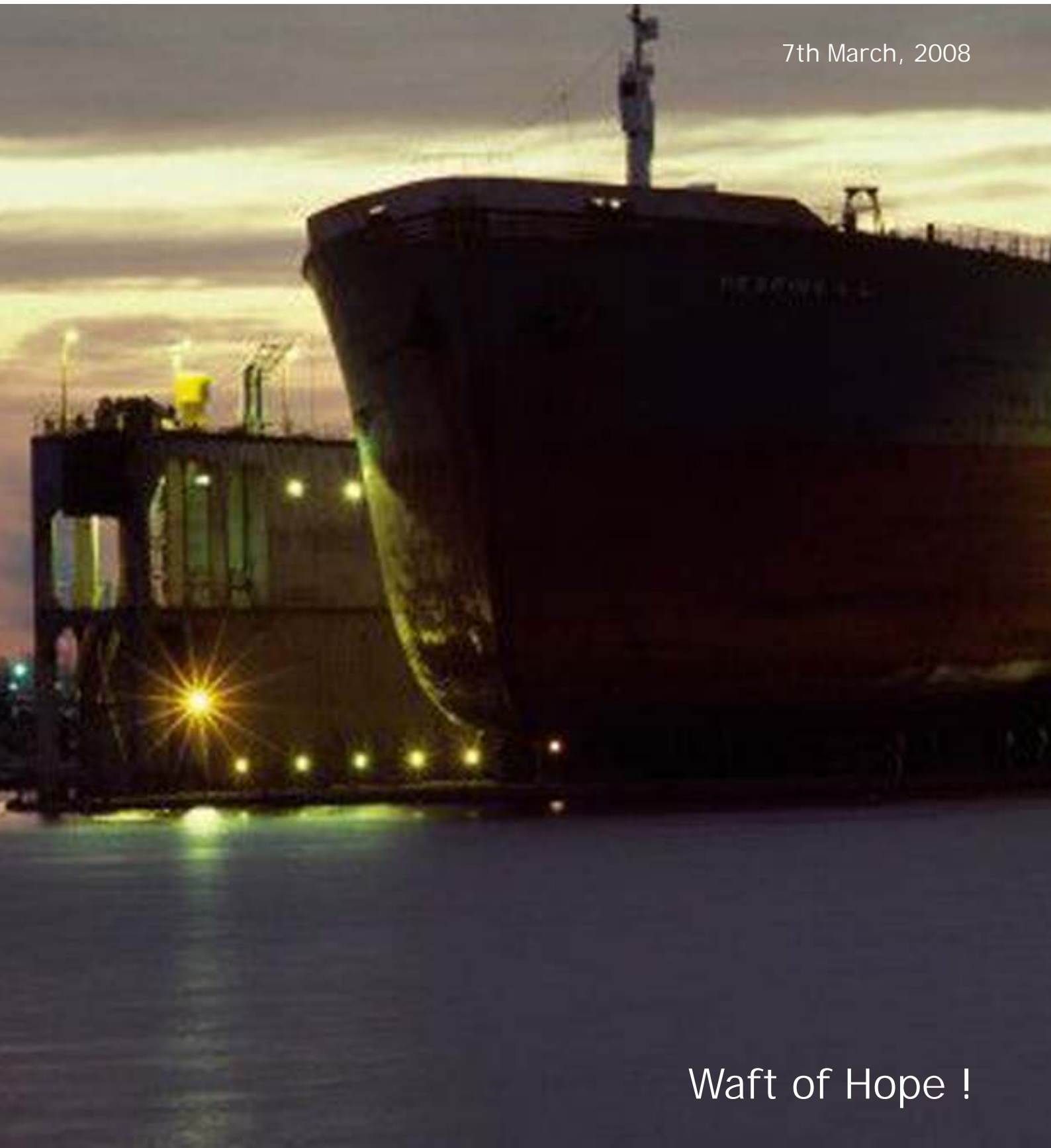


7th March, 2008



Waft of Hope !

# Indian Shipbuilding Industry

## Index

Executive Summary	Page 3
Current Global Scenario	Page 9
Insights & Perspectives	Page 12
Demand Supply Dynamics	Page 13
Indian Shipbuilding Industry	Page 18
ABG Shipyard Limited	Page 28
Bharati Shipyard Limited	Page 41
Annexures	Page 54

Paradigm Shift in progress

India to sky-rocket its position in the global shipbuilding business, with its share rising from just 1% of the global order book to 15% - the largest incremental growth amongst all shipbuilding nations !

A play more on the strategic shift from high-cost shipbuilding stalwarts like South Korea & Japan, to low-cost destinations like India & China, rather than a mere demand-supply cycle - the cornerstone of our optimism for the sector !

Reflections on the order-book growth

- ABG Shipyard Ltd. - Rs. 82,778 Million (10x FY08E Sales)
- Bharati Shipyard Ltd. - Rs. 46,393 million (7.7x FY08E Sales)

Both have an edge in terms of lower setup cost, years of experience, and also an early mover advantage in terms of cashing on the huge opportunity provided by the sector.

Competition comes gatecrashing

SKIL Infrastructure, L&T, Reliance, Tata, Adani, Tuticorin Port Trust among others take a plunge.

What about the 99% ?

Most importantly, India's dream sail could face the storm of global competition, particularly from China, which claims to dethrone S. Korea to become Numero Uno in the business. With India just at 1% presently, no quantum of expansion here will be enough to completely protect itself from an oversupply scenario building up globally.

Our Say

With the strategic nature of growth pattern shaping up for the industry, a 10-fold increase in revenues in less than 10 years for both the companies under consideration and the increasing interest of various high profile participants, the undertone for the sector remains extremely positive. The concerns primarily revolve around execution, subsidy and competition. While we need to witness the execution smoothness or otherwise over the coming times, we have estimated the impact of any subsidy changes on both companies through a sensitivity analysis exercise. As for competition, these are early days and there is an enormous amount of momentum, still to catchup in the foreseeable future. Our analysis suggest that ABG and Bharati should not see the margin impact on account of any pricing pressure for the coming 3 years atleast. A possible reduction in the subsidy rate and allotment of SEZ status to the new facilities remain compensating uncertainties.



Company	CMP	Reco	Target	Upside
ABG Shipyard	Rs. 635	BUY	Rs. 944	49%
Bharati Shipyard	Rs. 622	BUY	Rs. 944	52%

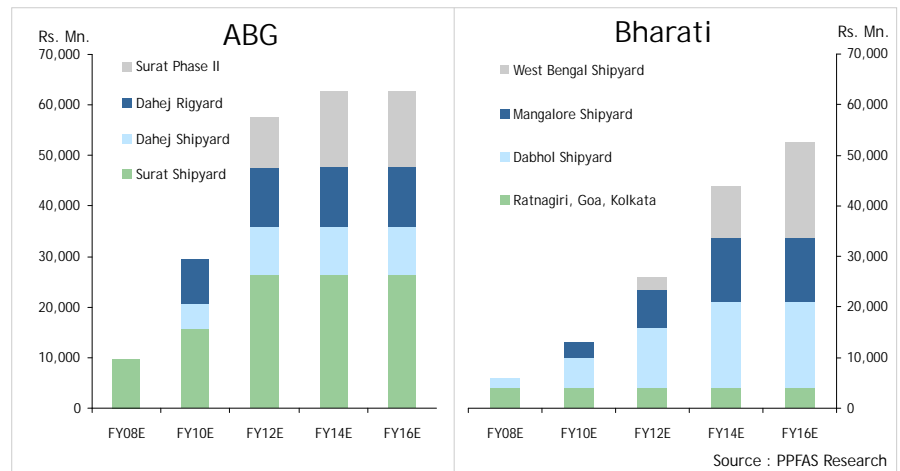
Caveat

"The long-term return on a stock depends not on the actual growth of its earnings, but on the difference between its actual earnings and the growth that the investors expected."

- Jeremy Siegel.

**Our Call** The 10 fold growth in less than 10 years enabled through robust expansion initiatives and the strategic nature of demand growth is the primary attraction factor.

Yard-wise Revenue Generation



The impact from the increasing competition, particularly from the sudden interest of various new entrants, would not be of any significance in the medium term. Both ABG & BSL enjoy very high visibility in terms of revenue (firm orders) & margins (raw materials secured) for the coming three years. Even thereafter, both these players would be better-off in terms of tackling any margin pressure (emanating out of the demand-supply impact on new-building prices), as a consequence to improved skill-sets and diversification benefits. Both these companies are gearing up towards manufacturing a variety of vessels like bulk carriers, rigs & off course OSVs, which should help them to capitalize on the segments enjoying better pricing & margins.

Subsidy removal would be fatal & not justify the current valuations

We have done a sensitivity analysis for quantifying the impact on profits in case the subsidy is reduced or removed altogether. With the subsidy accounting for ~12% of the revenues, a reduction in rate from 30% to 20% or a complete removal would impact both the companies to the extent of 4% & 12% of the topline respectively. The impact is significant enough to completely change the outlook for the sector. The impact is reflected in our calculations on the next page. The industry-wide expectation is for extension of the scheme with a reduced 20% rate for the next 10 years. The margin hit to this extent may be compensated by the various benefits, flowing out of the SEZ notification for the new facilities coming up. Both ABG & BSL will have a significant composition of its profits generated out of the new larger yards coming up for which they are expecting a SEZ status. Grant of SEZ status is independent of the subsidy scheme & can only boost profits further.

SEZ to compensate for Subsidy Reduction upto 20%

We believe that, a possible reduction in the subsidy rate and allotment of SEZ status to the new facilities remain compensating uncertainties for both these players. (See calculation on next page)

## Subsidy Impact to Hit Hard

## ABG Shipyard Ltd.

Subsidy @ 30%							
Particulars	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
EPS (Rs.)	38.4	52.5	80.5	100.1	120.9	128.2	135.7
P/E (x)	16.5	12.1	7.9	6.3	5.3	5.0	4.7
ROCE (%)	17.0%	17.5%	19.6%	21.0%	21.8%	20.5%	19.4%
RONW (%)	12.8%	13.5%	17.4%	18.1%	18.2%	16.4%	15.0%
Subsidy @ 20%							
Particulars	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
EPS (Rs.)	32.2	43.6	64.9	80.9	98.3	104.2	110.2
P/E (x)	19.7	14.6	9.8	7.9	6.5	6.1	5.8
ROCE (%)	14.7%	15.2%	16.7%	18.1%	19.2%	18.3%	17.5%
RONW (%)	10.9%	11.7%	15.0%	16.1%	16.6%	15.2%	14.1%
Subsidy @ 0%							
Particulars	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
EPS (Rs.)	19.5	25.1	34.3	41.7	50.8	53.6	56.6
P/E (x)	32.6	25.3	18.5	15.3	12.5	11.8	11.2
ROCE (%)	10.0%	10.3%	11.4%	12.0%	12.8%	12.7%	12.6%
RONW (%)	6.9%	7.3%	9.3%	10.3%	11.4%	11.0%	10.7%

## Bharati Shipyard Ltd.

Subsidy @ 30%							
Particulars	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
EPS (Rs.)	46.2	52.4	67.9	105.4	158.4	204.2	242.0
P/E (x)	13.5	11.9	9.2	5.9	3.9	3.0	2.6
ROCE (%)	19.1%	16.1%	16.4%	18.6%	21.3%	23.5%	24.9%
RONW (%)	15.9%	15.5%	16.8%	21.0%	24.5%	24.5%	23.1%
Subsidy @ 20%							
Particulars	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
EPS (Rs.)	37.5	40.0	51.0	79.7	120.7	157.7	187.3
P/E (x)	16.6	15.6	12.2	7.8	5.2	3.9	3.3
ROCE (%)	16.1%	13.6%	13.9%	15.8%	17.9%	19.8%	20.9%
RONW (%)	13.3%	12.6%	14.0%	18.2%	22.1%	23.0%	22.1%
Subsidy @ 0%							
Particulars	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
EPS (Rs.)	20.9	15.8	16.6	27.6	46.6	64.7	79.6
P/E (x)	29.7	39.5	37.4	22.6	13.3	9.6	7.8
ROCE (%)	10.8%	8.8%	8.9%	10.1%	11.6%	12.7%	13.5%
RONW (%)	7.9%	5.7%	5.7%	8.9%	13.6%	16.6%	17.9%

Source : PPFAS Research

## SEZ - 20% Subsidy : Compensating Effect

## ABG Shipyard Ltd.

EPS (Rs)	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
30% Subsidy	38.4	52.5	80.5	100.1	120.9	128.2	135.7
20% Subsidy + SEZ Status (D)	39.8	53.9	80.2	96.8	116.3	123.4	130.7

D = Dahej

## Bharati Shipyard Ltd.

EPS (Rs)	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
30% Subsidy	46.2	52.4	67.9	105.4	158.4	204.2	242.0
20% Subsidy + SEZ Status (M&D)	48.7	55.4	73.5	114.7	173.4	223.9	262.4
20% Subsidy + SEZ Status (M)	40.6	44.7	57.8	92.1	141.6	184.7	217.9

M = Mangalore | D = Dabhol

Source : PPFAS Research

Finally, our perspectives  
on valuation...

We have based our earnings estimates on the basis of the revenue generation potential for each of the yards for ABG & BSL. We have preferred this methodology over the simple expected growth theory and also the order-book derived revenue calculations.

We believe that the market do tend to track the order-book closely as witnessed in the spike in share prices post announcement of new orders by these companies. This mechanism, we believe is not reflective of the true earning potential of the company and also distorts comparability as it is spread over varying periods and its disclosure is also dependent on any new facility to be commissioned in the near to medium term.

#### Aggressive Approach

We believe that the order-book growth imparts visibility to the company's progress in the coming times. This approach is also more conservative, when compared to our choice of using the revenue generation potential of the new yards, which are yet to come in place and for which the company has not yet started taking any orders.

ABG				
Year	Ordr Book (Rs. Mn.)	Growth	Share Price (Rs.)	Growth
Mar-05	13,500	NA	185	NA
Mar-06	22,000	63%	378	104%
Mar-07	34,550	57%	341	-10%
Dec-07	82,778	140%	992	191%
Cumulative Growth from March 05		513%		436%
Bharati				
Year	Ordr Book (Rs. Mn.)	Growth	Share Price (Rs.)	Growth
Mar-05	5,110	NA	136	NA
Mar-06	14,638	186%	384	183%
Mar-07	29,467	101%	348	-9%
Dec-07	46,393	57%	769	121%
Cumulative Growth from March 05		808%		467%

Source : PPFAS Research

However, it is only a matter of time that the companies would open their books & see their order-book swell. We believe that the order book based approach do not entirely capture the growth story.

ABG - Historic Order-book Trend			
Year	Ordr Book (Rs. Mn.)	Growth	Nos of Years of Fwd Sales
Mar-05	13,500	NA	2.41
Mar-06	22,000	63%	2.53
Mar-07	34,550	57%	2.59
Dec-07	82,778	140%	3.35
ABG - Order-book Expected at 3.5x Forward Sales			
Year	Ordr Book (Rs. Mn.)	Growth	Nos of Years of Fwd Sales
Mar-09	118,985	44%	3.50
Mar-10	146,366	23%	3.50
Mar-11	162,579	11%	3.50
Dec-12	173,420	7%	3.50

Bharati - Order-book Forecast			
Year	Ordr Book (Rs. Mn.)	Growth	Nos of Years of Fwd Sales
Mar-05	5,110	NA	1.7
Mar-06	14,638	186%	2.5
Mar-07	29,467	101%	3.0
Dec-07	46,393	57%	3.2
Bharati - Order-book Expected at 3.5x Forward Sales			
Year	Ordr Book (Rs. Mn.)	Growth	Nos of Years of Fwd Sales
Mar-09	74,944	62%	3.50
Mar-10	102,069	36%	3.50
Mar-11	130,819	28%	3.50
Dec-12	155,444	19%	3.50

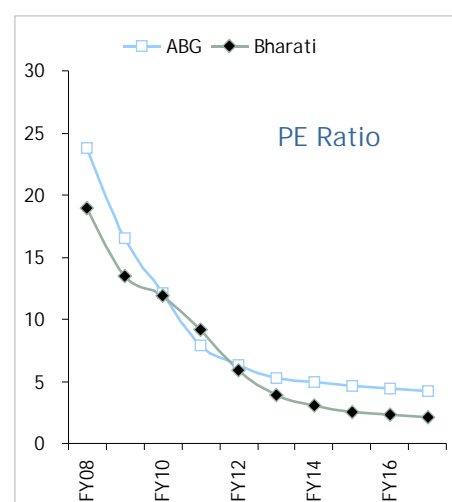
Source : PPFAS Research

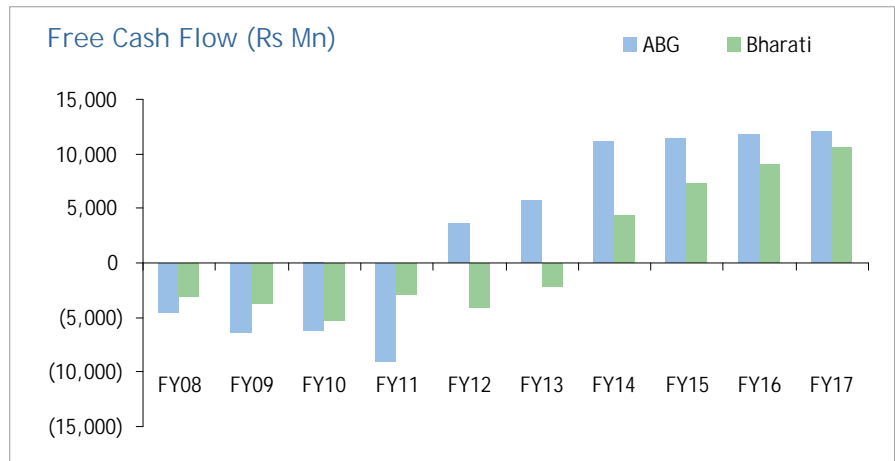
We have inverted a general rule here to calculate the expected year-end closing order-book, based on the sales estimates and the companies' policy to maintain its order-book for 3-3.5 year forward sales. From our little experience in tracking this industry, we observe that the share prices are sensitive to the order-book announcements. We therefore have applied the above inverse rule to forecast the expected orders and decipher the gradual growth to our expected target prices.

### The Valuation Plight

In terms of the valuation methodology, we observe that the discounted cash-flow valuation for both these companies are impacted by the high capex costs and also on account of the high working capital needs. The working capital requirements are fairly high on account of long gestation period involved in shipbuilding. Also important to understand here is the inventory policy. The primary raw material involved is steel, for which hedging on commodity exchanges is not permissible for a period exceeding six months. With the shipyard companies, presently maintaining their order-book at over 3 year forward sales, the inventory requirement comes slightly later than the six month period. The companies are actually stocking the inventory for the entire period immediately upon receipt of orders in order to maintain the expected margins. A slight alteration to this arrangement is to fix up the price for steel with the suppliers for future delivery. Such back-to-back arrangement strategy is common in case of other bought-out components. We see the cash flow based valuation to remain strained on account of the growth & capex spread over a fairly long period of time. However, there would be a marked improvement year-on-year as the capex impact withers, utilization improves and also the discounting effect.

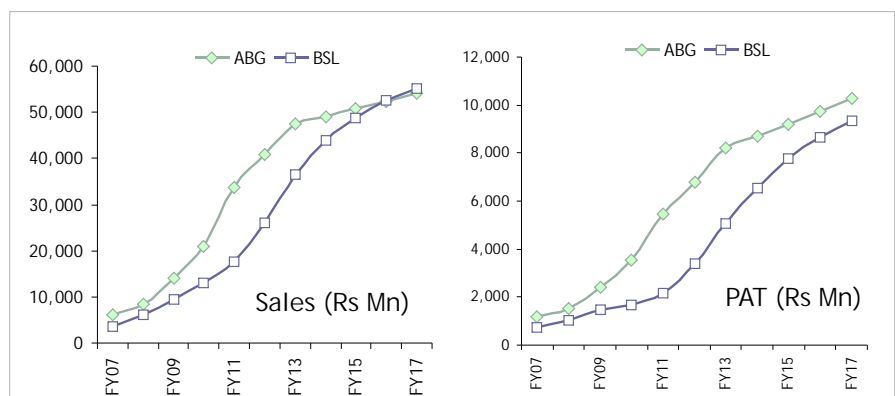
### Poor DCF v/s Attractive P/E





The relative valuations technique suggest an attractive proposition from a medium term perspective. Here ABG, has a slight advantage over Bharati, as it has its future facilities getting operational earlier than Bharati, the profitability accountable from these new facilities making the difference in terms of valuation. However, in the longer run, we see Bharati catching up much faster.

With both the companies having announced huge capacity expansion by setting up of a number of much larger yards in the coming years, the likelihood of any further announcements is very low or almost nil. The entire focus by both the companies would now be on the execution front. It is here that Bharati has an advantage, as it's West Bengal facility still entirely remains ignored by the market participants. Bharati's new yard coming up in West Bengal will enable it to almost match with current no 1, ABG in terms of estimated revenues & profits, albeit with a slight lag. BSL is trading at a huge 50% discount at Rs. 20 Bn. Market cap v/s. Rs. 40 Bn. Market cap for ABG. We believe that there is a strong case for this gap to narrow down and provide for relatively higher return for BSL in the longer run.



The right choice is to give more weight for the near term performance. We value both at 18x FY10E earnings, suggesting ~50% upside to each. This multiple is in alignment with our expected order book surge for both these companies.

