

Bharati Shipyard Limited

CMP Rs. 73.6
SELL

Q2 FY2009
Result Update

Performance Review : Q2FY09

India's second largest private sector shipbuilder - Bharati Shipyard Ltd. (BSL) reported stable performance for the quarter ended 30th September 2008. The highlights of the results are as follows :

- BSL saw its Operating Revenues increase by just 4% Q-o-Q from Rs. 2,053.7 Mn. in Q1FY09 to Rs. 2,137.8 Mn. for Q2FY09.
- The subsidy receivable on eligible ships increased by more than 27% over that in Q1FY09.
- The shipbuilder saw its Operating Profits increase by 12% Q-o-Q to Rs. 635.8 Mn. as against Rs. 566 Mn. in Q1FY09.
- However, with very minimal rise in Total Expenditures, BSL improved its Operating Profit Margins by more than 150 bps to 27% over that in Q1FY09.
- The company registered a descent Q-o-Q increase of close to 12% at PAT levels from Rs. 296.8 Mn. for Q1FY09 to Rs. 331.6 Mn. for Q2FY09.

On a Y-o-Y comparison, BSL registered a better performance in terms of its top-line & bottom-line.

- Net Revenues (including Subsidy) saw an increase of 46% from Rs. 1,611.7 MN. in Q2FY08 to Rs. 2,354.2 Mn. in Q2FY09.
- Even with more than 57% rise coming in for Total Expenditure, the company registered a 42% rise in Operating Profits for Q2FY09, thanks to 65% higher booking on account of the subsidy front.
- BSL witnessed a jump of close to 30% increase in PAT levels to Rs. 331.6 Mn. for Q2FY09 from Rs. 257.6 Mn. for the corresponding quarter last year.
- The company reported an EPS of Rs. 12.03 for the quarter ended 30th September 2008 vis-a-vis Rs. 10.82 as on 30th September 2007.

The Total Order Book of the company as on 30th September 2008 stands at Rs. 4,831 crores, Order Book pending execution stands at Rs. 3,460 crores.

Outlook going forward

We believe that the global financial market turmoil has led to the steep decline in demand & consequentially the prices of crude & other commodities. This is clearly evident from the Baltic Dry Freight Index that has nose-dived more than 90% from its recent highs, reflecting that the charter rates for sea-going vessels have come down drastically. In such a scenario, demand for these vessels will eventually come down, thereby leading to spare capacities at the world shipbuilding yards. There are also high chances of existing orders getting canceled.

Besides, where BSL had raised US\$ 100 Mn. through issue of FCCB during December 2005 to fund its expansion plans, close to US\$ 49 Mn. are still pending conversion. Comparing the stipulated conversion rate & the current market price of the stock, it seems difficult that the holders of these bonds would go for conversion. Instead they would get their bond redeemed on maturity, which the company might find difficult. Further to this, any order cancellations for the company would definitely have a negative impact on the company's future earnings.

We believe at the current scenario, the possibility of negative news flowing in is much higher 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 in. At CMP of Rs. 73.6, the scrip trades at 1.6x FY09E earnings. We recommend a SELL on rise.

