

Valuation Analysis of Cochin Shipyard Limited: An Assessment of Equity Pricing Through DCF Valuation

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ABSTRACT

Equity valuation is an essential component of financial decision-making, as it seeks to determine the intrinsic value of a company and assess whether its market price reasonably reflects its underlying fundamentals. It supports investment analysis, portfolio selection, capital allocation, mergers and acquisitions, and long-term corporate planning. Since market prices are influenced by investor expectations, market conditions, information asymmetry, and other external factors, they may not always accurately represent the fundamental value of a business. Therefore, valuation based on operating and financial fundamentals provides a more comprehensive basis for assessing corporate worth.

Among the various valuation approaches, the Discounted Cash Flow (DCF) method is widely used to estimate intrinsic value by forecasting future cash flows and discounting them to their present value. The method is particularly relevant for capital-intensive businesses with significant long-term projects and substantial investment requirements. This study focuses on the valuation of **Cochin Shipyard Limited (CSL)**, one of India's prominent shipbuilding and ship repair companies, established in 1972 and operating under the administrative control of the Ministry of Ports, Shipping and Waterways, Government of India.

The Indian shipbuilding industry is gaining strategic importance due to government initiatives promoting domestic manufacturing, maritime infrastructure, and self-reliance. These developments present significant long-term growth opportunities for CSL. However, the industry also faces challenges relating to order inflows, extended project execution periods, capital requirements, and international competition. These factors necessitate careful assumptions regarding the company's future financial performance.

Accordingly, the study estimates the intrinsic equity value of Cochin Shipyard Limited using the DCF approach. The valuation incorporates the company's historical financial performance, operating characteristics, future growth prospects, and prevailing industry dynamics to forecast future cash flows and determine its estimated intrinsic equity value. The study

thereby provides an analytical basis for evaluating CSL's fundamental value in relation to its prevailing market valuation.

KEY WORDS: DISCOUNTED CASH FLOW METHOD, SHIPPING INDUSTRY, FORECASTING, TERMINAL VALUE

INTRODUCTION

Equity valuation estimates the underlying worth of the organization and assess whether its shares are reasonably priced. It supports several financial decisions, including investment analysis, portfolio selection, capital allocation, mergers and acquisitions, and long-term corporate planning. Market prices of companies do not always show the value of the business. This is because market prices are based on what investors think will happen. Sometimes market conditions are such that some investors have more information than others, which can affect market prices. To really understand the value of a company it is necessary to look at its operating fundamentals.

There are ways to value a business. Each method looks at the value from an angle. The DCF method is one way to estimate the value of a company. This method looks at how much cash flow the company is expected to make in the future. It then uses this information to calculate the value of the company. This method is especially useful for companies that are capital intensive like Cochin Shipyard Limited.

Cochin Shipyard Limited is a shipbuilding and ship repair company in India. The company was started in 1972 and is controlled by the Ministry of Ports, Shipping and Waterways Government of India. Cochin Shipyard Limited does a lot of things including building ships repairing ships and other maritime activities. Cochin Shipyard Limited operates in a highly capital-intensive industry that requires substantial investment in shipbuilding infrastructure, specialized machinery, technology, skilled manpower, and other operational resources. The company undertakes large and complex shipbuilding and ship-repair projects, many of which require significant financial commitments and extended periods for completion. Consequently, the timing and magnitude of cash inflows and outflows play an important role in determining the company's financial performance and overall value. The Discounted Cash Flow (DCF) method is particularly appropriate in this context because it evaluates a company based on its ability to generate future cash flows while considering the time value of money and associated business risks. Therefore, the DCF approach provides a suitable framework for estimating the intrinsic value of Cochin Shipyard Limited by linking its valuation to its expected future cash-generating capacity.

The Indian shipbuilding sector is getting attention because of government policies to support domestic manufacturing and maritime infrastructure development. This could create long-term opportunities for shipyards. However the industry also faces some challenges, such as order inflows, long project execution periods and competition from other countries. To value CSL we need to make some assumptions about its future financial performance. The study estimates the intrinsic equity value of Cochin Shipyard Limited using the DCF method. This method looks at the company's track record and operating profile as well as current industry dynamics to forecast its future performance.

