5th November, 2008

ABG Shipyard Limited	CMP Rs. 125.35 SELL	Q2 FY2009 Result Update

India's largest private sector shipbuilder, ABG Shipyard Ltd. reported dismal Q-o-Q performance for Q2FY09. ABG reported a meager 3% increase in Operating Revenues from Rs. 2,722.4 Mn. in Q1FY09 to Rs. 2,802.1 Mn. in Q2FY09. With a dip in Employee Costs & Other Expenditures, the company has been able to improve its OPM by close to 180 bps. However, with more than double the Interest Cost in Q2FY09, the company reported more than 40% dip in PAT levels to Rs. 260.8 Mn. from Rs. 470.1 Mn. in Q1FY09. The company has charged Rs. 362.7 Mn. towards Interest Cost for Q2FY09. Of this amount, Rs. 147.7 Mn. represent financial charges on inventory purchased for the construction of Jack-up rigs, for which no revenue has been recognized in this quarter. ABG reported an EPS of Rs. 5.1 per share for the quarter ended September 2008.

ABG has not made any provision for Mark to Market (MTM) losses on account of currency forward contracts amounting Rs. 200 Mn. as on September 2008, in anticipation of the potential gains on account of currency exchange on exports receivables being higher than losses. This, if taken into account, would have a significant impact on the reported earnings.

During Q2FY09, ABG Shipyard Ltd. has booked an order to build 2 Jack up rigs for Essar Oilfield Services Ltd. for USD 480 Mn., with which the total order book for the company stands at Rs. 114,000 Mn.

On a Y-o-Y comparison, although the top-line has increased by more than 32% from Rs. 2,118.5 Mn. in Q2FY08 to Rs. 2,802.1 MN. in Q2FY09, the company has not been to maintain this for the bottom-line as well. Increases in Total Expenditures & Depreciation charge by more than 50% Y-o-Y & a more than 200% increase in Interest Costs have led to an almost 24% decrease in PAT on a Y-o-Y basis.

With a comparative better first quarter, ABG has been able to report an increase of 8.26% in PAT to Rs. 730.9 Mn. in first six months of current financial year from Rs. 675.1 Mn. in the same period last year.

Outlook going forward

As for the shipbuilding sector within our country, we still believe that India is well placed to reap the benefits with the required expertise in place & huge availability of cheap labour. We believe that the shipbuilding industry is here to stay. However, the fact that we are on the brink of a global recession has had a drastic impact on the world financial markets, leading to a steep decline in prices of crude & other commodities. This in turn has lead to a decline in charter rates for sea-going vessels, which is evident from the Baltic Dry Freight Index that has corrected more than 70% from its highs. In such a scenario, it is difficult to imagine that more demand for these vessels would come up, thereby leading to spare capacities at the shipbuilding yards. There are high chances of existing orders also getting canceled.

Besides, a company like ABG who has taken the equity route to fund its expansion, would be further diluting its earnings per share. We believe that it would be difficult for the company to find buyers for its planned QIB placement. Also, we believe that the Convertible Warrants issued by ABG to its promoters would not get converted & would come up for redemptions, since the conversion price of Rs. 797 is way too high than its current market price of Rs. 125. This might force the company to further leverage itself, probably at a higher cost, to fulfill these redemptions. The issue on the subsidy front still remains a area of concern.

We believe that these cyclicals are better bought when the cycle is in the upswing, which does not seem to be the case right now. At this point in time, the possibilities of negative news flowing for the sector are higher in comparison to any positive news. The stock price have already been battered in the current market, which might see some recovery till any other negative news flow. At CMP of Rs. 125.35, the scrip trades at 3x FY09E earnings. We recommend a SELL on rise.

