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/02/22-23 22 Nov 2022

To,

National Stock Exchange of India Limited
Exchange Plaza,
Bandra Kurla Complex, Bandra (E),
Mumbai – 400 051
Symbol: GRSE

BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort
Mumbai – 400 001
Scrip Code: 542011

Dear Sir / Madam,

Sub: Transcript of Investors/ Analyst Con Call for Q2 & HY1 FY 23 of GRSE – Reg 46(2)

1. Further to our Intimation Letter No. SECY/GRSE/BD-69/AM/02/22-23 dated 10 Nov 2022, we wish to inform that Conference Call for Investors and Analysts has been held on Tuesday, 15th November, 2022 at 03.30 p.m. to discuss the Unaudited Financial Results of the Company for the Quarter and Half Year Ended 30th September, 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
Digitally signed by SANDEEP MAHAPATRA
Date: 2022.11.22 15:06:09 +05'30'

Sandeep Mahapatra
Company Secretary and Compliance Officer
ICSI Membership No. ACS 10992

Garden Reach Shipbuilders & Engineers Limited
Q2 & H1 FY 2023 Earnings Conference Call
November 15, 2022

Management:

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

Garden Reach Shipbuilders & Engineers Limited
Q2 and H1 FY '23 Earnings Conference Call
November 15, 2022

Moderator: Good afternoon, ladies and gentlemen. I am Yashashri, the moderator for this conference. Welcome to the Conference Call of Garden Reach Shipbuilders & Engineers Limited arranged by Concept Investor Relations to discuss its Second Quarter and Half Year ended 30th September, 2022 Results.

We have with us today Cmde P R Hari, IN (Retd.), Chairman & Managing Director and Shri R K Dash, Director (Finance) and CFO.

At this moment all participants are in listen-only mode. Later we will conduct a question & answer session. At that time if you have a question, please press '*' and '1' on your telephone keypad. Please note this conference is recorded.

I would now like to handover the floor to Cmde P R Hari, Chairman & Managing Director. Thank you and over to you.

Cmde P R Hari: Thank you, Yashashri. Ladies and gentlemen, a very good afternoon to each one of you. I am Cmde P R Hari, the Chairman & Managing Director of Garden Reach Shipbuilders & Engineers Limited. I have here with me Shri Ramesh Kumar Dash, the Director (Finance) and CFO; Mrs. Aparajita Ghosh, AGM (Finance); and Shri Sandeep Mahapatra, the Company Secretary. Let me welcome you all to this conference call to discuss the financial performance of the company for the second quarter and half year ended 30th September, 2022.

I intend covering my talk under the following heads, that is, the financial, the order book, the execution plan for the current order book, and a brief glimpse on the future outlook of the Company.

The financial performance for the half year ended 30th September, 2022 have been very encouraging with the revenue from operation moving up from ₹726 crore to ₹1,262 crore, is an increase by 74% , if one is comparing the half yearly performance of FY22 to FY23.

When we compare the performance of revenue from operations of Q1 '23 to Q2 '23, there has been an increase of 18%. The figures have gone up ₹580 crore to ₹682 crore. Similarly, the total income of half year has gone up by 67% from ₹802 crore to ₹1,344 crore.

EBITDA has also gone up for the half year from ₹125 crore to ₹163 crore. That is an increase of 31%.

From Q1 of '23 to Q2 of financial year '23, in EBITDA, there has been an increase of 20%, that is from ₹74 crore to ₹89 crore.

The profit after tax (PAT), half year to half year comparison, has gone up by 37% from ₹79 crore to ₹109 crore. Q1 of FY23, the PAT was ₹50 crore, gone up by 17% to ₹59 crore.

Earnings Per Share have gone up from ₹6.93/- to ₹9.51/-. This is 37% increase for the half year of 2023.

So, as a whole, the financial performance has been satisfactory, and we are very confident of maintaining the tempo that we have generated during the first half of the financial year and carry it forward to the second half and thereby give good financial performance during the current financial year.

Coming to our order book position.

As on 30th September, 2022, our order book stands at ₹22,930 crore. This comprises of 7 shipbuilding projects totaling 24 platforms. These include 3 projects for Indian Navy, the P-17 Alpha project comprising of 3 ships, the Antisubmarine Warfare Shallow Water Crafts (ASW SWC) project comprising of 8 ships and 4 ships Survey Vessel Large project. So, these 3 projects for the Indian Navy total to 15 warships.

In addition, we are executing a project for the Government of Guyana, a passenger cum ocean going ferry vessel and an order of the Indian Coast Guard for a Fast Patrol Vessel. We are also executing the project for the Government of Bangladesh for construction of 6 Patrol boats and an order for the government of West Bengal for a next-generation electric ferry.

Shipbuilding comprises of a major chunk of our order book that is nearly 97 to 97.5% and the balance is coming from diversified segments i.e. Bailey Bridges, Deck Machinery, Diesel Engines, and Ship Repair.

As far as the execution plan for the current projects of the 7 shipbuilding projects that we are executing currently, 2 of these projects we intend completion during the current financial year. One is the passenger cum ferry vessel being executed for the Government of Guyana. The vessel has now reached around 75% of physical construction and this project is planned to be completed during the last quarter of this financial year.

Similarly, the Fast Patrol Vessel being constructed for the Indian Coast Guard, we almost passed 81% of physical progress and the ship is now in the trial phase. This ship is planned to be delivered during the last quarter of the current financial year.

