



गार्डन रीच शिपबिल्डर्स एण्ड इंजीनियर्स लिमिटेड  
**Garden Reach Shipbuilders  
& Engineers Ltd.**

( भारत सरकार का उपक्रम , रक्षा मंत्रालय )

( A GOVERNMENT OF INDIA UNDERTAKING, MINISTRY OF DEFENCE )

CIN NO. : L35111WB1934GOI007891

SECY/GRSE/BD-69/AM/04/21-22

06 Jun 2022

To,

**National Stock Exchange of India Limited**

Exchange Plaza, Plot No. C-1, Block G,

Bandra Kurla Complex, Bandra (E),

Mumbai – 400 051

Symbol: GRSE

**BSE Limited**

Floor-25, Phiroze Jeejeebhoy Towers,

Dalal Street, Fort

Mumbai – 400 001

Scrip Code: 542011

Dear Sir / Madam,

**Sub: Transcript of Analyst Meet/Con Call for Q4 FY 22 of GRSE – Reg 46(2)**

1. Further to our Intimation Letter No. SECY/GRSE/BD-69/AM/04/21-22 dated 26 May 2022, we wish to inform that Conference Call has been held on Tuesday, 31<sup>st</sup> May, 2022 at 11.00 Hrs. to discuss the Audited Financial Results of the Company for the Quarter and Year ended 31<sup>st</sup> March, 2022.
2. In this regard and pursuant to Regulation 46(2)(oa)(ii) read with para A of Part A of Schedule III of the SEBI (LODR) Regulations, 2015, the Transcript of the Conference call is enclosed herewith.
3. This is for your information and records.

Thanking You,

Yours faithfully,

For GARDEN REACH SHIPBUILDERS & ENGINEERS LIMITED

Sandeep Mahapatra

Company Secretary and Compliance Officer

ICSI Membership No. ACS 10992



**Garden Reach Shipbuilders & Engineers Limited**  
**Q4 & FY22 Earnings Conference Call**  
**31<sup>st</sup> May, 2022**

**Management:**

1. Cmde Hari P.R, IN (Retired), Chairman & Managing Director (Additional Charge)
2. Shri R K Dash, Director (Finance) & CFO
3. Shri Sandeep Mahapatra, Company Secretary & Compliance Officer
4. Smt. Aparajita Ghosh, Additional General Manager (Finance)



**Garden Reach Shipbuilders & Engineers Limited**  
**Q4 & FY22 Earnings Conference Call**  
**31<sup>st</sup> May, 2022**

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**Moderator:** Good morning, ladies and gentlemen. I'm Inba, the moderator for this conference. Welcome to the Conference Call of Garden Reach Shipbuilders & Engineers Limited arranged by Concept Investor Relations to discuss its Fourth Quarter and Full Year ended 31 March, 2022. We have with us today, Commodore P R Hari, Indian Navy (Retired), Chairman and Managing Director (Additional Charge); and Shri R K Dash, Director (Finance). At this moment, all participant lines are in the listen only mode. Later, we will conduct a question-and-answer session. At that time, if you have a question, please press "\*" and "1" on your telephone keypad. Please note that this conference is being recorded. I now hand the conference over to Commodore P R Hari, Chairman and Managing Director. Thank you, and over to you, sir.

**Comde P R Hari:** Ladies and gentlemen, a very good morning to all of you. I'm Commodore P R Hari, Chairman and Managing Director of the company. And with me here are Shri R K Dash, Director (Finance); Shri Sandeep Mahapatra, Company Secretary; and Smt. Aparajita Ghosh, Additional General Manager (Finance). I welcome you all to the conference call to discuss the financial performance of the company for the fourth quarter and the year ended 31<sup>st</sup> March 2022. At the outset, I'm indeed honored to interact with the investors, as this being my first interaction with you all after assuming charge as the Chairman and Managing Director of the company. Before I talk about the financial results of the company, let me brief you on the projects in hand and the physical performance of the shipyard during the year 2021-22. As regards the project in hand, on the shipbuilding side, that is our core business vertical, we have 6 projects concurrently being executed. These include the prestigious P-17 Alpha, advanced Frigate program for 3 ships for the Indian Navy, in addition to 4 Survey Vessel Large (SVL) ships and 8 ASW Shallow Water Crafts, again, for the Indian Navy, 1 Fast Patrol Vessel for the Indian Coast Guard, 1 Ocean Going Passenger cum Ferry Vessel for the Co-operative Republic of Guyana, and 8 Patrol Boats for the Fisheries Department of the Government of Bangladesh. The last 2 projects that is the Ocean Going Passenger cum Ferry Vessel for the Government of Guyana and 8 Patrol Boats project for the Government of Bangladesh have been won on competitive bidding basis. In addition, we have also been declared L-2 in a bid for next-generation Ocean Going Patrol Vessels for the Indian Navy. And as per the tender condition, we will be concluding a contract for 4 of these OPVs during the current year. On the other verticals, we have an orders on the Portable Steel Bailey Bridges in the Bailey Bridge division, an ongoing project for manufacturing of 1 Megawatt Diesel Alternators by the Diesel Engine Division at Ranchi and, of course, Deck Machinery from the Deck Machinery division. As stated by my predecessor during earlier interactions with the investors, ship repairs have been a focus area and happy to inform that we have taken off in the right direction with orders coming in from the Indian Coast Guard for refit of their vessels. Coming to 2021-22. It