ABG Shipyard : Quarterly Financials

Earnings Statement								
YE March (Rs. Mn.)	Q209	Q109	Q-Q(%)	Q208	Y-Y(%)	H1FY09	H1FY08	Y-Y(%)
Net Revenues	2,802.1	2,722.4	2.93%	2,118.5	32.27%	5,524.4	4,151.9	33.06%
Cost of Materials	1,577.3	1,488.0	6.01%	1,224.0	28.86%	3,065.3	2,494.5	22.88%
Gross Profit	1,224.7	1,234.4	-0.79%	894.4	36.93%	2,459.1	1,657.4	48.37%
Employee Cost	65.4	77.8	-15.92%	47.0	39.37%	143.3	88.6	61.74%
Other Expenses	318.2	388.1	-18.02%	203.4	56.43%	706.3	374.5	88.60%
Total Expenditure	383.6	465.9	-17.67%	250.3	53.23%	849.5	463.0	83.46%
Operating Profit	841.1	768.5	9.45%	644.1	30.59%	1,609.6	1,194.4	34.77%
OPM (%)	*30.02%*	*28.23%*		*30.40%*		*29.14%*	*28.77%*	
Other Income	3.0	78.5	-96.17%	1.3	140.22%	81.5	34.5	136.58%
EBITDA	844.1	847.0	-0.34%	645.3	30.81%	1,691.2	1,228.9	37.62%
Depreciation	26.9	22.0	22.27%	17.1	57.37%	49.0	33.9	44.45%
EBIT	817.2	825.0	-0.94%	628.2	30.08%	1,642.2	1,194.9	37.43%
Interest	362.7	153.1	136.85%	108.7	233.65%	515.9	169.3	204.67%
PBT	454.5	671.9	-32.35%	519.5	-12.52%	1,126.3	1,025.6	9.82%
Tax	193.7	201.7	-3.98%	178.4	8.56%	395.4	350.5	12.82%
Current Tax	51.5	76.1	-32.37%	58.9	-12.53%	127.6	116.2	9.82%
Fringe Benefit Tax	1.5	1.5	0.00%	0.8	87.50%	3.0	1.8	66.67%
Deferred Tax	131.1	124.1	5.66%	118.8	10.41%	255.2	232.5	9.77%
MAT Credit Entitlement	0.0	0.0		0.0		0.0	0.0	
Excess/(Short) Provision	9.6	0.0		0.0		9.6	0.0	
PAT	260.8	470.1	-44.53%	341.1	-23.54%	730.9	675.1	8.26%
Equity Capital	509.2	509.2		509.2		509.2	509.2	
EPS	5.1	9.2	-44.53%	6.7	-23.54%	14.4	13.3	8.26%

Ratio Analysis								
Profitability								
YE March	Q209	Q109	Q-Q(bps)	Q208	Y-Y(bps)	H1FY09	H1FY08	Y-Y(bps)
OPM (%)	30.0%	28.2%	178.94	30.4%	(38.50)	29.1%	28.8%	36.94
EBITDA (%)	30.1%	31.1%	(98.78)	30.5%	(33.67)	30.6%	29.6%	101.53
EBIT (%)	29.2%	30.3%	(114.00)	29.7%	(49.01)	29.7%	28.8%	94.54
PAT (%)	9.3%	17.3%	(796.22)	16.1%	(679.35)	13.2%	16.3%	(303.01)

ABG Shipyard : Financials

Earnings Statement

Particulars (Rs Mn.)	FY06	FY07	FY08	FY09E	FY10E	FY11E	FY12E
Total Revenues (Excl Subsidy)	4,687.4	6,242.2	4,707.4	13,837.4	20,732.7	33,527.8	40,539.2
- Growth (%)	44.0%	33.2%	-24.6%	193.9%	49.8%	61.7%	20.9%
Total Expenditure	4,023.2	5,107.9	3,914.8	10,857.6	16,300.6	26,414.3	32,000.5
Operating Profit	664.2	1,134.3	792.6	2,979.8	4,432.1	7,113.5	8,538.6
Other Income	61.3	52.7	74.0	62.3	82.3	82.3	82.3
Subsidy	745.3	819.4	817.0	1,651.1	2,476.7	4,009.8	4,848.5
EBITDA	1,470.7	2,006.4	1,683.7	4,693.3	6,991.1	11,205.7	13,469.5
EBITDA (Excl. Subsidy)	*725.4*	*1,187.0*	*866.6*	*3,042.2*	*4,514.4*	*7,195.8*	*8,621.0*
Depreciation	36.5	59.6	74.0	225.4	374.2	557.9	759.2
EBIT	1,434.2	1,946.8	1,609.7	4,467.8	6,616.9	10,647.7	12,710.3
Interest	167.3	266.8	457.1	470.0	785.0	1,775.0	1,640.0
PBT	1,266.9	1,679.9	1,152.6	3,997.8	5,831.9	8,872.7	11,070.3
Tax	429.6	518.4	852.8	1,359.3	1,982.8	3,016.7	3,763.9
PAT Before EI	837.3	1,161.5	299.8	2,638.6	3,849.1	5,856.0	7,306.4
- Growth (%)	87.1%	38.7%	-74.2%	780.1%	45.9%	52.1%	24.8%
Extra-ordinary Items	-0.2	1.6	-0.3	0.0	0.0	0.0	0.0
PAT	837.1	1,163.1	299.5	2,638.6	3,849.1	5,856.0	7,306.4