## Global Order Book Position

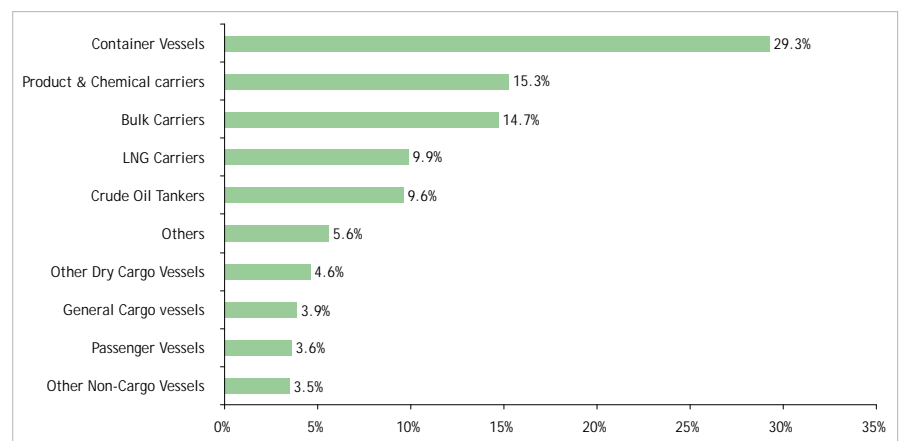
Today, the world shipbuilding market is swelling at 40% annually. The top three in international shipbuilding - South Korea, China & Japan - have a near hegemonic hold in the industry with a combined new building order of 89% (August 2007). Although, South Korea is presently the runaway leader with 41% of the tonnage compared to China's 30%, China is fast catching up. The third position is held by Japan with a share of 17.5% of new building orders. India stands at the fourth place with a meager 1.17%.

Country	Order Book (CGT)	Market Share
South Korea	62,068,956	41.00%
China	45,573,036	30.10%
Japan	26,373,177	17.42%
<b>India</b>	<b>1,766,695</b>	<b>1.17%</b>
Vietnam	1,735,513	1.15%
Germany	1,709,433	1.13%
Turkey	1,705,271	1.13%
Philippines	1,620,778	1.07%
Taiwan	1,620,140	1.07%
Romania	1,036,221	0.68%
Rest of the World	6,178,478	4.08%
<b>Total</b>	<b>151,387,698</b>	<b>100.00%</b>

Source : www.worldyards.com, ABG Shipyard

## Composition of World Order Book

The global order book position has more than tripled since 2000. For a long time hovering under the 100 million DWT mark till 2000, the global order book surged to 220 million DWT in 2006 & has further crossed 390 million DWT in 2007. Global shipbuilding investment has reached an all time high, having surged from US\$30 billion in 2002 to US\$135 billion in 2006, much of which has gone into new buildings of double hull tankers to replace the single hull tankers that will be phased out by 2010 under IMO guidelines. Indian shipbuilding industry is slated to grow at 30% CAGR burgeoning to US\$22 billion by 2020 from US\$ 3.7 billion currently.



Source : Drewry Maritime Services

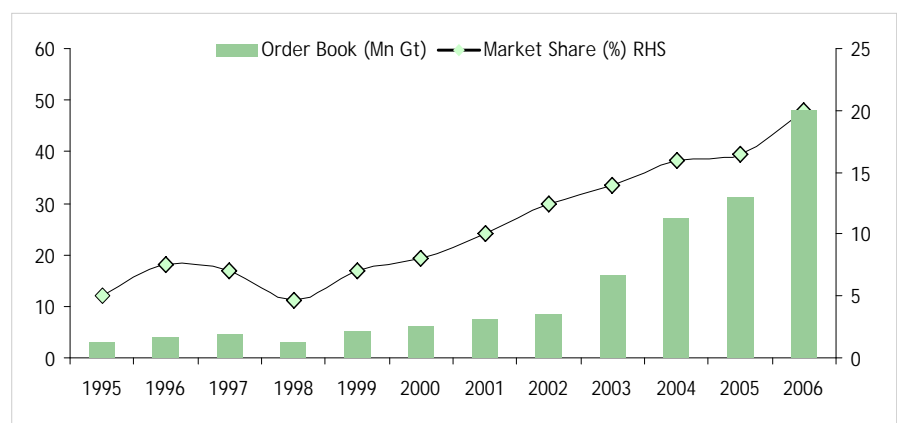
**Large Size Vessels** - Large shipping vessels like Container Vessels, Product & Bulk Carriers form a major chunk of the world fleet & the top three countries - Korea, China & Japan are leading in this segment, thereby grasping about 90% of the worlds order book. Indian private shipyards - ABG Shipyard Ltd. (ABG) & Bharati Shipyard Ltd. (BSL) are expanding towards building some large sized vessels.

**Small & Mid-Size Vessels** - This segment is headed by countries like Europe, Singapore, India, Norway, Vietnam & others. Specialized vessels like cruise ships & offshore support vessels (OSV) falling under this category have seen a big demand recently. Indian private sector players - ABG Shipyard (ABG) & Bharati Shipyard Ltd. (BSL) have achieved a dominant position in small & specialized vessel segment - especially the OSV segment.

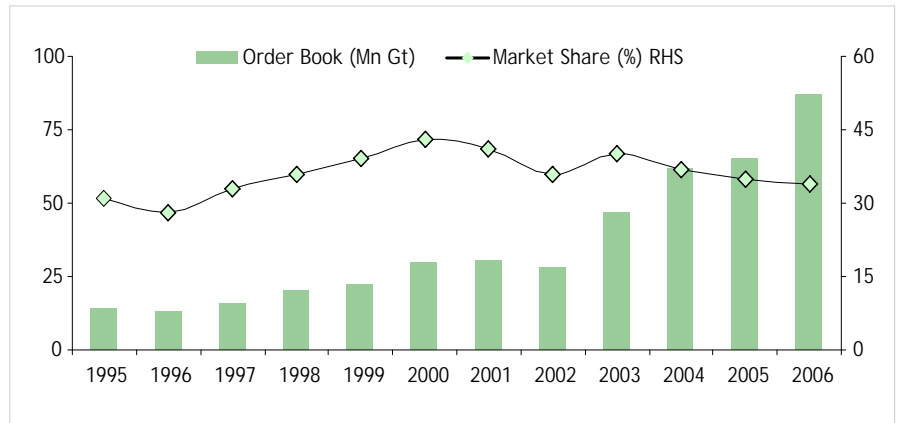
**Tidal Shift in the Global Shipbuilding Industry** - The last 60 years have seen some major changes in the global shipbuilding industry. For most of the first three decades in the post-World War II era, the global shipbuilding industry was dominated by European countries. In the late 1960s, European shipyards began to experience increased competition from shipyards in developing countries such as Japan. Due to high labour costs in Europe, a significant shift in market share in the shipbuilding industry began to occur from shipyards in European countries to shipyards in developing countries in Asia with lower cost of labour. By the mid 1970's, Japan had become the market leader through a combination of lower labour cost, investment in modern shipyard facilities & development of new shipbuilding techniques.

At about this time, the South Korean Government decided to promote shipbuilding as a major source of employment for its emerging economy & by mid 1990's, South Korea had become the market share leader in the global shipbuilding industry. Since the 1990's, China has emerged as an important participant in the global shipbuilding industry, with low cost of labour & strong Government support transforming a domestic shipbuilding industry into a global force, eventually overtaking Japan to take the number two slot.

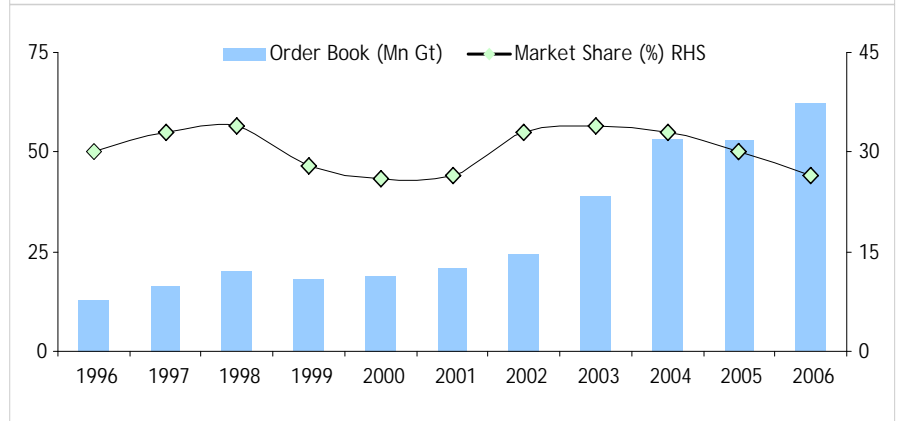
Chinese Shipyards Orderbook & Market Share



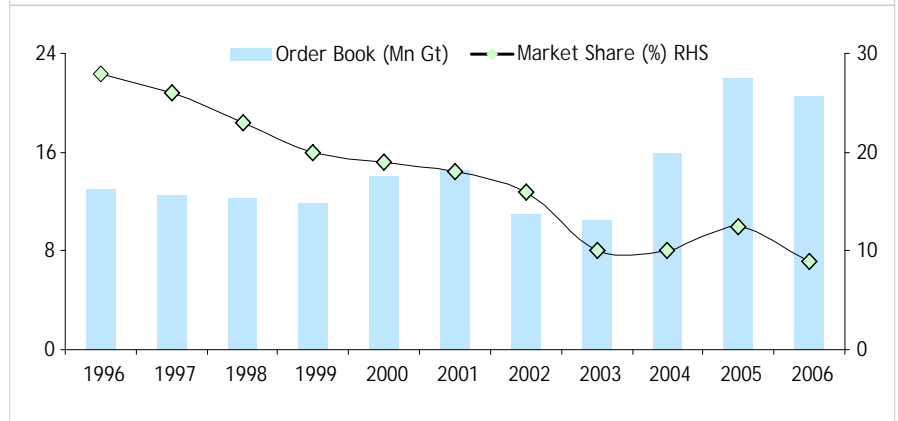
South Korean Shipyards Orderbook & Market Share



Japanese Shipyards Orderbook & Market Share



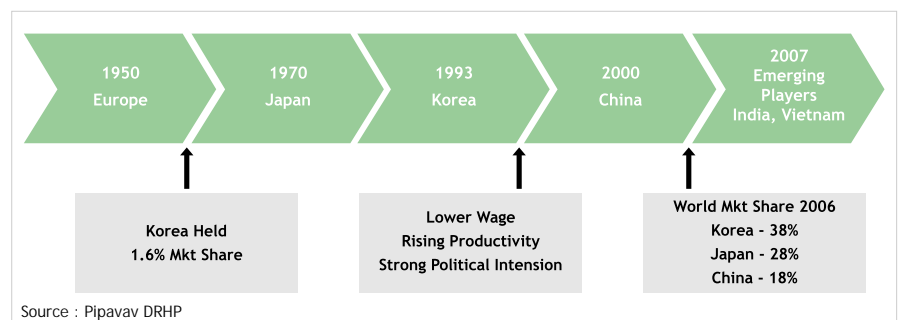
Eastern & Western Europe Shipyards Orderbook & Market



Source : BRS Annual Review

A typical cyclical industry by nature, shipbuilding as a business, is expected to stay in a region for about 20-25 years & then move on. The current shipbuilding boom in the Asian countries like India & China is expected to continue for about 2 decades & then move on to the then low cost countries like Pakistan, Bangladesh, Sri Lanka etc.

The current shift towards Asia from Europe can be illustrated as follows :



Source : Pipavav DRHP

Some perspective of Global shipbuilding nations

This section of the report is about some insights currently taking place in the global shipbuilding industry :

#### South Korea

Currently leading the industry, Korean shipyards build everything - from small to large vessels, including vessels for the offshore segment. They pioneer in building of larger vessels due to economies of scale available. Also, they can easily procure the steel & other bought out materials required for shipbuilding, since a lot of it is available within the country. However, these yards are seeing a rise in their labour costs, which forms ~35% of their total costs. Korean shipbuilders have recently started employing Chinese labour in their yards to reduce their labour cost.

#### China

China currently stands at number 2 position, but with the planned capacity expansion will definitely overtake South Korea in the next 5 years to come. They currently build all types of vessels, focusing more on the larger ones. The main advantage that China has is the low labour cost which accounts for only 10% - 15% of their total costs.

#### Japan

Number 3 on the global shipbuilders list, Japan has already started losing its sheen. It probably has seen the 20-25 years of shipbuilding & might not appear in the list of top shipbuilding nations, few years from now. With the average age of labourers at over 60 years, it is only a matter of time, that Japan makes way for others.

#### Vietnam

Vietnam is fast coming up as a strong player in the global shipbuilding scenario. The European shipbuilders who already closed their yards have started setting up shipbuilding yards in Vietnam, bringing in their vast experience & expertise. Vietnam exhibits an interesting blend of European expertise & Vietnam's cheap skilled manpower. It certainly has become an important player, but space remains a limiting factor for any quantum future growth.

#### Singapore

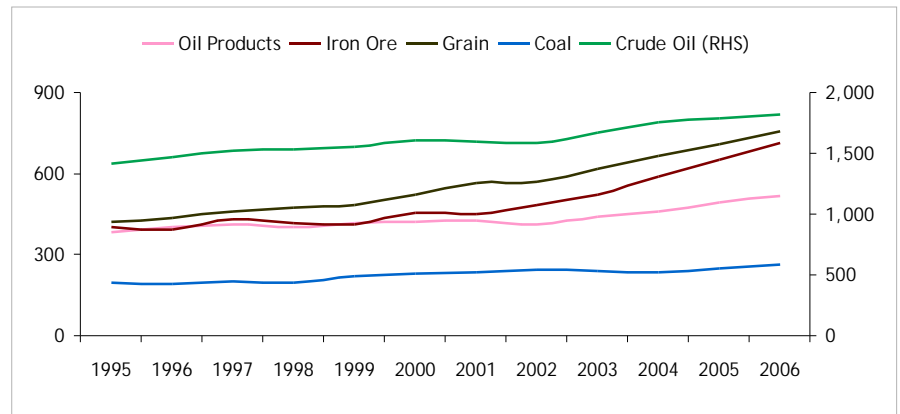
Singapore has been a strong player, especially in building of rigs required for the offshore segment. It builds the Hull for its vessels in Indonesia & tows it to Singapore. Its significance can be gauged from the fact that it has delivered about 50 rigs in the past three years.

Other South East Asian countries like Taiwan, Indonesia etc. do have their own importance & play a role complementing nearby international yards through feeder operations & also as the shifted base of some traditional EU players.



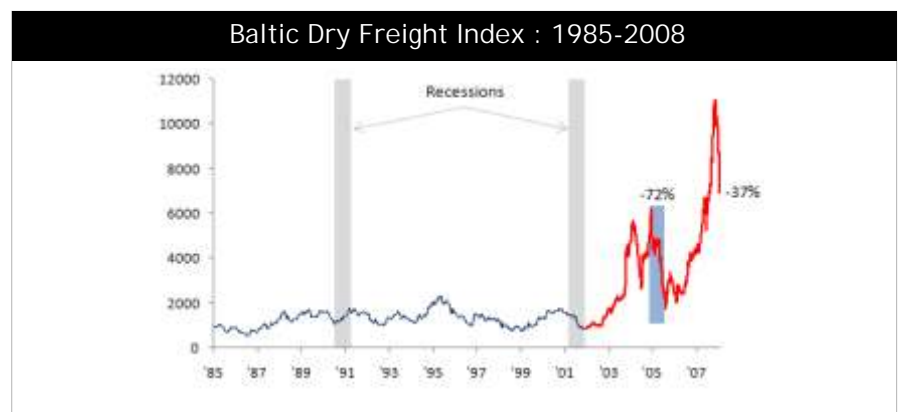
## Incremental Demand

Not quickest, but the cheapest mode of Transport - Seaborne transport has traditionally been the cheapest mode of transportation over the years. About 90% volume & 70% by value of international trade is moved by sea route. On an average, international commercial fleet carries over 5,000 million tonnes of cargo of all types. The following chart shows the statistics for Sea Transport of Important Bulk Goods from 1995 - 2006.



Though not the quickest means of transporting goods, sea has always been & continues to be the favoured means of cargo handling. With the growth in the shipping sector, demand of building new ships & repairing of existing fleet also coherently increases.

**Increasing Freight Rates** - The Baltic Dry Index (BDI), an index that tracks the movement in freight rates for transporting dry bulk cargo through sea rose to its all time high in November 2007 after seeing a decade long recession from 1991 - 2001.



This shows that the freight rates have increased dramatically in the past couple of years. One should note that the steep rise in freight rates is a factor of demand for transporting the increasing volumes of world cargo & the supply of new ships. This rise in rates also leads to increased demand for new shipbuilding.

Since the start of 2008, the BDI has corrected sharply by about 37% from its peak, which is perceived as healthy by experts in the shipping industry, but rule out any possibility of a recession.

**Growth in World Trade** - Present global trade is of the order of 6 billion tonnes using a ship supply of 1 billion DWT. Global trade has been growing at 7% CAGR & is expected to double in the next ten years. In 2006, world merchandise trade recorded a robust growth of 8%, double the rate of world GDP, highlighting the effect of globalisation & deepening of economic integration.

World Trade & GDP Growth

	2003	2004	2005	2006
World GDP	4.0%	5.1%	4.3%	4.3%
World Trade	5.4%	10.3%	7.0%	7.9%

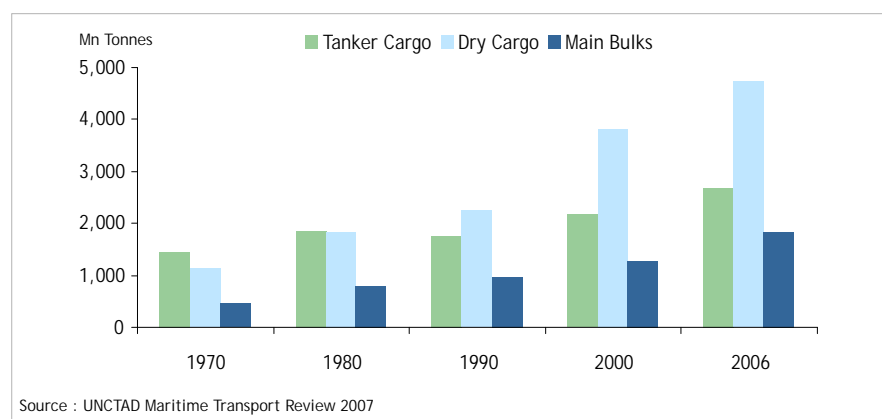
Source : IMF

The following table reflects growth percentages of various regions in world trade.

Growth in volume of merchandise trade (%)

Exports			Countries/regions	Imports		
2004	2005	2006		2004	2005	2006
8.0	6.0	8.0	World	NA	NA	NA
8.0	6.0	8.5	North America	10.5	6.5	6.5
7.0	4.0	7.5	European Union	6.5	3.5	6.5
8.0	5.0	1.0	Africa & Middle East	14.0	13.0	8.5
13.0	8.0	2.0	Latin America	18.5	14.0	10.5
15.5	11.5	13.5	Asia	14.5	8.0	8.5
24.0	25.0	22.0	China	21.5	11.5	16.5
12.0	3.5	3.0	Commonwealth of Independent States	16.0	18.0	20.0

Source : UNCTAD Maritime Transport Review 2007

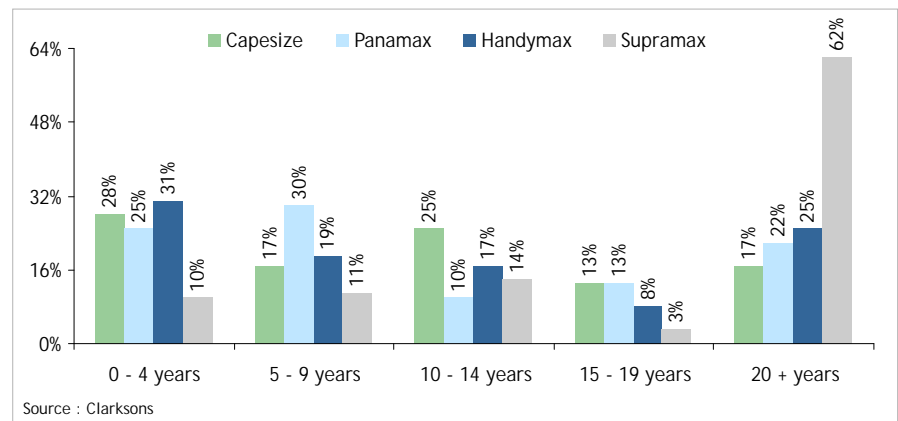


Source : UNCTAD Maritime Transport Review 2007

The growing world economy, led by mounting demand in Asia, particularly China, led to an increase in seaborne international trade to 7.4 billion tonnes in 2006. With global trade set to out-pace the world GDP growth for the next decade, the additional cargo capacity, or tonnage, is on the rise globally, leading to incremental demand for new building.

**Replacement Demand**

**Age Profile of World Fleet** - Various international organizations like International Maritime Organization (IMO) have proposed to scrape & phase out vessels of more than 25 years of age. The Director General of Shipping (DGS), India has also announced a mandate CAP 2 (Condition Assessment Programme) rating for all vessels that are 20 years old & a complete ban on oil tankers aged above 25 years from entering into Indian waters effective 1st April 2004.

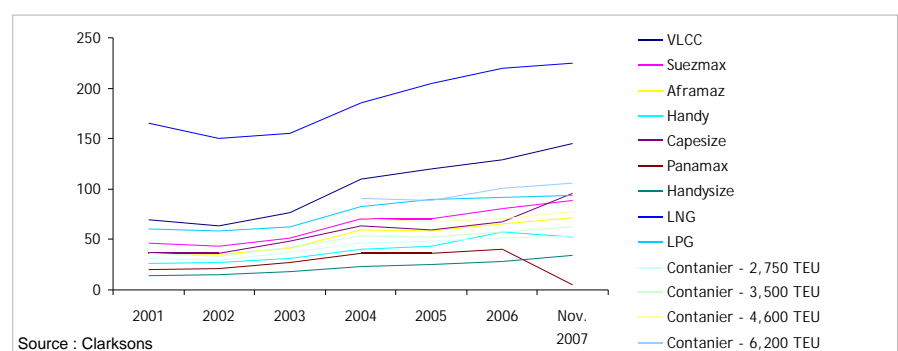


More than 65% of the world fleet is above the age of 15 years. With these due for replacement, new buildings would primarily be used to replace the aging fleet.