Bharati Shipyard : Standalone Quarterly Financials

Earnings Statement								
YE March (Rs. Mn.)	Q209	Q109	Q-Q(%)	Q208	Y-Y(%)	H1FY09	H1FY08	Y-Y(%)
Net Revenues	2,354.2	2,223.2	5.9%	1,611.7	46.1%	4,577.4	3,171.8	44.3%
Revenues from Operations	2,137.8	2,053.7	4.1%	1,480.3	44.4%	4,191.4	2,952.0	42.0%
Subsidy	216.5	169.5	27.7%	131.4	64.8%	385.9	219.8	75.6%
Cost of Materials	1,194.7	1,147.6	4.1%	833.0	43.4%	2,342.2	1,651.3	41.8%
Gross Profit	1,159.6	1,075.6	7.8%	778.7	48.9%	2,235.1	1,520.4	47.0%
Staff Costs	266.8	252.5	5.6%	149.3	78.7%	519.3	316.2	64.2%
Other Expenses	257.0	257.0	0.0%	183.1	40.4%	514.0	374.3	37.3%
Total Expenditure	523.8	509.6	2.8%	332.4	57.6%	1,033.3	690.4	49.7%
Operating Profit	635.8	566.0	12.3%	446.4	42.4%	1,201.8	830.0	44.8%
OPM (%)	27.01%	25.46%	154.8	27.69%	(68.7)	26.26%	26.17%	8.7
Other Income	0.7	2.0	-64.7%	11.0	-93.6%	2.7	21.7	-87.5%
EBITDA	636.5	568.0	12.1%	457.4	39.2%	1,204.5	851.7	41.4%
EBITDA (Excl. Subsidy)	420.1	398.5	5.4%	326.0	28.8%	818.6	631.9	29.5%
Depreciation	23.4	23.3	0.1%	19.5	19.9%	46.7	38.5	21.3%
EBIT	613.2	544.7	12.6%	437.9	40.0%	1,157.8	813.2	42.4%
Interest	109.1	93.0	17.3%	46.7	133.8%	202.1	98.4	105.4%
PBT	504.1	451.7	11.6%	391.3	28.8%	955.8	714.8	33.7%
Tax	172.5	154.9	11.4%	133.7	29.0%	327.3	234.9	39.3%
Current Tax	173.4	128.0	35.4%	125.2	38.5%	301.5	218.7	37.9%
Fringe Benefit Tax	1.1	1.3	-15.7%	0.7	56.9%	2.5	1.8	38.9%
Deferred tax	(2.1)	25.5		7.8		23.4	14.5	61.9%
PAT	331.6	296.8	11.7%	257.6	28.8%	628.4	479.9	31.0%
Equity Capital	275.7	275.7		238.0		275.7	238.0	
EPS	12.03	10.77	11.7%	10.82	11.2%	22.80	20.17	13.0%
Ratio Analysis								
Profitability								
YE March (Rs. Mn.)	Q209	Q109	Q-Q(bps)	Q208	Y-Y(bps)	H1FY09	H1FY08	Y-Y(bps)
OPM (%)	27.01%	25.46%	154.8	27.69%	(68.7)	26.26%	26.17%	8.7
EBITDA (%)	27.04%	25.55%	148.8	28.38%	(134.2)	26.31%	26.85%	(53.7)
EBITDA % (Excl. Subsidy)	19.65%	19.40%	24.5	22.02%	(237.3)	19.53%	21.41%	(187.6)
EBIT (%)	26.05%	24.50%	154.5	27.17%	(112.5)	25.29%	25.64%	(34.4)
PAT (%)	14.09%	13.35%	73.6	15.98%	(189.3)	13.73%	15.13%	(140.1)
Operational Parameters								
YE March (Rs. Mn.)	Q209	Q109	Q-Q(bps)	Q208	Y-Y(bps)	H1FY09	H1FY08	Y-Y(bps)
RM Consumed	50.75%	51.62%	(87.5)	51.68%	(93.9)	51.17%	52.06%	(89.4)
Staff Cost	11.33%	11.36%	(2.8)	9.26%	207.1	11.35%	9.97%	137.7
Other Expenditure	10.92%	11.56%	(64.6)	11.36%	(44.4)	11.23%	11.80%	(57.0)
Effective Tax Rate	34.21%	34.29%	(7.4)	34.17%	3.9	34.25%	32.86%	138.5

Bharati Shipyard : Consolidated Financials

Earnings Statement							
Particulars (Rs Mn.)	FY06	FY07	FY08	FY09E	FY10E	FY11E	FY12E
Total Revenues	2,608.2	3,610.2	6,451.4	9,555.4	13,055.4	17,555.4	26,055.4
- Growth (%)	35.4%	38.4%	78.7%	48.1%	36.6%	34.5%	48.4%
Total Expenditure	2,064.7	2,955.0	5,142.0	7,743.0	10,582.1	14,233.1	21,129.5
Operating Profit	543.4	655.2	1,309.5	1,812.4	2,473.2	3,322.3	4,925.8
Forex Gain/(Loss)	3.9	(1.4)	(16.1)	0.0	0.0	0.0	0.0
Other Income	13.8	32.1	33.6	20.2	20.2	20.2	20.2
Subsidy	332.2	617.5	597.1	1,140.0	1,560.0	2,100.0	3,120.0
EBITDA	893.2	1,303.5	1,924.1	2,972.7	4,053.5	5,442.5	8,066.1
<i>EBITDA (Excl. Subsidy)</i>	<i>561.1</i>	<i>686.0</i>	<i>1,327.0</i>	<i>1,832.7</i>	<i>2,493.5</i>	<i>3,342.5</i>	<i>4,946.1</i>
Depreciation	14.7	51.1	81.5	215.9	372.5	537.9	668.3
EBIT	878.5	1,252.3	1,842.6	2,756.7	3,680.9	4,904.6	7,397.8
Interest	97.7	143.8	215.8	497.4	1,075.7	1,491.9	2,058.9
PBT	780.8	1,108.5	1,626.9	2,259.3	2,605.3	3,412.7	5,338.8
Tax	270.9	376.2	548.5	768.2	885.8	1,160.3	1,815.2
PAT before MI	509.9	732.3	1,078.3	1,491.1	1,719.5	2,252.4	3,523.6
Minority Interest (MI)	(0.4)	0.2	0.0	0.0	0.0	0.0	0.0
PAT	510.3	732.0	1,078.3	1,491.1	1,719.5	2,252.4	3,523.6
- Growth (%)	86.5%	43.5%	47.3%	38.3%	15.3%	31.0%	56.4%