has been a challenging year. Of course, the intensity of the challenges posed by COVID pandemic have been lesser than the previous year. However, the first half of the year, especially the first 2.5 to 3 months, we too have been impacted by the second and third waves of the COVID pandemic and along with that, the associated restrictions imposed by both the local and the central administration. As with the experience of previous year, we have come out of these challenges through innovative build and operational strategy, ranging from staggered work timings, curtailed shift timing was being undertaken at scattered location to maintain COVID protocol, and we have come out unscathed with production progressing unhindered. I'm happy to inform you that all the project milestones that were envisaged to be completed during 2021-22 have been successfully achieved. On the shipbuilding side, let me inform you that in a shipbuilding process, keel laying and launch are 2 major milestones. Laying of keel or keel laying means the keel block is directed in the building berth or building dock and around the steel block forms the hull of the ship. The next major activity is the launch of a ship, when the ship is put to water for the first time. Again, happy to inform that during 2021-22, we have laid the keel of 6 vessels, and also launched the first Survey Vessel Large on 5<sup>th</sup> December, 2021. As I had mentioned earlier, ship repairs have been a focus area. Let me inform you that during 2021-22, we have carried out refits for 4 ships, 3 for the Indian Coast Guard and 1 for the Government of Mauritius, CGS Barracuda. During the last year, that is 21-22, we have successfully installed and commissioned a 250 Ton Goliath crane. This crane was procured on a global tender basis from South Korea. And the interesting part about this crane is that, this huge crane was brought in fully assembled condition by sea in a 38-meter ship and shifted on to the GRSE premises. Thereafter, it was successfully installed and commissioned during June 2021. Why I'm speaking specifically about this crane is that, it's the major capacity enabler and it's extensively used for production activities, wherein large size units and blocks are shifted for erection. On 8<sup>th</sup> April, 2021, Zoroaster, a Fast Patrol Vessel was handed over by our Honorable Prime Minister to the President of Seychelles. Happy to inform you that the guarantee refit of this ship was also concluded during the same year by March 2021-22 at GRSE. During the year, we have concluded 4 major Memorandum of Understanding (MoUs), 2 with global shipbuilders for collaboration in design and construction of ships. We concluded a Concessional Agreement with Kolkata Port Trust for strategic lease of 3 dry docks. The intent of taking over these dry docks is to provide an impetus to ship repairs, and the results are here to see and we are already having almost 90% occupancy of these docks during the last 3 months. We also signed an agreement with the Border Roads Organization, DGBR, for 27 modular bridges. This is a breakthrough in the modular bridges segment, and we expect further orders from the Border Roads Organization for these bridges. For our demonstrated performance, we have been assessed as 'Excellent' in the MoU ratings by the Department of Public Enterprises for the year ended 31<sup>st</sup> March, 2021. Happy to inform you again that we are the only Defence Shipyard to get an Excellent rating. And only 1 of the 2 Defense Public Sector Undertakings to get an Excellent rating. And 1 of the 14 of the 200-plus PSUs to get an Excellent rating. Now coming to the plans for the current year and the future, as mentioned earlier, we're undertaking 6 shipbuilding projects. Coming to the prestigious P-17 Alpha project, the first



vessel that was launched in December, 2020 is now undergoing outfitting and has already achieved around 37% physical progress. The launch of the second ship is planned in July, 2022, with a percentage construction of around 27%. The third vessel is on track for launch 3 months ahead of schedule i.e. during May, 2023. Coming to the Survey Vessel Large project as I had mentioned earlier, the first ship was launched in December, 2021 and has now achieved nearly 50% physical progress of construction. The second ship was launched just 5 days back on 26<sup>th</sup> May, and we intend launching the third ship in November this year and the last ship during April 2023. As far as the ASW Shallow Water Crafts project is concerned, concurrent construction of 4 out of the 8 ships have already been progressed, and we intend launching of the first and the second ship by October 2022 and March 2023, respectively. The Guyana Ocean Going Passenger cum Ferry Vessel is well on track with the launch planned on 15<sup>th</sup> June, that is coming month, in another 15 days, and the delivery of this vessel is planned in February 2023. As mentioned, we are also undertaking a project of a Fast Patrol Vessel for the Indian Coast Guard, the ship has already reached around 70% physical construction and was launched on the 2<sup>nd</sup> May, earlier this month, and the delivery of this vessel is planned in Jan 2023. The Bangladesh Boat project for Fisheries Department of Bangladesh, we are constructing 6 Patrol Boats and delivery of these vessels are planned by August this year. On the ship repair front, as I mentioned, 4 refits completed last year. And this year, we are presently undertaking refit of 1 Coast Guard ship and expect the ship repair business to strengthen in the coming days. Now coming to the financial highlights for fy2021-22, it has been a successful year for the shipyard in terms of financial performance, having achieved the highest-ever revenue from operations at ₹1,758 crore, with an increase of ₹617 crore and registering a growth of 54% from the previous year. Same goes for the total income also. We touched ₹1,918 crore, an increase of 45% over the last financial year. Happy to inform you that we have also achieved the highest ever PBT and PAT at ₹257 crore and ₹190 crore, respectively. Our EBITDA has increased by 24%, and the earnings per share has risen from ₹13.40 per share to ₹16.55, again, the highest-ever. The highest revenue per employee of ₹98 lakh again was achieved during this year as against ₹ 60 lakh during the last year. And the employee cost to VOP has dropped some 23.78% to 16.61%. So, in a nutshell, 2021-22 has been a highly successful year for us in terms of both physical and financial performance. Thank you. Over to the moderator, please.

