

Garware Offshore Services Limited

CMP Rs. 92.4
SELL

Q2 FY2009
Result Update

Standalone Performance Review : Q2FY09

Garware Offshore Services Ltd. (GOSL) reported good operating results for the second quarter ended September 2008. The highlights of the results are as follows :

- Operating Revenues for Q2FY09 increased by more than 51% to Rs. 445.7 Mn. from Rs. 294.3 Mn. in Q1FY09. Revenues however, witnessed a higher Y-o-Y increase of almost 80% from Rs. 248.6 Mn. in Q2FY08 to Rs. 445.7 Mn. in Q2FY09.
- With about 15% dip in Total Expenditures, the Operating Profits increased by 60% Q-o-Q to Rs. 268 Mn. for Q2FY09. On a Y-o-Y basis, Operating Profits are up by more than 80%.
- GOSL also improved its Operating Margins by more than 330 bps on a Q-o-Q basis.
- With couple of additions to its total fleet during the past six months, the company saw a rise in its Depreciation & Interest components by more than 50% on a Q-o-Q basis.
- With more than 50% dip in Tax payable, the company registered an increase of 65.8% in PAT (before Extraordinary) levels from Rs. 88.8 Mn. in Q1FY09 to Rs. 147.2 Mn. in Q2FY09.
- However, GOSL charged a non-cash Extraordinary Item for an unrealized Exchange Loss of Rs. 301.6 Mn. on restatement of foreign borrowings in compliance with AS-11.
- Accordingly, at Reported PAT levels, the company reported a Net Loss of Rs. 154.4 Mn. for Q2FY09, higher by almost 180% from a loss of Rs. 55.2 Mn. reported for Q1FY09. This is against a Net Profit of Rs. 233 Mn. for the corresponding quarter last year.

The Operating Results for the first six months ended 30th September 2008 have been very good with the top-line seeing a rise of more than 67% to Rs. 740 Mn. for H1FY09 from Rs. 442.6 Mn. for H1FY08. The company also witnessed a two-fold jump in its PAT (before Extraordinary) levels to Rs. 236 Mn. for the first half of FY09 from Rs. 113 Mn. for the corresponding period last year. However, due to the charge towards unrealized Exchange Loss of Rs. 456.3 Mn. as against an Exchange Gain of Rs. 171.9 Mn. for H1FY08, the company reported a loss of Rs. 209.6 Mn. for H1FY09 against a Profit of Rs. 284.9 Mn. for the corresponding period last year.

Events during the second quarter

During the second quarter ended 30th September 2008, GOSL took delivery of a new 60-ton AHTSV named "M.V.Poorna" & has deployed is on a Bareboat charter contract earning a day rate of US\$ 13,500. The company has also secured a firm contract for another new AHTSV "M.V.Meghna" that it expects to be delivered in the last quarter of this year. This contract is for a period of 3 year period in South Africa & at an annual revenue of Rs. 220 Mn. (approx. day rate of US\$ 13,500). Further, GOSL has placed an order for a new 4,500 DWT Multi-purpose Platform Vessel (MSV) at an approximate cost of Rs. 55 Mn. & would be delivered to the company in the last quarter of calendar year 2010.

Outlook going forward

With the current turmoil in the world financial markets & an expected global slowdown, the demand for crude oil has died down significantly. Therefore, we have seen a sharp correction in crude oil prices to sub US\$ 65 levels, in the past two months. With this drop in crude oil prices, the charter day rates for the Offshore Support Vessels (OSV) that had

seen a multi-fold jump when crude prices touched its all-time high levels, would eventually start coming down. Any dip in day rates for these vessels would mean a negative impact for companies like GOSL. Also, for companies like GOSL who are expanding their asset base, there are high probabilities of these assets lying idle for want of new contracts. We believe that the tide has turned for the offshore sector & companies within the sector might see some tough times ahead.

AT CMP of Rs. 92.4, the scrip is trading at 4x FY09E earnings. In view of the gloomy future for the offshore sector, we recommend a SELL on Garware Offshore Services Ltd.