REVIEW OF LITERATURE

1. Tiwari (2014) – Equity Valuation Models in the Indian Service Sector

Tiwari examined the comparative accuracy of five equity valuation models—Discounted Cash Flow (DCF), Residual Income Model (RIM), Price/Earnings (P/E), Price/Book (P/B), and Price/Sales (P/S)—using 962 BSE-listed service-sector companies over the period 1997–2012. The study compared the models based on prediction errors and their ability to explain market value. The findings indicated that the Residual Income Model performed better among income-oriented models, while P/E and P/B multiples were relatively effective among market-oriented approaches. The study is particularly

relevant to the present research because it demonstrates the importance of comparing estimated intrinsic value with observed market prices rather than relying solely on market valuation.

2. Rao (2016) – Corporate Valuation: Theoretical Postulates and Empirical Evidence from SENSEX Firms in India

Rao examined corporate valuation using a sample of companies forming part of India's SENSEX. The study provides an extensive discussion of DCF-based corporate valuation and empirically compares intrinsically determined enterprise values with market-determined values. The research found statistically significant differences between intrinsic and market-based enterprise values, suggesting that market prices may not always correspond to fundamental valuation estimates. This study provides strong support for the rationale behind assessing whether the market price of **Cochin Shipyard Limited** reflects its underlying intrinsic value.

3. Bathia et al. (2025) – Sectoral Analysis of Key Sectors of Indian Markets Using Discounted Cash Flow Valuations

Bathia and colleagues examined the application of DCF valuation across major Indian sectors, including banking and financial services, healthcare and pharmaceuticals, information technology, FMCG, and automobiles. The study projected future cash flows and applied risk-adjusted discount rates to estimate intrinsic values. An important finding was that the effectiveness and accuracy of DCF valuation are industry-specific, because different sectors have different levels of cash-flow stability, cyclicity, and risk. The authors therefore suggest that valuation assumptions should be adapted to the characteristics of the industry being analysed. This finding is highly relevant to CSL because shipbuilding is a capital-intensive and project-oriented industry with relatively long project execution cycles.

4. Dabi and Dabi (2026) – Public-Source DCF Valuation Framework for Indian Equities

Dabi and Dabi developed a public-source FCFF-based DCF framework for valuing ten Indian listed companies. Their research demonstrates how information from annual reports and other publicly available sources can be transformed into valuation assumptions, risk assessments, and intrinsic-value estimates. Importantly, the study concludes that a single generic DCF model may not be appropriate across industries and that sector-specific factors need to be incorporated into revenue, margin, growth, and risk assumptions. For capital-goods companies, for example, order-book strength and project-execution risk are important considerations. This approach has direct relevance to Cochin Shipyard Limited, where order inflows, order-book position and project execution are important determinants of future cash flows.

5. Dabi and Dabi (2026) – Probabilistic DCF Valuation of Selected Indian Listed Equities

Another recent study by Dabi and Dabi applies a probabilistic DCF framework to 12 Indian listed companies. The study combines FCFF valuation, scenario-based operating assumptions, WACC, terminal-value sensitivity analysis, enterprise-value reconciliation and peer-multiple triangulation. Rather than treating valuation as a single fixed number, the research emphasizes valuation as a range that is affected by uncertainty in future assumptions. This is particularly useful for the present study because CSL's valuation may be sensitive to assumptions concerning revenue growth, operating margins, capital expenditure, working capital and the terminal growth rate.

6. Pande (2026) – Valuation of Reliance Industries Limited Using a Two-Stage DCF Model

Pande applied a two-stage DCF methodology to estimate the intrinsic value of Reliance Industries Limited using historical financial information and a CAPM-based cost of equity. The study specifically recognized that a single-stage model may not be appropriate for a company undergoing significant capital expenditure and therefore adopted a two-stage FCFE approach. This study is relevant to CSL

because it demonstrates the importance of selecting the DCF model according to the company's capital expenditure cycle, expected growth pattern and future cash-generation characteristics.

7. Satpute and Das – Comparative Intrinsic Valuation of FMCG Companies in India

Satpute and Das conducted a comparative DCF valuation of five Indian FMCG companies using FCFE, ROIC, reinvestment rates, WACC and terminal growth. The study illustrates how company-specific growth assumptions can be incorporated into DCF models instead of simply applying uniform growth rates. It also compares DCF-derived intrinsic values with prevailing market valuations. Although the study concerns FMCG companies rather than shipbuilding, its methodology provides a useful framework for estimating CSL's intrinsic value using FCFE, WACC, terminal value and sensitivity analysis.

The CFA Institute also identifies DCF valuation as a major framework for estimating the intrinsic value of securities. Its treatment of free cash flow valuation recognizes both FCFE and FCFE as important approaches to company and equity valuation. Since free cash flows are not directly available as accounting figures, analysts must derive them from financial information and make appropriate assumptions concerning reinvestment, operating performance, and financing. This highlights the importance of carefully constructing financial forecasts before applying a DCF model.