**Moderator:** Ladies and gentlemen, we will now begin the question and answer session. We will take our first question, that's from the line of Harshit Kapadia from Elara Capital. Please go ahead.

**Harshit Kapadia:** Good execution in challenging times. My first question is, sir, can you please elaborate on the orders in pipeline which we have for the shipbuilding business? That would be the first question.

**Cmde P R Hari:** As far as the current order book is concerned, we presently have orders worth as on 31<sup>st</sup> March, was ₹24,072 crore. On the shipbuilding side, as I mentioned earlier, we have the P-17 Alpha project, 3 ships with a balance order book value of around ₹15,780 crore. Then 4 ships



of the Survey Vessel Large project, 8 Anti-submarine Warfare Shallow Water Crafts (ASW SWC), 2 export orders, one for a Passenger cum Ferry Vessel for the Government of Guyana and 8 Patrol Boats for the Bangladesh Fisheries Department. In addition to this, we also have an order in hand for a Fast Patrol Vessel for the Indian Coast Guard. I had mentioned earlier that we have delivered last year a Fast Patrol Vessel to the Government of Seychelles. So, this vessel is being constructed as a replacement for an earlier project for the Indian Coast Guard from where we have diverted this vessel to the Government of Seychelles. So, this in a nutshell is the order book on the shipbuilding side. As far as the orders in the pipeline, as mentioned earlier, we have been declared L2 in the next-generation Ocean Going Patrol Vessel projects for the Indian Navy. And as per tender conditions, 4 of these ships will be built by GRSE. So, this order value will be approximately ₹3,200 crore. We expect this contract to be signed during this year. In addition, we are looking forward to the RFPs coming in from the Navy and the Coast Guard in the coming days. This is as far as the domestic shipbuilding is concerned, with respect to the orders on the pipeline. We are also looking forward for export opportunities where we are targeting certain countries where we feel there is potential for export.

**Harshit Kapadia:** And is it possible for you to give the breakup of the ₹24,000 crore order book in terms of how much is P-17 Alpha, SVL and ASW corvette, sir?

**Cmde P R Hari:** Sure. As far as the P-17 Alpha project is concerned, the total order value is ₹19,293 crore and having executed almost ₹3,500 crore so far, we have remaining balance of ₹15,780 crore in this project. As far as the Survey Vessel (Large) project is concerned, the total order value is ₹2,455 crore and having executed the ₹583 crore so far, we are left with around ₹1,850 crore yet to be executed balance. Coming to the Shallow Water Crafts project, Anti-Submarine Shallow Water Craft project, the total order value is ₹6,311 crore and having executed ₹374 crore so far, the balance is ₹5,937 crore. I hope this addresses your query.

**Harshit Kapadia:** Please go ahead, sir.

**Cmde P R Hari:** No. I was just mentioning that, hope this addresses your query.

**Harshit Kapadia:** Yes. This was very helpful, sir, giving all the details. Also, I wanted to check with you on the Q4 results, the revenue growth has been exceedingly well. But whereas the gross margin was on the lower side. So, is there any particular reason we can highlight why the gross margins were much lower than what you possibly were looking at?

**Cmde P R Hari:** Yes. Now it is not only the Q4, if you take the full financial year, as I had mentioned, the operating profit has gone up, our overall performance is definitely good. Just to explain why the margin has dropped marginally. In 2021-22, our interest income has dropped by ₹18 crore. This was primarily due to the reduction in the interest rate from 4.7% to 4.2%. And for an average deposit of around ₹3,700 crore, this 0.5 percentage translates to like ₹18 crore. In addition, as I had mentioned during my initial address that we have acquired a Goliath crane



which was capitalized during the last financial year 2020-21 and operationalized during the last year. This was at a cost of approximately ₹160 crore. So, the depreciation here works out to around ₹6.5 crore. Next is that, if you're comparing the 2020-'21, there we have been similarly lucky to get an IT refund during that year where the interest component works to around ₹8 crore. So, the net effect, ₹18 crore plus ₹6.5 crore plus ₹8 crore works out to ₹ 32.5 crore, which is around 1.8 percentage of revenue from operations. Another aspect is that, as you are aware, we are executing the P-17 Alpha projects where the profit margins are around 7.5%. And the other 2 major projects, the ASW Shallow Water Craft and the Survey Vessel Large project have been won on competitive bidding. And therefore, the profit margins are narrower. In 2021, the proportion of our revenue from operations between the P-17 Alpha project and the other ships was 56% to 44%. Considering the project execution cycle, wherein the other ships have started picking up, the proportion between P-17 Alpha and the other ships has rather changed to 52% to 48%. All these factors have resulted in a marginal drop of the margin. Now shipbuilding, if you take shipbuilding industry as a whole, the healthy profit margin is anything beyond the 7.5% to 8%. Now if you take the last 4 years, the PAT margin has increased from 6.04%, 4 years back touched a peak of 10.87% during the last year, and now it is steady at 10%, which I feel indicates healthy operating condition.

**Moderator:** Mr. Kapadia, may we request you to please return to the queue. There are several participants waiting for their turn. Our next question is from the line of Venkatesh Subramanian from LogicTree Capital Advisors.

**Venkatesh Subramanian:** Congratulations on being 1 of the only 2 companies to have Excellent out of 200 PSUs. So, I have a simple question, sir, which is the current order book and what you have indicated, as per the last many con calls, it was understood that FY23 and FY24 could be peak years in terms of production, especially in terms of value of production. Is that right? And are we on track to get that done, sir, in this year, FY23? If you can kindly give us an idea on what could be the execution rate?