As far as the other shipbuilding projects are concerned, let me first start with the P-17 Alpha project. As I stated earlier, we are presently constructing three P-17 Alpha ship for Indian Navy. The first ship has already clocked around 43% of physical construction, the second ship around 35%, and the third ship around 16%. The progress of these ships is satisfactory, and as per the present bill plan, the first of these ships is scheduled to be delivered during mid-2025 and the last ship during mid-2026.

Now coming to the Survey Vessel Large project

We are presently constructing 4 ships under this project, and the first ship which was launched during end 2021 has already touched 65% of physical construction. The ship will be now moving into the trial phase, and the ship planned to be delivered during the first quarter of the next financial year. The second ship of the project has achieved around 58% of physical construction, and the ship is likely to be delivered during the end of the next calendar year, that is the third quarter of FY24. The construction progress of the last two ships of the project is also satisfactory, with both the ships having achieved 38% and 14% respectively.

Coming to the Antisubmarine Shallow Water Craft project

There are eight ships in this project, and we have already started production of 5 of these ships. The first ship has achieved around 38% of construction, and this ship is scheduled to be launched; A launch in shipbuilding is a milestone event where the ship is put to water for the first time after the hull takes a complete storm. So, this particular ship of the Antisubmarine Shallow Water Craft project is scheduled to be launched during the next month.

Similarly, the second ship of the project has achieved around 23% progress, and the other ships are following the build schedule. As per the existing plan and the build strategy, these ships will be delivered by FY27.

What I have just mentioned gives you an overview about the progress and the status of the ongoing shipbuilding projects. As you can see, the current order book of ₹22,930 crore will keep us steady with respect to work load up to FY27.

Coming now to the orders on the anvil and the future outlook

As I had mentioned during one of the earlier Con-Calls, GRSE has been declared L2 in an RFP floated by the Indian Navy for construction of 11 Next-Generation Ocean going Patrol Vessels (NGOPV). As per the tender condition, the L1 bidder gets to build 7 vessels and the L2 bidder, that is GRSE, gets to construct the 4 vessels. The way things are moving, this contract is likely to be completed during the current financial year, and the order value is likely to be the tune of around ₹3,000 to ₹3,200 crore.

What I am trying to convey is that, while on one side we are executing the current order book, on the other side, there is a steady filling up of the gap generated in the order book through execution. So, this ₹3,200 crore plus order book, what we are envisaging to execute during the current year is likely to ensure that we maintain an order book position of around ₹23,524 crore at the end of the current financial year also.

As far as the other orders that are on the anvil, one major order that GRSE is eagerly looking forward to is that of the next generation

Corvettes. The Defense Acquisition Council has already given an Approval of Necessity for this project of Indian Navy, and this is a high value project costing almost ₹36,000 crore, and as per our current estimate, the RFP for this particular project is likely to be released by the Indian Navy by end of calendar year 2023 or early 2024.

As per our understanding and appreciation, this is a 8 ships project which shall be shared amongst two shipyards, in the ratio of 5 and 3. The L1 shipyard will get to build 5 ships and the L2 shipyard will get to build 3 ships at the L1 cost. So, with GRSE's experience in building and delivering Corvettes, with our experience, expertise and the resources available and with our bidding strategy, I am sure, we stand a very good chance in winning this bid.

In addition to next generation Corvette, Indian Navy has also got a project, a high value project of landing platform dock. Here, the RFP again is likely to be released in 2024. In addition, the Navy is also looking forward to constructing 20 follow-on Water Jet FACs. In case of Water Jet FACs, as some of you may be aware, GRSE has got a history of delivering the maximum number of SPVs for Water Jet FACs, both belong to the same class. 30 plus of these vessels to both Indian Navy and Indian Coast Guard. So, similar to the next generation Corvettes, when we are pitching in for this also, our strategy would be appropriate to give adequate competition to our contemporary shipyards.

In addition to these three projects for the Indian Navy, the Indian Coast Guard has got a couple of projects that are likely to come up in the near future. There is a project for which the RFP is likely to be issued by the end of this calendar year, that means either this month or the next month for 14 Fast Patrol Vessels. The order value is likely to be in the tune of around ₹1,500 to ₹2,000 crore. The Indian Coast Guard is likely to come out with an RFP next year for 18 next-generation Fast Patrol Vessels. So, this in a nutshell gives you an overview as to what is on the anvil. This covers the shipbuilding segment.

As far as and ship repairs are concerned, again, as I had stated during an earlier investor Con-Call, we have taken over three dry docks for long-term lease basis from the Kolkata Port Trust, and as of now all these three dry docks are being extensively used for ship repair related activities. So, our intent of taking over these dry docks was to give an impetus to ship repair another vertical now GRSE is looking very seriously.

While we have taken over these dry docks just about 11 months back, the results so far have been encouraging, and we have almost had 100% occupancy of these docks, and we have one bit of Indian Coast Guard for conduct of refit of their ships and also a few commercial vessels where we are undertaking the dry docking and repair. So, this is an area which our shipyard will be focusing on in the coming year.

In addition to ship repair, our diversified segments include the Bailey Bridges division. As you are maybe aware that GRSE today has around 65 to 70% of the Indian market share in Bailey Bridges, that is portable steel bridges. We have concluded an MoU with the Border Roads Organization for delivery of a particular type of modular bridges for which we have proprietary rights as an IPR of the shipyard, and this will give us an edge in getting more orders from the potential customers, that is the Indian Army and the Border Roads Organization.

