:** What kind of margin potential you see in terms of expansion because your topline can potentially double, so you expect operating leverage also to flow in over the course of next couple of years at least to take the margins towards double digit?
- Sanjeev Singhal:** I would say that with the increase in the topline in absolute terms, the margins would definitely be increasing but as far as the percentage is concerned, percentage maybe we do not see very significant variation in the margins. So, these happen-to be fixed margin contract with 7.5% and this 7.5% has to cater for any provisions including the CSR etc. within this, so if any variations are there, if any LD is there or if any CSR expenditure increases there or any other provisions are there with respect to the recovery or any doubtful item, so these have to be catered within this 7.5%, so the margins there in percentage terms there may not be any significant change.
- Abhijit Mitra:** That is all from my side. Thank you.
- Moderator:** Thank you very much. Next question is from the line of Umesh Raut from Dolat Capital Markets. Please go ahead.
- Umesh Raut:** Thank you so much for again giving me an opportunity. My question is more of on a broader line about the project awarding process, so recently towards the last month actually government come up with a new guidelines for the project procurement where they are mentioning that L1 would be the kind of only criteria to select the manufacturer as such, so there could be a process where quality cum cost based selection would matter most and that is where I think, so considering all these changes in the project procurement, do you think that government is kind of moving again towards the nomination base contracts and the contracts, which came on the competitive bidding especially in last three years to four years like one on the NGMV, one on the ASWSWC, so do you think that most of these smaller platforms or the smaller vessels would now again coming on the nomination based bidding?
- Narayan Prasad:** As per the current government policies and the DAP 2020 which has been promulgated whilst the migration of the government towards competitive bidding is very well understood, still we have a provision in the shipbuilding chapter for a contract award on nomination basis, so this means they might consider award of a contract on nomination basis as well but the current government policies and their mindset is that we should have a competitive environment towards price discovery and to ensure that, every shipyard must streamline productivity and compete with each other still creating adequate margins for their profit but the government would





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certainly try to insist upon us on a competitive bidding. This is what I understand from the market scenario right now.

**Sanjeev Singhal:**

Further I would just like to clarify as far as the QCBS system is concerned quality cum cost based system this does not in any way leads towards the nomination era, this only provides for certain parameters which weigh heavily in case of any project or contracts and the quality of these parameters is of paramount importance so we also feel that this is a very fair and transparent system where applicable weightage should be given to the parameters which are critical for any project. This no way leads you towards nomination era.

**Umesh Raut:**

Sir, secondly basically on the competitive bidding side while you have bid for NGMV, so just wanted to know your thought process over there in terms of profitability because in nomination base projects you are getting fixed margins of 7.5%, so are you looking similar kind of marginal threshold for the competitive as well because there we have lost few contracts recently, so just wanted to know your thought process about the competitive bidding?

**Sanjeev Singhal:**

As you rightly said the competitive bidding the price determination is always dynamic and it would be governed by the level of competition which we envisage at the time of submission of bids, so assigning a definitive margin in case of competitive bidding contracts that would not be feasible. The contracts which we have lost, it was basically with respect to the assessment of costs at that point of time at MDL. So this would always be dynamic and varying depending upon the situation as to what kind of order books I am having, what kind of cost and whether we are in case the competition is not there, definitely the margins can be better, in case the competition is serious and severe we need to compromise on the margins depending upon the order book position at that point of time.

**Umesh Raut:**

Got it Sir. Third question is more on the financial side, so we have done roughly closer to 2700 Crores of execution in first half, so just wanted to know breakup in between P15 Bravo Destroyer program, P17 Alpha Frigate program and then repair and disputes for Shishumar class submarine and then the submarine manufacturing execution. So just wanted to know breakup in between these four items for the first half of topline?

**Sanjeev Singhal:**

For the six months, we are not having the figures readily maybe we can reply through mail.

**Umesh Raut:**

Sure Sir. One more thing how much of execution is remaining out of the repeat of submarine contracts that we have received one and a half year back?