The literature also indicates that DCF valuation is highly sensitive to assumptions relating to growth rates, discount rates, terminal value, and expected cash flows. From an industry perspective, these considerations are particularly relevant to the shipbuilding sector. Shipbuilding companies typically undertake large-value projects involving substantial capital requirements, long execution periods, complex production processes, and project-specific cash-flow patterns. Consequently, valuation of a shipbuilding company requires careful consideration of order inflows, execution capability, revenue recognition, capital expenditure, working capital requirements, and future profitability. The current projected information for Cochin Shipyard Limited indicates a diversified order book covering defence, domestic commercial, and export vessels, demonstrating the importance of order-book strength and project execution in assessing the company's future cash-generating potential.

Cochin Shipyard Limited therefore provides an appropriate context for applying the DCF approach. As a major Indian shipbuilding and ship-repair company, its valuation is influenced not only by historical financial performance but also by its order book, project pipeline, capital investment requirements, government policies, maritime infrastructure development, and the broader outlook for India's shipbuilding industry. The company's published annual reports and investor disclosures provide important financial and operational information that can be used to develop the assumptions required for DCF valuation.

Overall, the literature establishes DCF valuation as a theoretically grounded approach for estimating intrinsic equity value, particularly when future cash flows can be reasonably forecast. However, the accuracy of the resulting valuation depends substantially on assumptions regarding revenue growth, operating margins, reinvestment, working capital, discount rates, and terminal growth. While extensive literature exists on DCF methodology and corporate valuation, there is scope for company-specific empirical analysis of Indian capital-intensive enterprises such as Cochin Shipyard Limited. The present study seeks to address this gap by applying a DCF-based valuation framework to estimate the intrinsic equity value of Cochin Shipyard Limited and compare the resulting value with its prevailing market price, thereby assessing whether the company's equity appears reasonably valued from a fundamental perspective.

PROBLEM STATEMENT:

Cochin Shipyard Limited operates in an industry where profits don't always tell the full story. Its projects run over several years, revenue booking depends on milestones rather than a steady annual rhythm,

and heavy ongoing investment in infrastructure and working capital means accounting profit often looks quite different from the actual cash the business generates. This makes it difficult to judge, from financial statements alone, whether the company's shares are fairly priced.

At the same time, CSL's market price may not fully capture its long-term earning potential, given its diversified operations across shipbuilding and ship repair, its government backing, and the scale of infrastructure it continues to build. There is, then, a clear need to move beyond surface-level financial ratios and examine whether the company's intrinsic value — based on its expected future cash flows — aligns with how the market is currently pricing it. This study addresses that question through a Discounted Cash Flow-based valuation of Cochin Shipyard Limited.

NEED FOR STUDY:

Shipbuilding is not a business that reveals itself easily through a single year's balance sheet. Projects stretch across years, revenue shows up in fits and starts tied to contractual milestones, and profits on paper rarely line up with the cash actually moving through the business — which makes conventional profit-based valuation tools somewhat inadequate for a company like Cochin Shipyard Limited. Given how capital-intensive and cyclical this industry is, an investor or analyst relying purely on P/E ratios or reported earnings risks missing the real picture entirely.

This study attempts to fill that gap through a Discounted Cash Flow-based valuation, offering a more grounded view of the company's intrinsic worth than headline financial ratios alone can provide.

OBJECTIVES OF THE STUDY:

To estimate CSL's intrinsic share value using the Discounted Cash Flow method, drawing on the company's projected future cash flows.

To compare this predicted value, determine whether the stock currently sits undervalued, fairly priced, or overvalued.

SCOPE OF THE STUDY:

This study is confined to CSL and examines its performance over a 5-year period, from FY2020-21 to FY2024-25, using data drawn entirely from secondary sources such as audited annual reports and publicly available disclosures. It does not extend to a detailed technical or operational audit of the company's shipbuilding processes, nor does it attempt to forecast short-term stock price movements. The findings are meant to serve as an analytical reference for understanding CSL's long-term value, rather than as investment advice or a guaranteed prediction of future market behaviour.