Coming to the Diesel Engine plant, we have a Diesel Engine plant at Ranchi where we have a license agreement with MTU Germany, and based on this license agreement, actually, we have a facility and the capability to assemble the engine, make diesel engine and conduct the trials and acceptance.

On this segment, we expect orders from the Indian Navy for their projects where medium and small-sized diesel engines are involved. In addition, this particular unit, that is the Diesel Engines plant has got an order for delivery of 28 Diesel Alternators for the P-17 Alpha project being executed by both Mazagaon Dock and our shipyard, that is GRSE. We also have another unit that manufactures and supplies Deck Machinery for the ships being built by GRSE and also by the other shipyards.

So, we are confident of having a growth trajectory in the coming years on the shipbuilding segment, which is definitely our major revenue earner, along with the Bailey Bridges, Ship Repairs, Deck Machinery, and Diesel Engine verticals.

I have finished my opening remarks and the session is open for questions. Now, the moderator can take up.

Moderator: Thank you very much. We will now begin the question and answer session. We have our first question from the line of Venkatesh Subramanian from Logic Tree Investment Advisors. Please go ahead.

Venkatesh S: I have two questions, sir. One is on the last item that you mentioned on various other stuff like ship repair and steel bridges etc. All these units put together, say, over a period of three years from now, sir, what can be the approximate top line that you would envision on these projects? That is my first question. And the second question is on ₹36,000 crore RFP on next-generation Corvettes. As L2 bidder, my sense is we will get three orders for 3 vessels. And what could be the value of that, sir?

Cmde P R Hari: I will answer your second question first while my mind is calculating what is that ₹36,000 crore into 3 by 8. So that comes to, one second, around ₹13,500 crore. But let me tell you, we are not aiming at being L2. Finally, it's on how we bid and how our competitors are going to bid. But on a very serious note, we are not looking at L2 for this project at all. However, to answer your question, if we become L1, the value that is going to be accrued from this project is around ₹22,500 crore, and if it is L2, around ₹13,500 crore.

Venkatesh S: ₹22,000 crore, okay, sir. And the second one is on the ₹3,000 crore order, sir.

Cmde P R Hari: The ₹3,000 to 3,200 crore order is for NGOPV project, where the bid was opened end of February this year where the participants were all the shipyards, all the five of us, that is the four public sectors, and L&T. So, we have become L2, and as per the tender conditions, 7 of these ships go to the L1, that is the Goa shipyard, and the 4 ships come to us. So, right now the project is at the negotiation stage between the tenders, that is the winning bidders and the Indian Navy. And as per the indications gathered, the contract is likely to be signed by end of this financial year itself. So that will give us an order book value of around ₹3,000 to 3,200 crore.

Venkatesh S: So you are saying ₹3,200 crore for approximately 4 vessels, sir.

Cmde P R Hari: Four vessels approximately ₹3,200 crore.

Venkatesh S: Last quick question, sir. The 18 next-generation Patrol Vessels RFP is going to be out next year you said. What would be the value of that, sir?

Cmde P R Hari: The 18 next-generation vessels which the Coast Guard RFP is likely to come out next year. At this moment I can only give you an indicative figure. In my appreciation it could be around ₹3,000 crore. That's all.

Venkatesh S: ₹8,000 crore, sir?

Cmde P R Hari: ₹3,000 crore. These vessels are actually small vessels.

Venkatesh S: And sir, on these small vessels, the execution timeframe is usually shorter?

Cmde P R Hari: Yes. Definitely, the execution time of any warship depends upon one, the price, and second, the complexity. Now when we are speaking about complexity, complexity depends upon the kind of weapon and sensor to be fitted on the ship. And these Fast Patrol Vessels are compact vessels with let us say a heavily dense population of equipment and system. So, while the size is small, the complexity is definitely not that small as it sounds. So, it's called FPV and so on. Since you asked that question, now for a conventional Fast Patrol Vessel, what preferably on executing an order for a Fast Patrol Vessel for the Indian Coast Guard, the build period is 20 to 24 months. So, from the time the design is chosen, it takes around 2 years for a ship, for the first ship of a class to be delivered, and from then on, we can deliver a ship of this particular type around a ship for 3 months thereafter.

Venkatesh S: The question on the other four business divisions are ship repair, steel bridges etc., broadly, if you can give us over a three years' period some sort of a guidance where we could be, sir?

Cmde P R Hari: As I mentioned in my opening remarks that our primary job and focus is on shipbuilding. Since, we are a defense public sector shipyard, our focus and aim would be to provide the quality warships to the Indian Navy and the Indian Coast Guard as per their expectations. Now keeping that as our primary role, we also have ventured into diversification in India and at this juncture only we have the diversified verticals.

So, with this kind of diversification as I had stated earlier, there are four verticals which we have to see. One is the Bailey Bridges segment. While on one side, I stated that we have around 65 to 70% of the market share of Bailey Bridges, and what you must appreciate is that the overall market in India itself is limited.

Now with our new products, that is the modular type of bridges and with a certain amount of aggressive marketing strategy that we have taken, there is an improvement. Actually, our turnover in the Bailey Bridges division is very, very miniscule. It has doubled in the last three years. So, this is an area where I expect maximum of two-fold increase in the next three years.

Coming to ship repair, there are shipyards who have got an edge over us in terms of experience in ship repairs. They have been focusing on ship repairs for the last 10 to 15 to 20 years. We have taken this as a serious vertical from the last year onwards, and as I mentioned that we have taken over three dry docks to specifically give an impetus to ship repair.