**Sanjeev Singhal:**

The balance order position as on September 30, with respect to medium, refit and life certification of submarine is approximately 260 Crores.



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- Umesh Raut:** We were expecting another order on the similar platform to come up in near term, so any update on that particular piece?
- Narayan Prasad:** This is linked with the delivery of this vessel. So the current vessel is slated to be delivered in by about September-October of 2022. Accordingly, we presume that Navy would be able to process their case and allocate next ship for MRLC somewhere about that time.
- Umesh Raut:** Okay and that next order would be again somewhere around 1200 Crores to 1300 Crores, right?
- Narayan Prasad:** Yes, by about that particular figure.
- Umesh Raut:** Okay, thank you so much.
- Moderator:** Thank you. Next question is a follow up from the line of Venkatesh Subramanian from Logitree Investment Advisers Private Limited. Please go ahead.
- Venkatesh Subramanian:** Two questions, one is you have mentioned about particular equipment that has been fitted on the INS Mormugao about 4000 Crores – 5000 Crores value, which year do you said that this fitting will happen?
- Narayan Prasad:** This value that I talked about INS Mormugao, specific equipment per ship costs about 1000 Crores and as far as ship is concerned it is already in the dry-dock for Sonar dome fitment and at this particular point of time, this should have already been available here in Mazagon Dock Shipbuilders Limited; however, as I told you there is certain amount of delay in IFATs and factory acceptance trials where some IIA Israel are required at Bengaluru premises of BEL and that is what we are trying to expedite them to complete the job because this is mandatory requirement prior to delivery of the vessel, so they are trying to expedite. Now till equipment goes on board, this attached value remains lurking, so that is what we are saying, lot of equipment which have to be developed or to be delivered or to be trialed out and then delivered also dictate what contribution they will make to the VOP of that particular year.
- Venkatesh Subramanian:** Understood Sir. Thank you and what are our current cash reserve as at end of the last quarter?
- Sanjeev Singhal:** As of end of October 31, we are having approximately 1300 Crores own cash. I would just like to add on, there was a query, just previous one, with respect to the revenue breakup for the first half, if I can clarify that the revenue breakup with respect to 15 Bravo is approximately 1400 Crores and for 17 Alpha as well as for P75, both approximately 400 Crores each and 300 Crores for the submarine refit and balance is with respect to the earlier projects which have been completed, so add on sales, so this totals up to 2784 Crores, so these are provisional figures which give a rough idea.



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- Venkatesh S:** Got it Sir. Thank you.
- Moderator:** Thank you very much. The next question is from the line of Abhijit Mitra from ICICI Securities. Please go ahead.
- Abhijit Mitra:** Thanks for taking my question. This question is regarding the land license for the land which is at Mumbai Port Trust, any update on that?
- Sanjeev Singhal:** Recent developments have been there. There is a Tariff Authority for major ports so the case is currently being dealt with by the Tariff Authority on major ports. We may not be in a position to detail out as no orders are out but we expect there are certain positive developments with respect to the lease rent rates. Otherwise also the issue has been taken up at the highest level, so we are also waiting for the outcome, let us see as and when the orders are out, we will share it with the investors also.
- Abhijit Mitra:** Okay, thank you.
- Moderator:** Thank you. As there are no further questions, I now hand the conference over to the management for closing comments. Over to you!
- Narayan Prasad:** Thank you very much. It has been real heartening to see the response of all the participants out here in terms of questions that you have posed to us. It basically indicates a higher level of confidence in Mazagon Dock Shipbuilders Limited and I only sincerely hope that self, i.e, the Chairman and the Managing Director and also the Director of Finance have been able to address all your queries to your satisfaction. I can only ensure that Mazagon Dock Shipbuilders would always live up to reputation as to why She is rightly called the shipbuilder and submarine builders to the nation, we have two submarines and one destroyer which is all being delivered in one single year which has been part affected by COVID. So the commitment of Mazagon Dock Shipbuilders Limited is unrelenting and we will continue to perform.
- Moderator:** Thank you very much. Ladies and gentlemen, on behalf of ICICI Securities that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.