**Cmdr P R Hari:** As I stated during earlier interactions with the investors also, yes, the coming years FY23, FY24, FY25, these are going to be the peak years with respect to execution of the current order book. I had mentioned that the P-17 Alpha project actually I presume I had indicated the percentages of progress also. The first ship has touched around 37%. The second ship is hovering around 22% to 23%. And the third ship is catching up fast. I'm just taking P-17 as an example and this is applicable for every project. In a normal shipbuilding cycle, the maximum revenue from operations or the VOP is accrued when the ship moves from around, 35% to 60%, it is again depending upon the size of the ship and complexity of the vessel. On an average, the maximum VOPs generated when the ship moves from around 35% to 60%. So, this is the phase when the equipments are to lower and the integration start. So, as indicated earlier and now I'm reiterating that our peak performance in terms of execution of orders and then translating it to VOP would be in the coming years that is '23, '24, '25.



- Moderator:** Our next question is from the line of Viraj Mithani from Jupiter Financial. Please go ahead.
- Viraj Mithani:** I have basically 2 questions. My first question is on the cost of materials, when I see from quarter-to-quarter comparison has actually gone up from, say, 36% in the last quarter to the sales to 57% to the sales in this quarter. And the second question would be, on the export, which you mentioned. Can you give more color on that, like what efforts are being made and what are we planning to export, et cetera? That's it from my side, sir.
- Cmdr P R Hari:** I will start with the first question that you posed with respect to the cost of material. Rightly pointed out that the cost of material has gone up from 36% during the last quarter to 57% during the previous quarter, that is Q4. Now, this clearly indicates that the projects are progressing in the right direction. As the projects progress and especially when they are reaching a phase wherein equipment and systems get lowered and indicated onto the ship, the cost of material automatically increases. With the projects maturing further, this percentage, the material cost would definitely increase. Material input onboard any shipbuilding project is directly linked with the physical progress of construction of the ship. And as I had mentioned, the equipment lowering happens generally, again, depending upon the size of the ship, when the ship achieves around 30% progress and the peak by the time it touches 60%. As regards the export orders and efforts towards improving our export content, we have identified certain countries having potential for exports, targeted these nations, and we already appointed the marketing representatives in these nations. And this is a long-term process. It's not that when we appoint an agent, the results will be immediate. We have to be patient. And in our case, the result is already evident, having made a breakthrough in Bangladesh, wherein we have bagged an order on a competitive bidding basis. So, we expect in the coming years with not only GRSE, but the government thrust is also on exports, we expect the export orders to increase in the coming years.
- Viraj Mithani:** And sir, what would be the commodity inflation in this cost of material consume like, say, steel price are some days it's normal, not the equipment? And what would be the percentage of the commodity inflation in this material consumed would be, sir, if you could give some color on that?
- Cmdr P R Hari:** Sure. Now in a ship, let us take steel then what we call as yard material that is generally the installation, the minor fittings. These comprise a very less percentage of the overall cost of a ship. In case of steel, steel just takes around 4% to 5% of the overall cost of a ship. And the entire yard material that is inclusive of steel is to the tune of 10% to 12% as far as the overall cost of a ship. The maximum value comes in terms of equipments' - the propulsion machinery, the communication systems, the weapon sensors, they carry the maximum cost. To answer your question, steel and the yard material consume around 10% to 12% of the overall cost of a ship.
- Moderator:** We'll take our next question from the line of Abhishek Poddar from HDFC Mutual Fund. Please go ahead.





**Abhishek Poddar:** Sir, regarding the order in pipeline that you have mentioned, about the next-gen vessels and also, ASW Corvettes. Given these pipelines, sir, would you expect your order book to come down from ₹24,700 crore in the future after 2, 3 years when you see the peak execution of the current orders? Or these pipelines will be enough for you to maintain a healthy order book even after 2 or 3 years, sir?

**Cmdr P R Hari:** As far as the orders already in hand, we expect these orders to be exhausted by FY27, considering the current progress of the ship and the equipment availability and the project execution plan. As I had mentioned, we also have one more order in the pipeline, which we expect to conclude during the current year for 4 Next Generation Ocean Going Patrol Vessel and the value of that order is approximately ₹3,200 crore. What we also expect is, for the Navy to come out with an RFP for next-generation Corvettes. And as you may be aware, we, GRSE, have built 9 Corvettes both surface, whether it's Missile Corvettes and Anti-Submarine Corvettes for the Indian Navy. So, with our experience and expertise and the technical know-how in building Corvettes, we will be accordingly bidding and very confident of getting results in the right direction. To answer your question, right now, the existing order book, excluding the next-generation OPVs will last us till FY27. And considering the build period of the next-generation OPVs, we will have orders in hand at least till 2029. And as I had mentioned, if the next-generation Corvette comes to us, it's a big project, ₹13,000 crore to ₹14,000 crore, that project will spill over up to 2032.

**Abhishek Poddar:** And sir, on the margins, one question. As we move with higher execution, would the operating leverage benefit us in terms of reporting better margins? Or is it that higher equipment cost and all will kind of eat up into those benefits that we can accrue because of higher operating leverage?