Garware Offshore : Standalone Quarterly Financials

Earnings Statement								
YE March (Rs. Mn.)	Q2FY09	Q1FY09	Q-Q(%)	Q2FY08	Y-Y(%)	H1FY09	H1FY08	Y-Y(%)
Net Revenues	445.7	294.3	51.4%	248.6	79.3%	740.0	442.6	67.2%
Raw Material	19.5	(58.8)		(8.9)		(39.3)	(40.3)	-2.5%
Gross Profit	426.2	353.1	20.7%	257.4	65.5%	779.2	482.9	61.4%
Staff Costs	65.8	49.8	32.0%	46.5	41.6%	115.6	84.5	36.9%
Other Expenses	92.4	136.0	-32.1%	62.3	48.2%	228.3	134.5	69.8%
Total Expenditure	158.2	185.8	-14.9%	108.8	45.4%	344.0	218.9	57.1%
Operating Profit	268.0	167.3	60.2%	148.7	80.3%	435.2	263.9	64.9%
OPM (%)	60.13%	56.83%	330.4	59.80%	32.8	58.82%	59.63%	(80.8)
Other Income	1.5	3.1	-52.2%	1.3	14.5%	4.6	4.0	17.0%
EBITDA	269.5	170.4	58.2%	150.0	79.7%	439.9	267.9	64.2%
Depreciation	60.4	39.2	54.1%	37.2	62.4%	99.6	66.8	49.1%
EBIT	209.1	131.2	59.4%	112.8	85.4%	340.3	201.1	69.2%
Interest	60.9	40.3	51.1%	50.5	20.5%	101.2	85.4	18.6%
PBT	148.2	90.9	63.1%	62.2	138.2%	239.0	115.7	106.6%
Tax	1.0	2.1	-53.2%	1.1	-10.4%	3.0	2.7	13.9%
Current Tax	0.8	1.5	-51.3%	0.6	19.0%	2.3	1.4	58.2%
Fringe Benefit Tax	0.2	0.5	-58.6%	0.5	-51.6%	0.7	1.2	-38.8%
Deferred Tax	0.0	0.0		0.0		0.0	0.0	
PAT	147.2	88.8	65.8%	61.1	140.8%	236.0	113.0	108.8%
Extraordinary Items	(301.6)	(144.0)		171.9		(445.6)	171.9	
Profit on Sale of Assets	0.0	10.7		0.0		10.7	0.0	
Forex Gain / (Loss)	(301.6)	(154.7)	95.0%	171.9		(456.3)	171.9	
Excess/(Short) Provision	0.0	0.0		0.0		0.0	0.0	
Reported PAT	(154.4)	(55.2)	179.8%	233.0		(209.6)	284.9	
Equity Capital	238.2	238.2		197.5		238.2	197.5	
EPS	(6.48)	(2.32)	179.8%	11.80		(8.80)	14.43	
Ratio Analysis								
Profitability								
YE March (Rs. Mn.)	Q2FY09	Q1FY09	Q-Q(bps)	Q2FY08	Y-Y(bps)	H1FY09	H1FY08	Y-Y(bps)
OPM (%)	60.13%	56.83%	330.4	59.80%	32.8	58.82%	59.63%	(80.8)
EBITDA (%)	60.47%	57.89%	257.5	60.33%	13.8	59.45%	60.52%	(107.7)
EBIT (%)	46.92%	44.57%	234.2	45.37%	155.2	45.99%	45.43%	55.6
PAT (%)	-34.65%	-18.75%	(1,589.4)	93.76%		-28.33%	64.37%	

Garware Offshore : Consolidated Financials

Earnings Statement							
Particulars (Rs. Mn.)	CY05	CY06	FY08	FY09E	FY10E	FY11E	FY12E
Total Revenues	308.6	523.8	1,136.7	1,459.6	2,416.7	2,600.2	2,574.5
- Growth (%)	-3.2%	69.7%	117.0%	28.4%	65.6%	7.6%	-1.0%
Total Expenditure	172.0	229.2	441.6	450.7	847.2	1,001.0	944.6
Operating Profit	136.6	294.6	695.1	1,009.0	1,569.5	1,599.2	1,629.9
Forex Gain/(Loss)	0.0	0.0	160.6	0.0	0.0	0.0	0.0
Other Income	3.1	10.7	11.8	4.3	7.0	6.6	7.0
EBITDA	139.7	305.2	867.5	1,013.2	1,576.6	1,605.7	1,636.9
Depreciation	35.7	76.2	160.3	212.3	303.6	337.9	387.1
EBIT	104.0	229.0	707.2	800.9	1,272.9	1,267.9	1,249.8
Interest	5.4	67.6	218.9	269.7	318.7	266.9	254.0
PBT	98.6	161.4	488.2	531.2	954.2	1,001.0	995.8
Tax	8.2	8.5	13.2	19.6	22.7	23.5	23.5
PAT Before EI	90.4	152.8	475.0	511.6	931.5	977.5	972.3
- Growth (%)	-26.9%	69.1%	210.8%	7.7%	82.1%	4.9%	-0.5%
Extra-ordinary Items	15.4	3.0	0.0	35.0	0.0	0.0	0.0
PAT	105.8	155.8	475.0	546.6	931.5	977.5	972.3