Ratio Analysis							
Particulars	FY06	FY07	FY08	FY09E	FY10E	FY11E	FY12E
OPM (%)	20.8%	18.1%	20.3%	19.0%	18.9%	18.9%	18.9%
EBITDA (%)	34.2%	36.1%	29.8%	31.1%	31.0%	31.0%	31.0%
EBITDA % (Excl. Subsidy)	21.5%	19.0%	20.6%	19.2%	19.1%	19.0%	19.0%
PBIT (%)	33.7%	34.7%	28.6%	28.9%	28.2%	27.9%	28.4%
PAT (%)	19.6%	20.3%	16.7%	15.6%	13.2%	12.8%	13.5%
Interest Cover (x)	9.0	8.7	8.5	5.5	3.4	3.3	3.6
EPS (Rs.)	22.7	32.5	39.1	46.5	53.7	70.3	110.0
P/E (x)	3.2	2.3	1.9	1.6	1.4	1.0	0.7
P/BV (x)	0.9	0.7	0.4	0.3	0.2	0.2	0.1
BVPS (Rs.)	78.3	107.1	208.9	291.9	342.0	408.8	510.8
Market Cap (Rs. Mn.)	1,656.0	1,656.0	2,029.1	2,358.2	2,358.2	2,358.2	2,358.2
M Cap/Sales (x)	0.6	0.5	0.3	0.2	0.2	0.1	0.1
EV (Rs. Mn.)	2,409.7	3,195.0	4,075.8	7,651.8	13,961.3	18,297.6	24,431.2
EV/EBITDA (x)	2.7	2.5	2.1	2.6	3.4	3.4	3.0
EV/Sales (x)	0.9	0.9	0.6	0.8	1.1	1.0	0.9
ROCE (%)	12.1%	15.7%	18.3%	18.5%	16.1%	16.5%	18.9%
RONW (%)	29.0%	30.4%	18.7%	15.9%	15.7%	17.2%	21.5%
Debt/Equity Ratio (x)	3.1	2.3	0.7	0.6	1.1	1.3	1.4
Inventory T/o Days	280.0	257.4	340.4	300.0	300.0	300.0	300.0
Debtors T/o Days	96.2	139.0	105.5	140.0	140.0	140.0	140.0
Advances T/o Days	66.2	159.9	165.1	160.0	160.0	160.0	160.0
Creditors T/o Days	182.5	321.8	341.3	250.0	250.0	250.0	250.0
Working Cap T/o Days	880.6	584.6	340.7	308.9	309.8	313.3	311.3
Fixed Assets T/o (Gross)	2.8	2.2	3.3	1.5	1.2	1.1	1.4
DPS (Rs.)	2.5	3.0	3.0	3.0	3.0	3.0	6.8
Dividend Payout (%)	11.0%	9.2%	7.7%	6.4%	5.6%	4.3%	6.2%
Dividend Yield (%)	3.4%	4.1%	4.1%	4.1%	4.1%	4.1%	9.2%