**Cmdr P R Hari:** When I was explaining to another investor who had asked a similar question earlier, shipbuilding - in the industry of shipbuilding, I'm not talking about ship repair. In case of shipbuilding, the healthy profit margins are in the range of 7.5% to 8%. And as we have seen our own performance, this year, we have touched 10%. Last year, I have explained when the deviation from last year to the marginal drop which is because of the specific reasons. Now, if all the bids coming in a competitive basis, we are very confident of maintaining similar margins in future also. Second point is that, we are also venturing into ship repair, where the profit margins are high, high to the tune of 15% to 20% in case of some of the ship repair contract. So, we feel we'll be able to strike a balance and maintain similar margin.

**Abhishek Poddar:** Sir, understood. Just one follow-up on this. When you say a PAT margin of 10% that you have achieved this year, there is a large portion of other income, which is interest income included in that. So, do you mean 10% including the other income? Or interest income should be excluded when we are calculating that 10%?

**Cmdr P R Hari:** It is including the other income, naturally.



- Abhishek Poddar:** And sir, that you would include because that is an advance from the orders and that's part of the profitability outlook for you?
- Cmdr P R Hari:** Once again, it's not an advance. In case of shipbuilding, there is nothing called advance. There are 15-stage payments, and this was just one of the stage payments, which is given during the preparatory phase, that is the pre-production phase. So, it is not an advance. It is a project milestone, that is payment milestone. To answer your question, yes, this is included in our other income, which in turn will manifest into the profit margin.
- Moderator:** Our next question is from the line of Mohit Kumar from DAM Capital. Please go ahead.
- Mohit Kumar:** Sir, first question is, how you see the FY23 revenue and margins to pan out? And can we expect by FY 2024-25, you will touch the ₹5,000 crore kind of top line given the jump you are expecting? And will the margin profile be similar for the FY '23, '24, '25?
- Cmdr P R Hari:** And as I had mentioned to a previous question, FY'23, '24 that is FY23, that is the current financial year, FY24 and FY25 would definitely see a growth in our revenue from operations. At this moment, I can only indicate that we are on a growth trajectory upwards. And along with that, we are confident of maintaining the margins that we have achieved this year.
- Mohit Kumar:** Sir, talking about the PAT margin, right, of 10%. Am I right, sir?
- Cmdr P R Hari:** Affirmative. You're right.
- Mohit Kumar:** And sir, out of this, of course, there are some nomination and some competitive bid projects. Given the mix, you still expect the margin to be 10% and don't expect the margin to deteriorate in the medium-term?
- Cmdr P R Hari:** Can you repeat your question, please?
- Mohit Kumar:** Given the fact that a part of the order book is on a competitive bid basis and part of it is on cost plus basis, we still believe that you should be able to hold on to a 10% margin. Is that correct assessment?
- Cmdr P R Hari:** Yes. That's what I have mentioned. It's a hybrid equation. That is a competitive bid orders obtained through a competitive bidding, orders or nomination that's the P-17 Alpha project, plus what is in the pipeline, including our ventures into export or ship repair, all put together, we expect to maintain similar margins in the future.
- Mohit Kumar:** And lastly, on the ship repair, sir, how do you see ship repair revenues panning out in medium-term? And what is the aspiration and what is the kind of margin possible in this line of business?



**Cmde P R Hari:** Ship repair has been a vertical which we have started focusing from the previous financial year. And to give you a background, to provide impetus to ship repairs, we have acquired the 3 Dry docks on a long-term that is strategic lease from the Kolkata Port Trust. And we have started in a modest way with a very, very clear plan for the coming years. The results are here to see and we've already obtained orders for refit from the Indian Coast Guard on competitive bid basis. And of course, a few commercial vessels also. So, to answer your question with respect to revenue expected from the ship repair business, at this juncture, I can only state that we have aspirational targets in mind. But I expect in the coming years, that is FY23, '24, '25, and thereon, first for us to stabilize and thereafter, an increase of around 10% to 15% every year. As far as the margins, profit margins in ship repair is concerned, ship repair is a profitable segment where the profit margins are to the tune of 15% to 20%. And in some cases, it is in the range of 20% to 25%. So, it's a profitable business. And that is the reason why we have ventured into this in an aggressive manner.

**Moderator:** We will take our next question from the line of Ankit Babel from Subhkam Ventures. Please go ahead.

**Ankit Babel:** Sir, you have a large portion of your profits coming from other income. Now as you alluded to the fact that from here on, the execution cycle will pick up drastically. So, do you feel that a lot of your cash balance would be utilized to take care of your working capital and other execution-related requirements and hence, there could be a sharp drop in your other income in the coming years?

**Cmde P R Hari:** The sales where the projects are picking up. And so, naturally, a certain amount of our cash balance will be utilized for execution, that is procurement of material, payment to our sub-contractors and so on. But on the positive side, some of the projects are also getting completed. They are getting delivered. In addition, as mentioned, we are also expecting the contract for the Next Generation Ocean Going Patrol Vessels to be signed during the current year. So, what goes out will come in also. So, I don't expect any major dip in our cash balance. And also with the higher VOP, our operating profit will also correspondingly increase. So, it's a balance between all these factors. And this will compensate for the dip, which I don't feel there will not be a major dip because with the next projects coming in during the current year, this will strike a balance.

**Ankit Babel:** And sir, any broad range of revenues, which you are looking at in FY23, I mean, like ₹4,000 crore, ₹5,000 crore. What is the broad range you're looking at considering your execution cycles?

**Cmde P R Hari:** Considering the execution cycle, we expect around 20% increase over the current year, 20%-25% increase. That's what we are targeting. Again, this target is an aspirational target. That's what we are targeting.