Ratio Analysis							
Particulars	CY05	CY06	FY08	FY09E	FY10E	FY11E	FY12E
OPM (%)	44.3%	56.2%	61.2%	69.1%	64.9%	61.5%	63.3%
EBITDA (%)	45.3%	58.3%	76.3%	69.4%	65.2%	61.8%	63.6%
PBIT (%)	33.7%	43.7%	62.2%	54.9%	52.7%	48.8%	48.5%
PAT (%)	29.3%	29.2%	41.8%	35.1%	38.5%	37.6%	37.8%
Interest Cover (x)	19.4	3.4	3.2	3.0	4.0	4.8	4.9
EPS (Rs.)	7.3	8.3	19.9	22.9	39.1	41.0	40.8
P/E (x)	12.6	11.2	4.6	4.0	2.4	2.3	2.3
P/BV (x)	1.8	1.5	1.1	0.9	0.7	0.5	0.4
BVPS (Rs.)	51.7	60.5	82.8	103.4	140.1	178.4	216.3
Market Cap (Rs. Mn.)	1,332.6	1,739.7	2,200.9	2,200.9	2,200.9	2,200.9	2,200.9
M Cap/Sales (x)	4.3	3.3	1.9	1.5	0.9	0.8	0.9
EV (Rs. Mn.)	2,114.2	3,478.3	4,768.1	5,913.3	6,622.1	5,874.7	5,699.5
EV/EBITDA (x)	15.1	11.4	5.5	5.8	4.2	3.7	3.5
EV/Sales (x)	6.9	6.6	4.2	4.1	2.7	2.3	2.2
ROCE (%)	6.7%	7.7%	15.3%	12.7%	16.1%	15.7%	14.2%
RONW (%)	12.1%	13.4%	24.1%	20.8%	27.9%	23.0%	18.9%
Debt/Equity Ratio (x)	1.1	1.6	1.3	1.6	1.4	0.9	0.7
Inventory T/o Days	36.8	41.9	41.1	40.0	40.0	40.0	40.0
Debtors T/o Days	172.7	78.1	53.4	65.0	65.0	65.0	65.0
Advances T/o Days	153.7	87.0	43.0	87.5	9.3	30.2	20.6
Creditors T/o Days	40.2	36.5	30.7	40.0	40.0	40.0	40.0
Working Cap T/o Days	317.5	219.2	107.3	161.4	74.3	91.7	75.0
Fixed Assets T/o (Gross)	0.2	0.2	0.3	0.2	0.3	0.3	0.3
DPS (Rs.)	1.2	1.8	1.8	2.0	2.1	2.3	2.5
Dividend Payout (%)	16.4%	21.8%	9.0%	8.7%	5.4%	5.6%	6.1%
Dividend Yield (%)	1.3%	1.9%	1.9%	2.2%	2.3%	2.5%	2.7%

Garware Offshore : Consolidated Financials

Balance Sheet							
Particulars (Rs. Mn.)	CY05	CY06	FY08	FY09E	FY10E	FY11E	FY12E
Equity Capital	144.2	188.3	238.2	238.2	238.2	238.2	238.2
Share Warrant – Application Money	13.7	32.7	0.0	0.0	0.0	0.0	0.0
Reserves	587.9	918.5	1,733.9	2,224.7	3,097.7	4,011.1	4,913.8
Shareholders Funds	745.8	1,139.5	1,972.0	2,462.9	3,335.9	4,249.3	5,152.0
Minority Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Borrowed Funds	810.8	1,847.2	2,653.0	3,853.0	4,553.0	3,813.0	3,629.0
Deferred Tax Liability	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Liabilities	1,556.7	2,986.7	4,625.0	6,315.9	7,888.9	8,062.3	8,781.0
Fixed Assets	1,283.6	2,666.5	4,285.1	5,664.7	7,391.1	7,403.2	8,246.2
Investments	4.6	5.6	5.6	5.6	5.6	5.6	5.6
Current Assets							
Inventory	31.1	60.1	127.9	160.0	264.8	285.0	282.1
Sundry Debtors	146.0	112.1	166.2	259.9	430.4	463.0	458.5
Loans & Advances	130.0	124.8	133.9	350.0	61.3	215.3	145.3
Cash & Bank Balance	29.2	108.6	85.7	140.6	131.7	139.1	130.4
Current Liabilities							
Sundry Creditors	34.0	52.4	95.5	160.0	264.8	285.0	282.1
Provisions	33.9	38.7	84.0	105.0	131.2	164.0	205.0
Net Current Assets	268.4	314.5	334.3	645.5	492.2	653.4	529.1
Total Assets	1,556.7	2,986.7	4,625.0	6,315.9	7,888.9	8,062.3	8,781.0