Again, in this field, we have started in the modest fashion, but this is an area where opportunities are exists, because the Navy and the Coast Guard have definite needs to carry out repairs of the ship on a periodic basis. So, at this juncture I will not be able to put a figure to what the expectations are, but I can assure you maybe what I would suggest is a year down the line, let us see where we stand. We started in a very modest fashion. Let us stabilize, and this is the focus area where the management aggressively working on and expect a steep growth in this segment in the coming three years.

Moderator: Thank you. We have our next question from the line of Rohit Natarajan from Antique Stock Broking. Please go ahead.

Rohit Natarajan: Thank you for this opportunity. Sir, one of your competitors was talking about some landing platform dock orders in the near term plus there is a possibility that repeat of P-17 A can also be thought about in near to medium term. Any color on this aspect, sir?

Cmde P R Hari: Thank you, Mr. Rohit. The color as of now is great. Both these projects, see, Navy has come out with an RFI for the landing platform dock sometime earlier. After that it has not really taken off, but the fact is that, Navy has requirement for landing platform, and as per our appreciation, the RFP for two landing platform docks is expected to come out by 2024. That is the appreciation, and definitely we will go as earlier. And yes, the competitors in this field are our sister shipyards only. And as far as the P-17 project, now the P-17 Alpha project that we are currently executing is for 7 ships both MDL and GRSE. MDL is constructing 4 of these ships, and GRSE is building 3 ships. As per the current execution plan, these ships are likely to be delivered by FY27. That is mid third quarter of 2026. So that is the time when this project will reach a closure. So, Navy definitely has plans to go in sort of follow-on of the ship, but that is still in discussion stage. So, if Navy decides to go for a follow-on or more numbers of this, the clarity on this will emerge sometime in my appreciation only during 2024.

Rohit Natarajan: Sir, my second question is more to do with the margins front. On one side we know that 1.5% is the physical execution progress that is done at each ship units' level. But the margin, how does that get translated as in is there any, you know, lumpiness than there are more brought out items sell or something it goes into outfitting or advanced outfitting stage? How does that really shape up? Can you give some color on it?

Cmde P R Hari: I will give you a brief introduction on the shipbuilding process so that it will put things in the right perspective. Shipbuilding activities starts with the preparatory activities. That is the design stage. In this stage, design of the ship is finalized, the equipment are finalized, and based on the equipment finalization orders are placed on prospective OEMs for the equipment. Once this process is completed, along with procurement of steel then starts, and based on the design, the construction activities begin. Construction starts with the plate cutting and the block application, then the block erection. At this stage, the equipment which have already been ordered start coming in. These are lowered and the outfitting starts. Once the ship reaches a completeness in terms of hull form, that particular ship is launched onto the water where the float worthiness of the ship is checked, and thereafter the outfitting goes in full flow. Once outfitting is completed, the trial progress leading to acceptance of the ship after the confirmed sea trials or the harbor and sea trials. This in nutshell gives you an overview of the four phases of ship construction.

Now, be informed, if you are looking at the hull construction to overall percentage in terms of cost, it is around 5% of a ship's cost. If you are looking at the ship's construction in its entirety, the hull along with the basic fittings carry on 18% of a ship, if you are taking a ship as 100%. Now in the initial stages of ship construction, the progress will be around 1 to 1.5% per month. After that when the equipment starts getting lowered, the progress increases. Then a stage will come when the equipment's get integrated to the ship, and the systems get buckled up. So, there will be a stage in every ship's construction where the progress leaps from 1 to 1.5% to 2 to 2.5% per month depending upon the price, size and complexity of the ship.

I will give you an example. In case of a Fast Patrol Vessel, it's a small ship, initially, the progress is to the tune in sense of the ship is small, 1 to 1.5% per month. Then it leapfrogs to around 3%. There are stages when the ship per month gives around 7% of physical progress. In case of a big ship, we may not be able to touch 7%, but at times it touches 3%. So, translating it into VOP, that is the revenue from operations or value of production is VOP, the value of production is when the equipment and the systems along with the labor gets pumped into a ship's construction. No, you cannot compare this with the profit. They are completely different. Profit is dependent on a variety of factors ranging from the equipment procurement process, the revenue expenditure, the internal efficiencies and so on. So, the physical progress as since you have asked a question about the physical progress where there is a lump of 1 to 1.5%, yes, that is at some stage of the construction, but there will be a stage where it will become. And this will happen when the ship touches around 60 to 65%.

Rohit Natarajan: Appreciated, sir. That was quite detailed. Just a follow-up on this part. But when we, say, then a particular project at say 7.5% EBIT margins, we may have some sort of capacity utilization factor in mind. So, at that time, do you say we have worked our estimates on maybe say 75% of the ship capacity that we have or 100% of capacity, and if there are margin surprises, it is purely based on that incremental capacity utilization. Is that the way, right way to understand how the margin surprises come from?

Cmde P R Hari: See, capacity utilization is based on the resources and infrastructure that we have. So, as I remember that it has been talked out earlier or not, but I will just again clarify. Our capacity for ship construction at this juncture is around construction of 20 warships at a time. Now again, this in reality translation to much more because when a project is executed, let us say a four ship project, all four ships will not be at the same phase of construction at every point of time which means if the first ship is at outfitting stage, the second ship will be at the build on stage, and the third and fourth ships will be at some other stages of construction.