**Ankit Babel:** So, on a base of ₹1,760 crore, you are expecting a 25%. I mean, just ₹2,200 crore of revenue you're expecting in this year?

**Cmde P R Hari:** The figures at this juncture, I cannot comment on the figures.

**Ankit Babel:** Sir, just a range, sir, because the expectation was like ₹5,000 crore. I mean, what the other investors and analysts were expecting. And you are saying around ₹2,500 crore. So, there is a drastic difference. That's the reason I need to understand.

**Cmde P R Hari:** One thing you must understand is that shipbuilding is a process wherein I cannot lower the equipment or systems till the time the ship reaches a certain level of maturity. So, when we are considering the completion of the ongoing projects by 2027, we are in a phase where, yes, there is a physical progress is increasing by the day, equipment will go. So, when I started the discussion since I had mentioned that FY23, '24, '25, these are the years when the projects will reach a phase that is P-17 Alpha project that is our biggest revenue earner, reaching a physical progress percentage of that is ranging from 35% this year to 60%, 65% in the next 2 years, the ASW Shallow Water Craft project reaching, they are much smaller ships, similar or better percentages. And the Survey Vessel project getting concluded in the next 2 years. All put together, we can see a steady rise in our revenue from operations in the coming years.

**Moderator:** Our next question is from the line of Akshay Kothari from Envision Capital. Please go ahead.

**Akshay Kothari:** Sir, just wanted to know what would be the defense budget allocation to Navy? And how do we see going forward how would it increase? And currently, our order book is at around ₹25,000 crore. So, next 4 to 5 years down the line, where can we see this order book, just a ballpark number?

**Cmde P R Hari:** At this juncture, I cannot tell you the exact defense budget allocation for the Indian Navy. But I'm clear about the RFPs, which the Navy is going to come out in the coming years. One of the major projects that is going to come for RFP, which we expect RFP to be published this year is for the next-generation Corvettes. The order value of this project is to the tune of ₹13,000 crore to ₹14,000 crore. Another project that Navy is likely to come out during the current year or the next year would be for the follow-on Water Jet FACs. This, again, order value would be to the tune of ₹2,500 crore. In addition, the Indian Coast Guard, the order is in the pipeline for all of us, that is for the 14 SPV project. Again, the order value is to the tune of around ₹1,800 crore to ₹2,000 crore. These are the major orders that are expected in the near future, plus there is a big order for construction of 4 landing platform dock, LPDs, for which the RFI had come out last year. So, this year, towards the end or next year, we expect the RFP to come out. This order value could be to the tune of around ₹25,000 crore. So, this in a nutshell are the orders that are expected from the Indian defense sector, that is between the Navy and the Coast Guard. As far as our order book, I had answered to a previous query that the current order book of around ₹24,000 plus crore. Plus, the order, which was already



on the pipeline this year for the 4 Next Generation OPV is around ₹3,200 crore, that means all put together it comes to around ₹27,000-plus crore will easily last us till 2029, that is FY29. And we're very confident of getting at least a couple of these orders, which I had mentioned, which are likely to come through RFPs this year, next year.

**Akshay Kothari:** That's great. Also, I wanted to know what we have been hearing is, there are certain orders of frigates, which we have co-developing with Russia. So, why are we actually developing it with Russia? We are self-sufficient. Or is it like our capacities are fully utilized? So, what is the basic reason behind that?

**Cmde P R Hari:** Yes. There is an order which is being co-developed with Russia for a frigate that is 1135.6, the project. Now the background is that, initially, India had imported few vessels of this class from Russia. Now, the aim of the co-development is simple. It is to develop the capability to build these ships within India. It is with that intent that the project is being co-developed. Now as you may be aware, 2 of these ships are being built in India at Goa Shipyard. And a couple of vessels are being concurrently built abroad. But the intent, to answer your question, if this is only to ensure that capability for full-fledged development, that is desire and construction of the ship is developed within India, that had abated.

**Akshay Kothari:** And lastly, a book keeping question. Could you explain the exceptional item which is there?

**Cmde P R Hari:** I will request Shri R K Dash, Director (Finance) to answer this question.

**R K Dash:** These exceptional items already you see in our note elaborated. During the pandemic last year FY21 and FY22, in FY21 - 81 days, in FY22 - 31 days, there was no operation. But we have to pay wages for operators and also that our factory was also operated and some depreciation in all the 3 classes was there. So, this is the expenses which we have incurred which have not given any VOP or revenues, and this was written off. So, that we have categorized as exceptional items.

**Moderator:** Our next question is a follow-up from Harshit Kapadia from Elara Capital. Please go ahead.

**Harshit Kapadia:** Sorry to harp you on this pipeline thing, sir, you mentioned for the Next Generation Corvette, the RFP will be issued this year. So, the order finalization will happen next year. I just wanted to check, will it be split between you and other shipyard companies or it will be entirely given to one company? That's the first question. And secondly, of the order pipeline, which you have mentioned for water jet FPVs, and even LPDs, where do you think given that GRSE capability is to win in these other 3 orders? That would be helpful.

