

Aban Offshore Limited

CMP Rs. 966.3
SELL

Q2 FY2009
Result Update

Standalone Performance Review

Aban Offshore Ltd. (AOL), India's largest private sector offshore drilling asset owner reported good results for the quarter ended September 2008. Highlights of the Standalone results are as follows :

- Operating Revenues increased by 14% Q-o-Q from Rs. 2,469.5 Mn. in Q1FY09 to Rs. 2,820.6 Mn. in Q2FY09. However, the company's top-line jumped by more than 70% over Q2FY08.
- Operating Profits saw a Q-o-Q rise of 29% from Rs. 1,394.7 Mn. in Q1FY09 to Rs. 1,798.7 Mn. in Q2FY09. On a Y-o-Y basis, Operating Profits increased by a whopping 114% from Rs. 840.2 Mn. in the same period last year.
- Operating Profit Margins increased by more than 700 bps from 56.5% in Q1FY09 to 63.8% in Q2FY09. On a Y-o-Y comparison, they rose by more than 1200 bps.
- The offshore major saw its Interest Costs more than double on a Y-o-Y basis from Rs. 127.2 MN. in Q2FY08 to Rs. 412.9 Mn. in Q2FY09.
- PAT levels grew by almost 14% Q-o-Q from Rs. 715.1 Mn. in Q1FY09 to Rs. 813.4 Mn. in Q2FY09. However, on a Y-o-Y comparison, PAT levels witnessed a more robust growth of more than 72%.

Standalone Quarterly Financials

Earnings Statement								
YE March (Rs. Mn.)	Q209	Q109	Q-Q(%)	Q208	Y-Y(%)	H1FY09	H1FY08	Y-Y(%)
Net Revenues	2,820.6	2,469.5	14.2%	1,653.4	70.6%	5,290.1	2,929.5	80.6%
Consumption of Stores	225.9	287.2	-21.4%	185.3	21.9%	513.0	354.3	44.8%
Gross Profit	2,594.8	2,182.3	18.9%	1,468.1	76.7%	4,777.1	2,575.3	85.5%
Staff Costs	155.7	144.2	8.0%	132.6	17.5%	300.0	246.5	21.7%
Insurance	46.9	46.4	1.1%	52.1	-10.0%	93.3	117.0	-20.3%
Rental Charges for Mach.	159.0	133.3	19.3%	101.6	56.4%	292.2	137.7	112.2%
Repairs to Machinery	55.7	134.9	-58.7%	45.6	22.1%	190.6	70.7	169.7%
Other Expenditure	378.8	328.9	15.2%	295.9	28.0%	707.7	482.4	46.7%
Total Expenditure	796.1	787.6	1.1%	627.9	26.8%	1,583.8	1,054.3	50.2%
Operating Profit	1,798.7	1,394.7	29.0%	840.2	114.1%	3,193.4	1,520.9	110.0%
OPM (%)	63.8%	56.5%	729.2	50.8%	1,295.0	60.4%	51.9%	844.7
Other Income	80.9	245.4	-67.0%	220.4	-63.3%	326.3	374.6	-12.9%
EBITDA	1,879.6	1,640.0	14.6%	1,060.6	77.2%	3,519.6	1,895.6	85.7%
Goodwill Amortized	0.0	0.0		15.7		0.0	31.5	
Depreciation	248.4	244.6	1.5%	214.3	15.9%	493.0	472.2	4.4%
EBIT	1,631.2	1,395.4	16.9%	830.6	96.4%	3,026.7	1,392.0	117.4%
Interest	412.9	322.4	28.1%	127.2	224.7%	735.3	266.5	175.9%
PBT	1,218.3	1,073.0	13.5%	703.4	73.2%	2,291.3	1,125.4	103.6%
Tax	404.9	357.9	13.1%	231.3	75.1%	762.8	369.6	106.4%
PAT	813.4	715.1	13.8%	472.1	72.3%	1,528.5	755.8	102.2%
Extra-ordinary Income	0.0	0.0		0.0		0.0	0.0	
Reported PAT	813.4	715.1	13.8%	472.1	72.3%	1,528.5	755.8	102.2%
Equity Capital	75.6	75.6		73.8		75.6	73.8	
EPS	21.5	18.9	13.7%	12.8	68.3%	40.4	20.5	97.6%