Ratio Analysis

Particulars	FY06	FY07	FY08	FY09E	FY10E	FY11E	FY12E
OPM (%)	14.2%	18.2%	16.8%	21.5%	21.4%	21.2%	21.1%
EBITDA (%)	31.4%	32.1%	35.8%	33.9%	33.7%	33.4%	33.2%
EBITDA % (Excl. Subsidy)	15.5%	19.0%	18.4%	22.0%	21.8%	21.5%	21.3%
PBIT (%)	30.6%	31.2%	34.2%	32.3%	31.9%	31.8%	31.4%
PAT (%)	17.9%	18.6%	6.4%	19.1%	18.6%	17.5%	18.0%
Interest Cover (x)	8.6	7.3	3.5	9.5	8.4	6.0	7.8
EPS (Rs.)	16.4	22.8	5.9	41.9	56.7	86.2	107.6
P/E (x)	7.6	5.5	21.3	3.0	2.2	1.5	1.2
P/BV (x)	1.3	1.1	0.8	0.4	0.3	0.3	0.2
BVPS (Rs.)	94.7	115.4	150.5	305.1	397.2	476.4	575.2
Market Cap (Rs. Mn.)	6,383.0	6,383.0	6,383.0	7,887.2	8,514.0	8,514.0	8,514.0
M Cap/Sales (x)	1.4	1.0	1.4	0.6	0.4	0.3	0.2
EV (Rs. Mn.)	3,327.2	9,077.3	10,737.4	11,678.1	15,644.0	26,545.4	24,786.1
EV/EBITDA (x)	2.3	4.5	6.4	2.5	2.2	2.4	1.8
EV/Sales (x)	0.7	1.5	2.3	0.8	0.8	0.8	0.6
ROCE (%)	24.6%	19.5%	12.5%	18.3%	18.5%	20.4%	22.2%
RONW (%)	17.4%	19.8%	3.9%	13.7%	14.3%	18.1%	18.7%
Debt/Equity Ratio (x)	0.2	0.7	0.7	0.3	0.3	0.6	0.5
Inventory T/o Days	175.3	311.1	963.6	300.0	300.0	300.0	300.0
Debtors T/o Days	4.8	4.7	6.5	5.0	5.0	5.0	5.0
Advances T/o Days	182.4	387.4	855.3	325.0	325.0	325.0	325.0
Creditors T/o Days	281.6	303.2	1,206.1	250.0	250.0	250.0	250.0
Working Cap T/o Days	383.8	473.1	670.4	409.7	400.0	390.4	389.6
Fixed Assets T/o (Gross)	3.3	3.5	1.8	2.1	1.9	2.1	1.9
DPS (Rs.)	1.2	1.5	2.0	3.0	4.0	6.0	7.5
Dividend Payout (%)	7.3%	6.6%	34.0%	7.2%	7.1%	7.0%	7.0%
Dividend Yield (%)	1.0%	1.2%	1.6%	2.4%	3.2%	4.8%	6.0%