Bharati Shipyard : Consolidated Financials

Balance Sheet							
Particulars (Rs Mn.)	FY06	FY07	FY08	FY09E	FY10E	FY11E	FY12E
Equity Capital	225.0	225.0	275.7	320.4	320.4	320.4	320.4
Reserves	1,586.3	2,222.8	5,512.3	9,060.8	10,667.8	12,807.8	16,076.5
Shareholders Funds	1,811.3	2,447.8	5,788.0	9,381.2	10,988.2	13,128.2	16,396.9
Minority Interest	10.7	10.9	12.8	12.8	12.8	12.8	12.8
Borrowed Funds	5,475.2	5,555.3	4,316.5	5,527.0	11,952.0	16,577.0	22,877.0
Deferred Tax Liability	152.9	287.4	304.2	575.3	887.9	1,297.5	1,938.1
Total Liabilities	7,450.0	8,301.4	10,421.5	15,496.3	23,840.9	31,015.4	41,224.8
Fixed Assets	1,095.5	2,457.4	4,332.6	7,341.7	12,694.2	15,881.2	18,938.0
Goodwill on Consolidation	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Investments	10.0	20.0	34.5	34.5	34.5	34.5	34.5
Current Assets							
Inventory	2,000.6	2,546.3	6,016.0	7,853.7	10,730.4	14,429.1	21,415.4
Sundry Debtors	687.8	1,375.2	1,865.1	3,665.1	5,007.5	6,733.6	9,993.8
Loans & Advances	473.1	1,582.0	2,918.5	4,188.7	5,722.9	7,695.5	11,421.5
Cash & Bank Balance	4,721.5	4,016.3	2,269.8	233.4	348.8	637.6	804.0
Current Liabilities							
Sundry Creditors	1,304.3	3,183.2	6,032.9	6,544.8	8,942.0	12,024.2	17,846.1
Provisions	286.1	554.9	1,015.1	1,309.0	1,788.4	2,404.8	3,569.2
Net Current Assets	6,292.6	5,781.8	6,021.4	8,087.1	11,079.3	15,066.6	22,219.3
Miscellaneous Expenditure	48.9	39.1	30.0	30.0	30.0	30.0	30.0
Total Assets	7,450.0	8,301.4	10,421.5	15,496.3	23,840.9	31,015.4	41,224.8

Cash Flow							
Particulars (Rs Mn.)	FY06	FY07	FY08	FY09E	FY10E	FY11E	FY12E
Opening Cash & Bank	6.5	4,721.5	4,016.3	2,269.8	233.4	348.8	637.6
Profit After Tax	510.3	732.0	1,078.3	1,491.1	1,719.5	2,252.4	3,523.6
Investment Income	(13.8)	(32.1)	(33.6)	(20.2)	(20.2)	(20.2)	(20.2)
Interest Paid	97.7	143.8	215.8	497.4	1,075.7	1,491.9	2,058.9
Miscellaneous Exp W/Off	5.3	9.8	9.2	0.0	0.0	0.0	0.0
Depreciation	14.7	51.1	81.5	215.9	372.5	537.9	668.3
Deferred Taxation	144.7	139.7	16.8	271.1	312.6	409.5	640.7
Others	3.2	1.0	6.2	0.0	0.0	(0.0)	0.0
Change in Working Cap	(283.5)	(194.4)	(1,986.2)	(4,102.1)	(2,876.7)	(3,698.6)	(6,986.3)
CF - Operating Activities	478.6	850.9	(611.9)	(1,646.8)	583.4	972.9	(115.0)
Change in Fixed Assets	(920.8)	(1,419.3)	(1,962.9)	(3,225.0)	(5,725.0)	(3,725.0)	(3,725.0)
Change in Investments	55.1	(9.9)	(14.5)	0.0	0.0	0.0	0.0
Investment Income	13.8	32.1	33.6	20.2	20.2	20.2	20.2
CF - Investing Activities	(851.9)	(1,397.1)	(1,943.8)	(3,204.8)	(5,704.8)	(3,704.8)	(3,704.8)
Increase in Equity	(6.2)	(16.6)	2,358.6	2,214.6	0.0	0.0	0.0
Changes in Minority	10.7	0.2	1.9	0.0	0.0	0.0	0.0
Changes in Borrowings	5,245.7	80.1	(1,238.8)	1,210.4	6,425.0	4,625.0	6,300.0
Interest Paid	(97.7)	(143.8)	(215.8)	(497.4)	(1,075.7)	(1,491.9)	(2,058.9)
Dividend Paid	(64.1)	(79.0)	(96.8)	(112.5)	(112.5)	(112.5)	(254.9)
CF - Financing Activities	5,088.3	(159.0)	809.2	2,815.1	5,236.9	3,020.6	3,986.2
Net Change in Cash	4,715.0	(705.2)	(1,746.6)	(2,036.4)	115.5	288.7	166.4
Closing Cash & Bank Balance	4,721.5	4,016.3	2,269.8	233.4	348.8	637.6	804.0

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