Consolidated Performance Review

For the first time, AOL has reported quarterly consolidated results including all its subsidiaries. The highlights of the phenomenal set of numbers are as follows :

- Aban Offshore saw its top-line increase by 73% to Rs. 8,237.9 Mn. in Q2FY09 from Rs. 4,760.6 Mn. in Q2FY08.
- Even with significant increases in all its cost components, the company was able to report a jump of 83% in Operating Profits to Rs. 4,600 Mn. in Q2FY09 over the same period last year.
- The offshore giant also saw an improvement of more than 300 bps in its Operating Profit Margins for Q2FY09 on a Y-o-Y basis.
- AOL reported a three-fold increase in Other Income for Q2FY09 at Rs. 1,603 Mn. vis-a-vis Rs. 399 Mn. for Q2FY08. Surprisingly, the Interest Costs saw a Q-o-Q dip from Rs. 2,283.1 Mn. in Q2FY08 to Rs. 2,027.4 Mn. in Q2FY09.
- Even with more than doubling of the Tax component, AOL reported a massive 30-fold jump in PAT levels from Rs. 89.9 Mn. in Q2FY08 to Rs. 2,678.3 MN. in Q2FY09.

Similarly, Aban Offshore reported stunning set of consolidated results for the first half of 2008-09 over the corresponding period last year, with PAT levels increasing by more than 33 times.

Consolidated Quarterly Financials

Earnings Statement						
YE March (Rs. Mn.)	Q209	Q208	Y-Y(%)	H1FY09	H1FY08	Y-Y(%)
Net Revenues	8,237.9	4,760.6	73.0%	15,726.2	7,892.3	99.3%
Consumption of Stores	525.7	293.9	78.9%	961.6	549.0	75.2%
Gross Profit	7,712.2	4,466.7	72.7%	14,764.6	7,343.3	101.1%
Staff Costs	838.3	422.2	98.5%	1,595.8	777.8	105.2%
Insurance	169.5	149.1	13.6%	303.5	284.6	6.6%
Rental Charges for Mach.	462.1	130.3	254.7%	614.8	219.1	180.6%
Repairs to Machinery	50.4	45.8	10.1%	185.3	70.8	161.8%
Other Expenditure	1,591.7	1,210.7	31.5%	3,455.8	2,065.6	67.3%
Total Expenditure	3,111.9	1,958.1	58.9%	6,155.1	3,417.9	80.1%
Operating Profit	4,600.3	2,508.6	83.4%	8,609.5	3,925.4	119.3%
OPM (%)	55.8%	52.7%	314.8	54.7%	49.7%	500.9
Other Income	1,603.4	399.1	301.8%	1,817.2	873.2	108.1%
Share of Profits in Joint Venture	306.9	233.8	31.3%	451.3	339.3	33.0%
EBITDA	6,510.6	3,141.5	107.2%	10,878.1	5,138.0	111.7%
Goodwill Amortized	0.0	15.7	-100.0%	0.0	31.5	-100.0%
Depreciation	1,132.8	434.2	160.9%	2,064.9	914.8	125.7%
EBIT	5,377.7	2,691.5	99.8%	8,813.2	4,191.7	110.3%
Interest	2,027.4	2,283.1	-11.2%	3,617.5	3,465.6	4.4%
PBT	3,350.3	408.5	720.2%	5,195.6	726.0	615.6%
Tax	670.6	318.6	110.5%	1,278.3	610.2	109.5%
Current Tax	697.7	343.6	103.1%	1,342.5	662.7	102.6%
Deferred tax	(27.1)	(25.0)	8.4%	(64.2)	(52.5)	22.3%
PAT before MI	2,679.8	89.9	2880.0%	3,917.3	115.8	3282.4%
Minority Interest (MI)	1.5	0.0		2.1	0.0	
Reported PAT	2,678.3	89.9	2878.4%	3,915.2	115.8	3280.6%
Equity Capital	75.6	73.8		75.6	73.8	
EPS	70.9	2.4	2810.0%	103.6	3.1	3203.0%