**Cmde P R Hari:** Coming to the next-generation Corvettes, one statement that I had made was that between all the Indian shipyards, we are the most experienced with respective construction of these projects having delivered 9 vessels, which are still in active service with the Indian Navy, that is Missile Corvette and the Anti-Submarine Warfare Corvettes. Now to answer your question



whether this will be split or a single shipyard would get it, I would not be able to comment on that at this stage because we are not clear about that. But anyway, just to give confidence to our investors, we are very confident that our bid would be appropriate to get a positive for our company. As regards the Water Jet FACs, again, like Corvettes between Navy and Coast Guard, we have delivered over 30 similar platforms. And during 2013 to 2016, we have delivered 4, that is the latest set of Water Jet FACs that we have delivered to the Indian Navy. And as you are aware, we are currently executing what is termed as Fast Patrol Vessels, but in effect, they have Water Jet propulsion. So, we have vast experience in constructing these jets. Again, the confidence levels with respect to within these Water Jet FAC order is high. As far as the LPD is concerned, the RFI had come out last year, and we expect the RFP to come out maybe end of this year or next year. That's all I can state at this moment with respect to LPD.

**Harshit Kapadia:** And just wanted to check with you on the numbers which you just mentioned to one investor. So, you're expecting revenue growth of around 20% - 25% in FY23. Is that what you're trying to say? Is that like on a conservative basis is what you're trying to say or that would be a minimum that you would be doing, sir?

**Cmde P R Hari:** Yes, I cannot put a figure to the exact revenue that we'll be generating in the coming years. But just to suffice to say that considering the project progress, we are very confident of giving a good result next year with respect to revenue and profitability. And earlier we had one of the investors had asked what is going to be the performance during '23, '24, '25, that will peak or not? Yes, as per the project build schedule, we will be peaking during this year. And we are on a steady upward path for the next foreseeable future that is next 3 years for sure.

**Moderator:** Our next question is from the line of Abhishek Mody from Emkay Global. Please go ahead.

**Abhishek Mody:** What is the order book, ₹24,700 crore or ₹24,072 crore? I think I heard a different number.

**Cmde P R Hari:** I will answer the question first. It is ₹24,072 crore, not ₹24,700 crore, and ₹24,072 crore as of 31<sup>st</sup> March this year.

**Abhishek Mody:** Sir, second question, I think, regarding the commodity inflation, you had spoken that steel and the yard materials were up 4% to 5%. And the largest cost comes from communications and weapon system. So, does the communication and weapon system not include commodities like steel and those? Because in GRSE, will it be impacted to some extent or because they are those kind of components where the inflation is yet to have an impact?

**Cmde P R Hari:** Okay. I'll answer the question. What we term in the parlance of shipbuilding is that we segregate between equipment & systems and yard material. What we term as yard material is generally the ship construction material that is steel, which the cost of steel comes to around 4% to 5%. And the second part is yard material like fasteners, insulation, the consumables used for steel fabrication building. So, all this put together, it comes to just about 10% to 12% of the overall project cost. Now what you termed as commodity, like let us



say, the main propulsion system or the communication weapons, now our contracts are fixed price contracts with the customers. And in turn, we have fixed price contracts with our OEMs and vendors. And all these orders have been placed in such a manner at appropriate time of the project execution cycle. And therefore, the question of inflation and escalation does not arise. And further, as far as steel is concerned, this is for your information that we procure steel from indigenous sources, and we have running MoUs, that's contracts with Steel Authority of India, a major steel manufacturer PSU in our nation. And there again, we do not see such price variations because the MoU is already in existence. So, the impact of inflation, yes, it is there, but it is not so much on the overall project cost because around 60% to 65% of the project cost comes out of the equipment. And that's the orders that are already placed and they are all fixed price contracts.

**Abhishek Mody:** So, you mean to say since both your supply and your input, it's a Memorandum of Understanding and the contract is fixed, hence it is fixed and the current high prices are least likely - they are going to impact to a lower extent for your company, correct? Am I right?

**Cmdr P R Hari:** Could you repeat this question, please?

**Abhishek Mody:** Yes. You mean to say that, for example, to Steel Authority of India, you already have an understanding in terms of the steel prices and your contracts are fixed term contracts. And since these are fixed term contracts with current commodity, high prices are not going to impact your company much?

**Cmdr P R Hari:** As far as steel is concerned, no. As far as the equipment and systems are concerned, no. But as far as the yard material, which comes to a miniscule percent of the overall project, yes, there is an impact, but the impact is limited to an overall project cost deviation of maybe 0.1%, 0.2%.

**Moderator:** We'll take our next question from the line of Venkatesh from LogicTree.

**Venkatesh Subramanian:** Sir, just summarizing on the order flows that you talked about. If my understanding is right, the current order book will last us till FY27. And during the course of the time, we perhaps may get a Corvette order, which could be worth ₹15,000 crore, another ₹2,000 crore in terms of - I didn't get that one, sir. And then about ₹20,000 crore of orders work in progress, which we are bidding for. And apart from that, there is a big-ticket order of a landing pad, which could be in excess of ₹20,000 crore. So, there is a possibility of bidding for approximately more than ₹20,000 crore. Is that right, sir?

**Cmdr P R Hari:** I will answer this question. As you rightly said, we have current order book of around ₹24,000 crore that will last till FY27, considering the project execution cycle. And I had also mentioned that we have been declared L2 for the next-generation Ocean Going Patrol Vessel. This, we expect the contract to be concluded. As well as tender conditions, 4 ships are going to come to GRSE. And we expect the contract to be signed during the current financial year. That is



approximately ₹3,200 crore. The balance, that is the next-generation Corvettes, the Water Jet FACs or the LPDs, they're all going to come out on for competitive bidding, okay? We will bid aggressively. If we get it, it's good for all of us.