So, in our case, let us specifically talk with the GRSE at this juncture. If I am speaking about the P-17 Alpha project, the first and seconds are already in the outfitting stage. Only the third ship is at the pre-launch stage. So as far as capacity is concerned, it has got no constraint. We have got no constraint at all. And another aspect what you may like to notice is that we have gone in for as I mentioned three dry docks we have hired on a long-term basis from KPDD. And in addition to that we have gone in for a PPT model with two of the shipyards, one based in Kolkata, and one in the Eastern front where part construction of some of our ships are in progress. So, the resources which are captive without our campus is certainly not a constraint for executing concurrent projects. What I am trying to convey is capacity is not a constraint.

Moderator: Thank you. [Operator Instructions] We have our next question from the line of Bharat Mani from Moneybee Investment Advisors. Please go ahead.

Bharat Mani: So, I just wanted to know the physical execution progress monthly for P-17 Alpha, Survey Vessels and the ASW. So, I just want to know is it different from 0 to 40 and 42 with the revenue booking is the most and then from 60 to do the next level?

Cmde P R Hari: Thank you, Mr. Bharat. If I just take the P-17 Alpha project, the first ship has achieved 43%. The second ship is around 35%. And the third ship is around 16%. Now, the physical progress from let us say 0 to 20 on a conventional we get around 1 to 1.5% per month. Then it starts getting picked, I mean, it gets picked, the speed picks up, and we get around 2%. The rate at which the growth is accelerated is during the phase when the ship has touched around 60% of construction where majority of the equipment would have been already lower, and the integration and the fitting work of the system start. This way the percentage progress, monthly percentage progress increases when the ship is at a phase where it is between 60 and 80.

If we just bring it down to a smaller size ship, then if we are talking let us say a Fast Patrol Vessel, a Fast Patrol Vessel in the first 0 to 15% starts with around 2% per month, and then it picks up maybe around 2.5% between 16 to 40%, and 3 to 3.5%, and then the one phase when the equipment trials are actually in progress, it touches around 6.5 to 7%.

But on a serious note, the monthly progress is definitely good to monitor. It is required to be monitored, but what we actually look at is the milestone. The major milestones in the ship construction are, one, the plate cutting where we start the production. Next is the keel laying when the blocks which get manufactured at various locations get lowered on to the building dock or building dry dock, and once they get consolidated, the next milestone that we look at is the launch of the ship. The next milestone is the basin trial.

So, on a serious note, we should not be really looking at monthly progress points. It is good to understand, but it doesn't matter. What we must look at is the launch, then the launch to trials and delivery.

Bharat Mani: Sir, so the second P-17 Alpha, so what is the expected delivery of that one?

Cmde P R Hari: The second P-17 Alpha is as of now it is expected to be delivered during the last quarter of the financial year FY '26. That means between Jan and March 2026.

Bharat Mani: And the Survey Vessel number three and four, and the delivery of those two, sir?

Cmde P R Hari: See, Survey vessel, the first two ships are planned to be delivered during 2023, and the last two ships are planned to be delivered during calendar year 2024.

Bharat Mani: So, in a shipbuilding process there are, I guess, 15 milestone payments. So how do you expect the duration of the payment?

Cmde P R Hari: See, it is more to do with the stages than the duration. It starts with there is a payment which is on signing of contract for the 10% for the preparatory activities and the design related aspects. And then there is a 10% payment for placement of orders for various equipment's and provision of the plan for construction of the ship and so on. Then at various milestones they pay. One would be for so many 40%. I am just giving you on say 40% physical construction you get a stage payment. The launch you get a stage payment. Conduct a basin trial you get a stage payment. 85% of construction you get a stage payment. Getting to stage 14 will be a stage when the ship is finally delivered to the customer. And the stage 15 is when the ship completes a guarantee period (one year after the ship delivered). That is when 5% you are going to get. So, this comprises in nutshell the 100% staggered stage payments over 15 levels, 1 to 15.

Moderator: Thank you. We have a next question from the line of Abhineet Anand from Emkay Global Financial Service. Please go ahead.

Abhineet Anand: I just wanted to underside that you indicated that by FY27 all these ₹23,000 odd crore order book will be competed. Is it right, sir?

Cmde P R Hari: Yes, the existing order book, not including the order which is likely to come for the next-generation ocean going patrol vessel. Excluding that, the current order book as per our execution plan, the execution period FY27, correct. You are right.

Abhineet Anand: So very broadly, can you just make us understand that, you know, because from now till '27 is like 5 years, right? So, over the next three years what could be the broader execution, say, in terms of broader revenue? I am not saying any guidance, but just maybe a ballpark number

Cmde P R Hari: I will rather talk in terms of numbers in this financial year.

Abhineet Anand: I understand, but our understanding

Cmde P R Hari: I will give you a reasonable input for you to extrapolate again. See, in the shipyard when you complete the first half, we are at ₹1,262 crore. As I mentioned the progress of production of the various ships are satisfactory, and two of these projects are, of course, they are small projects, we intend completing this year. So, I will put in a different fashion so you get a better confidence. See, our current order book remaining is ₹22,930 crore. And I have also stated that as per the current execution plan, the order book will be exhausted by 2027. If I keep the next-generation will be completely out of the figure. In the next five years, that is ₹22,930 crore divided by 5 works out to around ₹4,586 crore. So, this is for you to, I mean, extrapolate or calculate. There could be financial years where the revenue could be more than that. There will be financial years where it will be less than that depending upon the stage of construction of the ships. But it will definitely not be uniform.