Operating Highlights

- During the second quarter, Aban Offshore Ltd. has chartered its new rigs & has also renewed a couple of contracts for other rigs. The details are as follows :

Vessel Name	Vessel Type	Day Rates (USD)		Comments
		Old/Existing Contracts	New Contracts	
Deep Venture	Drill-ship	425,000	425,000	Existing contract extended by 6 months
Deep Venture	Drill-ship	425,000	495,000	New contract for 18 months
Deep Driller 8	Jack up rig	NA	200,000	New contract for 2 firm wells (150 days)
Deep Driller 7	Jack up rig	NA	200,000	New contract for 3 months firm period
Aban Pearl	Semi-Submersible	NA	375,000	New contract for 5 years period
Deep Driller 5	Jack up rig	190,000	215,000	New contract for 3 firm wells (180 days)
Deep Driller 3	Jack up rig	225,000	175,000	New contract for 4 years period

- The company has also issued 9.25% Non-convertible Cumulative Redeemable Preference Shares during the second quarter on the private placement basis for a total amount of Rs. 200 Mn. We believe that in the current market scenario of high interest rates, this is a prudent step by the management of the company, to raise additional funds that might be utilized to repay some of its existing foreign debt.

Outlook going forward

From the contracts table above, it can be seen that the AOL has so far been able to charter its vessels at day rates, similar or slightly higher than their existing contracts. However, for 'Deep Driller 3', there has been a fall of more than 28% as compared to its previous contract. This might be a sign of things to come by. With the kind of fall that crude prices has seen & the current turmoil in the world financial markets, it remains to be seen whether AOL is able to contract its other vessels that come up for renewal, at same day rates as their current contracts, or may be higher or lower. We believe that even a 15-20% dip in future day rates for Aban's vessels will have a significant impact on the company's earnings.

At CMP of Rs. 966.3, the scrip trades at 2.7x FY09E earnings. We recommend a SELL.

Aban Offshore : Financials

Earnings Statement							
Particulars (Rs. Mn.)	FY06	FY07	FY08	FY09E	FY10E	FY11E	FY12E
Total Revenues	4,901.6	7,186.8	20,210.6	46,573.2	56,864.1	56,864.1	56,864.1
- Growth (%)	69.3%	46.6%	181.2%	130.4%	22.1%	0.0%	0.0%
Total Expenditure	2,089.6	3,712.6	7,794.0	14,584.8	18,006.2	18,893.8	19,860.1
Operating Profit	2,812.0	3,474.1	12,416.6	31,988.4	38,857.9	37,970.3	37,004.0
Share in Associates/Joint Ventures	0.0	203.6	853.1	0.0	0.0	0.0	0.0
Forex Gain/(Loss)	(8.4)	163.1	(1,943.8)	0.0	0.0	0.0	0.0
Other Income	147.8	717.9	1,069.9	322.7	67.6	61.8	57.5
EBITDA	2,951.4	4,558.6	12,395.8	32,311.1	38,925.5	38,032.1	37,061.5
Depreciation	1,014.0	1,265.6	3,077.5	5,542.1	5,682.1	5,822.1	5,962.1
EBIT	1,937.4	3,293.0	9,318.4	26,769.0	33,243.4	32,210.1	31,099.4
Interest	436.3	2,686.4	6,658.5	8,632.3	7,019.8	5,270.6	3,620.6
PBT	1,501.1	606.6	2,659.9	18,136.7	26,223.5	26,939.5	27,478.8
Tax	678.4	746.6	1,430.1	3,169.8	4,256.8	4,373.0	4,460.6
PAT Before EI & MI	822.6	(140.0)	1,229.8	14,966.9	21,966.8	22,566.5	23,018.2
Minority Interest (MI)	0.0	0.0	(0.1)	1,129.5	1,782.7	1,831.4	1,868.1
PAT Before EI	822.6	(140.0)	1,229.9	13,837.3	20,184.0	20,735.1	21,150.2
- Growth (%)	59.3%	-117.0%	-978.4%	1025.1%	45.9%	2.7%	2.0%
Extraordinary Items (EI)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PAT	822.6	(140.0)	1,229.9	13,837.3	20,184.0	20,735.1	21,150.2