Cash Flow							
Particulars (Rs. Mn.)	CY05	CY06	FY08	FY09E	FY10E	FY11E	FY12E
Opening Cash & Bank	19.0	29.2	108.6	85.7	140.6	131.7	139.1
Profit After Tax	105.8	155.8	475.0	546.6	931.5	977.5	972.3
Investment Income	(3.1)	(10.7)	(11.8)	(4.3)	(7.0)	(6.6)	(7.0)
Interest Paid	5.4	67.6	218.9	269.7	318.7	266.9	254.0
Miscellaneous Exp W/Off	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation	35.7	76.2	160.3	127.3	303.6	337.9	387.1
Deferred Taxation	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	(94.8)	(3.9)	0.0	0.0	0.0	0.0	0.0
Change in Working Cap	(10.7)	33.2	(42.6)	(256.4)	144.5	(153.9)	115.6
CF - Operating Activities	38.3	318.4	799.9	682.9	1,691.4	1,421.8	1,722.0
Change in Fixed Assets	(869.3)	(1,455.3)	(1,780.8)	(1,506.9)	(2,030.0)	(350.0)	(1,230.0)
Change in Investments	(0.3)	(1.0)	0.0	0.0	0.0	0.0	0.0
Investment Income	3.1	10.7	11.8	4.3	7.0	6.6	7.0
CF - Investing Activities	(866.5)	(1,445.7)	(1,769.1)	(1,502.7)	(2,023.0)	(343.4)	(1,223.0)
Increase in Equity	72.3	257.8	440.4	0.0	0.0	(0.0)	0.0
Changes in Share Warrants	13.7	19.1	(32.7)	0.0	0.0	0.0	0.0
Changes in Borrowings	777.5	1,036.4	805.8	1,200.0	700.0	(740.0)	(184.0)
Interest Paid	(5.4)	(67.6)	(218.9)	(269.7)	(318.7)	(266.9)	(254.0)
Dividend Paid	(19.8)	(39.1)	(50.2)	(55.7)	(58.5)	(64.1)	(69.7)
CF - Financing Activities	838.4	1,206.6	944.4	874.6	322.8	(1,071.0)	(507.7)
Net Change in Cash	10.2	79.3	(24.8)	54.8	(8.8)	7.4	(8.7)
Closing Cash & Bank Balance	29.2	108.6	85.7	140.6	131.7	139.1	130.4

Contact

Hiten Sampat

President - Institutional Sales
email : hiten@ppfas.com
tel : 91 22 2284 6555 Extn 302

Ridhim Thapar

Institutional Sales
email : ridhim@ppfas.com
tel : 91 22 2284 6555 Extn 312

Hiren Samani

Analyst - Investment Research
email : hiren@ppfas.com
tel : 91 22 2284 6555 Extn 206

DISCLAIMER

This report does not constitute or form part of, and should not be construed as, any offer of sale or a solicitation to buy any security. The information contained herein is from sources believed to be reliable, but no representation or warranty, express or implied, is made to its accuracy. PPFAS and/or its clients may have positions in the securities mentioned in the report and may offer to buy, sell such securities or any related investments.

Parag Parikh Financial Advisory Services Limited

130/132, Great Western Building, 1st Floor, S. B. Marg, Near Lion Gate, Fort, Mumbai - 400 023.

Tel : 91-22-2284 6555 Fax : 91-22-2284 6553, e-mail : research@ppfas.com

Investment Boutique: Shiv Shakti, Gr. Floor, N. S. Rd. No.10, Opp. Haveli, Juhu Scheme, Mumbai - 400 049

Tel : 91-22- 2623 6555 Fax : 91-22-2623 6553, e-mail : ib@ppfas.com