**Scrapping of Single Hull vessels** - IMO regulation mandates the conversion of all oil tankers to double hull by 2010 & scrapping of single hull tankers. Tankers constitute more than 45% of the total vessels, of which about 33% are single hull. This is expected to drive an increase in demand for new vessels.

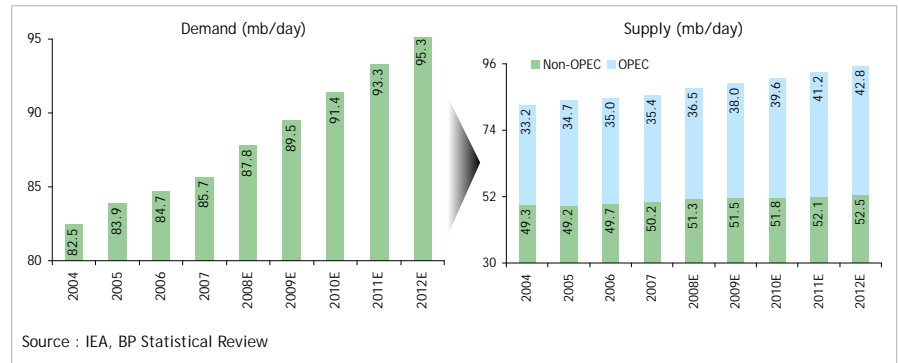
**New-building Prices**

Prices are a clear indicator of the demand - supply mismatch within any industry. Vessels prices, in the recent past have increased rapidly, indicating that the demand for new builds has far exceeded supply.



**Offshore Segment -  
New Demand Driver**

According to the International Energy Agency (IEA), world energy consumption is expected to double by 2040, needing US\$ 20 trillion of investment. The Energy Information Administration (EIA) estimates non-OECD Asia (in particular China & India) to take 43% of the total increase in global oil use over the next 20 years.

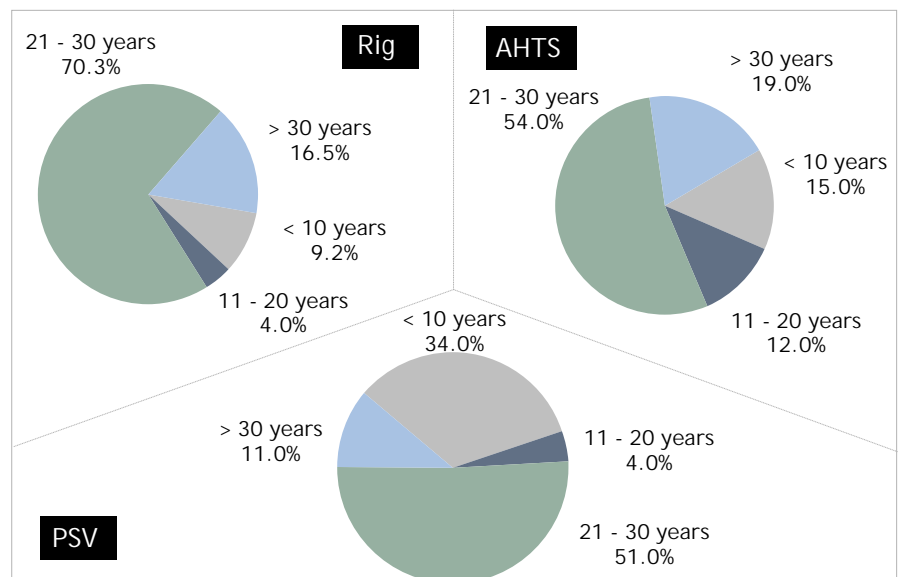


Oil & gas equipment & services companies are enjoying a strong operating environment. With the rise in oil prices, recovery of oil reserves & production from ultra deepwater fields, marginal fields & other previously unviable fields has now become economically viable, resulting in increased demand for offshore oil equipment & services, leading to a significant increase in capital spending.

The Indian offshore market is also witnessing a rapid expansion. Big players like Reliance & ONGC are committing large capital expenditures for their E&P activities - both from new & existing fields. The offshore industry is further expected to benefit from the GOI's NELP VII which has a total of 57 blocks on offer.

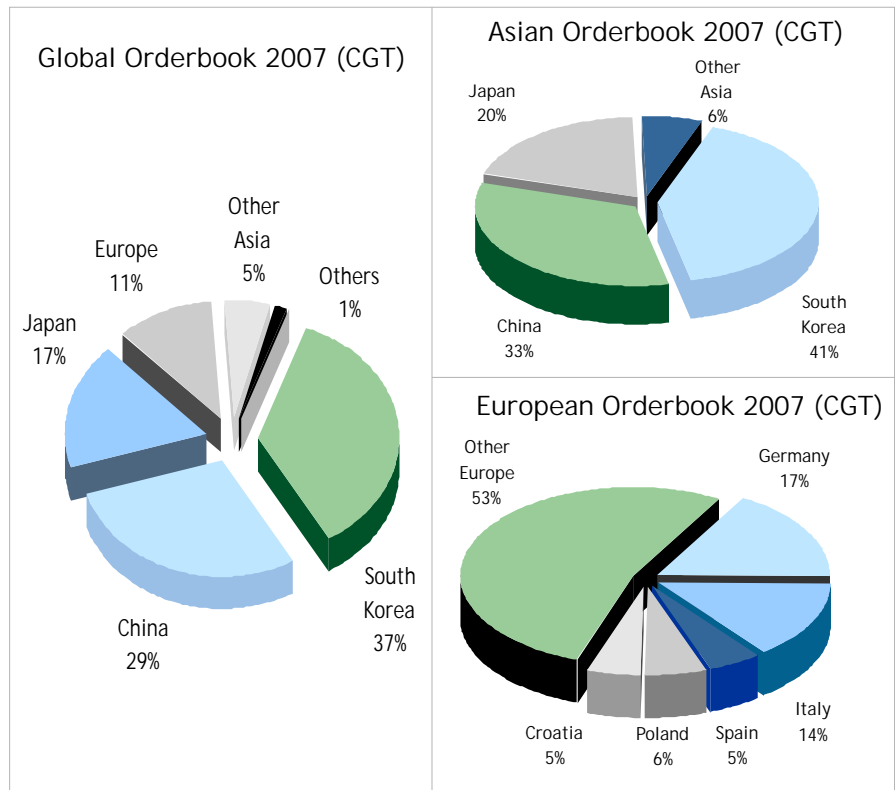
With increased E&P activities, the charter rates for offshore supply vessels have increased rapidly, leading to an increase in demand for OSVs. Also considering that ~ 75% of the world OSV fleet is above 20 years of age, a huge replacement demand is expected for these vessels.

ABG & BSL have achieved a niche position, ranking in the top 10 globally in terms of order book for offshore segment.



**Supply Side Scenario**

Due to the current boom in demand for new builds, or additional tonnage, the order book of existing global shipyards is full for delivery till 2012. Global giants like South Korea & Japan are currently unable to take new orders for delivery before 2011-12, resulting in a wait time for new building orders increasing to more than 4 years. With such a global scenario, new shipbuilding orders are moving towards countries like India & China for fulfillment of their new vessel requirements.



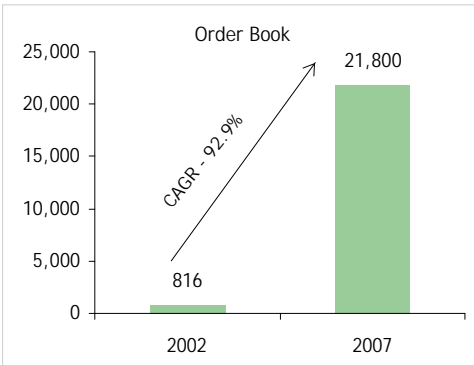
China aims to become the world's no. 1 shipbuilding country by 2015 & plans to construct three world class shipbuilding bases within the country. Under the circumstances that the production capacity expansion in traditional shipbuilding countries like South Korea & Japan are limited, existing shipyards like China State Shipbuilding Corporation have raised their targets & the production capacity of China's shipbuilding industry is in a rapid expansion mode.

Same is the case with shipyards in other parts of the world & India. ABG & BSL are also expanding their capacity manifold to be able to reap the benefits of this current boom scenario.

**A glimpse**

The shipping industry is riding on the back of a huge boom in commodities and the Baltic Dry Index. The soaring demand for ships to transport cargo across oceans, combined with a scarcity of shipbuilding slots in maritime strongholds such as Korea, Japan and China are helping Indian shipyards to grab more orders from global fleet owners for new cargo carrying ships.

In the last five years, the order-book position of Indian yards has grown by 92.9% CAGR from Rs.816 crore in 2002 to Rs. 21,800 crore as on 31 December 2007.

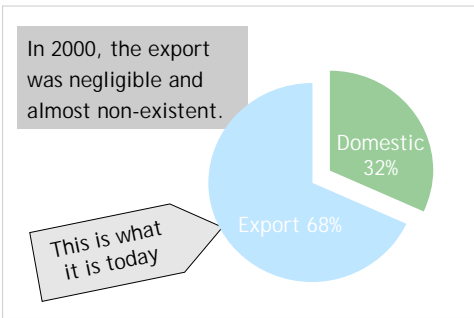


Source : PPFAS Research

Currently, India stands at the fourth position with a share in the global shipbuilding market at a paltry 1.17%.

According to a report prepared by Mumbai-based consultancy firm I-maritime Consultancy Pvt. Ltd, India's share in the global shipbuilding market, a highly labour intensive industry, is expected to reach 15% or US\$ 22 billion by 2020, aided mainly by cost competitiveness and abundant supply of cheap, skilled manpower.

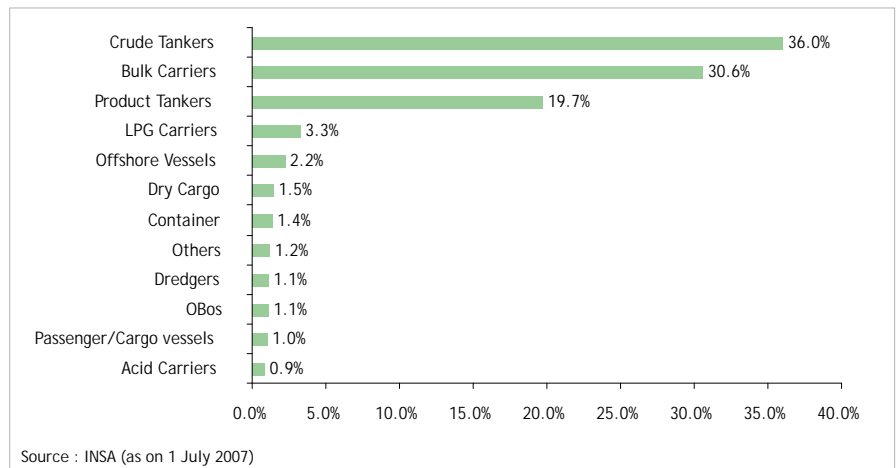
Indian shipyards can currently build ships with a combined cargo carrying capacity of 2.8 million tonnes (MT), compared to 12.2 MT for China & 11.5 MT for South Korea. India currently exports 68% of its new offerings to the international markets.



Domestic market up by 25% in the past two years

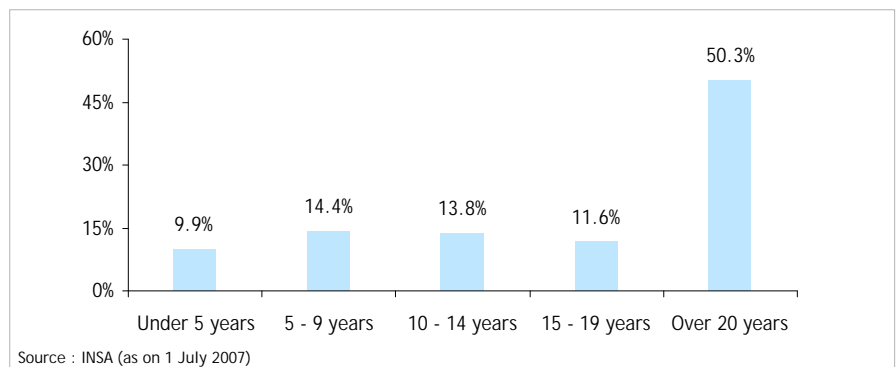
**Indian Domestic market** - The total Indian fleet which was stagnating at 7 million GRT for a long time, registered a sudden upsurge over the recent years & reached a historic height of 8.8 million GRT in 2007. This is further expected to increase to 10 million GRT in 2008 & 20 million GRT in the next 5-6 years. This kind of increase in the domestic market will lead to further demand for new buildings.

Composition of Indian Fleet



Also, more than 50% of the Indian fleet is above the age of 20 years, which will come up for replacement, thereby creating additional demand for new vessels.

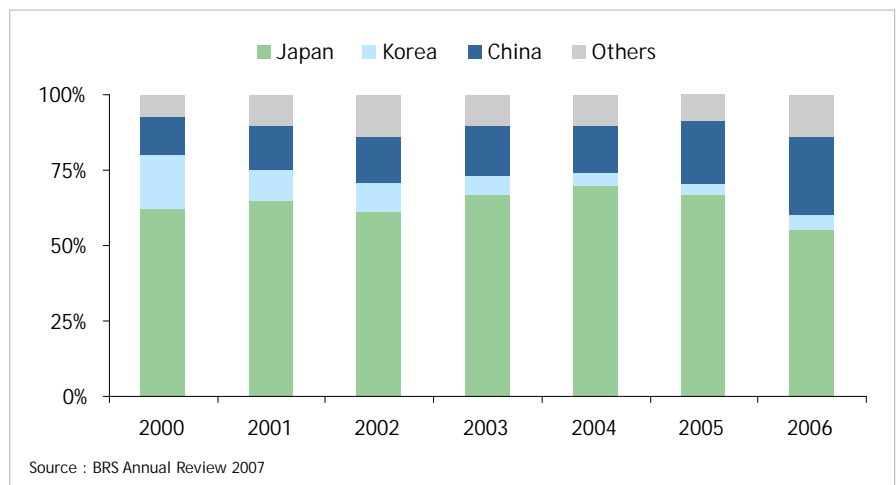
Age Profile of Indian Fleet



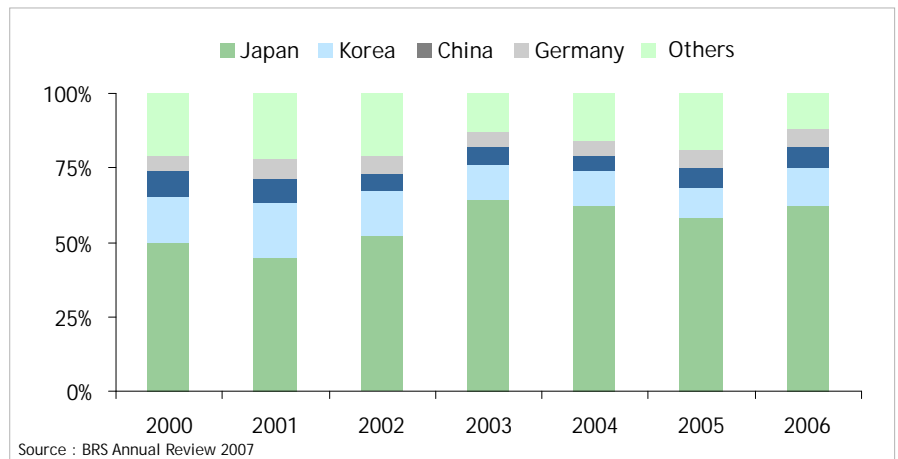
ABG & BSL, both are moving up the value chain building larger vessels.

**Moving up the Value Chain** - Traditionally, Indian yards have focused on the small and medium segments. The current order book of Indian yards is dominated by offshore supply boats and bulk carriers that carry commodities such as coal, iron ore, steel and grains. India's very limited participation in tanker and container ship production is an area of concern as all top shipbuilding countries have a strong presence in these sectors, which bring greater commercial success.

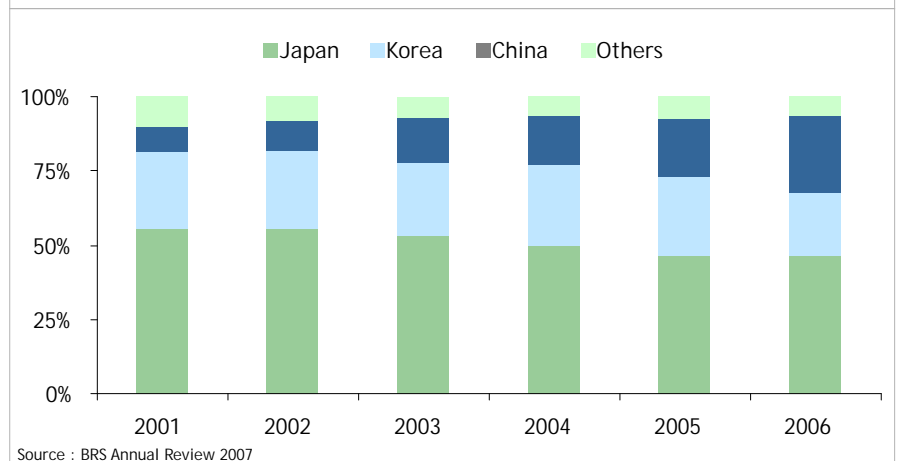
Shipbuilding Countries Market Shares for Bulk Carriers



Shipbuilding Countries Market Shares for Container Ships



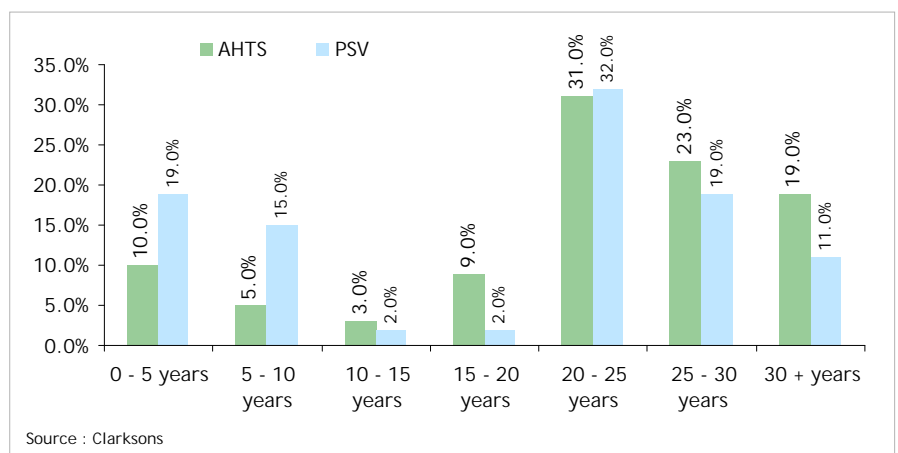
Shipbuilding Countries Market Shares for



However, the planned investments by private firms such as ABG, Bharati and L&T are targeted at building capacities that can cater to larger and complex vessels such as Very Large Crude Carriers (VLCC), Container Ships, Car Carriers as well as ships that can carry LNG and CNG.

ABG & BSL have already attained a leadership position in the specialized vessel segment, viz. Offshore Support Vessels (OSV) used by the oil & gas industry. Both ABG & BSL are in the top ten yards worldwide in terms of order book for OSVs. The OSV segment is expected to have enormous demand going forward, considering the huge E&P activities around the globe & the aging OSV fleet that will need to be replaced.

OSV Fleet Age



## Key positives for the Indian Shipbuilding Industry

Although India occupies a small percentage of the global shipbuilding market, the Indian shipbuilding industry is well positioned to reap the benefits of the global demand. As growth in international trade results in increased global & domestic demand for new vessels, Indian shipyards have certain advantages over shipyards in more developed nations.

**Geographic Location** - India's strategic geographical location acts as a harbour for the rising global seaborne trade between Europe, USA & Australia. Besides it has 12 major ports & 185 intermediate ports which makes it more favorable. India's long coastline measuring 7,617 Km. in length makes it easier for shipyards to build & repair ships of all types & sizes.

**Relatively low cost of highly skilled & technical labour** - As per a research done by consulting firm AT Kearney, India ranks second only to the USA in terms of trained manpower availability. India possesses a large pool of well-educated English speaking technical workers at low cost compared to most of other shipbuilding countries. The labour cost per worker in India is estimated at US\$ 1,192 per year, compared to US\$ 10,743 per worker in South Korea and US\$ 21,317 in Singapore. Because shipbuilding is a labour intensive industry, India's low cost of labour should provide Indian shipyards with the opportunity to increase their market share in the global shipbuilding industry.

Relative Labour Rates	
Country	Labour Rates
India	1
China	0.5 - 1.5
Singapore	3
Korea	6
U.K	10
USA	10
Japan	12
France	13
Norway	14
Germany	15

Source : Vice Admiral Rajeshwar Nath - towards Modern Ship Design & Shipbuilding in India, Security Research Review Vol.13

**New Global Investment Destination** - Growing at about 9% GDP, India has emerged as a preferred investment destination the world over. Incidentally, the shipbuilding sector is also witnessing global investments coming up within the country. Global makers of ship parts and materials plan to set up factories in India to tap rising demand for their products. Japan's Mitsui & Co. Ltd and Chugoku Marine Paints Ltd, South Korea's STACO Co. Ltd, Norway's Jotun Group and Finland-based engine maker Wartsila Corp. are keen on setting up units in India. Also, HSH Nordbank AG, world's largest ship-financier & Norway's biggest bank DnB NOR Bank ASA are planning to start their India operations.

**Favorable Government of India (GOI) policy** - The Government of India has taken some major initiatives in developing & promoting the shipbuilding industry within the country.

**1. Shipbuilding Subsidy** - The GOI had announced a 30% subsidy assistance for public sector yards in 1997. With the intent to encourage private sector investments, the Ministry of Shipping, in 2002, initiated a move to grant subsidies to private sector yards for a period of 5 years. This subsidy assistance is in line with the direct or indirect assistance given to the shipbuilding industry by governments of other countries. This 30% subsidy was provided to private sector shipyards on vessels prices for orders taken before 14 August, 2007. It was restricted to ocean going merchant vessels over 80 meters in length - manufactured for domestic market & ships of all types - manufactured for export, on fulfillment of certain conditions.