Ratio Analysis							
Particulars	FY06	FY07	FY08	FY09E	FY10E	FY11E	FY12E
OPM (%)	57.4%	48.3%	61.4%	68.7%	68.3%	66.8%	65.1%
EBITDA (%)	60.2%	63.4%	61.3%	69.4%	68.5%	66.9%	65.2%
PBIT (%)	39.5%	45.8%	46.1%	57.5%	58.5%	56.6%	54.7%
PAT (%)	16.8%	-1.9%	6.1%	29.7%	35.5%	36.5%	37.2%
Interest Cover (x)	4.4	1.2	1.4	3.1	4.7	6.1	8.6
EPS (Rs.)	22.3	(3.8)	32.5	357.0	520.8	535.0	545.7
P/E (x)	43.3	(254.6)	29.7	2.7	1.9	1.8	1.8
P/BV (x)	8.3	6.7	4.5	1.6	0.9	0.6	0.5
BVPS (Rs.)	116.8	143.9	215.0	591.6	1,043.1	1,507.6	1,934.0
Market Cap (Rs. Mn.)	35,611.4	35,642.1	36,511.6	37,452.8	37,452.8	37,452.8	37,452.8
M Cap/Sales (x)	7.3	5.0	1.8	0.8	0.7	0.7	0.7
EV (Rs. Mn.)	46,574.1	130,903.5	160,492.5	151,199.6	129,813.8	106,577.2	84,621.6
EV/EBITDA (x)	15.8	28.7	12.9	4.7	3.3	2.8	2.3
EV/Sales (x)	9.5	18.2	7.9	3.2	2.3	1.9	1.5
ROCE (%)	12.6%	2.9%	6.7%	19.4%	24.8%	25.0%	25.2%
RONW (%)	19.1%	-2.6%	15.1%	65.3%	54.3%	38.6%	30.7%
Debt/Equity Ratio (x)	2.6	20.4	16.1	5.0	2.3	1.2	0.6
Inventory T/o Days	36.4	51.9	29.7	40.0	40.0	40.0	40.0
Debtors T/o Days	52.1	103.3	85.1	70.0	70.0	70.0	70.0
Advances T/o Days	13.5	145.8	23.1	20.0	20.0	20.0	20.0
Creditors T/o Days	62.2	336.4	118.6	75.0	75.0	75.0	75.0
Working Cap T/o Days	29.8	621.7	118.7	50.6	47.9	47.4	47.1
Fixed Assets T/o (Gross)	0.4	0.1	0.2	0.3	0.4	0.4	0.4
DPS (Rs.)	2.6	3.0	3.6	36.0	52.0	53.0	55.0
Dividend Payout (%)	11.7%	-79.2%	11.1%	10.1%	10.0%	9.9%	10.1%
Dividend Yield (%)	0.3%	0.3%	0.4%	3.7%	5.4%	5.5%	5.7%

Aban Offshore : Financials

Balance Sheet							
Particulars (Rs. Mn.)	FY06	FY07	FY08	FY09E	FY10E	FY11E	FY12E
Equity Capital	73.7	73.8	75.6	77.5	77.5	77.5	77.5
Preference Capital	1,500.0	3,060.0	3,060.0	3,260.0	3,260.0	3,260.0	1,250.0
Reserves	2,730.5	2,174.4	4,987.7	19,591.7	37,091.5	55,097.0	73,633.4
Shareholders Funds	4,304.2	5,308.2	8,123.3	22,929.2	40,429.0	58,434.6	74,960.9
Minority Interest	0.0	0.0	0.0	1,129.5	2,912.2	4,743.7	6,611.7
Borrowed Funds	11,098.1	108,525.3	130,434.0	115,097.9	93,597.9	70,274.8	48,274.8
Deferred Tax Liability	655.9	737.5	653.6	1,379.1	2,428.1	3,505.6	4,604.8
Total Liabilities	16,058.1	114,571.0	139,210.9	140,535.7	139,367.2	136,958.7	134,452.2
Fixed Assets	15,466.3	97,647.5	126,246.9	127,689.9	125,507.8	123,185.7	120,723.6
Investments	192.1	4,682.5	6,390.9	6,390.9	6,390.9	6,390.9	6,390.9
<i>Trade Investments</i>	52.9	1,464.4	1,464.4	1,464.4	1,464.4	1,464.4	1,464.4
Current Assets							
Inventory	488.8	1,022.3	1,646.8	5,103.9	6,231.7	6,231.7	6,231.7
Sundry Debtors	699.0	2,033.1	4,712.1	8,931.8	10,905.4	10,905.4	10,905.4
Loans & Advances	181.4	2,870.8	1,277.7	2,552.0	3,115.8	3,115.8	3,115.8
Cash & Bank Balance	135.4	13,264.0	6,453.1	1351.026961	1236.842989	1150.391963	1106.01728
Current Liabilities							
Sundry Creditors	835.3	6,624.5	6,568.0	9,569.8	11,684.4	11,684.4	11,684.4
Provisions	269.7	324.7	948.6	1,914.0	2,336.9	2,336.9	2,336.9
Net Current Assets	399.7	12,241.0	6,573.1	6,454.9	7,468.5	7,382.1	7,337.7
Total Assets	16,058.1	114,571.0	139,210.9	140,535.7	139,367.2	136,958.7	134,452.2