**Venkatesh Subramanian:** And sir, total value of orders that will come up for open bidding could be in excess of ₹20,000 crore - ₹25,000 crore. Is that right?

**Comde P R Hari:** Yes. Absolutely. Orders which is there and the bouquet of orders, which are likely to come up in the next, let us say, 3 to 4 years, if you look at realistically, will be to tune of ₹20,000 crore to ₹30,000 crore.

**Venkatesh Subramanian:** ₹20,000 crore to ₹30,000 crore. Okay. Great. And my last question, sir, one of the participant was asking about revenue guidance. I'm probably not going to ask you for a number, sir. But in our previous con calls where the former MD, he broadly gave us a visualization of how the industry works in terms of peak cycle. It's like a bell-shaped curve. So, the understanding was FY23, FY24, FY25 will be the peak years in turn. So, maybe this ₹20,000 crore could average out or could be up and down. So, our sense is that, this order should be above ₹4,000 crore, but I don't want you to confirm what it is. But is our thinking right that the next 3 years will be the peak years for the current order?

**Comde P R Hari:** Yes. As you rightly said that you don't want me to confirm, absolutely bang on. But yes, these next 3 years are going to be good for all of us in terms of revenue from operations and the profitability.

**Moderator:** Our next question is from the line of Arjun Goel, an individual investor. Please go ahead.

**Arjun Goel:** I actually wanted to follow up on what one of the other participants asked regarding the other income. Now you mentioned that the yields this year have fallen from 4.7% to about 4%. Now if I see FY 18, '19, '20, I think the yields were somewhere about 10% - 11%. So, my first question is, one, why did they fall so drastically? And if you can throw some color as to what kind of process is followed that, okay, we receive stage payment from the government, then what happens to that money? Like what kind of securities do we invest it in? What process do we follow to determine the appropriate yield? And how is it going to change going forward? So, this is like my broad line of question.

**R K Dash:** Mr. Goel, just I want to tell you that whatever the money is displayed in our account, it is not for investment purpose. This is only temporary for working capital because you see that in case of shipbuilding or any defence contract, we don't factor the financing cost. Because our payments have been in such a manner that whatever working capital is required, it will be available to us. So, this is nothing but working capital. So, whatever now deposit, already CMD has told that now the peak time is coming and peak time will come, naturally, there will be a drainage of this money, it will reduce. This does happen. Initially, it will go up, then gradually it will come down and sequence of some orders coming, again, it will be replaced.





But at the same time, as regards to profitability, I'm telling that because whenever our VOP will go up, now you see that in FY22, 92% was our other income, 8% was our operating income. Now these have gone up. This year, our operating income and operating profit has gone from last year, ₹40 crore to ₹104 crore. So, gradually, operating income will go up and this will compensate the loss this other income, interest income. So, this is a cycle.

**Arjun Goel:** So, sir, my question is basically that earlier, when the yields were about 10%, they were 10%, right, approximately in '18, '19, '20? The yield that you were getting on other income, right? So, now it has fallen from 10% to about 4%, right, in '21 and '22. So, my question is, what has changed in the cycle that you're talking about that the yields have fallen from 10% to 4%? That's my question.

**R K Dash:** Yes. Exactly I'm telling same thing that because our objective is not that other income. Our objective is only against the income from operating income because this is a manufacturing organization. Our main objective is our operating income. This is a temporary money available with us and sometimes when the interest rate is higher, we are getting more. And now interest rate has gone down and as per the present trend, I am expecting that the interest rate in next year will go up. So, this is not the core business of this income. The core business is operating profit.

**Arjun Goel:** You can assume out of a 4% yield on the cash balance or whatever is the benchmark rate? Would that be fair?

**R K Dash:** Yes. It is now 4.2%. I am expecting more because now the interest is going up.

**Arjun Goel:** As the inflation and the RBI raises rates, then, of course, our interest rate will go up. But broadly speaking, it is you're getting savings account rate, right?

**Moderator:** Mr. Goel, after this question is answered, we request you to return to the queue, please.

**Arjun Goel:** Yes.

**Moderator:** Ladies and gentlemen, due to time constraints, that was the last question. I hand over back to Commodore P R Hari for closing comments. Over to you, sir.

**Comde P R Hari:** Thank you, Inba. And to conclude, financial year '22 has been a successful year both in terms of physical and financial performance with us recording the highest ever turnover and operating profits in the history of the company. We have effectively managed the challenge posed by the COVID pandemic, especially during the first half of the year, specifically the first quarter where we lost a certain amount of production time, but managed to come out unscathed and met all the planned shipbuilding project milestones. With a healthy order book of plus ₹24,000 crore and a very clear project execution strategy, the company is on an accelerated growth trajectory, and we are very confident of meeting our customer and



investor expectations. Our focus in addition to domestic warship building, will be on exports, ship repair, product diversification, with thrust on green energy platforms and digitalization in the entire spectrum of operations. Thank you, once again, Inba, and thank you, Gaurav from Concept Investor Relations for organizing the conference call. And I would like to pay my sincere gratitude to all my analysts and investor friends who have taken time out of their busy schedules to listen to us today. Thank you. Stay healthy. Stay safe. Jai Hind.

**Moderator:**

Thank you. Ladies and gentlemen, on behalf of Garden Reach Shipbuilders & Engineers Limited, that concludes this conference. If you have any further queries please send an email to [gaurav.g@conceptpr.com](mailto:gaurav.g@conceptpr.com). Thank you for joining us and you may now disconnect your lines.

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