The subsidy scheme has ended on 14 August, 2007. However, the Ministry of Shipping has proposed a subsidy of 20% for a period of 10 years beginning 15 August, 2007. This comes on the back of the report submitted by consulting firm KPMG India Pvt. Ltd., that recommended an extension of the 30% shipbuilding subsidy scheme for a 10 year period till 2017 and also suggested that the business be treated as an infrastructure activity, making it eligible for incentives such as tax holidays.

**2. Sagarmala Project** - The GOI has announced a major project known as the "Sagar Mala" / National Maritime Development Programme (NMDP) to develop India's maritime sector, involving a massive investment of Rs. 1,000 billion. The project is primarily aimed at capacity expansion, modernization & creating two major world-class international shipyards - one each on the East & West coast of India. This project is expected to result in additional demand for 2,400 new ships.

**3. Tonnage Tax regime** - The GOI has introduced tonnage tax for shipping companies which has shown a positive impact on their net profits, thereby free up additional funds for expansion.

**4. FDI Policy** - GOI also allows 100% FDI for the shipbuilding sector.

**5. 'Marine Shipbuilding Park'** - The Gujarat Maritime Board (GMB) plans to develop a Marine Shipbuilding Park along its 1,600 km. long coastline & aims to become the hub of Indian shipbuilding industry.

**6. NELP blocks** - The GOI has already awarded 162 blocks in the previous 6 rounds with expected investments to the tune of US\$ 8 billion. The Government now plans to offer 57 blocks in the upcoming NELP VII, including 28 blocks for offshore - 19 in deep water & 9 in shallow water.

Existing shipbuilding yards  
in India

Currently, there are 23 major shipbuilding yards in India - 7 controlled by the Central Government, 2 by the State Governments & the rest in the private sector.

Some major shipbuilding  
yards in India

Name of the Yard	Location	Capacity	Category
Cochin Shipyards Ltd.	Kochi	110,000 DWT	Central PSU
Hindustan Shipyards Ltd.	Vishakhapatnam	80,000 DWT	Central PSU
Hooghly Dock & Port Engineers Ltd.	Kolkata	15,000 DWT	Central PSU
Central Inland Water Transport Corporation Ltd.	Kolkata		Central PSU
Mazgaon Dock Ltd.	Mumbai	27,000 DWT	Central PSU
Garden Reach Shipbuilders & Engineers Ltd.	Kolkata	26,000 DWT	Central PSU
Goa Shipyard Ltd.	Goa	2,500 DWT	Central PSU
Alcock & Ashdown Co. Ltd.	Gujarat	5,000 DWT	State PSU
The Shalimar Works Ltd.	Kolkata		State PSU
ABG Shipyard Ltd.	Gujarat	35,000 DWT	Private - Listed
Bharati Shipyard Ltd.	Maharashtra	27,000 DWT	Private - Listed
Chowgule & Co.	Goa	3,300 DWT	Private
Tebma Shipyards Ltd.	Chennai	2,250 DWT	Private

Emerging Competitive  
Scenario going ahead . . .

The tidal shift in shipbuilding activities, from Europe to Asia, has opened up huge opportunities for Indian yards - and both public & private shipbuilders are capitalizing on them.

Due to the booming global demand for additional tonnage, backed by the continued growth in world trade, aging fleet & favourable regulatory support, a number of players are muscling into this segment for the huge promise that it holds out. According to Shipyards Association of India, shipbuilding will entail a total investment of around Rs. 370 billion by 2012 & Rs. 2.2 trillion by 2017. Here is a small compilation of the new entrants that the sector will be witnessing :

1. Pipavav Shipyard Ltd.
2. Larsen & Toubro Ltd.
3. Shipping Corporation of India Ltd.
4. Reliance Group
5. Ruia Group
6. Adani Group
7. Tutocorin Port Trust
8. Tata Group
9. Mercator Lines Ltd.
10. Dolphin Offshore Ltd.

■ [Pipavav Shipyard Ltd.](#) - SKIL Infrastructure Limited (formerly known as Sea King Infrastructure Ltd.), promoted by Nikhil Gandhi, has set up a shipbuilding & repair yard within the vicinity of Pipavav Port at Pipavav, Gujarat, to be known as Pipavav Shipyard Limited (PSL). The yard upon completion will be the largest in India & among the largest in Asia. This facility would be built at an approximate capital cost of approx. Rs. 2,900 crores & is expected to be operational by the end of 2008. The company was incorporated as Pipavav Ship Dismantling & Engineering Limited in October 1997 & later renamed to Pipavav Shipyard Limited in April 2005. Punj Lloyd Limited has picked up a substantial stake (~25%) in PSL in September 2007 & is now a co-promoter of the company.

PSL would be spread across 85 hectares of land with a dedicated waterfront of 800 meters. It has access to additional land of 570 acres. The yard with a maximum capacity of 3 lacs DWT would be equipped to handle almost any size of ship. PSL plans to build & repair all types of commercial & offshore support vessels ranging from Very Large Crude Carriers (VLCC), LNG/CNG Carriers, Tankers, Product/Bulk/Car Carriers & Container Ships to Oil & Gas Platforms, Jack-up & Drill Rigs & FPSO Conversions. It also plans to undertake construction, dry-docking & servicing of naval vessels including Aircraft Carriers, Frigates, Destroyers, Fleet Tankers & Advanced Offshore Patrol Vessels.

PSL has teamed up with Punj Lloyd, which will help PSL to fast-track its operations in the growing sector of offshore exploration for oil & gas. PSL has entered into agreements with two-world leading technical associates - SembCorp Marine, Singapore & Korea Marine Consultants Co. Ltd. (KOMAC) in relation to the company's start-up commercial shipbuilding operations & to provide designs & assistance with procurement of equipment & materials for the ship. PSL has already bagged orders from three international shipowners to build 26 Panamax bulk carriers of 74,500 DWT each at an aggregate contract value of US\$ 1063.12 million (Rs. 42,992 million). These vessels will be delivered starting from 2009 to May 2012. This order of almost two million tonnes places the company at number two in the world for Panamax bulk carriers ahead of major yards in Japan, Korea and China.

The company proposes to part finance this project cost with the help of Rs 1,248.67 crores (including premium) raised through equity already issued and term loans from banks and financial institutions to the tune of Rs 935.2 crores. To meet the remaining funding requirement, PSL proposes to enter the capital markets with a public issue of 86,850,000 Equity Shares of Rs 10 each through 100% book building process & has already filed DRHP with SEBI for the purpose in January 2008. As per our estimates, the issue could be priced in a range around Rs. 150 per share.

## PSL Financials - Balance Sheet

Balance Sheet				
Particulars (Rs Mn)	FY04	FY05	FY06	FY07
Equity Capital	777.5	2,000.0	2,000.0	2,897.2
Preference Capital	260.0	260.0	260.0	45.2
Reserves	0.0	8.4	687.8	1,337.7
Shareholders Funds	1,037.5	2,268.4	2,947.8	4,280.1
Minority Interest	0.0	0.0	0.0	0.0
Borrowed Funds	3,575.8	3,707.0	3,504.4	4,663.3
Deferred Tax Liability	0.0	0.0	0.0	0.0
Total Liabilities	4,613.3	5,975.5	6,452.2	8,943.4
Fixed Assets	4,786.5	6,645.8	7,088.3	7,644.3
Investments	0.0	0.0	0.0	510.8
Current Assets				
Inventory	0.0	0.0	0.0	0.0
Sundry Debtors	0.0	0.0	0.0	0.0
Loans & Advances	4.4	3.9	14.1	39.9
Cash & Bank Balance	0.5	0.4	0.9	1,102.0
Current Liabilities				
Sundry Creditors	176.4	469.4	634.8	334.6
Provisions	1.6	205.3	16.4	18.9
Net Current Assets	(173.2)	(670.4)	(636.1)	788.4
Miscellaneous Expenditure	0.0	0.0	0.0	0.0
Total Assets	4,613.3	5,975.5	6,452.2	8,943.4
Fixed Assets				
Particulars (Rs Mn)	FY04	FY05	FY06	FY07
Gross Block	217.4	216.6	224.3	124.7
Accumulated Depreciation	43.6	53.9	64.7	38.2
Net Block	173.8	162.8	159.6	86.5
Capital WIP	4,612.7	6,483.0	6,928.7	7,557.7
Total Fixed Assets	4,786.5	6,645.8	7,088.3	7,644.3
Borrowed Funds				
Particulars (Rs Mn)	FY04	FY05	FY06	FY07
Secured Loans	1,034.5	1,147.0	3,504.4	3,365.9
Unsecured Loans	2,541.4	2,560.1	0.0	1,297.4
Total	3,575.8	3,707.0	3,504.4	4,663.3

PSL has also raised capital to the tune of US\$ 125 million from private equity players like New York life, 2i Capital, Trikona Capital, Citadel & AIG. Also other PE players like Blackstone, Merrill Lynch, Deutsche Bank & Galleon have joined in as shareholders with PSL in 2007. Much of the recent placement has been made at Rs. 80 per share. The equity capital after the aforesaid preferential issues stands at Rs. 5,789.5 Million.

Other major players planning to enter the segment

- [Larsen & Toubro \(L&T\)](#) ventured into the shipbuilding business in January 2006, by converting a part of its heavy engineering complex at Hazira, Surat into a yard that could build 3 mid-size ships with a maximum capacity of 15,000 - 20,000 DWT. L&T is also coming with a port-cum-yard facility at Kakinada, Hyderabad at an investment of US\$ 370 million, where it plans to manufacture any type of ships, including Frigates & Destroyers for the Navy & Coast Guard. It has been accepted by the Indian Government as the second manufacturer of submarines in the country after Central Government owned Mazgoan Dock.
- [Shipping Corporation of India \(SCI\)](#) plans to build the country's largest shipyard with an investment of around Rs. 3,000 crores. SCI has bid for the two government projects for building two world-class international shipbuilding yards. SCI is understood to be in final talks with Hyundai Heavy Industries for the proposed joint venture.
- Mukesh Ambani-owned [Reliance Group](#) is set to make a splash in shipbuilding and dredging with two separate companies with an expected investment of around US\$ 1 bn each. The yard will come up at Rewas, Navi Mumbai where Reliance is setting up a mega port and a SEZ.
- The [Ruia Group](#) proposes a mammoth shipyard at Haldia costing over Rs. 3,000 crores. It will be among the biggest in the world, building 12 ships a year of Panamax size.
- The [Adani Group](#) is setting up a Rs 1,000-crore shipyard at Mundra in Kutch, adjacent to its new deep-water port there.
- The [Tuticorin Port Trust](#) plans to develop a Rs 1,400 crore shipbuilding yard on Build-Operate-Transfer (BOT) basis. The project will be completed in four years. Once the shipyard is complete, the port trust plans to produce up to six Panamax-size ships a year.
- The [Tata Group](#), which has already entered into a 50:50 JV with NYK Line of Japan for setting up a shipping company, has shown interest in building a shipyard at Shivrajpur in Gujarat. This will give the group tremendous operational synergies considering that it is already present in the shipbuilding grade steel as well as transportation.
- [Mercator Lines Ltd.](#) is likely to build up a shipyard in Palghar, Maharashtra. It has bought 400 acres of land in Palghar to build a shipyard & is likely to invest around Rs 1,000 crore to build this shipyard.
- [Dolphin Offshore Ltd.](#), the latest entrant, has recently announced Rs. 400 crores project for a shipyard at GMB allotted land at Jafrabad.

With this kind of investments lined up, the shipbuilding sector definitely seems to be in limelight for Indian business houses.

## Key Concerns going forward

**Serious over-capacity in the long term** - In the current global scenario, where international order for ships is brisk & production capacity expansion in the traditional shipbuilding powerhouses like South Korea & Japan are limited, quantities of ship orders are directed towards China & India.

China which currently holds the number two position, aims to become the largest shipbuilding nation in the world by 2015 & has published the "Medium & Long-term Development Plan for China's Shipbuilding Industry", which urges the construction of three shipbuilding bases. In addition, major shipbuilding enterprises like China State Shipbuilding Corporation, China Ocean Shipping Corporation (COSCO) & China Shipbuilding Industry Corporation have also raised their respective targets, and the production capacity of China's shipbuilding industry is in a rapid expansion period.

Based on its plans on shipbuilding, China's aggregate shipbuilding capacity will cross 40 million DWT by 2010, double the Government's planned target. By 2010, the world's manufacturing capacity for ship building is expected to reach 100 million DWT, way higher than the world's annual demand of 65 million DWT for new vessels.

Looking at the expansion plans set by the existing players in India & the new entrants to the sector, the capacity will greatly exceed the demand, engendering potential crisis as a result of overcapacity.

**Economic Slowdown** - Shipbuilding is essentially a cyclical industry dependent on the growth in international trade & scrapping of older ships. Increases in trade are in turn driven by the global economic growth & changing patterns of supply of raw material & regional demand. Any slowdown in the global economic phenomenon might dampen the demand for new buildings.

**Dip in global demand for energy** - Oil prices generally affect the Offshore Business directly, and the shipbuilding industry indirectly. An increase in oil prices often leads to considerable growth in deep-water and sub-sea activity and demand for OSVs as oil companies increase their oil exploration and production activities. Conversely, when oil and gas prices fall, upstream oil and gas sector companies reduce their offshore exploration and production investments, and also often results in a decrease in demand for OSVs. Declining oil or gas prices or decline in demand for oil or gas can depress offshore exploration, development and production activities and result in decline in demand for Offshore Support Vessels by offshore oil and gas companies. In addition, significant increases in the price of oil and gas could result in lower worldwide consumption and thus, a decline in demand for crude oil tankers and gas carriers.

## ABG Shipyard Limited

Buy | CMP Rs. 635.0

Initiating Coverage

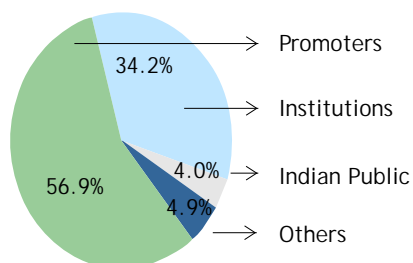
### Stock Data

Bloomberg	: ABGS.IN
Reuters	: ABGS.BO
BSE Code	: 532682
NSE Code	: ABGSHIP
BSE Group	: B1

### Stock Codes

Benchmark	: BSE Midcap
52 Week High	: 1045.0
52 Week Low	: 311.0
Mkt Cap	: Rs. 36,171 Mn
Face Value	: Rs. 10.0

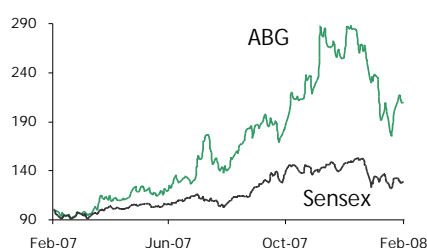
### Shareholding Pattern (as on Dec '07)



### Stock Returns

	1 Mth	3 Mths	6 Mths
ABG	-11.93	-10.42	45.08
Sensex	-3.87	-7.72	18.31

### Price Comparison



Hiren Samani - hiren@ppfas.com  
Jigar Valia - jigar@ppfas.com

**Capex & demand led enterprising growth ahead** - ABG's order-book has grown from just over Rs. 10 Bn. to over Rs. 80 Bn now, since its IPO in 2005. Post its planned expansion, ABG would see its top-line bloat to over 10 times in about 5-7 years. We expect a 46% CAGR growth in top-line during FY07-FY12E & 42% CAGR growth for PAT over the same period.

**Margins hedged from pricing pressures for next 3 years** - Margins are likely to be maintained at the targeted levels, at least for the next three years on account of the firming of input prices with suppliers. Even thereafter, ABG would be better-off in terms of tackling any margin pressure, as a consequence of improved skill-sets and diversification benefits.

**Edge over Competition** - ABG is also better placed against newer entrants in terms of lower setup cost, years of experience, and also an early mover advantage. Also against the existing players like Bharati, ABG has an edge in terms of concentrated large size facilities at proximity with high scalability prospects.

**Demonstration of Inorganic growth focus** - ABG has demonstrated its knack of growing through the inorganic route by acquiring Cross Ocean Ship Repair Ltd. UAE & Vipul Shipyard. ABG has taken interest in restructuring Western India Shipyard Ltd. (WISL). ABG's preference for equity for its funding requirements, leaves it with enough provisional leverage to fund any inorganic pursuits.

**Valuation** - The scrip is trading attractively at 12x FY10E and 8x FY11E EPS. We recommend BUY with a target of Rs. 944. (18x FY10E)

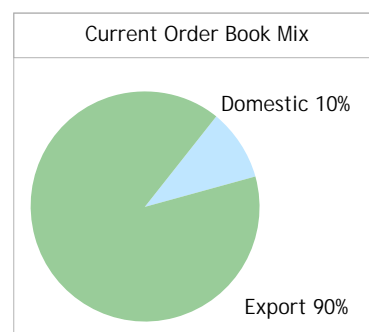
### Summary Financials

Particulars	FY07A	FY08E	FY09E	FY10E	FY11E	FY12E
Revenues (Rs. Mn.)	6,242.2	8,383.8	13,946.1	20,863.1	33,684.4	40,727.0
EBITDA (Rs. Mn.)	2,006.4	2,789.0	4,499.8	6,697.8	10,758.3	12,975.1
PAT (Rs. Mn.)	1,163.1	1,518.0	2,418.6	3,563.3	5,468.5	6,798.8
EBITDA %	32.1%	33.3%	32.3%	32.1%	31.9%	31.9%
PAT %	18.6%	18.1%	17.3%	17.1%	16.2%	16.7%
EPS (Rs.)	22.8	26.7	38.4	52.5	80.5	100.1
P/E (x)	27.8	23.8	16.5	12.1	7.9	6.3
EV/EBITDA	17.5	14.1	10.1	7.7	5.9	4.8
ROCE (%)	19.5%	16.9%	17.0%	17.5%	19.6%	21.0%
RONW (%)	19.8%	13.0%	12.8%	13.5%	17.4%	18.1%

Company Profile

ABG Shipyard Ltd., an arm of the ABG group, is currently the largest private sector shipyard in India. It is an established manufacturer and service provider of a variety of ships, including bulk carriers, interceptor boats, diving support vessels, anchor handling supply ships & tugs, dynamic positioning vessels & other multipurpose vehicles. Since its inception in 1991, ABG has constructed and delivered 102 vessels globally, of which, more than 50% in the last five years. ABG has successfully delivered three highly sophisticated 5th generation specialized Newsprint Carriers to Lysline, Norway.

ABG has established itself globally with a worldwide client base including Europe, Middle East & South East Asia. Its client list includes global giants like ESLL Shipping, Cyprus; Lamnalco Group, Cyprus; Vogemann B.H., Germany; Precious Shipping, Thailand; Essar Steel, India; L&T Hochtief, India among others. The company has a ship repair division which has successfully repaired and refurbished Dredgers, Ethylene Carriers, Bulk Carriers, Offshore Supply Vessels and Coast Guard Vessels.



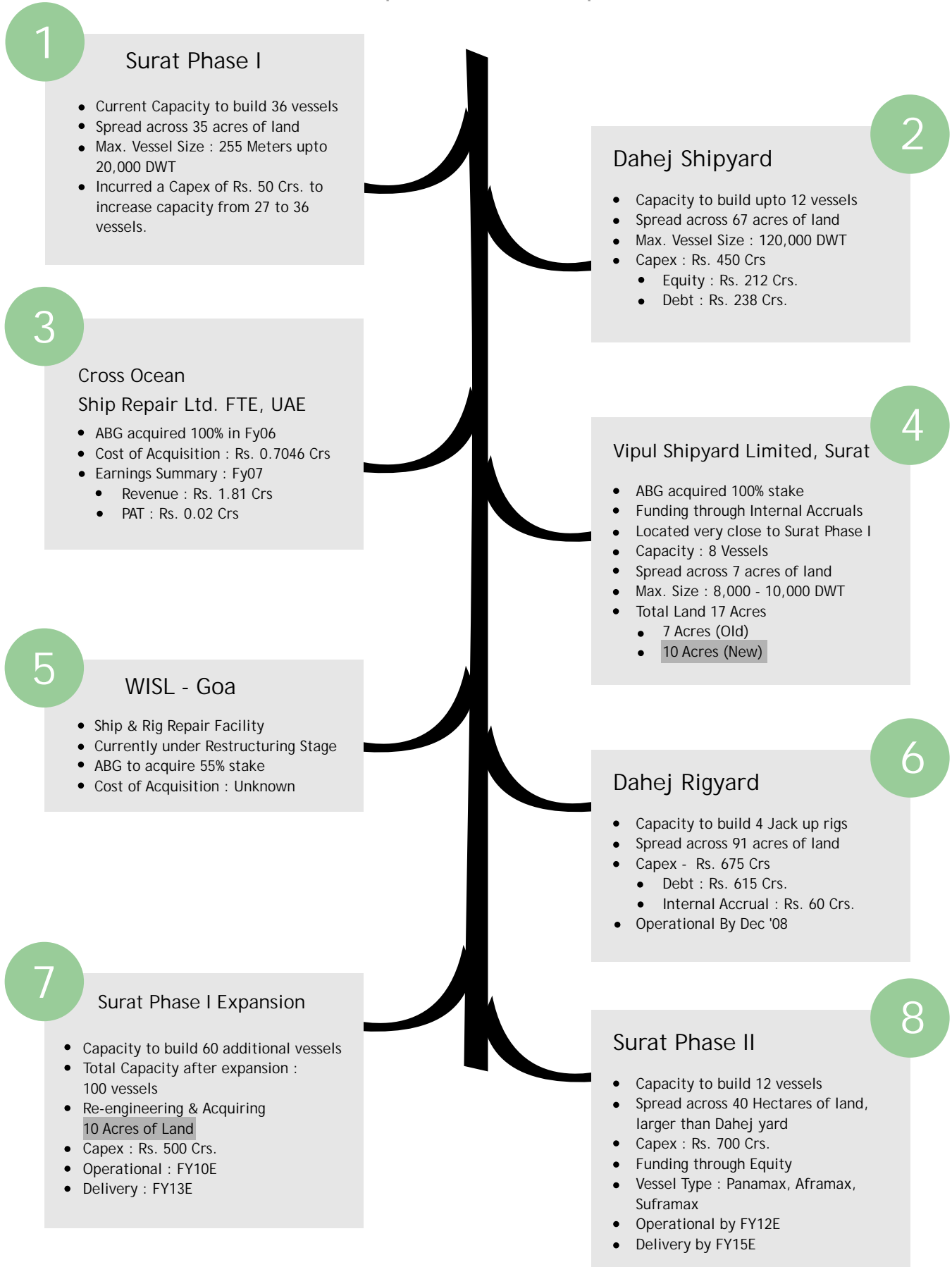
ABG has been awarded with a "Shield for Star Performer as Large Enterprise" in the product group of Other Transport Equipments including Vessels in recognition of the Company's outstanding contribution to Engineering Exports for the fourth consecutive time in 2005-06.