Cash Flow							
Particulars (Rs. Mn.)	FY06	FY07	FY08	FY09E	FY10E	FY11E	FY12E
Opening Cash & Bank	982.8	135.4	13,264.0	6,453.1	1,351.0	1,236.8	1,150.4
Profit After Tax	822.6	(140.0)	1,229.9	13,837.3	20,184.0	20,735.1	21,150.2
Investment Income	(147.8)	(717.9)	(1,069.9)	(322.7)	(67.6)	(61.8)	(57.5)
Interest Paid	436.3	2,686.4	6,658.5	8,632.3	7,019.8	5,270.6	3,620.6
Miscellaneous Exp W/Off	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation	1,014.0	1,265.6	3,077.5	5,542.1	5,682.1	5,822.1	5,962.1
Deferred Taxation	91.4	81.3	(83.8)	725.5	1,048.9	1,077.6	1,099.2
Others	(64.4)	205.1	(48.6)	0.0	0.0	0.0	0.0
Change in Working Cap	391.6	1,287.3	(1,143.0)	(4,983.9)	(1,127.8)	0.0	0.0
CF - Operating Activities	2,543.9	4,667.8	8,620.5	23,430.7	32,739.5	32,843.5	31,774.5
Change in Fixed Assets	(8,339.9)	(83,651.6)	(31,628.3)	(6,985.0)	(3,500.0)	(3,500.0)	(3,500.0)
Change in Investments	39.5	(4,490.4)	(1,708.3)	0.0	0.0	0.0	0.0
Investment Income	147.8	717.9	1,069.9	322.7	67.6	61.8	57.5
CF - Investing Activities	(8,152.6)	(87,424.1)	(32,266.7)	(6,662.3)	(3,432.4)	(3,438.2)	(3,442.5)
Increase in Equity	(4.1)	(127.6)	2,049.1	2,716.4	0.0	0.0	0.0
Changes in Preference Capital	1,500.0	1,560.0	0.0	200.0	0.0	0.0	(2,010.0)
Changes in Borrowings	3,919.0	97,427.3	21,908.6	(15,336.1)	(21,500.0)	(23,323.0)	(22,000.0)
Change in Minority Interest	0.0	0.0	0.0	1,129.5	1,782.7	1,831.4	1,868.1
Interest Paid	(436.3)	(2,686.4)	(6,658.5)	(8,632.3)	(7,019.8)	(5,270.6)	(3,620.6)
Dividend Paid – Equity	(109.3)	(129.7)	(159.2)	(1,632.4)	(2,357.9)	(2,403.2)	(2,493.9)
Dividend Paid – Preference	(108.0)	(158.7)	(304.7)	(315.5)	(326.3)	(326.3)	(119.9)
CF - Financing Activities	4,761.4	95,884.9	16,835.4	(21,870.4)	(29,421.3)	(29,491.8)	(28,376.4)
Net Change in Cash	(847.4)	13,128.5	(6,810.8)	(5,102.1)	(114.2)	(86.5)	(44.4)
Closing Cash & Bank Balance	135.4	13,264.0	6,453.1	1,351.0	1,236.8	1,150.4	1,106.0

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