Just to give you the assurance which I have been stating repeatedly in the last two Investors' Con-Call also that as per our appreciation and considering the physical progress of construction of the ships because that is what is directly linked to payment, I mean, revenue recognition. Considering both these aspects, the current year, see, last year our turnover was ₹1,750 crore. So when we finished the last financial year and discussed the results, we have stated that the next three years, that is FY '23, '24 and '25 will be the best in terms of revenue recognition for the shipyard. So, I have given you both the perspectives. I have mentioned what is the total order book, also stated what is our plan for execution. So, I had even gone to the extent of dividing and telling you and also giving you an assurance that this year, next year and the next to next year, the growth will be steady with perhaps FY '24, '25 or '26 being weakest.

Moderator: Thank you. We have our next question from the line of Shalini Gupta from East India Securities. Please go ahead.

Shalini Gupta: Sir, I had two very basic questions. Sir, if I understood correct, the revenue per ship that you make is about ₹700 crore. Am I right?

Cmde P R Hari: Ma'am, good afternoon, Shalini. But it varies from project to project. I am not sure which project you are talking about.

Shalini Gupta: No, sir, I am just trying to get a ballpark figure because just from my projections, so, is it correct between say ₹500 to ₹700 crore, would that be correct?

Cmde P R Hari: No, ma'am, I will put you in the right perspective. See, our current order book is ₹22,930 crore. Of this, around ₹14,997 crore pertain to the P-17 Alpha project for three ships. So that comes to balance around ₹5,000 crore per that ship. If I am taking the Antisubmarine Shallow Water Craft, ₹5,821 crore was still remaining for execution, divided by 8, that comes to almost around ₹710 to ₹725 crore per ship remaining. In case of Survey Vessels, four ships, ₹1,600 crore remaining. That means around ₹400 crore are remaining. In case of the FPV, Fast Patrol Vessel, ₹23 crore are remaining. One ship. So, it depends upon the price of the ship and the order value. Are we on the same page? Could you make it?

Shalini Gupta: Sir, I listen to the conference call, again I have some more questions, I will probably send you a mail or something. Sir, I am just trying to understand how I should build my projections. Sir, my second question is that what kind of EBITDA margin should we take? Because you were explaining how you arrive at your EBITDA margin, but I mean, it will be very difficult for me to calculate the kind of EBITDA margin you may arrive at. So, would it be correct to say your EBITDA margins will be somewhere around 17 to 18%? Will I be correct?

Cmde P R Hari: Right now EBITDA margins are around 12.7 to 13%. So, considering our current order book, the margins at which we have bid and won the project, the EBITDA margins what we anticipate is in the coming years is to be steady, more or less around this range between 12 to 13%.

Moderator: Thank you. We have the next question from the line of Vignesh Iyer from Sequent Investments. Please go ahead.

Vignesh Iyer: On the P-17 Alpha ships, I just want to know what is the original order value and what is the remailing order value?

Cmde P R Hari: The total order value is ₹19,296 crore and the remaining order value is ₹14,997 crore.

Vignesh Iyer: Sir, roughly around ₹15,000 crore, right?

Cmde P R Hari: Roughly around ₹15,000 crore.

Vignesh Iyer: And the original value is around ₹19,296 crore, right?

Cmde P R Hari: Correct.

Vignesh Iyer: This confirmation I had. Second is, sir, there have been news that there are a lot of ships which are actually due for maintenance, and we are also into the maintenance contract part of it. So, can you give us some idea about on that part of the business as in the ship has to be gone for maintenance for maybe once every two years or such?

Cmde P R Hari: I will answer this question. Both the Navy and the Coast Guard have ships which get periodically repaired. That's called refit and repair. When the ship is built, an operation cum refit cycle starts where the routines maintenance of the ships are defined, and periodically the ship goes for refit and repair. Let us say every two years for a short refit and dry docking to check the underwater package and so on. And every five years the ship goes for major refit.

Now for undertaking these refits and repair, the Indian Navy has got the Naval Repair Organization. So, considering the range and scale of the ships that the Navy possesses, the yards or the repair yards, Naval Repair Organization are hosting repair & refit activities at their yards. When they have capacity constraints, they outsource these refits to capable shipyards.

Now Coast Guard, on the other front, they do not have the similar repair setup like the Indian Navy. What I am trying to convey is that every Indian Coast Guard ship goes for refit and repairs to outside shipyards and private firms. And akin to maybe these refits and repairs come for a short duration every two years, and for a longer duration every five to six years. So, the opportunities available in this front both with the Navy having capacity constraints and with the Coast Guard currently not having any captive organization is huge. It is specifically with this intent we have ventured into this ship repair segment in a reasonably aggressive fashion, and towards this as I had mentioned, we have taken over three dry docks in the Kolkata Port Trust and we have already executed five projects for the Indian Coast Guard including two major refits and three minor refits over the last 1 to 1.5 years. Currently, we are executing a refit project for the Indian Coast Guard ship, and we have one more ship coming in for refit in the next year.

So, to answer your question, yes, both the Indian Navy and the Indian Coast Guard have a methodology where in maintenance is carried out in a periodic manner, and as the business entity, we have huge opportunity in this segment.

Moderator: Thank you. We have a next question from the line of Venkatesh Subramanian from Logic Tree Investment Advisors. Please go ahead.

Venkatesh S: Sir, actually, my questions have broadly been answered, but just a quick reconfirmation. Sir, FY '23, '24, '25 are the peak years for the execution. So, is that right, sir? Just reconfirming.