Important Milestones for ABG

- 1992 Unique Ship-lifting Facility
- 1993 First Major domestic order - 4 mini Bulk Carriers for VkrAm Ispat Ltd.
- 1994 Order for 3 cement carriers for GujaraAmbuja Cements Ltd
- 1994 First Export Order
- 1995 Conversion to Public Limited Company
- 2000 First Govt. order for 2 Interceptor Boats
- 2004 Major Proposed Expansion, Capacity to build ships upto 120,000 DWT
- 2005 Private Placement for funding expansion
- 2005 Listing of shares on NSE

# ABG Shipyard

## Operational Snapshot



1

### Surat Phase I

- Current Capacity to build 36 vessels
- Spread across 35 acres of land
- Max. Vessel Size : 255 Meters upto 20,000 DWT
- Incurred a Capex of Rs. 50 Crs. to increase capacity from 27 to 36 vessels.

2

### Dahej Shipyard

- Capacity to build upto 12 vessels
- Spread across 67 acres of land
- Max. Vessel Size : 120,000 DWT
- Capex : Rs. 450 Crs
  - Equity : Rs. 212 Crs.
  - Debt : Rs. 238 Crs.

3

### Cross Ocean Ship Repair Ltd. FTE, UAE

- ABG acquired 100% in Fy06
- Cost of Acquisition : Rs. 0.7046 Crs
- Earnings Summary : Fy07
  - Revenue : Rs. 1.81 Crs
  - PAT : Rs. 0.02 Crs

4

### Vipul Shipyard Limited, Surat

- ABG acquired 100% stake
- Funding through Internal Accruals
- Located very close to Surat Phase I
- Capacity : 8 Vessels
- Spread across 7 acres of land
- Max. Size : 8,000 - 10,000 DWT
- Total Land 17 Acres
  - 7 Acres (Old)
  - 10 Acres (New)

5

### WISL - Goa

- Ship & Rig Repair Facility
- Currently under Restructuring Stage
- ABG to acquire 55% stake
- Cost of Acquisition : Unknown

6

### Dahej Rigyard

- Capacity to build 4 Jack up rigs
- Spread across 91 acres of land
- Capex - Rs. 675 Crs
  - Debt : Rs. 615 Crs.
  - Internal Accrual : Rs. 60 Crs.
- Operational By Dec '08

7

### Surat Phase I Expansion

- Capacity to build 60 additional vessels
- Total Capacity after expansion : 100 vessels
- Re-engineering & Acquiring 10 Acres of Land
- Capex : Rs. 500 Crs.
- Operational : FY10E
- Delivery : FY13E

8

### Surat Phase II

- Capacity to build 12 vessels
- Spread across 40 Hectares of land, larger than Dahej yard
- Capex : Rs. 700 Crs.
- Funding through Equity
- Vessel Type : Panamax, Aframax, Sufamax
- Operational by FY12E
- Delivery by FY15E

Existing Facilities	<p><b>Surat Shipyard</b> - ABG has its primary shipbuilding yard located at Magdalla, Surat in the state of Gujarat. The yard is spread across 35 acres of land with a capacity to build vessels of upto 150 meters in length &amp; 20,000 DWT. ABG has recently incurred a capex of ~ Rs. 50 crores to increase the yards capacity to simultaneously build 36 vessels from 27 vessels earlier. The yard focuses on building short sea vessels including Bulk Cement Carriers, Oil and Gas Support Vessels, Specialized Multipurpose Vessels, Newsprint Carriers, Floating Cranes, Tugs and Support crafts.</p> <p><b>Cross Ocean Ship Repair Ltd.</b> - ABG has acquired Crossocean Ship Repair Ltd., a small ship repair unit in Fujariah Free Zone, UAE, in January 2006. With this, ABG has presence in Middle East and South East Asia by having hubs catering to repair and service requirement of vessels.</p> <p><b>Vipul Shipyard Ltd.</b> - ABG made a strategic acquisition of Vipul Shipyard Ltd. in May 2007. Vipul Shipyard is located adjacent to the company's existing shipyard at Magdalla in Surat, spread over 7 acres of land &amp; with a capacity to build about 8 vessels of 8,000 - 10,000 DWT. This acquisition enhances ABG's shipbuilding capacities from the present 32 to 40 vessels on a modular basis. It will benefit ABG to synergise productivity &amp; achieve economies of scale.</p>
Expansion Plans	<p><b>Dahej Shipyard</b> - ABG is constructing a shipyard at Dahej, Gujarat about 90 Km. from its existing facilities in Surat. This yard would be spread across 165 acres of land, having a capacity to simultaneously build 12 vessels on modular basis, of maximum size upto 250 meters in length &amp; 120,000 DWT. Major machinery, including Canadian shipbuilding equipment, already procured are being assembled at this yard. ABG would be incurring a capex of ~Rs. 4,400 Mn. funded through a mix of equity &amp; debt. ABG has already raised funds via IPO, to be utilised for this purpose. The Dahej yard would commence shipbuilding by April 2008 &amp; has already received confirmed orders for 37 vessels valued at Rs. 56,000 Mn.</p> <p><b>Dahej Rigyard</b> - The second phase of expansion of the Dahej facility is the rig building yard, capable to building 4 rigs simultaneously. This facility would focus on building Ultra deep water jack up drilling rigs, Semi-submersibles &amp; Offshore structures. ABG plans a capex of Rs. 6,700 Mn. funded through debt &amp; internal accruals. This rigyard would commence rig building by December 2008 &amp; would be fully operational by 2009. the company has entered into a license agreement with Friede &amp; Goldman, Huston, USA for the design of 'New Generation Jack Up Drilling Rig JU2000-A'. ABG has applied for SEZ status for its Dahej facility.</p>

**Surat Phase I Expansion** - Since the acquisition of Vipul Shipyard adjacent to its existing yard in Surat, ABG is currently re-engineering the Surat facility & has acquired additional 10 acres of land close to the Vipul yard. It would be shifting the existing fabrication shop in Surat yard to the new Vipul facility thereby freeing space to double ship assembly berth area. This re-engineering & expansion would be done at a capex of Rs. 5,000 Mn. funded entirely through equity & will be completed by FY09. On completion, this would lead to more than doubling of output with additional 60 vessels from the Surat yard.

**Surat Phase II** - ABG is also constructing a new greenfield shipbuilding yard on the sea front at Surat, which it envisages to be larger than the Dahej yard. This facility would be spread over 40 hectares of land & would be focusing on building large ships like Panamax, Aframax, Tankers etc. The expected capex for this expansion would be to the tune of Rs. 7,000 Mn. which ABG plans to fund through equity. The yard would be operational by FY12.

**Value Accretion from WISL acquisition** - Western India Shipyard Limited (WISL) is one of India's largest ship & rig repair facilities in the private sector, located in Goa on the west coast of India. WISL consists of a state of the art Floating Dry Dock with a capacity to repair vessels upto 60,000 DWT. WISL currently has a Restructuring Scheme pending regulatory approvals under the Companies Act, 1956.

ABG has taken a keen interest in the restructuring of WISL. With this, ABG would establish its footprints in the high margin ship & rig repair business, which has margins in the range of 35% - 40%.

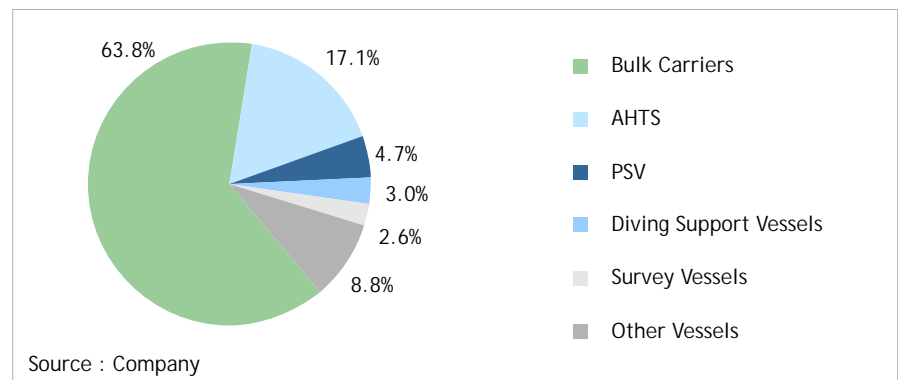
For our estimates, we have not yet factored WISL's value accretion, which is still under regulatory approvals, for lack of information about the price & the restructuring prospects.

Dominance in the Offshore sector

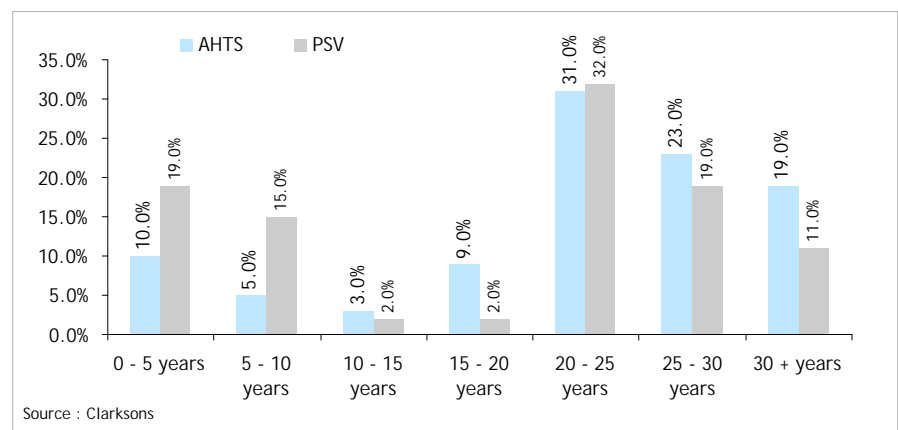
World energy consumption is expected to double by 2040, demanding an investment of ~ US\$ 20 trillion. Majority of this demand will be from Asia, especially from China & India. As a result of strong demand for oil & natural gas, Oil & Gas equipment & services companies are ramping up their capacities, thereby leading to rise in demand for offshore support vessels like AHTS, PSV, Drilling Rigs, MOSV etc.

ABG was once ranked as world's largest yard in terms of order-book for AHTS by Clarksons. With its expertise in this niche segment, ABG is well placed to reap the enduring benefits resulting from this upswing in the offshore E&P segment.

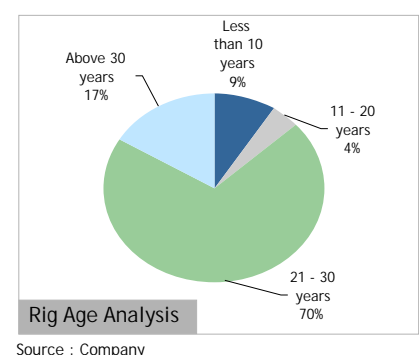
Current Order Book - Vessel Type



**Aging global OSV fleet** - The current global fleet of AHTS & PSV are aging - 73% of AHTS fleet & 62% of the PSV fleet are above the age of 20 years.



Having a life span of about 20 - 30 years, this age profile of global OSV fleet indicates a strong replacement demand & a handsome demand driver for ABG. Similar is the case with the world rig fleet. Already being utilised close to 90% capacity, there is huge demand for drill rigs the world over. With 16% of the world rig fleet above the age of 30 years & another 70% between 20 - 30 years, there will be a strong replacement demand for oil rigs in the current oil boom.



Diversified portfolio to reduce business risks

Even as ABG has emerged as a strong & reputed player in the offshore segment, it has already delivered several specialized vessels like pollution control vessels, newsprint carriers, bulk cement carriers & other commercial vessels like interceptor boats, passenger / cargo vessels etc. Besides, ABG will be taking up building of very large vessels like Panamax, Aframax & Tankers at the new Dahej yard. ABG's strategy of having a balanced & diversified portfolio of cyclical & non-cyclical vessel segments, would enable it to insulate it from the vagaries of the general shipping cycle.

#### Diversification Benefits:

- Enable Growth - Orders for new types of vessels to fuel in growth prospects.
- Maintain Margin - Ability to build different variety, to enable ABG to take advantage of more profitable segments.

#### Order Book

Order Details	Vessels (Nos.)	Size/Capacity	Value of orders	Expected Delivery
Suframax Bulk Carrier	4	54000 DWT	US\$ 139 Mn	March 2011
APS Tug	1	100 MT	UD\$ 13.5 Mn	May 2009
AHTS Vessels	4	180 MT	US\$ 229 Mn	December 2009
AHTS Vessels	5	82 MT		
Dry Bulk Carriers	3	54000 DWT		
LOA Driving Support vessel	1	78 MT	Euro 16.54 Mn	2008
Self Loading & Unloading vessel (Cement)	1	4000 DWT	US\$ 9.9 Mn	June 2008
AHTS	1	80 ton	US\$ 10.55 Mn	August 2008
Interceptor Boats	11		Rs. 1940 Mn	October 2007 - May 2009
AHTS	6		Rs. 2700 Mn	December 2007 - March 2009
AHTS	3	90 ton	US\$ 29.7 Mn	2008
Geared Bulk Carriers	2	18000 DWT	US\$ 61.6 Mn	2008
53M LOA BP Azimuthing PSV	2	80 ton	US\$ 34.2 Mn	App. 2009
72M LOA BP AHTSV	2	130 ton	US\$ 46 Mn	App. 2009
Bulk Carrier	5	54000 DWT	US\$ 184.48 Mn	App. 2010
Handysize Bulk Carriers	12	35000 DWT	US\$ 360 Mn	App. 2011-2012
Bulk Carrier	12	32000 DWT	US\$ 360 Mn	App. 2010-2011

Source : BSE, PPFAS Research

Capex & demand led enterprising growth ahead	ABG, the largest private sector shipyard in India is in the midst of a major growth path. Its order-book has grown from just over Rs. 10 Bn. to over Rs. 80 Bn now, since its IPO in 2005. This enormous quantum of growth would be delivered on the backdrop of robust demand for new vessels led by both strategic and business prospects.
High Visibility for revenues and margins for next three years	ABG enjoys high visibility in terms of both revenues for which it has received firm orders to be executed over the next few years. The probability of order cancellations are minimal, on account of the advance payments made by the clients and the relatively lower cyclical element in the new-building business as compared to shipping. Margins are likely to be maintained at the targeted levels, at least for the next three years on account of the back to back inventory sourcing policy of ABG. Even thereafter, ABG would be better-off in terms of tackling any margin pressure (due to the demand-supply effect on new-building prices), as a consequence of improved skill-sets and diversification benefits. ABG is gearing up towards manufacturing a variety of vessels like bulk carriers, rigs & off course OSVs, which should help them to capitalize on the segments enjoying better pricing & margins.
Edge over Competition	ABG is also better placed against competition in terms of lower setup cost, years of experience, and also an early mover advantage in terms of cashing on the huge opportunity provided by the sector. Also against the existing players like Bharati, ABG has an edge in terms of concentrated large size facilities, located at close by distances with high scalability demonstrated at each of the existing facilities. ABG is relatively better placed with this growth as its new facilities are coming up sooner.
Demonstration of Inorganic growth focus	ABG has demonstrated its knack of growing through the inorganic route by acquiring Cross Ocean Ship Repair Lts. UAE - a ship repair facility in the Middle East & Vipul Shipyard Ltd. Close to its existing facility at Surat. ABG has one more acquisition in the pipeline - Western India Shipyard Ltd. (WISL). ABG's preference for equity for its funding requirements, leaves it with a strong balance sheet and enough provisional leverage to fund any inorganic pursuits.
Possible tax breaks through SEZ	ABG has applied for SEZ status for its Dahej facility. Should it get the desired notification, it would benefit on account of lower tax & other related sops. This would also help it neutralize the impact in case the subsidy is reduced or withdrawn.
Valuation	The scrip is trading attractively at 12x FY10E and 8x FY11E EPS. We recommend BUY with a target of Rs. 944 (18x FY10E), suggesting a 49% upside. This multiple is in alignment with our expected order book surge over the foreseeable future.

## Quarterly Performance

ABG came out with an excellent set of numbers for the third quarter of FY08, reporting a 30% Q-o-Q and 55% Y-o-Y top-line growth coupled with even better 38% Q-o-Q and 61% Y-o-Y bottomline growth. Despite a dip of 74 bps in operating margins, ABG managed to show an increase in PAT levels by 104 bps for Q3FY08 over Q2FY08. For nine months ended December 2007, the company registered a 35% growth in revenues & 38% growth in earnings, compared to same period last year. It also increased its EPS by 37.6% from Rs. 16.4 as of December 2006 to Rs. 22.5 as of December 2007.

Earnings Statement								
YE March (Rs. Mn.)	Q308	Q208	Q-Q(%)	Q307	Y-Y(%)	9M08	9M07	Y-Y(%)
Net Revenues	2,749.6	2,118.5	29.79%	1,775.8	54.84%	6,901.5	5,112.9	34.98%
Cost of Materials	1,550.8	1,224.0	26.70%	1,019.0	52.19%	4,045.3	3,089.0	30.96%
Gross Profit	1,198.8	894.4	34.03%	756.8	58.40%	2,856.3	2,023.9	41.13%
Employee Cost	67.1	47.0	42.92%	36.7	82.64%	155.7	112.1	38.83%
Other Expenses	316.0	203.4	55.35%	194.3	62.65%	690.4	469.9	46.93%
Total Expenditure	383.1	250.3	53.02%	231.0	65.83%	846.1	582.0	45.37%
Operating Profit	815.8	644.1	26.66%	525.8	55.14%	2,010.2	1,441.9	39.41%
OPM (%)	29.67%	30.40%		29.61%		29.13%	28.20%	
Other Income	19.8	1.3	1481.80%	9.0	119.30%	54.3	39.7	36.72%
EBITDA	835.6	645.3	29.48%	534.9	56.22%	2,064.4	1,481.6	39.34%
Depreciation	19.8	17.1	15.68%	15.2	29.94%	53.7	42.3	26.88%
EBIT	815.8	628.2	29.86%	519.6	56.99%	2,010.7	1,439.3	39.71%
Interest	99.2	108.7	-8.79%	69.3	43.17%	268.5	174.2	54.14%
PBT	716.6	519.5	37.94%	450.4	59.12%	1,742.2	1,265.1	37.72%
Tax	245.5	178.4	37.56%	157.4	55.97%	596.0	432.0	37.94%
Current Tax	81.2	58.9	37.93%	35.8	126.52%	197.4	141.9	39.07%
Fringe Benefit Tax	1.8	0.8	125.00%	0.6	182.57%	3.6	1.9	88.19%
Deferred Tax	162.5	118.8	36.79%	120.9	34.38%	395.0	288.2	37.05%
PAT	471.2	341.1	38.14%	293.0	60.81%	1,146.3	833.0	37.60%
Equity Capital	509.2	509.2		509.2		509.2	509.2	
EPS	9.3	6.7	38.14%	5.8	60.81%	22.5	16.4	37.60%
Ratio Analysis								
Profitability								
YE March (Rs. Mn.)	Q308	Q208	Q-Q(bps)	Q307	Y-Y(bps)	9M08	9M07	Y-Y(bps)
OPM (%)	29.7%	30.4%	(73.52)	29.6%	5.69	29.1%	28.2%	92.52
EBITDA (%)	30.4%	30.5%	(7.35)	30.1%	26.88	29.9%	29.0%	93.52
EBIT (%)	29.7%	29.7%	1.44	29.3%	40.68	29.1%	28.1%	98.49
PAT (%)	17.1%	16.1%	103.57	16.5%	63.62	16.6%	16.3%	31.62
Operational Parameters								
YE March (Rs. Mn.)	Q308	Q208	Q-Q(bps)	Q307	Y-Y(bps)	9M08	9M07	Y-Y(bps)
RM Consumed	56.4%	57.8%	(137.93)	57.4%	(98.02)	58.6%	60.4%	(180.14)
Staff Cost	2.4%	2.2%	22.41	2.1%	37.15	2.3%	2.2%	6.25
Other Expenditure	11.5%	9.6%	189.04	10.9%	55.18	10.0%	9.2%	81.37
Effective Tax Rate	34.3%	34.3%	(9.53)	34.9%	(69.20)	34.2%	34.2%	5.54

Concerns      [Phasing out of shipbuilding subsidy](#) - The shipbuilding subsidy introduced by the GOI has ended on 14 August, 2007. This 30% subsidy was introduced to give this industry a level playing field vis-s-vis their foreign counterparts. If this subsidy is not revived, it can have a negative impact on ABG Shipyard's profitability going forward.

The industry is currently demanding that the subsidy scheme be revived, may be at a lower rate. The Ministry of Shipping has proposed a 20% subsidy for a period of 10 years. Subsidy amount for ~12% of revenues. A drop to 20% rate would cause a less than 4% drop in EBITDA. (For impact of lower or no subsidy, refer [Page 40](#))

[Execution Delay](#) - Delays in order fulfillment could impact earnings for the company. While accepting a contract to build a ship, shipyards agree to a particular delivery schedule and satisfactory performance of the vessel and issue performance guarantee of 5% of the value of contract money. ABG has a huge order book increases the possibility of the performance guarantee being invoked leading to reduced earnings. Further, any delays on the new capacities coming up may increase the execution risk, leading to delay in completion of orders on time.