RESEARCH METHODOLOGY:

The study adopted a secondary-data-based research methodology, using publicly available and reliable sources. Cochin Shipyard Limited's (CSL) annual reports and financial statements for 2020–2025 were examined along with its website, investor disclosures, stock exchange filings, regulatory information, academic literature, and financial databases. Historical financial performance was assessed through the Income Statement, Balance Sheet, and Cash Flow Statement, with emphasis on revenue growth, operating profitability, capital expenditure, depreciation, working capital requirements, and cash-generation capacity. Industry trends, competitive conditions, operational characteristics, and management outlook were also considered to establish appropriate assumptions regarding future performance. Based on these historical and industry-level insights, financial projections were developed using assumptions relating to revenue growth, operating margins, depreciation, capital expenditure, and working-capital movements. The projections incorporated CSL's historical performance, order book, industry conditions, management guidance, and broader economic expectations. These projected financial statements were subsequently used to estimate the company's annual free cash flows, which formed the basis for the DCF-based valuation.

DATA ANALYSIS AND INTERPRETATION

This study covered Revenue Analysis, Balance Sheet Analysis, Working-capital Analysis, Discounted Cash Flow Valuation, Revenue Forecast and Growth Analysis. Future revenue has been projected using a top-down approach. The reported order book was not converted directly into annual revenue figures, since revenue recognition depends on each project's duration, execution stage, and contractual milestones rather than order intake alone. Historical revenue grew from ₹2,818.90 crore in FY21 to ₹4,527.80 crore in FY25 — though not in a straight line. Revenue actually dipped in FY23 before recovering through FY24 and FY25, a pattern that underscores just how much project timing can shape a company's year-on-year financial performance.

The following revenue-growth assumptions are used under the Base Case:

Revenue Growth Assumptions:

FY26		20.41%
FY27		8.40%
FY28		7.42%
FY29		6.41%
FY30		5.38%

The relatively high growth estimated for FY26 reflects the continuation of recent operating momentum. Growth is gradually reduced during the remaining forecast period to represent a transition toward a more stable operating level.

The projections consider the possible contribution of higher infrastructure utilization, expansion in ship repair activities, defense-related opportunities, maritime-sector development, and demand for

specialized vessels. However, these factors are not assumed to produce unusually high growth throughout the entire forecast period.

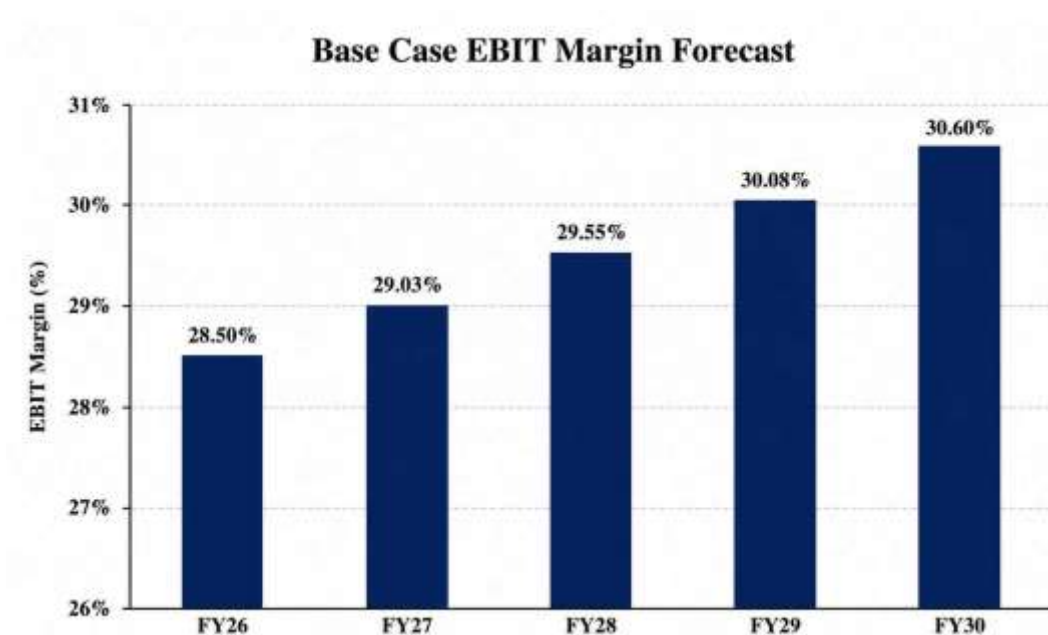
Under the Base Case, projected revenue increases from ₹5,451.89 crore in FY26 to ₹7,119.12 crore in FY30. The forecast therefore represents continued business expansion followed by a gradual moderation in the rate of growth.

