

Great Offshore Limited

CMP Rs. 337.25
SELL

Q2 FY2009
Result Update

Standalone Performance Review

Great Offshore Ltd. (GOFF) reported disappointing set of numbers for the second quarter ended September 2008. The integrated offshore services company saw a Q-o-Q decline in Operating Revenues & PAT (before Extraordinary) levels. The highlights of the Q-o-Q results are as follows :

- Operating Revenues saw a decline of 21% from Rs. 2,026.8 Mn. in Q1FY09 to Rs. 1,593.4 Mn. in Q2FY09.
- Operating Profits declined by more than 43% despite savings coming in from Direct operating & Other Expenses to the tune of 35% & 22% respectively.
- Almost 24 times Q-o-Q jump in Other Income from Rs. 8.6 MN. in Q1FY09 to Rs. 209.1 Mn. in Q2FY09.
- Even with a drop of 70% in Tax payments, PAT (before Extraordinary) levels dipped by more than 50% from Rs. 356.5 Mn. in Q1FY09 to Rs. 168.8 Mn. in Q2FY09.
- However, Reported PAT levels witnessed a jump of 40% thanks to the Extraordinary loss of Rs. 236.4 Mn. (no cash outflow) charged in Q1FY09 towards translation of foreign loan liabilities.

GOFF reported an EPS of Rs. 4.54 on a reduced Equity Capital base of Rs. 371.4 Mn. for the quarter ended 30th September 2008.

On a Y-o-Y comparison, the results have been even more disappointing. GOFF reported a Y-o-Y increase of 4.6% in its top-line from Rs. ,1523.3 Mn. in Q2FY08 to Rs. 1,593.4 MN. in Q2FY09. However the Operating Profits fell by 34% due to almost 40% increase in Total Expenditures. Even with a 3-fold increase coming in from Other Income, the company saw a decline of 66% in PAT levels from Rs. 496.1 MN. in Q2FY08 to Rs. 168.8 Mn. in Q2FY09.

Buy Back of Shares

In relation to the public announcement dated 16 April 2008, GOFF has completed the buy back of its equity shares through the Open Market Route. As of 30 September 2008, the company has bought back 978,977 equity shares at an average price of Rs. 564.26 per shares. The total amount utilized for the buy back is Rs. 552.4 Mn. The largest percentage decline in shareholding has come in for the Foreign Institutional Investors (FII) from 12.48% pre-buyback to 9.33% post buyback. With the completion of this buyback, the total Issued Equity Capital of the company stands at Rs. 371.4 Mn.

Outlook going forward

We believe that the current turmoil in the global financial markets & steep correction in crude oil & other commodity prices will start having an impact on the offshore sector going forward. Charter rates for Offshore Vessels that had risen many-fold due to the steep rise in crude oil prices will start to come down. Companies might not be able to contract these vessels at same or higher day rates that they have been fetching in the past. Also there might be a case of these vessels lying idle due to non-availability of new contracts. Any of this would have a downside impact on the earnings of these offshore service companies.

Although GOFF has diversified business operations, reducing its dependence on any one business segment, majority of its revenues come from the chartering of offshore vessels. In the current scenario, the outlook does not seem clear for GOFF to be able to garner similar day rates for its offshore vessels, thereby having a significant impact on the company's earnings. At CMP of Rs. 337.25, the scrip trades at 5.5x FY09E earnings. We recommend a SELL on rise.