[Forex Risks](#) - Forex risks emanate from the fact that 90% exports form a major composition of sales and also global new building prices are quoted mostly in dollar terms.

[Industry wide risk](#) - ABG will be exposed to the general industry wide risks like rise in raw material costs & steep rise in global ship building capacity.

[Growth Trap](#) - Biggest risk for ABG lies in the fact that the current sales constitute a small percentage of future sales charted. We are certainly relying more on future growth to reap benefits from this investment.

Earnings Statement											
Particulars	FY05	FY06	FY07	FY08E	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
Total Revenues	3,255.8	4,687.4	6,242.2	8,383.8	13,946.1	20,863.1	33,684.4	40,727.0	47,421.6	49,066.9	50,727.8
- Growth (%)	10.2%	44.0%	33.2%	34.3%	66.3%	49.6%	61.5%	20.9%	16.4%	3.5%	3.4%
Total Expenditure	2,845.3	4,023.2	5,107.9	6,651.0	11,097.4	16,642.0	26,935.9	32,640.4	38,090.9	39,497.9	40,924.0
Operating Profit	410.5	664.2	1,134.3	1,732.8	2,848.7	4,221.2	6,748.5	8,086.6	9,330.7	9,569.1	9,803.8
Other Income	1.6	61.3	52.7	72.4	0.0	0.0	0.0	40.0	180.0	540.0	920.0
Subsidy	510.6	745.3	819.4	983.8	1,651.1	2,476.7	4,009.8	4,848.5	5,644.1	5,832.2	6,020.4
EBITDA	922.7	1,470.7	2,006.4	2,789.0	4,499.8	6,697.8	10,758.3	12,975.1	15,154.8	15,941.3	16,744.1
EBITDA (Excl. Subsidy)	412.2	725.4	1,187.0	1,805.2	2,848.7	4,221.2	6,748.5	8,126.6	9,510.7	10,109.1	10,723.8
Depreciation	31.3	36.5	59.6	120.3	318.1	466.8	650.6	851.8	886.8	921.8	956.8
EBIT	891.4	1,434.2	1,946.8	2,668.7	4,181.7	6,231.0	10,107.7	12,123.3	14,268.0	15,019.5	15,787.3
Interest	202.4	167.3	266.8	368.6	517.1	832.1	1,822.1	1,822.1	1,822.1	1,822.1	1,822.1
PBT	689.0	1,266.9	1,679.9	2,300.0	3,664.6	5,398.9	8,285.6	10,301.2	12,445.9	13,197.3	13,965.2
Tax	241.4	429.6	518.4	782.0	1,246.0	1,835.6	2,817.1	3,502.4	4,231.6	4,487.1	4,748.2
PAT Before EI	447.6	837.3	1,161.5	1,518.0	2,418.6	3,563.3	5,468.5	6,798.8	8,214.3	8,710.2	9,217.0
- Growth (%)	246.7%	87.1%	38.7%	30.7%	59.3%	47.3%	53.5%	24.3%	20.8%	6.0%	5.8%
Extra-ordinary Items	-0.2	-0.2	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PAT	447.5	837.1	1,163.1	1,518.0	2,418.6	3,563.3	5,468.5	6,798.8	8,214.3	8,710.2	9,217.0
Ratio Analysis											
Particulars	FY05	FY06	FY07	FY08E	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
OPM (%)	12.6%	14.2%	18.2%	20.7%	20.4%	20.2%	20.0%	19.9%	19.7%	19.5%	19.3%
EBITDA (%)	28.3%	31.4%	32.1%	33.3%	32.3%	32.1%	31.9%	31.9%	32.0%	32.5%	33.0%
EBITDA % (Excl. Subsidy)	12.7%	15.5%	19.0%	21.5%	20.4%	20.2%	20.0%	20.0%	20.1%	20.6%	21.1%
PBIT (%)	27.4%	30.6%	31.2%	31.8%	30.0%	29.9%	30.0%	29.8%	30.1%	30.6%	31.1%
PAT (%)	13.7%	17.9%	18.6%	18.1%	17.3%	17.1%	16.2%	16.7%	17.3%	17.8%	18.2%
Interest Cover (x)	4.4	8.6	7.3	7.2	8.1	7.5	5.5	6.7	7.8	8.2	8.7
EPS (Rs.)	13.8	16.4	22.8	26.7	38.4	52.5	80.5	100.1	120.9	128.2	135.7
P/E (x)	46.2	38.7	27.8	23.8	16.5	12.1	7.9	6.3	5.3	5.0	4.7
P/BV (x)	13.4	6.7	5.5	3.1	2.1	1.6	1.4	1.1	1.0	0.8	0.7
BVPS (Rs.)	47.5	94.7	115.4	204.7	300.3	388.5	462.0	553.3	663.8	780.3	903.1
Market Cap (Rs. Mn.)	20,652.1	32,358.3	32,358.3	36,171.0	39,983.7	43,160.9	43,160.9	43,160.9	43,160.9	43,160.9	43,160.9
M Cap/Sales (x)	6.3	6.9	5.2	4.3	2.9	2.1	1.3	1.1	0.9	0.9	0.9
EV (Rs. Mn.)	20,895.7	29,302.5	35,052.5	39,415.0	45,334.7	51,661.6	63,013.6	62,870.4	63,069.4	63,005.4	62,825.9
EV/EBITDA (x)	22.6	19.9	17.5	14.1	10.1	7.7	5.9	4.8	4.2	4.0	3.8
EV/Sales (x)	6.4	6.3	5.6	4.7	3.3	2.5	1.9	1.5	1.3	1.3	1.2
ROCE (%)	39.2%	24.6%	19.5%	16.9%	17.0%	17.5%	19.6%	21.0%	21.8%	20.5%	19.4%
RONW (%)	29.0%	17.4%	19.8%	13.0%	12.8%	13.5%	17.4%	18.1%	18.2%	16.4%	15.0%
Debt/Equity Ratio (x)	0.5	0.2	0.7	0.4	0.3	0.4	0.6	0.5	0.4	0.4	0.3
Inventory T/o Days	80.4	175.3	311.1	300.0	300.0	300.0	300.0	300.0	300.0	300.0	300.0
Debtors T/o Days	14.5	4.8	4.7	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Advances T/o Days	142.5	182.4	387.4	300.0	325.0	325.0	325.0	325.0	325.0	325.0	325.0
Creditors T/o Days	114.9	281.6	303.2	250.0	250.0	250.0	250.0	250.0	250.0	250.0	250.0
Working Cap T/o Days	174.0	383.8	473.1	384.8	382.3	385.0	376.3	376.8	374.6	375.0	376.2
Fixed Assets T/o (Gross)	2.5	3.3	3.5	2.4	1.5	1.6	1.8	1.7	1.9	1.9	1.9
DPS (Rs.)	0.0	1.2	1.5	2.0	3.0	4.0	6.0	7.5	9.0	10.0	11.0
Dividend Payout (%)	0.0%	7.3%	6.6%	7.5%	7.8%	7.6%	7.5%	7.5%	7.4%	7.8%	8.1%
Dividend Yield (%)	0.0%	0.2%	0.2%	0.3%	0.5%	0.6%	0.9%	1.2%	1.4%	1.6%	1.7%

Balance Sheet											
Particulars	FY05	FY06	FY07	FY08E	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
Equity Capital	325.0	509.2	509.2	569.2	629.2	679.2	679.2	679.2	679.2	679.2	679.2
Reserves	1,218.5	4,315.2	5,369.2	11,080.7	18,265.2	25,710.6	30,702.3	36,905.1	44,404.2	52,319.9	60,662.8
Shareholders Funds	1,543.5	4,824.4	5,878.4	11,649.9	18,894.4	26,389.8	31,381.5	37,584.3	45,083.4	52,999.1	61,342.0
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Borrowed Funds	730.1	997.0	4,095.8	4,095.8	5,745.8	9,245.8	20,245.8	20,245.8	20,245.8	20,245.8	20,245.8
Deferred Tax Liability	278.3	667.2	1,080.3	1,586.4	2,392.6	3,580.3	5,403.1	7,669.4	10,407.5	13,310.9	16,383.3
Total Liabilities	2,551.9	6,488.6	11,054.5	17,332.0	27,032.7	39,215.9	57,030.4	65,499.5	75,736.7	86,555.7	97,971.0
Fixed Assets	999.7	1,560.4	2,962.8	8,492.5	12,424.4	17,207.6	22,307.0	22,455.2	22,568.3	22,646.5	22,689.7
Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,000.0	4,500.0	13,500.0	23,000.0
Current Assets											
Inventory	717.2	2,251.2	5,320.4	6,890.8	11,462.6	17,147.8	27,685.8	33,474.3	38,976.7	40,329.0	41,694.0
Sundry Debtors	129.5	61.2	81.2	114.8	191.0	285.8	461.4	557.9	649.6	672.1	694.9
Loans & Advances	1,271.4	2,341.8	6,624.6	6,890.8	12,417.8	18,576.7	29,992.9	36,263.8	42,224.7	43,689.7	45,168.5
Cash & Bank Balance	486.5	4,052.8	1,401.5	851.7	394.7	745.1	393.1	536.3	337.3	401.3	580.7
Current Liabilities											
Sundry Creditors	1,025.2	3,615.8	5,185.8	5,742.3	9,552.1	14,289.8	23,071.5	27,895.2	32,480.6	33,607.5	34,745.0
Provisions	27.1	163.0	150.1	166.2	305.7	457.3	738.3	892.6	1,039.4	1,075.4	1,111.8
Net Current Assets	1,552.2	4,928.2	8,091.7	8,839.6	14,608.3	22,008.3	34,723.4	42,044.3	48,668.4	50,409.2	52,281.3
Miscellaneous Expenditure	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Assets	2,551.9	6,488.6	11,054.5	17,332.0	27,032.7	39,215.9	57,030.4	65,499.5	75,736.7	86,555.7	97,971.0
Cash Flow											
Particulars	FY05	FY06	FY07	FY08E	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
Opening Cash & Bank	391.6	486.5	4,052.8	1,401.5	851.7	394.7	745.1	393.1	536.3	337.3	401.3
Profit After Tax	447.5	837.1	1,163.1	1,518.0	2,418.6	3,563.3	5,468.5	6,798.8	8,214.3	8,710.2	9,217.0
Investment Income	(1.6)	(61.3)	(52.7)	(72.4)	0.0	0.0	0.0	(40.0)	(180.0)	(540.0)	(920.0)
Interest Paid	202.4	167.3	266.8	368.6	517.1	832.1	1,822.1	1,822.1	1,822.1	1,822.1	1,822.1
Miscellaneous Exp W/Off	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation	31.3	36.5	59.6	120.3	318.1	466.8	650.6	851.8	886.8	921.8	956.8
Deferred Taxation	174.6	389.0	413.1	506.0	806.2	1,187.8	1,822.8	2,266.3	2,738.1	2,903.4	3,072.3
Others	21.8	20.1	19.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in Working Cap	(873.0)	190.3	(5,814.8)	(1,297.7)	(6,225.7)	(7,049.6)	(13,067.1)	(7,177.7)	(6,823.0)	(1,676.9)	(1,692.7)
CF - Operating Activities	2.9	1,578.9	(3,945.5)	1,142.9	(2,165.6)	(999.7)	(3,303.1)	4,521.3	6,658.3	12,140.7	12,455.6
Change in Fixed Assets	(94.4)	(617.3)	(1,481.2)	(5,650.0)	(4,250.0)	(5,250.0)	(5,750.0)	(1,000.0)	(1,000.0)	(1,000.0)	(1,000.0)
Change in Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(1,000.0)	(3,500.0)	(9,000.0)	(9,500.0)
Investment Income	1.6	61.3	52.7	72.4	0.0	0.0	0.0	40.0	180.0	540.0	920.0
CF - Investing Activities	(92.7)	(556.0)	(1,428.6)	(5,577.6)	(4,250.0)	(5,250.0)	(5,750.0)	(1,960.0)	(4,320.0)	(9,460.0)	(9,580.0)
Increase in Equity	(22.7)	2,513.5	(19.7)	4,386.6	5,046.7	4,250.0	0.0	0.0	0.0	0.0	0.0
Changes in Borrowings	409.9	266.9	3,098.8	0.0	1,650.0	3,500.0	11,000.0	0.0	0.0	0.0	0.0
Interest Paid	(202.4)	(167.3)	(266.8)	(368.6)	(517.1)	(832.1)	(1,822.1)	(1,822.1)	(1,822.1)	(1,822.1)	(1,822.1)
Dividend Paid	0.0	(69.7)	(89.4)	(133.2)	(220.8)	(317.8)	(476.8)	(596.0)	(715.2)	(794.6)	(874.1)
CF - Financing Activities	184.8	2,543.3	2,722.8	3,884.8	5,958.7	6,600.0	8,701.1	(2,418.1)	(2,537.3)	(2,616.7)	(2,696.2)
Net Change in Cash	94.9	3,566.3	(2,651.3)	(549.8)	(456.9)	350.3	(352.0)	143.2	(199.0)	64.0	179.4
Closing Cash & Bank Balance	486.5	4,052.8	1,401.5	851.7	394.7	745.1	393.1	536.3	337.3	401.3	580.7

**Subsidy Sensitivity** ABG remains attractive in case of subsidy at 30% or even at 20%. A complete withdrawal of subsidy would warrant a change in our call.

Subsidy @ 0%								
Particulars	FY08E	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
Revenues (Rs. Mn.)	8,383.8	13,946.1	20,863.1	33,684.4	40,727.0	47,421.6	49,066.9	50,727.8
EBITDA (Rs. Mn.)	2,789.0	2,848.7	4,221.2	6,748.5	8,086.6	9,330.7	9,659.1	9,993.8
PAT (Rs. Mn.)	1,518.0	1,225.0	1,705.9	2,332.0	2,829.9	3,449.7	3,643.3	3,841.1
EBITDA %	33.3%	20.4%	20.2%	20.0%	19.9%	19.7%	19.7%	19.7%
EPS (Rs.)	26.7	19.5	25.1	34.3	41.7	50.8	53.6	56.6
P/E (x)	23.8	32.6	25.3	18.5	15.3	12.5	11.8	11.2
EV/EBITDA	14.1	16.5	13.2	10.6	9.3	8.4	8.1	7.8
ROCE (%)	16.9%	10.0%	10.3%	11.4%	12.0%	12.8%	12.7%	12.6%
RONW (%)	13.0%	6.9%	7.3%	9.3%	10.3%	11.4%	11.0%	10.7%

Subsidy @ 20%								
Particulars	FY08E	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
Revenues (Rs. Mn.)	8,383.8	13,946.1	20,863.1	33,684.4	40,727.0	47,421.6	49,066.9	50,727.8
EBITDA (Rs. Mn.)	2,789.0	3,949.4	5,872.3	9,421.7	11,319.0	13,143.5	13,787.2	14,437.3
PAT (Rs. Mn.)	1,518.0	2,025.7	2,959.0	4,408.1	5,497.8	6,678.9	7,080.7	7,486.6
EBITDA %	33.3%	28.3%	28.1%	28.0%	27.8%	27.7%	28.1%	28.5%
EPS (Rs.)	26.7	32.2	43.6	64.9	80.9	98.3	104.2	110.2
P/E (x)	23.8	19.7	14.6	9.8	7.9	6.5	6.1	5.8
EV/EBITDA	14.1	11.6	9.0	7.0	5.9	5.0	4.8	4.6
ROCE (%)	16.9%	14.7%	15.2%	16.7%	18.1%	19.2%	18.3%	17.5%
RONW (%)	13.0%	10.9%	11.7%	15.0%	16.1%	16.6%	15.2%	14.1%

Subsidy @ 30%								
Particulars	FY08E	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
Revenues (Rs. Mn.)	8,383.8	13,946.1	20,863.1	33,684.4	40,727.0	47,421.6	49,066.9	50,727.8
EBITDA (Rs. Mn.)	2,789.0	4,499.8	6,697.8	10,758.3	12,975.1	15,154.8	15,941.3	16,744.1
PAT (Rs. Mn.)	1,518.0	2,418.6	3,563.3	5,468.5	6,798.8	8,214.3	8,710.2	9,217.0
EBITDA %	33.3%	32.3%	32.1%	31.9%	31.9%	32.0%	32.5%	33.0%
EPS (Rs.)	26.7	38.4	52.5	80.5	100.1	120.9	128.2	135.7
P/E (x)	23.8	16.5	12.1	7.9	6.3	5.3	5.0	4.7
EV/EBITDA	14.1	10.1	7.7	5.9	4.8	4.2	4.0	3.8
ROCE (%)	16.9%	17.0%	17.5%	19.6%	21.0%	21.8%	20.5%	19.4%
RONW (%)	13.0%	12.8%	13.5%	17.4%	18.1%	18.2%	16.4%	15.0%

## Bharati Shipyard Limited

Buy | CMP Rs. 622.0

Initiating Coverage

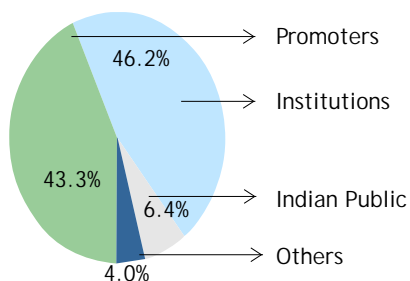
### Stock Data

Bloomberg	: BHSL.IN
Reuters	: BHAR.BO
BSE Code	: 532609
NSE Code	: BHARTISHIP
BSE Group	: B1

### Stock Codes

Benchmark	: BSE Midcap
52 Week High	: 865.0
52 Week Low	: 316.0
Mkt Cap	: Rs. 19,940 Mn
Face Value	: Rs. 10.0

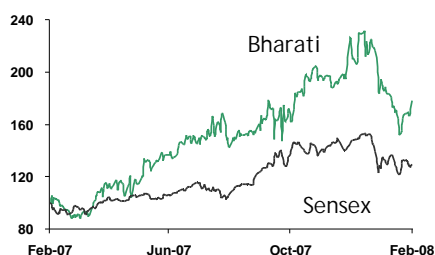
### Shareholding Pattern (as on Dec '07)



### Stock Returns

	1 Mth	3 Mths	6 Mths
Bharati	-13.62	-11.24	17.59
Sensex	-3.87	-7.72	18.31

### Price Comparison



Hiren Samani - hiren@ppfas.com  
Jigar Valia - jigar@ppfas.com

**Capex & demand led enterprising growth ahead** - Overall we expect a 5 year CAGR of 48% for top-line and 36% for PAT going over FY07-12. BSL is also better placed against competition in terms of early mover advantage, lower setup cost and years of experience.

**Sustainable Margins going forward** - Bharati enjoys high visibility in terms of both revenues for which it has received firm orders to be executed over the next few years. Margins are likely to be maintained at the targeted levels, at least for the next three years on account of the instant inventory procurement strategy of the players. Even thereafter, BSL would be better-off in terms of tackling any margin pressure, due to improved skill-sets and diversification benefits.

**Possible tax breaks through SEZ** - BSL has received an in-principle approval for SEZ status for its Mangalore facility. Should it get the desired notification, it would benefit on account of lower tax & other related sops. This would also help it neutralize the impact in case the subsidy is reduced or withdrawn.

**Valuation** - BSL's new yard coming up in West Bengal will enable it to almost match with ABG in terms of estimated revenues & profits, albeit with a slight lag. Bharati is trading at a huge 50% discount at Rs. 20 Bn. Market cap v/s. Rs. 40 Bn. Market cap for ABG. We believe that there is a strong case for this gap to narrow down and provide for relatively higher return in the longer run.

The scrip is trading attractively at 12x FY10E and 9x FY11E EPS. We recommend BUY with a target of Rs. 944. (18x FY10E)

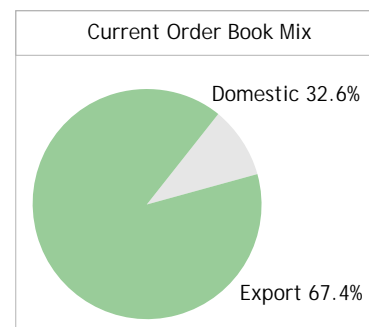
### Summary Financials

Particulars	FY07A	FY08E	FY09E	FY10E	FY11E	FY12E
Revenues (Rs. Mn.)	3,610.2	6,055.4	9,555.4	13,055.4	17,555.4	26,055.4
EBITDA (Rs. Mn.)	1,303.5	1,844.0	2,853.1	3,890.3	5,223.0	7,740.2
PAT (Rs. Mn.)	732.0	1,050.2	1,481.0	1,680.5	2,176.2	3,377.3
EBITDA %	36.1%	30.5%	29.9%	29.8%	29.8%	29.7%
PAT %	20.3%	17.3%	15.5%	12.9%	12.4%	13.0%
EPS (Rs.)	32.5	32.8	46.2	52.4	67.9	105.4
P/E (x)	19.1	19.0	13.5	11.9	9.2	5.9
EV/EBITDA	11.9	10.9	8.5	7.9	6.7	5.4
ROCE (%)	15.7%	18.0%	19.1%	16.1%	16.4%	18.6%
RONW (%)	30.4%	13.2%	15.9%	15.5%	16.8%	21.0%

## Company Profile

Set up in 1973, Bharati Shipyard Ltd. (BSL) is India's second largest private sector shipyard engaged in design & construction of various types of sea-going, coastal harbour, inland crafts & vessels. From its yards scattered over four facilities - Ratnagiri, Ghodbunder, Goa & Kolkata, BSL has upgraded its value chain from being makers of inland cargo barges, deep-sea trawlers and dredgers to constructing very complex offshore vessels of all types and highly maneuverable, custom-built and power-packed Ocean Going Tractor Tugs, Cargo Ships, Tankers, Rigs & other support vessels required for the offshore industry.

The company has been awarded the certificate of approval under ISO 9001-2000 for quality standards by Bureau Veritas Quality Inspection (BVQI) with respect to construction, repairs & supply of inland & ocean going steel ships & vessels.