Operating Profitability Analysis

The projected EBIT margins are based on historical profitability and expected operating conditions during the forecast period. Historical EBIT margins ranged between 23.1% and 34.0%, reflecting how profitability shifted with project mix, execution levels, cost

conditions, and the relative weight of shipbuilding versus repair activities.

The Base Case builds in a gradual rise in EBIT margins rather than any sudden jump. This improvement rests on expectations of better infrastructure utilization, growing operating scale, a stable execution environment, and a possible pickup in ship repair's contribution to the business. Crucially, these projected margins stay within the range the company has already delivered historically, so the forecast isn't betting on profitability meaningfully above what CSL has proven it can achieve.



EBIAT and Tax Analysis

A normalized tax rate of 25% is applied across the forecast period to arrive EBIAT — operating profit after tax, but before any financing effects. Under the Base Case, EBIAT rises from ₹1,206.10 crore in FY26 to ₹3,909.62 crore in FY30, driven by the combined pull of revenue growth and margin improvement. Using EBIAT keeps the analysis consistent with the FCFF method, since enterprise value is meant to be estimated independent of how the company is financed — which is why interest expenses don't get eliminated when estimating fund flow.

Depreciation and Capital-Expenditure Analysis

Depreciation is tied to projected revenue, capturing the ongoing use of the company's operating assets, and stays close to 1.8% of revenue throughout the forecast — rising from

₹100.16 crore in FY26 to ₹128.14 crore in FY30 as operations scale up. Capital expenditure is pegged at roughly 5% of projected revenue, accounting for maintenance spending, infrastructure modernization, repair-capacity development, and the investment needed to support future operations — increasing from ₹245.41 crore in FY26 to ₹308.43 crore in FY30. This sustained capital requirement simply reflects how infrastructure-heavy shipbuilding and ship repair operations are by nature.

Working-Capital Analysis

Working capital forms a critical bridge between operating profitability and actual cash generation. Cochin Shipyard Limited needs funds tied up in project-related inventory, procurement, receivables, and other operating requirements throughout the execution cycle.

The timing of customer payments may also differ from the timing of project expenditure. The model estimates changes in net working capital in relation to projected revenue. The assumption increases gradually during the forecast period to reflect the additional funding required as the scale of operations expands.

The projected change in working capital increases from ₹294.49 crore in FY26 to ₹555.17 crore in FY30. This represents a substantial use of operating cash and reduces the amount available as FCFF.

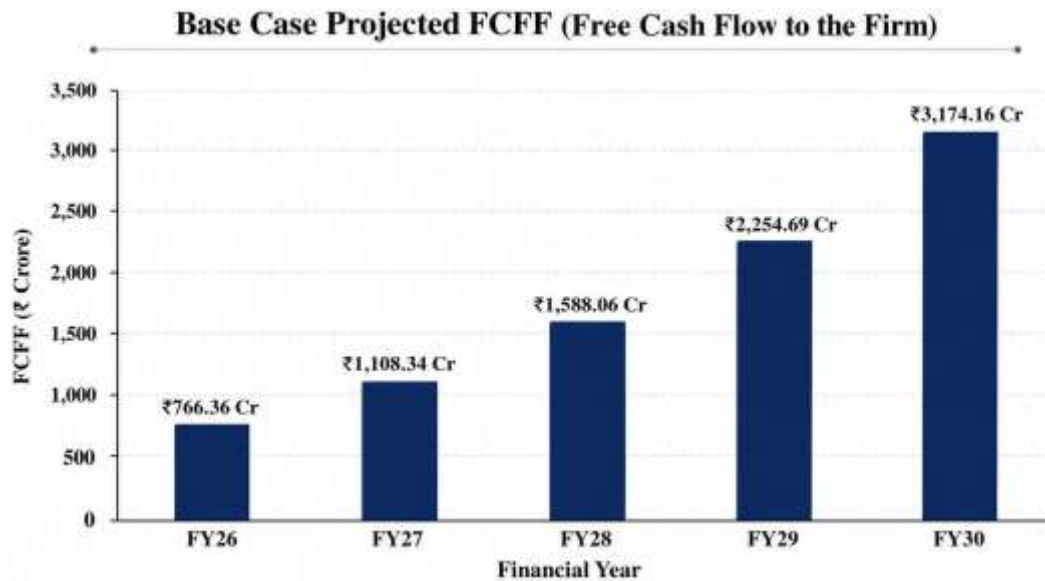
The analysis indicates that growth in accounting profit does not necessarily result in an equivalent increase in free cash flow. A portion of the operating earnings must be reinvested in working capital to support project execution and future revenue growth.