ABG Shipyard : Financials

Balance Sheet

Particulars (Rs Mn.)	FY06	FY07	FY08	FY09E	FY10E	FY11E	FY12E
Equity Capital	509.2	509.2	509.2	629.2	679.2	679.2	679.2
Convertible Warrants			318.7				
Reserves	4,315.2	5,369.2	6,835.3	18,566.4	26,297.6	31,676.8	38,387.3
Shareholders Funds	4,824.4	5,878.4	7,663.2	19,195.6	26,976.8	32,356.1	39,066.5
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Borrowed Funds	997.0	4,095.8	5,222.0	5,222.0	8,722.0	19,722.0	18,222.0
Deferred Tax Liability	667.2	1,080.3	1,675.3	2,554.9	3,837.9	5,789.9	8,225.4
Total Liabilities	**6,488.6**	**11,054.5**	**14,560.6**	**26,972.5**	**39,536.7**	**57,868.0**	**65,513.9**
Fixed Assets	1,560.4	2,962.8	5,855.8	9,880.4	14,756.2	19,948.3	20,189.1
Investments	0.0	0.0	58.2	1,558.2	2,058.2	2,058.2	2,058.2
Current Assets							
Inventory	2,251.2	5,320.4	12,428.0	11,373.2	17,040.5	27,557.1	33,319.9
Sundry Debtors	61.2	81.2	84.0	189.6	284.0	459.3	555.3
Loans & Advances	2,341.8	6,624.6	11,030.4	12,321.0	18,460.6	29,853.6	36,096.5
Cash & Bank Balance	4,052.8	1,401.5	867.7	1,431.1	1,592.1	1,690.7	1,949.9
Current Liabilities							
Sundry Creditors	3,615.8	5,185.8	15,555.0	9,477.7	14,200.5	22,964.3	27,766.6
Provisions	163.0	150.1	208.4	303.3	454.4	734.9	888.5
Net Current Assets	4,928.2	8,091.7	8,646.6	15,533.9	22,722.3	35,861.5	43,266.6
Miscellaneous Expenditure	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Assets	**6,488.6**	**11,054.5**	**14,560.6**	**26,972.5**	**39,536.7**	**57,868.0**	**65,513.9**

Cash Flow

Particulars (Rs Mn.)	FY06	FY07	FY08	FY09E	FY10E	FY11E	FY12E
Opening Cash & Bank	486.5	4,052.8	1,401.5	513.2	1,395.3	1,556.2	1,654.8
Profit After Tax	837.1	1,163.1	299.5	2,638.6	3,849.1	5,856.0	7,306.4
Investment Income	(61.3)	(52.7)	(74.0)	(62.3)	(82.3)	(82.3)	(82.3)
Interest Paid	167.3	266.8	457.1	470.0	785.0	1,775.0	1,640.0
Miscellaneous Exp W/Off	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation	36.5	59.6	74.0	225.4	374.2	557.9	759.2
Deferred Taxation	389.0	413.1	595.0	879.5	1,283.0	1,952.0	2,435.5
Others	20.1	19.3	0.0	0.0	0.0	0.0	0.0
Change in Working Cap	190.3	(5,814.8)	(1,088.7)	(6,323.9)	(7,027.5)	(13,040.6)	(7,145.8)
CF - Operating Activities	1,578.9	(3,945.5)	262.9	(2,172.7)	(818.6)	(2,982.0)	4,912.9
Change in Fixed Assets	(617.3)	(1,481.2)	(3,002.9)	(4,250.0)	(5,250.0)	(5,750.0)	(1,000.0)
Change in Investments	0.0	0.0	(58.2)	(1,500.0)	(500.0)	0.0	0.0
Investment Income	61.3	52.7	74.0	62.3	82.3	82.3	82.3
CF - Investing Activities	(556.0)	(1,428.6)	(2,987.0)	(5,687.7)	(5,667.7)	(5,667.7)	(917.7)
Increase in Equity	2,513.5	(19.7)	1,285.8	9,433.3	4,250.0	0.0	0.0
Changes in Borrowings	266.9	3,098.8	1,126.3	0.0	3,500.0	11,000.0	(1,500.0)
Interest Paid	(167.3)	(266.8)	(457.1)	(470.0)	(785.0)	(1,775.0)	(1,640.0)
Dividend Paid	(69.7)	(89.4)	(119.2)	(220.8)	(317.8)	(476.8)	(596.0)
CF - Financing Activities	2,543.3	2,722.8	1,835.8	8,742.5	6,647.2	8,748.2	(3,735.9)
Net Change in Cash	3,566.3	(2,651.3)	(888.3)	882.1	160.9	98.6	259.3
Closing Cash & Bank Balance	4,052.8	1,401.5	513.2	1,395.3	1,556.2	1,654.8	1,914.1

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