BSL currently exports ~68% (value terms) of its production to countries like Europe, United States of America & the Middle East. Its international clientele includes companies like Al Jaber Est., Halul Offshore Services, Bourbon Supply Investments; The Clipper Group-Bahamas; NOR Lines AS among others. Besides, its Indian client list includes The Great Offshore Ltd., Reliance Industries Ltd., Gujarat Maritime Board, Indian Navy, Mumbai Port Trust, Kandla Port Trust etc.

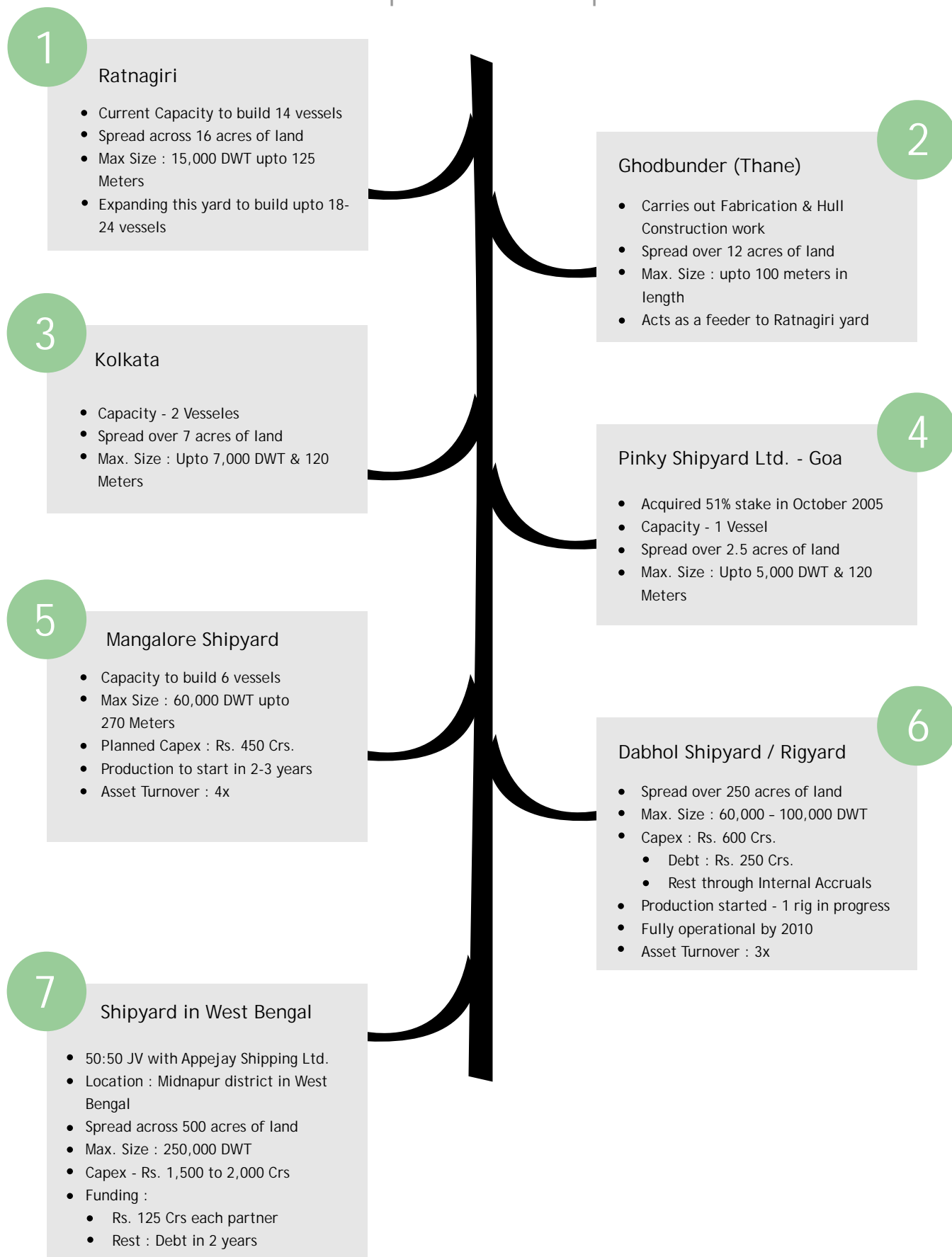
BSL acquired all the shipbuilding plant, machinery & equipments of Swan Hunter (Tyneside) Shipyard Ltd. in April 2007. Swan Hunter Shipyard, located at Newcastle, United Kingdom - is an internationally renowned shipbuilding yard, having built over 1,600 ships of various types including more than 400 naval vessels. This acquisition would help BSL to save cost & lead time, which would have otherwise been spent in procuring the new machineries & equipments. BSL plans to use these equipments at its existing facilities as well as for its new green field yards.

BSL has setup a Wind Farm, consisting of 14 Wind Energy generators with a total capacity of 15 MW at Village Brhamanvel, Taluka Sakri, District Dhule, Maharashtra, largely for tax saving purposes.

BSL has recently bagged an order to build a Jack-up Drill Rig, the first for any Indian Shipyard, from Great Offshore Ltd.

# Bharati Shipyard

## Operational Snapshot



Existing Facilities	<p><b>Ratnagiri Yard</b> - Ratnagiri yard is located 350 kms. south of Mumbai along the west coast of India on the Mumbai-Goa route. Established in the year 1973, the yard has undergone expansion in various phases and its production capacity has increased threefold over last 2 years. Spread across 16 acres of land, with a capacity to build vessels upto 15,000 DWT, it can build various types of vessels including Container Vessels, Cargo Ships, Tankers, OSVs, AHTs, MSVs, PSVs, etc. The Ratnagiri yard is certified under International Ship &amp; Port Facility Security (ISPS) and Occupational Health &amp; Safety Assessment Series (OHSAS).</p> <p><b>Ghodbunder Yard</b> - Spread across an area of 7.43 acres, the Ghodbunder yard near Thane acts as a feeder to the Ratnagiri yard, carrying out fabrication work upto Hull construction. The Hull constructed here is towed to Ratnagiri for completion. The yard is equipped with 4 slipways which can carry vessels up to 100 meters in length, cranes with 125 tons capacity, sophisticated welding equipment and cutting machines, etc.</p> <p><b>Kolkata Yard</b> - The Kolkata yard located on the east coast of India spreading over 7 acres of land is under expansion. The yard is capable of building ships upto 7,000 DWT &amp; 120 meters length. The yard will have 2 Dry Docks of 125 meters long and 25 meters wide each, 2 Gantry cranes of 40 tons each, various other cranes ranging from 25 - 75 tons, CNC cutting equipment, etc.</p> <p><b>Pinky Shipyard Ltd., Goa</b> - In October 2005, BSL acquired a 51% stake in Pinky Shipyard Ltd. located at Goa. Pinky Shipyard Ltd. is spread across 2.5 acres of land, having a capacity to build vessels upto 5,000 DWT &amp; 120 meters in length. Currently, Pinky Shipyard only does sub-contracting work for BSL.</p>
Expansion Plans	<p><b>Mangalore Shipyard</b> - BSL is setting up a shipyard at Mangalore on the banks of Gurgur river. This shipyard would have a capacity to build vessels upto 60,000 DWT &amp; 270 meters in length, &amp; would build tankers, bulk carriers, container ships, chemical carriers, product carriers and several other vessels. This yard at Mangalore would require investment of -Rs. 450 crores. BSL has already received an in principle approval for SEZ status for this Magalore yard.</p> <p><b>Dabhol Shipyard / Rigyard</b> - BSL is currently setting up a greenfield modern shipyard at Usgoan near Dabhol port in Ratnagiri district, in the state of Maharashtra. The yard would have a capacity to build vessels upto 100,000 DWT &amp; will be fully operational in the next two years. This facility will have the capability to build dredgers, tankers, chemical tankers and all types of advanced vessels. The yard will be spread over an area of 250 acres of which the company has already acquired more than 180 acres.</p>

The total capex for this yard is estimated at Rs. 600 crores, which BSL plans to fund through a mix of debt & internal accruals. BSL also plans to venture into ship repair business at this yard. The company has already applied for an SEZ status for this facility & is awaiting the necessary regulatory approvals.

Most of the machinery & equipment acquired by BSL from Swan Hunter would be setup at the Dabhol facility.

This facility would also have an integrated rigyard, where BSL has already started building the Jack-up Drill Rig for Great Offshore. The company has also scheduled to build 6 Bulk Carriers at this facility that are on order from the Clipper Group.

**Shipyard in West Bengal** - BSL has entered into a 50:50 JV with Apeejay Shipping Ltd. to set up a large modern ship building yard along the east coast of India, in Midnapur district near Haldia port. This facility would have a capacity to build & repair vessels of all sizes upto Very Large Crude Carriers (VLCC). Spread over 600 acres of land, this yard would have a capacity to build vessels upto 250,000 DWT & would require an investment of about Rs. 2,000 crores. This would be contributed by both partners to the tune of Rs. 125 crores each & the rest will be in the form of debt, to be raised over the next two years.

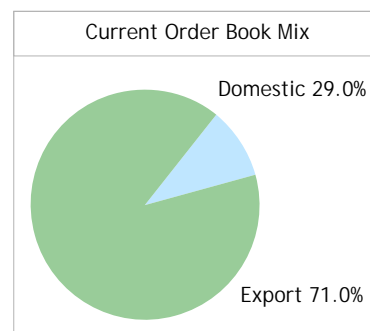
#### Order Book Client-wise break up

Customer List	Order Book (Rs. Mn)	Share (%)
The Great Offshore Ltd	10,306.000	22.21%
Clipper Group (Management Ltd)	5,792.895	12.49%
Bourbon Supply Investments	5,042.057	10.87%
Man Ferrostaal	4,186.840	9.02%
UP Offshore	3,726.760	8.03%
Shipping Corporation of India	3,510.000	7.57%
Sea Cargo Skips - Norway	2,999.199	6.46%
M.K. Shipping B.V / Emkay	2,970.000	6.40%
Norwegian Offshore Shipping Ltd	2,604.000	5.61%
Opielok Bereederungs GMBH & Co. KG., Hamburg, Germany	2,082.370	4.49%
Nor Lines AS - Norway	1,270.039	2.74%
Reliance Industries Ltd	1,178.100	2.54%
Halul Offshore Services	329.820	0.71%
Al-Jaber Shipping Agency & Marine Est	264.000	0.57%
Kolkata Port Trust	131.400	0.28%
<b>Total Order Book</b>	<b>46,393.479</b>	<b>100.00%</b>

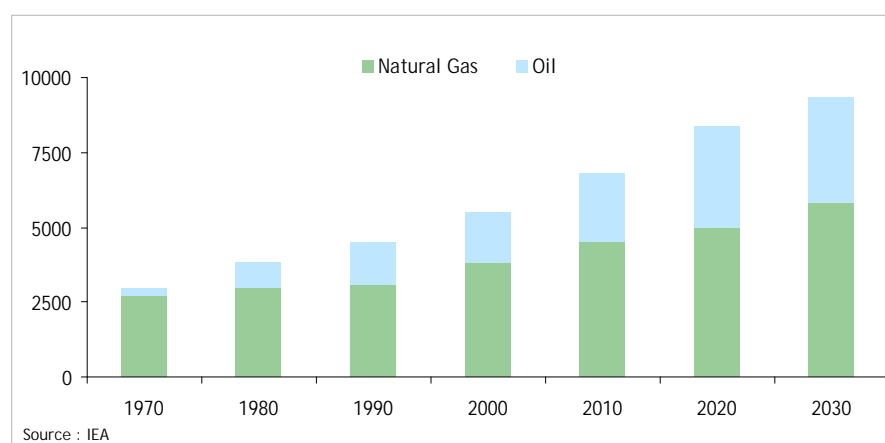
Source : BSE, PPFAS Research

Niche in Offshore segment

Indian Shipyards, especially ABG & BSL have developed a niche for themselves in construction of OSVs. About 71% (in value terms) of BSL's current order book is geared towards the oil & gas sector. OSVs typically require a higher degree of technological skill than vessels in tanker/bulk segments and Indian shipyards are leveraging one of India's key advantages - cost effective skilled labour. With increased E&P activities in the oil & gas industry in the coming years, demand for OSVs would be a major growth driver for the company.



Global Demand for Energy



**Aging global OSV fleet** - The typical lifespan of an OSV is about 20 years. Currently, about 73% of AHTS & 62% of PSVs globally, are above the age of 20 years. This age profile clearly indicates an impending strong replacement demand & a huge demand driver for BSL.

**The Dabhol Rigyard to be a boom for BSL** - High crude oil prices at US\$ 100 have brought billions of dollars into the kitty of oil & gas exploration companies & forced them to increase their E&P activities. Their search for new oil supplies to meet the rising oil demand from China, India, US & Europe, has lead to an increase in demand for Jack-up & Drill rigs.

Rig Capacity Analysis

Rig Type	In Service	New Building
Drill Ships	40	10
Semi-Submersibles	167	30
Jack-up Rigs	400	60
Submersibles	7	
Drilling Barges	51	
<b>Total</b>	<b>665</b>	<b>100</b>

The offshore rig fleet is poised to experience its largest growth spurt in over 20 years. Also, with more than 16% of the world rig fleet above the age of 30 years & 70% between 20 - 30 years of age, these are unlikely to service new exploration activities, since the typical lifespan for rigs is around 25 years. This is further expected to generate a strong replacement demand for oil rigs in the current oil boom.

With the new rigyard coming up at Dabhol, BSL is well on track to reap the benefits of the huge foreseeable demand in the OSV segment.

Long-term strategy to enter the ship-repair business

There is a huge potential for ship repair in India as it is strategically located on various shipping routes to allow better access to West Asia (Middle-East) & South-East Asia. It provides ships plying on these routes a good transit point as well as convenient location for ship repairs. Additionally, the current Indian fleet is also quite old & has to undergo dry-docking at far off places. Ship repair as a business earns better margins at 35-40%. BSL plans to enter this segment by FY10-11E, further contributing to its top-line.

Despite, ship repair activity being a very lucrative business, largely on account of higher margins of around 40% & lower gestation time when compared to shipbuilding, ship repair is unlikely to become a core focus for any of the Indian shipyards. This is because shipbuilding is expected to flourish for the coming 20-year period, before shifting to further low cost destinations like Pakistan, Bangladesh or Sri Lanka.

The company would be taking up ship-repair as a filler activity as & when and if at all facilities are idle from shipbuilding activities. However, for our estimates, we have assumed the yards to be used for shipbuilding purpose only. The utilisation of these yards for ship repair activities tantamount to the fact that the yards are not utilised for shipbuilding & would cause marginal fall in our overall profit estimates.

### Capex & demand led enterprising growth ahead

This enormous quantum of growth would be delivered on the backdrop of robust demand for new vessels led by both strategic and business prospects. Overall we expect a 5 year CAGR of 48% for top-line and 36% for PAT going over FY07-12. BSL is also better placed against competition in terms of lower setup cost, years of experience, and also an early mover advantage in terms of cashing on the huge opportunity provided by the sector.

### High Visibility for revenues & margins for three years

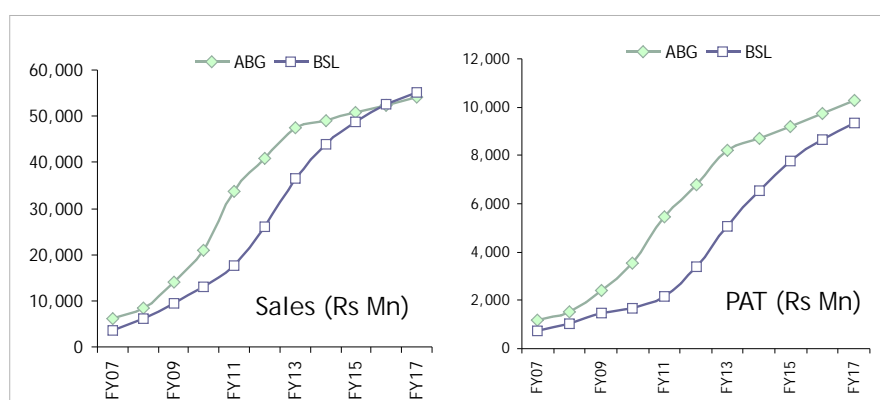
Bharati enjoys high visibility in terms of both revenues for which it has received firm orders to be executed over the next few years. The probability of order cancellations are minimal, on account of the advance payments made by the clients and the relatively lower cyclical element in the new-building business as compared to shipping. Margins are likely to be maintained at the targeted levels, at least for the next three years on account of the instant inventory procurement strategy of BSL. Even thereafter, BSL would be better-off in terms of tackling any margin pressure (due to the demand-supply effect on new-building prices), as a consequence of improved skill-sets and diversification benefits. Bharati has been gearing up towards manufacturing a variety of vessels like bulk carriers, rigs & off course OSVs, which should help them to capitalize on the segments enjoying better pricing & margins.

### Possible tax breaks through SEZ

BSL has received an in-principle approval for SEZ status for its Mangalore facility. Should it get the desired notification, it would help it neutralize any negative impact on subsidy.

### Valuation

BSL's new yard coming up in West Bengal will enable it to almost match with ABG in terms of estimated revenues & profits, albeit with a slight lag. Bharati is trading at a huge 50% discount at Rs. 20 Bn. Market cap v/s. Rs. 40 Bn. Market cap for ABG. We believe that there is a strong case for this gap to narrow down and provide for relatively higher return in the longer run.



The scrip is trading attractively at 12x FY10E and 9x FY11E EPS. We recommend BUY with a target of Rs. 944 (18x FY10E), suggesting a 52% upside. This multiple is in alignment with our expected order book surge over the foreseeable future.

## Quarterly Performance

BSL reported a jump of more than 50% in PAT for Q3FY08 over the same period last year. The revenues for Q3FY07 showed an increase of 79% Y-o-Y. It registered a phenomenal growth of 93.83% Y-o-Y at EBITDA (excl. subsidy) levels. For the nine months ended December 2007, BSL showed an improvement of 76% at PAT levels over comparable period.

Earnings Statement								
YE March (Rs. Mn.)	Q308	Q208	Q-Q(%)	Q307	Y-Y(%)	9M08	9M07	Y-Y(%)
Net Revenues	1,762.2	1,611.7	9.34%	1,044.6	68.70%	4,934.0	2,633.0	87.39%
Revenues from Operations	1,606.4	1,480.3	8.51%	897.1	79.05%	4,558.3	2,325.1	96.05%
Subsidy	155.8	131.4	18.62%	147.4	5.71%	375.6	307.9	21.98%
Cost of Materials	916.6	833.0	10.03%	514.0	78.32%	2,567.9	1,333.9	92.52%
Gross Profit	845.6	778.7	8.59%	530.5	59.39%	2,366.0	1,299.1	82.12%
Staff Costs	160.8	149.3	7.72%	96.6	66.50%	477.0	244.4	95.15%
Other Expenses	202.9	183.1	10.83%	117.7	72.39%	577.2	299.7	92.58%
Total Expenditure	363.7	332.4	9.44%	214.3	69.73%	1,054.2	544.1	93.73%
Operating Profit	481.9	446.4	7.96%	316.3	52.37%	1,311.9	755.0	73.75%
OPM (%)	27.35%	27.69%		30.28%		26.59%	28.68%	
Other Income	12.1	11.0	9.96%	5.7	114.83%	33.8	26.7	26.60%
EBITDA	494.0	457.4	8.01%	321.9	53.47%	1,345.7	781.7	72.14%
EBITDA (Excl. Subsidy)	338.2	326.0	3.74%	174.5	93.83%	970.1	473.8	104.75%
Depreciation	20.8	19.5	6.83%	15.6	33.74%	59.3	36.0	64.48%
EBIT	473.2	437.9	8.07%	306.4	54.47%	1,286.4	745.7	72.51%
Interest	66.2	46.7	41.93%	38.7	71.00%	164.6	101.6	61.96%
PBT	407.0	391.3	4.03%	267.6	52.08%	1,121.8	644.1	74.18%
Tax	140.1	133.7	4.76%	91.4	53.29%	375.0	220.1	70.41%
Current Tax	135.7	125.2	8.33%	53.7	152.57%	354.3	106.8	231.82%
Fringe Benefit Tax	1.7	0.7	140.28%	1.3	33.08%	3.5	3.3	7.64%
Deferred tax	2.7	7.8	-65.34%	36.4	-92.60%	17.2	110.0	-84.41%
PAT	266.9	257.6	3.65%	176.2	51.46%	746.8	424.0	76.13%
Equity Capital	264.9	238.0		225.0		264.9	225.0	
EPS	10.08	10.82	-6.87%	7.83	28.67%	28.20	18.85	49.63%
Ratio Analysis								
Profitability								
YE March (Rs. Mn.)	Q308	Q208	Q-Q(bps)	Q307	Y-Y(bps)	9M08	9M07	Y-Y(bps)
OPM (%)	27.35%	27.69%	(34.8)	30.28%	(293.0)	26.59%	28.68%	(208.6)
EBITDA (%)	28.04%	28.38%	(34.4)	30.82%	(278.2)	27.27%	29.69%	(241.6)
EBITDA % (Excl. Subsidy)	21.05%	22.02%	(96.9)	19.45%	160.5	21.28%	20.38%	90.4
EBIT (%)	26.85%	27.17%	(31.6)	29.33%	(247.3)	26.07%	28.32%	(224.8)
PAT (%)	15.15%	15.98%	(83.2)	16.87%	(172.5)	15.14%	16.10%	(96.7)
Operational Parameters								
YE March (Rs. Mn.)	Q308	Q208	Q-Q(bps)	Q307	Y-Y(bps)	9M08	9M07	Y-Y(bps)
RM Consumed	52.01%	51.68%	32.9	49.21%	280.4	52.05%	50.66%	138.7
Staff Cost	9.12%	9.26%	(13.7)	9.25%	(12.0)	9.67%	9.28%	38.4
Other Expenditure	11.52%	11.36%	15.5	11.27%	24.6	11.70%	11.38%	31.6
Effective Tax Rate	34.42%	34.17%	24.2	34.15%	27.0	33.43%	34.17%	(73.9)

**Concerns**      **Phasing out of shipbuilding subsidy** - The shipbuilding subsidy introduced by the GOI has ended on 14 August, 2007. This 30% subsidy was introduced to give this industry a level playing field vis-s-vis their foreign counterparts. If this subsidy is not revived, it can have a negative impact on Bharati Shipyard's profitability going forward.