FCFF Analysis

Free Cash Flow to Firm is estimated using the following equation:

$$\text{FCFF} = \text{EBIT} (1 - \text{Tax Rate}) + \text{Depreciation} - \text{Capital Expenditure} - \text{Change in Net Working Capital}.$$

The projected FCFF under the Base Case is:



FCFF is projected to increase throughout the forecast period. The increase is supported by revenue growth, improved operating profitability, and greater utilization of the company's operating infrastructure.

However, the conversion of operating earnings into free cash flow is moderated by capital expenditure and additional working-capital requirements. These factors remain important because the company must continue investing in operating assets and project execution while expanding its business.

The projected FCFF is discounted to its present value using the estimated Weighted Average Cost of Capital.

WACC Analysis

The Base Case WACC is estimated at 9.06%. The Discount factor considers the company's operating risk, the cyclical characteristics of the industry, project-execution uncertainty, financial leverage, and capital structure.

The WACC assumptions used under the three valuation scenarios are:

Conservative Case: 10.06%

Base Case: 9.06%

Optimistic Case: 8.06%

The Conservative Case applies a higher discount rate to reflect greater uncertainty and a higher required return. The Optimistic Case applies a lower discount rate based on relatively favourable operating conditions and lower perceived risk.

WACC has a significant effect on the estimated intrinsic value because it determines the present value assigned to future cash flows. A higher discount rate reduces the present value of projected FCFF and terminal value, while a lower discount rate increases the valuation outcome.

Terminal-Value Analysis

Terminal value represents the estimated value of cash flows expected after FY30. It is calculated using the perpetual-growth method:

Terminal Value = $FCFF_{n+1} \div (WACC - g)$ The terminal-growth assumptions are:

Conservative Case: 2.25%

Base Case: 2.50%

Optimistic Case: 2.75%

The growth rates are maintained at moderate levels to represent sustainable long-term business growth rather than temporary expansion during the forecast period.

Under the Base Case:

Terminal Value: ₹47,626.06 crore

Present Value of Terminal Value: ₹38,421.65 crore

The terminal value forms a substantial proportion of the estimated enterprise value. This indicates that the valuation depends considerably on the company's expected ability to generate cash after the explicit forecast period.

The result also increases the importance of the WACC and terminal-growth assumptions. Small changes in either variable may result in a material change in the estimated intrinsic value.

Enterprise Value and Equity Value

Enterprise value is estimated by combining the present value of forecast FCFF with the present value of terminal value.

Under the Base Case:

Present Value of Forecast FCFF: ₹7,611.43 crore

Present Value of Terminal Value: ₹38,421.65 crore

Enterprise Value: ₹46,033.08 crore

Cash and cash equivalents are added to enterprise value because they represent value available to shareholders. Outstanding debt is deducted from this figure, since it represents a claim against the company that equity holders don't share in. Doing so brings the resulting equity value to ₹48,552.08 crore — which, divided across the outstanding equity shares, works out to an estimated intrinsic value of ₹1,845.38 per share.

Against this, the prevailing market price used in the study stands at ₹1,652 per share — noticeably below the estimated intrinsic value. On the assumptions built into the Base Case, then, the shares appear undervalued. That conclusion, however, is only as reliable as the assumptions feeding into the model, and should be read alongside the scenario and sensitivity analyses rather than taken as a firm prediction of how the market will actually move.

Extract of the DCF Valuation Model

The DCF extract presents the major assumptions, projected operating results, free-cash-flow estimates, and valuation outcomes used in the analysis.

The model covers an explicit forecast period from FY26 to FY30 and applies the FCFF approach. Revenue, EBIT, taxation, depreciation, capital expenditure, working-capital requirements, WACC, and terminal growth are incorporated into the valuation.

Three scenarios are considered to examine the effect of alternative operating and financial assumptions:

Conservative Case

Base Case

Optimistic Case

The Conservative Case reflects relatively weaker growth, lower profitability, and a higher discount rate. The Base Case reflects the assumptions judged most reasonable given historical performance and the information available, while the Optimistic Case leans into stronger growth, better profitability, and a lower required return.

Across the forecast period, projected FCFF climbs as revenue and operating profit expand

— though capital expenditure and working-capital needs continue to eat into a portion of the operating cash the company generates, keeping that growth from flowing through entirely.

The valuation summary makes clear that terminal value accounts for a substantial share of enterprise value. That concentration is what makes the final valuation so sensitive to the assumptions around discount rate and long-term growth — small shifts there ripple through disproportionately to the final number.