Great Offshore : Standalone Quarterly Financials

Earnings Statement								
YE March (Rs. Mn.)	Q209	Q109	Q-Q(%)	Q208	Y-Y(%)	H1FY09	H1FY08	Y-Y(%)
Net Revenues	1,593.4	2,026.8	-21.4%	1,523.3	4.6%	3,620.2	2,973.4	21.8%
Cost of Materials	0.0	0.0		0.0		0.0	0.0	
Gross Profit	1,593.4	2,026.8	-21.4%	1,523.3	4.6%	3,620.2	2,973.4	21.8%
Staff Costs	436.2	420.8	3.7%	372.6	17.1%	857.0	685.4	25.0%
Repairs & Maintenance	264.2	201.1	31.4%	174.1	51.8%	465.3	320.7	45.1%
Direct Operating Expenses	114.3	176.3	-35.2%	67.8	68.6%	290.6	174.4	66.6%
Other Expenses	302.3	385.9	-21.7%	186.4	62.2%	688.2	430.7	59.8%
Total Expenditure	1,117.0	1,184.1	-5.7%	800.9	39.5%	2,301.1	1,611.2	42.8%
Operating Profit	476.4	842.7	-43.5%	722.4	-34.1%	1,319.1	1,362.2	-3.2%
OPM (%)	29.9%	41.6%		47.4%		36.4%	45.8%	
Forex Gain/(Loss)	0.0	0.0		103.8		0.0	311.0	
Other Income	209.1	8.6	2331.4%	69.5	200.9%	217.7	152.3	42.9%
EBITDA	685.5	851.3	-19.5%	895.7	-23.5%	1,536.8	1,825.5	-15.8%
Depreciation	260.0	257.8	0.9%	231.4	12.4%	517.8	467.8	10.7%
EBIT	425.5	593.5	-28.3%	664.3	-35.9%	1,019.0	1,357.7	-24.9%
Interest	238.1	173.9	36.9%	145.1	64.1%	412.0	281.1	46.6%
PBT	187.4	419.6	-55.3%	519.2	-63.9%	607.0	1,076.6	-43.6%
Tax	18.6	63.1	-70.5%	23.1		81.7	18.8	334.6%
Current Tax	22.7	72.8	-68.8%	28.7	-20.9%	95.5	32.0	198.4%
Fringe Benefit Tax	3.0	1.5		1.5	100.0%	4.5	3.0	50.0%
Deferred tax	(7.1)	(11.2)	-36.6%	(7.1)	0.0%	(18.3)	(16.2)	13.0%
PAT	168.8	356.5	-52.7%	496.1	-66.0%	525.3	1,057.8	-50.3%
Extraordinary Income	0.0	(236.4)		0.0		(236.4)	0.0	
Profit on sale of Vessel	0.0	0.0		0.0		0.0	0.0	
Other EI	0.0	(236.4)		0.0		(236.4)	0.0	
Reported PAT	168.8	120.1	40.5%	496.1	-66.0%	288.9	1,057.8	-72.7%
Equity Capital	371.4	376.6		381.2		371.4	381.2	
EPS	4.54	3.19	42.5%	13.01	-65.1%	7.78	27.75	-72.0%
Ratio Analysis								
Profitability								
YE March	Q209	Q109	Q-Q(%)	Q208	Y-Y(%)	H1FY09	H1FY08	Y-Y(%)
OPM (%)	29.9%	41.6%	(2,809.1)	47.4%	(3,695.4)	36.4%	45.8%	(2,046.5)
EBITDA (%)	43.0%	42.0%	242.6	58.8%	(2,683.5)	42.5%	61.4%	(3,085.6)
EBIT (%)	26.7%	29.3%	(880.6)	43.6%	(3,876.6)	28.1%	45.7%	(3,835.6)
PAT (%)	10.6%	17.6%	(3,977.2)	32.6%	(6,747.2)	14.5%	35.6%	(5,921.3)

Great Offshore : Consolidated Financials

Earnings Statement							
Particulars (Rs Mn.)	FY06	FY07	FY08	FY09E	FY10E	FY11E	FY12E
Total Revenues	3,884.5	5,821.9	7,459.0	7,942.5	9,639.8	11,142.6	11,142.6
- Growth (%)		49.9%	28.1%	6.5%	21.4%	15.6%	0.0%
Total Expenditure	2,258.0	3,193.5	4,334.6	3,853.4	4,787.1	5,753.7	6,019.9
Operating Profit	1,626.5	2,628.4	3,124.4	4,089.1	4,852.7	5,388.9	5,122.7
Other Income	30.9	42.6	113.9	159.7	191.8	159.9	148.3
Forex Gain/(Loss)	(8.6)	36.2	386.0	0.0	0.0	0.0	0.0
EBITDA	1,648.8	2,707.2	3,624.3	4,248.8	5,044.5	5,548.8	5,271.0
Depreciation	448.9	709.0	985.5	1,038.3	1,176.9	1,218.2	1,259.4
EBIT	1,199.9	1,998.2	2,638.8	3,210.4	3,867.6	4,330.6	4,011.6
Interest	173.4	360.6	683.9	620.8	380.8	140.8	0.0
PBT	1,026.5	1,637.6	1,954.9	2,589.7	3,486.8	4,189.8	4,011.6
Tax	55.8	185.8	173.4	293.0	467.1	623.2	607.6
PAT Before EI	970.7	1,451.8	1,781.5	2,296.7	3,019.7	3,566.7	3,404.0
- Growth (%)		49.6%	22.7%	28.9%	31.5%	18.1%	-4.6%
Extra-ordinary Items	0.0	0.0	234.8	0.0	0.0	0.0	0.0
PAT	970.7	1,451.8	2,016.3	2,296.7	3,019.7	3,566.7	3,404.0