Cmde P R Hari: FY '23, '24, '25, I will add on FY '26 also, that the peak touch during FY '25 or '26, considering our delivery schedule and with the order book plan to be executed by FY '27. So, if you are looking at '23, '24, '25, what I can assure you is that the revenue growth will be on upward, steady upward trajectory with either '25 or '26 being the peak year.

Moderator: Thank you. We have our next question from the line of Swechha from ANS Wealth. Please go ahead. [Operator Instructions]. Since there is no response from her line, we will take the next question from Sumit Chandwani from Arth Equity Advisors LLP. Please go ahead.

Sumit Chandwani: So, sir, how do you project your margins since most of these are fixed contracts, fixed size contracts? Can you give us some idea on how do you project your margins? And these are three, four year projects.

Cmde P R Hari: Thank you, Sumit. Very interesting question. Now there was an era much before we are listed and well, maybe 10 years back when the shipyards were having the contracts that were cost plus contracts. Then came an era of nomination contract, and now we are at a very, very interesting phase where we have all the contracts on competitive bidding phase. And let me give you confidence and assurance that the transformation of the shipyard from first the cost plus era to nomination, of course, it was tough. And from nomination to fixed cost and competitive has been tough as well.

Now, since we are going for a competitive bidding along with our counterparts (the other shipyards), naturally, it is a good thing for absolutely competitive and the margins are also softening. But how do we maintain the margin? See, over a period of time, all our production processes have been revamped and we have brought in automation. See, shipbuilding you may have appreciate that unlike any other manufacturing industry, it is a labour intensive industry. But even in this segment, we have brought in measures to automize areas that are practically feasible to be automized. We have cut down our revenue expenditure by rationalization of our large amount of the spend, and our focus on outsourcing in non-core activities as a business strategy. So, we keep our captive manpower only for core activities, core production shipbuilding activities. With all these measures we have been able to maintain the margins, the level what we are taking.

Sumit Chandwani: Sir, my question was more around the shipment and material cost. So, we have seen steel prices fluctuate a lot this year. So how do you, manage steel cost and steel is a big component of production?

Cmde P R Hari: Understood. I will answer this question.

Sumit Chandwani: Sir, you will be having foreign currency risk. You have lot of imported equipment's. How do you hedge that? If you can give us some color on your procurement policy and hedging policy

Cmde P R Hari: Both the questions I will answer. Both of them are related to equipment and systems procurement. Now, in a shipbuilding project as you may now be aware that the equipment and systems cost is almost 60 to 65% of the project cost. And all these projects are fixed price contract. I am only speaking about the major key projects which contribute a major chunk of our order book. All these contracts have been concluded before the financial year 2019. So, these are fixed price contracts, and since these contracts have been concluded before FY19, all our equipment orders have been placed well in advance. That means done before market fluctuation started, because of the COVID and the current situation. Since, we have fixed price contract from our customers, all our contracts with our equipment manufacturers and the major contractors are on a fixed term, fixed cost basis. So, what I am trying to convey, there is no major impact with respect to the price fluctuation.

Now, there are small component that is not the equipment, but we call them as yard material which mostly comprises steel and certain fasteners and insulation and so on, that comprises only a very miniscule scale of the overall project. Even within this, for steel, we have a Memorandum of Understanding with another PSU, that is the Steel Authority of India, where decent amount of protection for steel price variation is covered.

Coming to the balance material which comes through if you are looking at the overall project cost considered 5%, that is the yard material less steel, yes, there have been fluctuations. There is impact, because many of these are supplied by the MSME vendors, and there have been fluctuations. But if you are looking it from the overall project perspective, the impact is minimal.

Coming to the ERV, the key projects were the P-17 Alpha, the survey vessel project, they are protected against the ERV because ERV variation clause existing in the contract with the customer. So, there is no impact with respect to the value of this project.

Moderator: Thank you. We have our next question from the line of Prabir Adhikary from Ratnabali Investments. Please go ahead.

Prabir Adhikary: Thank you for the opportunity. I have couple of questions. The first question is that I want to understand something about this shipbuilding phases, like you said that that it starts from plate cutting to the delivery stages. As most of the equipment's are bought out components, so can you please give us a sense that at different stages what should be the gross margins?

Cmde P R Hari: Could you just repeat the question once again?

Prabir Adhikary: Yeah. I am saying that shipbuilding happens normally in phases, like from plate cutting to the delivery each stage and most of the and components that you install there in the ship are bought out components. So, this must be that your gross margin also fluctuates. So, can you please explain like, you know, what could be the gross margin that happens in every phase?

Cmde P R Hari: See, we are currently executing multiple projects, like just my remark in the financial part, I mentioned that we are building ships for the Indian Navy. And all these ships are at various stages of construction. If you look at holistically, in shipbuilding, the conservative optimal profit margin is hovering around 7 to 7.5%.

To give you again a further understanding on the shipbuilding cycle, as you rightly said, before plate cutting, of course, I will add another phase where the preparatory activities are intended, then the plate cutting, then the block, that is the balance application, block application and the block assembly which happens in the dry dock. Equipment what have been ordered start coming during these phases. It is lowered onboard. Then starts the integration, then the launch, then the outfitting, then the trials and then delivery.

When you are taking a shipyard and looking at the gross margins, you should look at from a holistic perspective at the shipyard. Now I have got seven shipbuilding projects currently being executed. All of them are at various stages of production. Some ships at the final stage, some ships at the preparatory phase. So, again, as I mentioned, the margin, the overall margin for shipbuilding project hovers around 7 to 7.5%. Now how do we take it beyond this 7 to 7.5%, is where the challenge is. That is where answering to a previous question I had mentioned that we have gone through a slew of measures starting from automation to the extent feasible, manpower rationalization, resources utilization, adapting to PPP, outsourcing, and that's how we have been able to maintain aforesaid margins. Thank you.