Implied Equity Valuation

The Base Case produces an estimated intrinsic value of ₹1,845.38 per share, compared with the market price of ₹1,652 considered at the time of the analysis.

This gap translates into a potential upside of roughly 11.7% over the observed market price, suggesting the shares are undervalued under the Base Case assumptions.

That said, the result doesn't guarantee the market price will actually converge toward the estimated intrinsic value. Actual outcomes could diverge for any number of reasons — shifts in project execution, order inflows, operating costs, government policy, interest rates, or broader market conditions could all pull future cash flows in a different direction. The estimated share value, then, is best read as an analytical output of the DCF model rather than a promise of where the market price will land.

Sensitivity Analysis

Sensitivity analysis looks at how changes in key valuation assumptions move the estimated value per share, with WACC and the terminal growth rate drawing particular attention since both feed directly into the present value of long-term cash flows.

The results point to a few general patterns:

A lower WACC pushes up the present value of future cash flows, lifting the estimated share value.

A higher WACC does the opposite — it discounts future cash flows more heavily, pulling the estimated share value down.

A higher terminal growth rate increases terminal value and the resulting equity valuation.

A lower terminal growth rate reduces terminal value and the estimated intrinsic value.

The range of values generated by the sensitivity analysis demonstrates that the valuation is dependent on the assumptions used in the model. This effect is particularly important because terminal value contributes a substantial portion of the estimated enterprise value.

The valuation should therefore not be interpreted as one precise measure of fair value. A range of possible values provides a more balanced representation of the uncertainty associated with long-term forecasting.

Sensitivity Analysis Interpretation

Sensitivity analysis was performed to evaluate how variations in WACC and Terminal Growth Rate influence valuation outcomes.

Figure 4.12: Sensitivity Analysis – Implied Value Per Share
(WACC vs Terminal Growth Rate)

Implied Value Per Share (₹)		WACC						
		9.81%	9.56%	9.31%	9.06%	8.81%	8.56%	8.31%
TGR	1.50%	1,549.68	1,468.82	1,431.72	1,431.72	1,468.82	1,549.68	1,690.95
	1.75%	1,477.99	1,405.25	1,371.72	1,371.72	1,405.25	1,477.99	1,603.95
	2.00%	1,445.12	1,375.96	1,344.01	1,344.01	1,375.96	1,445.12	1,564.38
	2.25%	1,445.12	1,375.96	1,344.01	1,344.01	1,375.96	1,445.12	1,564.38
	2.50%	1,477.99	1,405.25	1,371.72	1,371.72	1,405.25	1,477.99	1,603.95
	2.75%	1,549.68	1,468.82	1,431.72	1,431.72	1,468.82	1,549.68	1,690.95
	3.00%	1,674.98	1,578.94	1,535.24	1,535.24	1,578.94	1,674.98	1,845.38

Low Value:  High Value

 Base Case (₹1,845.38 at WACC: 9.06% & TGR: 2.25%)

The sensitivity analysis shows the impact of changes in WACC and Terminal Growth Rate (TGR) on the implied value per share (₹).

The sensitivity matrix demonstrates that:

Lower WACC and higher terminal growth assumptions significantly increase implied valuation

Higher WACC and lower terminal growth assumptions materially reduce intrinsic value

The analysis highlights the inherent sensitivity of DCF valuation models, particularly within long-duration and capital-intensive industries such as shipbuilding.

Accordingly, the valuation should not be interpreted as a precise estimate of fair value, but rather as a range of potential intrinsic values derived under varying assumptions and operating conditions.

FINDINGS, SUGGESTIONS AND CONCLUSION

The following summarizes the key conclusions drawn from CSL's previous financial analysis and DCF valuation:

During the years under review, CSL's revenue pattern was inconsistent. Schedules for project execution, phases of contract completion and milestone-based revenue recognition all have an impact on revenue performance. As a result, there was no clear pattern to the annual growth.

Revenue declined during FY23 but recovered considerably during FY24 and FY25. The subsequent rebound suggests that the timing and speed of project execution were the primary causes of the earlier fall rather than any lasting erosion in the company's underlying business potential.

The company maintained very high operating profitability despite fluctuations in yearly revenue; changes in EBITDA and EBIT margins were more indicative of the interaction of project mix, operating scale, execution efficiency, and cost circumstances than of any fundamental flaws.