Ratio Analysis							
Particulars	FY06	FY07	FY08	FY09E	FY10E	FY11E	FY12E
OPM (%)	41.9%	45.1%	41.9%	51.5%	50.3%	48.4%	46.0%
EBITDA (%)	42.4%	46.5%	48.6%	53.5%	52.3%	49.8%	47.3%
PBIT (%)	30.9%	34.3%	35.4%	40.4%	40.1%	38.9%	36.0%
PAT (%)	25.0%	24.9%	27.0%	28.9%	31.3%	32.0%	30.5%
Interest Cover (x)	6.9	5.5	3.9	5.2	10.2	30.8	-
EPS (Rs.)	25.5	38.1	52.9	61.8	74.1	87.5	83.5
P/E (x)	13.2	8.9	6.4	5.5	4.6	3.9	4.0
P/BV (x)	2.6	2.1	1.5	1.2	1.0	0.9	0.8
BVPS (Rs.)	131.1	162.0	231.3	272.0	337.2	394.3	448.5
Market Cap (Rs. Mn.)	12,856.0	12,856.0	12,856.0	12,525.8	13,751.5	13,751.5	13,751.5
M Cap/Sales (x)	3.3	2.2	1.7	1.6	1.4	1.2	1.2
EV (Rs. Mn.)	15,643.6	19,745.2	19,123.3	18,134.9	15,313.6	12,545.8	9,825.0
EV/EBITDA (x)	9.5	7.3	5.3	4.3	3.0	2.3	1.9
EV/Sales (x)	4.0	3.4	2.6	2.3	1.6	1.1	0.9
ROCE (%)	13.6%	14.6%	14.4%	16.4%	20.9%	24.3%	21.9%
RONW (%)	19.4%	23.5%	22.9%	22.7%	22.0%	22.2%	18.6%
Debt/Equity Ratio (x)	0.8	1.2	1.1	0.9	0.3	0.1	0.0
Inventory T/o Days	6.8	4.0	3.8	4.5	4.5	4.5	4.5
Debtors T/o Days	71.8	77.7	85.5	72.0	72.0	72.0	72.0
Advances T/o Days	22.5	25.5	76.5	22.0	22.0	22.0	22.0
Creditors T/o Days	98.3	96.9	96.4	90.0	90.0	90.0	90.0
Working Cap T/o Days	95.8	45.0	201.8	182.8	127.6	103.6	135.1
Fixed Assets T/o (Gross)	0.4	0.4	0.5	0.4	0.5	0.5	0.5
DPS (Rs.)	5.1	8.0	16.0	19.0	22.0	26.0	25.0
Dividend Payout (%)	20.0%	21.0%	30.2%	30.7%	29.7%	29.7%	29.9%
Dividend Yield (%)	1.5%	2.4%	4.7%	5.6%	6.5%	7.7%	7.4%