The industry is currently demanding that the subsidy scheme be revived, may be at a lower rate. The Ministry of Shipping has proposed a 20% subsidy for a period of 10 years. Subsidy amount for ~12% of revenues. A drop to 20% rate would cause a less than 4% drop in EBITDA. (For impact of lower or no subsidy, refer [Page 53](#))

**Execution delay** - Delays in order fulfillment could impact earnings for the company. While accepting a contract to build a ship, shipyards agree to a particular delivery schedule and satisfactory performance of the vessel and issue performance guarantee of 5% of the value of contract money. BSL has huge order book and have taken up contracts to build bigger ships for the first time. This has increased the possibility of the performance guarantee being invoked leading to reduced earnings. Further, any delays on the new capacities coming up may increase the execution risk. BSL has already taken orders to build a Rig & 6 Bulk Carriers at its Dabhol yard. Delays in completion of this yard may lead to delay in completion of these orders on time.

**Scattered facilities** - Bharati's existing facilities scattered over smaller yards across geographical locations might be leading to some extra time & cost for the company. However, a few days spent in towing of vessels does not make any significant impact over the total 18-20 months of construction period. Also, with the newer larger yards coming up, the contribution of these smaller older yards is bound to fall dramatically.

**Forex Risks** - Forex risks emanate from the fact that 67% exports form a major composition of sales and also global new building prices are quoted mostly in dollar terms.

**Growth Trap** - Biggest risk for BSL lies in the fact that the current sales constitute a small percentage of future sales charted. We are certainly relying more on future growth to reap benefits from this investment.

Earnings Statement											
Particulars	FY05	FY06	FY07	FY08E	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
Total Revenues	1,926.0	2,608.2	3,610.2	6,055.4	9,555.4	13,055.4	17,555.4	26,055.4	36,555.4	43,805.4	48,805.4
- Growth (%)	58.3%	35.4%	38.4%	67.7%	57.8%	36.6%	34.5%	48.4%	40.3%	19.8%	11.4%
Total Expenditure	1,460.4	2,064.7	2,955.0	5,000.2	7,861.9	10,744.8	14,452.0	21,454.8	30,107.2	36,084.8	40,210.4
Operating Profit	465.6	543.4	655.2	1,055.1	1,693.5	2,310.6	3,103.3	4,600.6	6,448.2	7,720.5	8,595.0
Forex Gain/(Loss)	(7.9)	3.9	(1.4)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Income	3.8	13.8	32.1	68.9	19.7	19.7	19.7	19.7	19.7	19.7	38.9
Subsidy	0.0	332.2	617.5	720.0	1,140.0	1,560.0	2,100.0	3,120.0	4,380.0	5,250.0	5,850.0
EBITDA	461.5	893.2	1,303.5	1,844.0	2,853.1	3,890.3	5,223.0	7,740.2	10,847.8	12,990.2	14,483.8
<i>EBITDA (Excl. Subsidy)</i>	<i>461.5</i>	<i>561.1</i>	<i>686.0</i>	<i>1,124.0</i>	<i>1,713.1</i>	<i>2,330.3</i>	<i>3,123.0</i>	<i>4,620.2</i>	<i>6,467.8</i>	<i>7,740.2</i>	<i>8,633.8</i>
Depreciation	4.4	14.7	51.1	93.4	186.6	343.2	508.6	639.0	749.7	805.7	823.2
EBIT	457.1	878.5	1,252.3	1,750.6	2,666.5	3,547.0	4,714.4	7,101.3	10,098.2	12,184.5	13,660.7
Interest	82.1	97.7	143.8	159.3	422.6	1,000.8	1,417.1	1,984.1	2,407.1	2,272.1	1,912.1
PBT	375.0	780.8	1,108.5	1,591.3	2,244.0	2,546.2	3,297.3	5,117.2	7,691.1	9,912.4	11,748.6
Tax	101.4	270.9	376.2	541.0	762.9	865.7	1,121.1	1,739.8	2,615.0	3,370.2	3,994.5
PAT	273.6	509.9	732.3	1,050.2	1,481.0	1,680.5	2,176.2	3,377.3	5,076.1	6,542.2	7,754.1
Minority Interest (MI)	0.0	(0.4)	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PAT after MI before EI	273.6	510.3	732.0	1,050.2	1,481.0	1,680.5	2,176.2	3,377.3	5,076.1	6,542.2	7,754.1
- Growth (%)	356.3%	86.5%	43.5%	43.5%	41.0%	13.5%	29.5%	55.2%	50.3%	28.9%	18.5%
Extra-ordinary Items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PAT	273.6	510.3	732.0	1,050.2	1,481.0	1,680.5	2,176.2	3,377.3	5,076.1	6,542.2	7,754.1
Ratio Analysis											
Particulars	FY05	FY06	FY07	FY08E	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
OPM (%)	24.2%	20.8%	18.1%	17.4%	17.7%	17.7%	17.7%	17.7%	17.6%	17.6%	17.6%
EBITDA (%)	24.0%	34.2%	36.1%	30.5%	29.9%	29.8%	29.8%	29.7%	29.7%	29.7%	29.7%
EBITDA % (Excl. Subsidy)	24.0%	21.5%	19.0%	18.6%	17.9%	17.8%	17.8%	17.7%	17.7%	17.7%	17.7%
PBIT (%)	23.7%	33.7%	34.7%	28.9%	27.9%	27.2%	26.9%	27.3%	27.6%	27.8%	28.0%
PAT (%)	14.2%	19.6%	20.3%	17.3%	15.5%	12.9%	12.4%	13.0%	13.9%	14.9%	15.9%
Interest Cover (x)	5.6	9.0	8.7	11.0	6.3	3.5	3.3	3.6	4.2	5.4	7.1
EPS (Rs.)	12.2	22.7	32.5	32.8	46.2	52.4	67.9	105.4	158.4	204.2	242.0
P/E (x)	51.2	27.4	19.1	19.0	13.5	11.9	9.2	5.9	3.9	3.0	2.6
P/BV (x)	10.6	7.9	5.8	2.5	2.1	1.8	1.5	1.2	1.0	0.7	0.6
BVPS (Rs.)	58.5	78.3	107.1	247.5	290.2	339.1	403.5	501.0	646.5	832.5	1,049.4
Market Cap (Rs. Mn.)	14,000.6	14,000.6	14,000.6	19,940.3	19,940.3	19,940.3	19,940.3	19,940.3	19,940.3	19,940.3	19,940.3
M Cap/Sales (x)	7.3	5.4	3.9	3.3	2.1	1.5	1.1	0.8	0.5	0.5	0.4
EV (Rs. Mn.)	14,223.6	14,754.3	15,539.6	20,115.5	24,286.4	30,671.3	35,126.9	41,462.7	46,356.6	44,859.2	40,767.8
EV/EBITDA (x)	30.8	16.5	11.9	10.9	8.5	7.9	6.7	5.4	4.3	3.5	2.8
EV/Sales (x)	7.4	5.7	4.3	3.3	2.5	2.3	2.0	1.6	1.3	1.0	0.8
ROCE (%)	29.6%	12.1%	15.7%	18.0%	19.1%	16.1%	16.4%	18.6%	21.3%	23.5%	24.9%
RONW (%)	20.8%	29.0%	30.4%	13.2%	15.9%	15.5%	16.8%	21.0%	24.5%	24.5%	23.1%
Debt/Equity Ratio (x)	0.2	3.1	2.3	0.2	0.5	1.0	1.2	1.4	1.3	0.9	0.6
Inventory T/o Days	152.7	280.0	257.4	300.0	300.0	300.0	300.0	300.0	300.0	300.0	300.0
Debtors T/o Days	46.2	96.2	139.0	140.0	140.0	140.0	140.0	140.0	140.0	140.0	140.0
Advances T/o Days	150.7	66.2	159.9	160.0	160.0	160.0	160.0	160.0	160.0	160.0	160.0
Creditors T/o Days	66.6	182.5	321.8	250.0	250.0	250.0	250.0	250.0	250.0	250.0	250.0
Working Cap T/o Days	245.2	880.6	584.6	402.6	313.3	310.9	311.6	307.3	303.3	302.7	303.1
Fixed Assets T/o (Gross)	8.1	2.8	2.2	2.3	1.8	1.3	1.2	1.4	1.7	1.9	2.1
DPS (Rs.)	2.5	2.5	3.0	3.0	3.0	3.0	3.0	6.8	11.0	15.5	21.5
Dividend Payout (%)	20.6%	11.0%	9.2%	9.2%	6.5%	5.7%	4.4%	6.5%	6.9%	7.6%	8.9%
Dividend Yield (%)	0.4%	0.4%	0.5%	0.5%	0.5%	0.5%	0.5%	1.1%	1.8%	2.5%	3.5%

Balance Sheet											
Particulars	FY05	FY06	FY07	FY08E	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
Equity Capital	225.0	225.0	225.0	320.5	320.5	320.5	320.5	320.5	320.5	320.5	320.5
Reserves	1,146.3	1,586.3	2,222.8	7,650.1	9,018.6	10,586.7	12,650.4	15,772.8	20,436.5	26,397.7	33,345.7
Shareholders Funds	1,371.3	1,811.3	2,447.8	7,970.5	9,339.1	10,907.1	12,970.9	16,093.3	20,757.0	26,718.1	33,666.2
Minority Interest	0.0	10.7	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9	10.9
Borrowed Funds	229.5	5,475.2	5,555.3	1,770.3	4,695.3	11,120.3	15,745.3	22,045.3	26,745.3	25,245.3	21,245.3
Deferred Tax Liability	8.2	152.9	287.4	478.3	747.6	1,053.1	1,448.8	2,062.9	2,985.8	4,175.3	5,585.1
Total Liabilities	1,609.0	7,450.0	8,301.4	10,230.1	14,792.9	23,091.5	30,175.9	40,212.4	50,499.0	56,149.6	60,507.5
Fixed Assets	195.6	1,095.5	2,457.4	3,489.3	6,527.7	11,909.5	15,125.9	18,212.0	20,062.3	19,756.6	19,433.5
Goodwill on Consolidation	0.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Investments	65.1	10.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	500.0
Current Assets											
Inventory	805.9	2,000.6	2,546.3	4,977.0	7,853.7	10,730.4	14,429.1	21,415.4	30,045.5	36,004.4	40,114.0
Sundry Debtors	243.5	687.8	1,375.2	2,322.6	3,665.1	5,007.5	6,733.6	9,993.8	14,021.2	16,802.1	18,719.9
Loans & Advances	795.3	473.1	1,582.0	2,654.4	4,188.7	5,722.9	7,695.5	11,421.5	16,024.3	19,202.4	21,394.1
Cash & Bank Balance	6.5	4,721.5	4,016.3	1,595.1	349.3	389.3	558.8	522.9	329.1	326.4	417.8
Current Liabilities											
Sundry Creditors	351.7	1,304.3	3,183.2	4,147.5	6,544.8	8,942.0	12,024.2	17,846.1	25,037.9	30,003.7	33,428.3
Provisions	205.5	286.1	554.9	723.1	1,309.0	1,788.4	2,404.8	3,569.2	5,007.6	6,000.7	6,685.7
Net Current Assets	1,294.1	6,292.6	5,781.8	6,678.6	8,203.0	11,119.8	14,987.8	21,938.3	30,374.6	36,330.8	40,531.8
Miscellaneous Expenditure	54.2	48.9	39.1	39.1	39.1	39.1	39.1	39.1	39.1	39.1	39.1
Total Assets	1,609.0	7,450.0	8,301.4	10,230.1	14,792.9	23,091.5	30,175.9	40,212.4	50,499.0	56,149.6	60,507.5
Cash Flow											
Particulars	FY05	FY06	FY07	FY08E	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
Opening Cash & Bank	3.1	6.5	4,721.5	4,016.3	1,595.1	349.3	389.3	558.8	522.9	329.1	326.4
Profit After Tax	273.6	510.3	732.0	1,050.2	1,481.0	1,680.5	2,176.2	3,377.3	5,076.1	6,542.2	7,754.1
Investment Income	(3.8)	(13.8)	(32.1)	(68.9)	(19.7)	(19.7)	(19.7)	(19.7)	(19.7)	(19.7)	(38.9)
Interest Paid	82.1	97.7	143.8	159.3	422.6	1,000.8	1,417.1	1,984.1	2,407.1	2,272.1	1,912.1
Miscellaneous Exp W/Off	(54.2)	5.3	9.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation	4.4	14.7	51.1	93.4	186.6	343.2	508.6	639.0	749.7	805.7	823.2
Deferred Taxation	0.3	144.7	139.7	191.0	269.3	305.5	395.7	614.1	922.9	1,189.5	1,409.8
Others	6.2	3.2	1.0	0.0	0.0	0.0	(0.0)	0.0	0.0	(0.0)	0.0
Change in Working Cap	(855.8)	(283.5)	(194.4)	(3,318.0)	(2,770.3)	(2,876.7)	(3,698.6)	(6,986.3)	(8,630.1)	(5,958.9)	(4,109.6)
CF - Operating Activities	(547.2)	478.6	850.9	(1,893.0)	(430.5)	433.7	779.3	(391.5)	506.0	4,830.9	7,750.7
Change in Fixed Assets	(75.8)	(920.8)	(1,419.3)	(1,125.3)	(3,225.0)	(5,725.0)	(3,725.0)	(3,725.0)	(2,600.0)	(500.0)	(500.0)
Change in Investments	(65.1)	55.1	(9.9)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(480.0)
Investment Income	3.8	13.8	32.1	68.9	19.7	19.7	19.7	19.7	19.7	19.7	38.9
CF - Investing Activities	(137.1)	(851.9)	(1,397.1)	(1,056.5)	(3,205.3)	(5,705.3)	(3,705.3)	(3,705.3)	(2,580.3)	(480.3)	(941.2)
Increase in Equity	826.4	(6.2)	(16.6)	4,585.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Changes in Minority	0.0	10.7	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Changes in Borrowings	7.6	5,245.7	80.1	(3,785.0)	2,925.0	6,425.0	4,625.0	6,300.0	4,700.0	(1,500.0)	(4,000.0)
Interest Paid	(82.1)	(97.7)	(143.8)	(159.3)	(422.6)	(1,000.8)	(1,417.1)	(1,984.1)	(2,407.1)	(2,272.1)	(1,912.1)
Dividend Paid	(64.1)	(64.1)	(79.0)	(112.5)	(112.5)	(112.5)	(112.5)	(254.9)	(412.4)	(581.1)	(806.0)
CF - Financing Activities	687.8	5,088.3	(159.0)	528.2	2,390.0	5,311.7	3,095.5	4,061.0	1,880.5	(4,353.2)	(6,718.1)
Net Change in Cash	3.4	4,715.0	(705.2)	(2,421.2)	(1,245.8)	40.1	169.4	(35.9)	(193.8)	(2.6)	91.4
Closing Cash & Bank Balance	6.5	4,721.5	4,016.3	1,595.1	349.3	389.3	558.8	522.9	329.1	326.4	417.8

Subsidy Sensitivity Bharati remains attractive in case of subsidy at 30% or even at 20%. A complete withdrawal of subsidy would warrant a change in our call.

Subsidy @ 0%								
Particulars	FY08E	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
Revenues (Rs. Mn.)	6,055.4	9,555.4	13,055.4	17,555.4	26,055.4	36,555.4	43,805.4	48,805.4
EBITDA (Rs. Mn.)	1,844.0	1,713.1	2,330.3	3,123.0	4,620.2	6,467.8	7,740.2	8,614.6
PAT (Rs. Mn.)	1,050.2	670.7	505.4	533.3	883.0	1,494.8	2,074.8	2,551.3
EBITDA %	30.5%	17.9%	17.8%	17.8%	17.7%	17.7%	17.7%	17.7%
EPS (Rs.)	32.8	20.9	15.8	16.6	27.6	46.6	64.7	79.6
P/E (x)	19.0	29.7	39.5	37.4	22.6	13.3	9.6	7.8
EV/EBITDA	10.9	14.7	14.2	12.6	10.5	8.9	8.0	7.3
ROCE (%)	18.0%	10.8%	8.8%	8.9%	10.1%	11.6%	12.7%	13.5%
RONW (%)	13.2%	7.9%	5.7%	5.7%	8.9%	13.6%	16.6%	17.9%

Subsidy @ 20%								
Particulars	FY08E	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
Revenues (Rs. Mn.)	6,055.4	9,555.4	13,055.4	17,555.4	26,055.4	36,555.4	43,805.4	48,805.4
EBITDA (Rs. Mn.)	1,844.0	2,473.1	3,370.3	4,523.0	6,700.2	9,387.8	11,240.2	12,514.6
PAT (Rs. Mn.)	1,050.2	1,202.0	1,280.9	1,635.5	2,552.8	3,867.5	5,053.1	6,001.5
EBITDA %	30.5%	25.9%	25.8%	25.8%	25.7%	25.7%	25.7%	25.6%
EPS (Rs.)	32.8	37.5	40.0	51.0	79.7	120.7	157.7	187.3
P/E (x)	19.0	16.6	15.6	12.2	7.8	5.2	3.9	3.3
EV/EBITDA	10.9	10.0	9.3	8.1	6.5	5.3	4.5	3.8
ROCE (%)	18.0%	16.1%	13.6%	13.9%	15.8%	17.9%	19.8%	20.9%
RONW (%)	13.2%	13.3%	12.6%	14.0%	18.2%	22.1%	23.0%	22.1%

Subsidy @ 30%								
Particulars	FY08E	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E
Revenues (Rs. Mn.)	6,055.4	9,555.4	13,055.4	17,555.4	26,055.4	36,555.4	43,805.4	48,805.4
EBITDA (Rs. Mn.)	1,844.0	2,853.1	3,890.3	5,223.0	7,740.2	10,847.8	12,990.2	14,483.8
PAT (Rs. Mn.)	1,050.2	1,481.0	1,680.5	2,176.2	3,377.3	5,076.1	6,542.2	7,754.1
EBITDA %	30.5%	29.9%	29.8%	29.8%	29.7%	29.7%	29.7%	29.7%
EPS (Rs.)	32.8	46.2	52.4	67.9	105.4	158.4	204.2	242.0
P/E (x)	19.0	13.5	11.9	9.2	5.9	3.9	3.0	2.6
EV/EBITDA	10.9	8.5	7.9	6.7	5.4	4.3	3.5	2.8
ROCE (%)	18.0%	19.1%	16.1%	16.4%	18.6%	21.3%	23.5%	24.9%
RONW (%)	13.2%	15.9%	15.5%	16.8%	21.0%	24.5%	24.5%	23.1%

## Shipbuilding Process

Typically it takes 15-18 months to build a conventional vessel such as a Bulk Carrier, Tanker or Containership, and 28-32 months to construct an LNG vessel. Shipbuilding companies recognize revenue based on the proportion of input of raw materials. A standard vessel construction process can be replicated as following :

Stages	Contract	Steel Cutting	Keel Laying	Launching	Delivery
Period	6-9 Months	3 Months	3 Months	3 Months	
Revenue Recognition	5%	45%	30%	20%	

## Types of Vessels

Type	Sub-type	Capacity Range
Tanker	ULCC	300,000 DWT & above
	VLCC	200,000 DWT - 300,000 DWT
	Suezmax	120,000 DWT - 200,000 DWT
	Aframax	80,000 DWT - 120,000 DWT
	Panamax	60,000 DWT - 80,000 DWT
	Small	60,000 DWT & below
Bulkier	ULBC	300,000 DWT & above
	VLBC	200,000 DWT - 300,000 DWT
	Capesize	100,000 DWT - 200,000 DWT
	Panamax	60,000 DWT - 100,000 DWT
	Handymax	40,000 DWT - 60,000 DWT
	Handysize	40,000 DWT & below
Containership	Post-Panamax	5,000 TEU & above
	Panamax	3,000 TEU - 5,000 TEU
	Sub-Panamax	2,000 TEU - 3,000 TEU
	Handy	1,000 TEU - 2,000 TEU
	Feedermax	500 TEU - 1,000 TEU
	Feeder	500 TEU & below

## Offshore Support Vessels (OSV)

Drill Ships	Anchor Handling Tug Supply Vessels (AHTS)
Semi-Submersibles	Production Barges
Jack-up Rigs	Diving Support Vessels (DSV)
Platform Support Vessels (PSV)	Floating Production Storage & Offloading (FPSO)

## Glossary

Term	Description
Aframax	An oil tanker with capacity between 80,000 DWT and 120,000 DWT largely used in the basins of the Black Sea, the North Sea, the Caribbean Sea, the China Sea and the Mediterranean.
AHTS	Anchor Handling Tug Supply.
Capesize	Cargo ships that are too large to traverse either the Suez Canal or the Panama Canal, and that have to traverse either through the Cape of Good Hope or Cape Horn.
CGT	Compensated Gross Tonnage.
DWT	Dead Weight Tonnage.
E & P	Exploration & Production
FPSO	Floating Production Storage & Offloading
GMB	Gujarat Maritime Board, an authority constituted by the Government of Gujarat pursuant to the Gujarat Maritime Board Act, 1981.
GRT	Gross Registered Tonnage.
IMO	International Maritime Organization.
KOMAC	Korea Maritime Consultants Co. Limited.
LNG / LPG	Liquefied Natural Gas / Liquefied Petroleum Gas.
MOSV	Multipurpose Offshore Support Vessel
NELP	New Exploration & Licensing Policy
NMDP	National Maritime Development Programme.
OSV	Offshore Support Vessels
Panamax	The maximum size of a ship capable of transiting the Panama Canal.
PSV	Platform Support Vessel
Suezmax	The maximum size of a ship capable of transiting the Suez Canal.
TEU	Twenty Feet Equivalent Units
ULCC / ULBC	Ultra Large Crude Carrier / Ultra Large Bulk Carrier.
VLCC / VLBC	Very Large Crude Carrier / Very Large Bulk Carrier.



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