Meanwhile, a crucial source of diversity is provided by ship repair. Growing this segment could eventually provide more stability to the company's operating cash flow and revenue because repair work often has shorter execution cycles and requires ongoing maintenance, unlike huge shipbuilding projects.

CSL maintained low financial leverage during the historical period. The limited dependence on debt reduces interest obligations and lowers the financial risk incorporated into the valuation.

The amount of capital work-in-progress rose during this period. The rise is a result of ongoing investments in operating capacity and infrastructure. The timely construction and efficient use of the new facilities will determine how much these investments contribute to future growth.

It is not possible to use the company's order book as a straight proxy for yearly income. Duration of the project, capacity of execution, stages of completion, approval of customers, and contracts all affect how quickly orders are converted into reported revenue over time.

Since a normalised top-down forecasting technique mitigates the impact of annual fluctuations in order inflows and project execution, it was deemed the most appropriate method for valuation.

During the predicted period, revenue growth was expected to gradually moderate under the Base Case. This is a reflection of the belief that the recent expansion will lead to a long-term growth rate that is more sustainable.

- Because maintenance and repair requirements are recurrent and typically involve shorter project cycles than new vessel construction, the anticipated rise of ship repair activities may offer a reasonably reliable source of future growth.
- Long-term prospects for the business could arise from government backing for homegrown shipbuilding, defence spending, maritime infrastructure development, and domestic manufacturing. However, the company's ability to secure and carry out projects effectively will determine the actual financial benefit.
- Terminal value contributed a substantial proportion of the estimated enterprise value, indicating that the valuation depends considerably on the company's expected ability to generate cash beyond the explicit forecast period.
- The predicted share value is significantly impacted by changes in the terminal growth rate and WACC, according to the sensitivity analysis. The valuation rises in response to a lower WACC or a higher terminal growth rate, and falls in response to a higher WACC or a lower terminal growth rate.

CONCLUSION

This study set out to establish what Cochin Shipyard Limited is actually worth, using the DCF method as the core tool — built on historical financial performance, industry conditions, operating characteristics, and a set of forward-looking assumptions. FCFF was the cash-flow measure used throughout, with projected flows discounted back to present value using the WACC.

What the historical numbers make clear is how deeply the project-based nature of shipbuilding shapes the company's financial results. Revenue growth here doesn't move in a straight line — it's tied to execution schedules and contractual milestones rather than any steady annual pace. That's exactly why the FY23 dip, followed by a sharp rebound across FY24 and FY25, matters so much: project timing, not underlying weakness, explains a good chunk of the year-on-year swings.

A few things stood out favourably in the operating picture. CSL's business spans both shipbuilding and ship repair, which gives it a naturally diversified base, and relatively low financial leverage keeps interest costs and financial risk contained. Ongoing infrastructure investment should support execution capacity going forward, and if ship repair activity keeps growing, that adds another layer of revenue diversification on top.

Simultaneously, the analysis surfaced real operating challenges. Long project periods, sizable working-capital requirements, uneven revenue recognition, and ongoing capital investment all affect The periodic cash yield and velocity — making the conversion of Converting accounting profit into actual

cash isn't automatic here — long project periods, heavy working-capital needs, uneven revenue recognition, and constant capital investment all get in the way, and any evaluation of the company has to treat that conversion as a central question rather than an afterthought.

Revenue projections in this study followed a top-down approach. Annual movements in the order book don't map cleanly onto reported revenue, so a bottom-up build would have introduced more noise than signal. Instead, the forecast leaned on historical performance, current operating capacity, industry conditions, and expected business development — with growth tapering gradually across the forecast horizon instead of staying pinned at an unrealistically high rate.

The numbers: under Base Case assumptions, the DCF model puts intrinsic value at

₹1,845.38 per share, against a ₹1,652 market price at the time of analysis. That gap works out to roughly 11.7% undervaluation. None of this is certain, though. The result rests on assumptions about revenue growth, margins, CAPEX, working capital, WACC, and terminal growth — and since terminal value makes up a large share of enterprise value, even small shifts in long-term assumptions can move the number meaningfully. What the scenario and sensitivity analysis really shows is that this isn't a single fixed "fair value" — it's an estimate, built on the information available at the time.

Cash flow-based valuation still earns its place here. It weighs operating performance against taxation, reinvestment, working capital, risk, and long-term growth all at once — a fuller picture than accounting profit or short-term price movements alone would give, especially for a company this capital-intensive and project-driven.

So the Base Case points toward undervaluation. But that's a conditional read, not a verdict it holds only as long as the company's actual performance tracks the assumptions the model was built on.

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