Prabir Adhikary: So, is that my understanding is right that this 7% of EBITDA margin for the current quarter can go up to around 12 to 13% in the next 2, 3 years.

Cmde P R Hari: I will put it. The current EBITDA margin for the current quarter is 12.16%. It is not 7%. And PAT margin itself is 8.11% for the half year ended 30th September. So, I am talking about the PAT margin. The PAT margin itself is plus 8%. The EBITDA margin and again, answering to a previous question, I had mentioned that our EBITDA margins have been hovering between 12.5% to or rather 12 to 15% and we have been able to maintain this in the coming days and years too.

Moderator: Thank you. We have our next question from the line of Vignesh Iyer from Sequent Investments. Please go ahead.

Vignesh Iyer: Thank you for the opportunity. I just wanted to ask you about, so in our balance sheet, right, so we had good amount of money as an advance for the project execution, right? So, it would be a request from my side that if you could show the amount received as advance separately from the cash and cash equivalent that we are actually generating from our internal accrual? Because it is kind of misleading because we cannot use that entire cash because it is kind of an advance from customers, then your clients, right? So, we want, so, in order to calculate the free cash flow in a better way, right, and to find out the closing free cash flow and cash and cash equivalents, it would be better if the advance from customer as the amount you hold in your account which you are free to use is shown separately?

Shri R.K.Dash: First of all, I want to tell is the money what we are showing, it is not advance because in shipbuilding project, whenever we have completed stage of construction/milestone, we have received the payment. We don't have any financial costs because our contract is made such a manner, our working capital is financed by the customer. So that means whenever we are attending a particular stage of completion or we are attending a particular milestone, at that time we are getting money. So first I want to clear, it is not an advance.

Second thing I want to tell that presentation in the balance sheet is as per the Companies Act and Accounting Standard. However, it is not in our hand to change the presentation in accounts. So, in this case whatever money we are getting, it is coming to our account. The cash what you are seeing in our account, is our cash as well as customer cash. I don't have a separate bank account to show separately my accruals and customer. It can be calculated from the balance sheet itself. A financial analyst can make out how much is own cash and how much is also customer cash because everything appeared in the accounts. So, there is no scope to show our own money and also customer money separately.

Cmde P R Hari: Once again, I would like to reiterate that this question we have been hearing often in the shipbuilding project as per the existing contracts, the concept of advance is not there. There are various stage payments to meet the various projects requirement.

Moderator: Thank you. We have a next question from the line of Abhineet Anand from Emkay Global Financial Service. Please go ahead.

Abhineet Anand: So, sir, you had mentioned about 11 next generation ships. So, who is the L1 here, sir?

Cmde P R Hari: So L1 is Goa Shipyard.

Abhineet Anand: And the three Navy orders that you mentioned, one, obviously, Corvette one you said. Their RFP will be likely in FY23 or early '24. So, when can we expect this contract to come up?

Cmde P R Hari: See, looking at the current progress of the contract and based on our experience, the RFPs likely to be come out by 2024 and the contract is likely to be concluded by FY'26.

Moderator: Thank you. We have last question from the line of Prabir Adhikary from Ratnabali Investments. Please go ahead.

Prabir Adhikary: Thank you for taking my question once again. Sir, I want to understand this execution cycle of ASW SWC. As these ships are smaller and order size is roughly around ₹700 to ₹800 crore, and also the launch date was around '22 to '23, something like that. So, is it my understanding correct that you can execute as this already started and launch date is there, so you can execute that all the five ships by 2024 or 2025?

Cmde P R Hari: As you rightly said, these ships are smaller in size, but they are complex war ships because these are pure weapon platform. Then despite the size of the ship being small, if the weapon intensity is high, the construction period of the ship is equally high.

Now coming to this eight ships, we intend launching of the first ship. The first ship has already reached the launch stage. The first ship is intended to be launched in next month. I mean, we are as close as one month away from launch of the first ship. As per the execution plan, this project is planned to be completed and eight ship delivery is planned to be completed by end of 2023.

Moderator: Thank you. I now hand the conference over to Cmde P R Hari for closing comments. Over to you, sir.

Cmde P R Hari: Thank you, Yashashri. Before I give my closing remark, I would like to highlight one aspect to the investors. Very interesting questions, we had today with few of them hovering around the margin. While we have endeavored to answer all these questions, what I would like to highlight and reiterate that our revenues have gone up. Our net profit has gone up. As a matter of fact, our net-worth has gone up to ₹1,360 crore from ₹1,257 crore at the end of last year. Our earnings per share has gone up. Market capitalization, another interesting aspect, it has gone up by 400%. While this reflects the confidence of investors in the shipyard. What I would like to reiterate is that we are fully conscious about your expectations and all efforts we are putting into match your expectations.

With that, let me once again thank Yashashri, and thank you Gaurav from Concept IR for organizing this conference call. I would like to pay my sincere gratitude to all my analysts and investor friends. You have taken time out of the busy schedule to listen to us today. If you have any further questions, I would request all of you to please get in touch with us, and we will be happy to address them all. Thank you once again. Jai Hind!

Moderator: Thank you, sir. 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. Thank you for joining us. And you may now disconnect your lines.

******