Great Offshore : Consolidated Financials

Balance Sheet							
Particulars (Rs Mn)	FY06	FY07	FY08	FY09E	FY10E	FY11E	FY12E
Equity Capital	381.2	381.2	381.2	371.4	407.8	407.8	407.8
10% OCR Preference Capital			1,500.0	1,500.0	0.0	0.0	0.0
Reserves	4,618.0	5,794.6	6,934.1	8,229.7	13,343.6	15,670.0	17,881.4
Shareholders Funds	4,999.2	6,175.8	8,815.3	10,101.1	13,751.3	16,077.7	18,289.1
Borrowed Funds	3,811.6	7,465.6	9,461.3	9,445.1	4,759.6	1,759.6	0.0
Deferred Tax Liability	28.6	(32.9)	(65.7)	0.0	0.0	0.0	0.0
Total Liabilities	8,839.4	13,608.5	18,210.9	19,546.2	18,510.9	17,837.3	18,289.1
Fixed Assets	7,817.1	12,889.5	13,904.7	15,386.4	14,959.4	14,491.2	13,981.8
Goodwill on Consolidation	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Investments	0.0	0.0	181.9	181.9	181.9	181.9	181.9
Current Assets							
Inventory	72.8	63.1	78.3	97.9	118.8	137.4	137.4
Sundry Debtors	763.8	1,239.6	1,748.2	1,566.7	1,901.6	2,198.0	2,198.0
Loans & Advances	239.8	411.9	1,562.9	478.7	581.0	671.6	671.6
Cash & Bank Balance	1,024.0	576.4	3,194.0	3,836.0	3,197.4	2,965.3	3,926.5
Current Liabilities							
Sundry Creditors	1,045.8	1,545.7	1,971.0	1,958.4	2,376.9	2,747.5	2,747.5
Provisions	35.3	27.2	488.6	43.5	52.8	61.1	61.1
Net Current Assets	1,019.3	718.1	4,123.8	3,977.5	3,369.1	3,163.7	4,124.9
Miscellaneous Expenditure	2.5	0.4	0.0	0.0	0.0	0.0	0.0
Total Assets	8,839.4	13,608.5	18,210.9	19,546.2	18,510.9	17,837.3	18,289.1

Cash Flow							
Particulars (Rs Mn)	FY06	FY07	FY08	FY09E	FY10E	FY11E	FY12E
Opening Cash & Bank	563.1	1,024.0	576.4	3,325.3	3,967.3	3,328.7	3,096.6
Profit After Tax	970.7	1,451.8	2,016.3	2,296.7	3,019.7	3,566.7	3,404.0
Investment Income	(30.9)	(42.6)	(113.9)	(159.7)	(191.8)	(159.9)	(148.3)
Interest Paid	173.4	360.6	683.9	620.8	380.8	140.8	0.0
Miscellaneous Exp W/Off	2.1	2.1	0.4	0.0	0.0	0.0	0.0
Depreciation	448.9	709.0	985.5	1,038.3	1,176.9	1,218.2	1,259.4
Deferred Taxation	28.6	(61.5)	(32.8)	65.7	0.0	0.0	0.0
Others	80.5	(3.2)	0.0	0.0	0.0	0.0	0.0
Change in Working Cap	89.8	(146.4)	(788.1)	788.4	(30.2)	(26.8)	0.0
CF - Operating Activities	1,763.1	2,269.8	2,751.3	4,650.1	4,355.3	4,739.0	4,515.1
Change in Fixed Assets	(2,194.9)	(5,778.2)	(1,869.4)	(2,520.0)	(750.0)	(750.0)	(750.0)
Change in Investments	0.0	0.0	(181.9)	0.0	0.0	0.0	0.0
Investment Income	30.9	42.6	113.9	159.7	191.8	159.9	148.3
CF - Investing Activities	(2,164.0)	(5,735.6)	(1,937.4)	(2,360.3)	(558.2)	(590.1)	(601.7)
Increase in Equity	0.5	72.5	(63.9)	(9.8)	3,180.0	0.0	0.0
Changes in Preference Capital	0.0	0.0	1,500.0	0.0	(1,500.0)	0.0	0.0
Changes in Borrowings	1,256.6	3,654.0	1,995.7	(16.2)	(4,685.5)	(3,000.0)	(1,759.6)
Interest Paid	(173.4)	(360.6)	(683.9)	(620.8)	(380.8)	(140.8)	0.0
Dividend Paid – Equity	(221.9)	(347.7)	(728.1)	(825.6)	(1,049.5)	(1,240.3)	(1,192.6)
Dividend Paid – Preference	0.0	0.0	(84.8)	(175.5)	0.0	0.0	0.0
CF - Financing Activities	861.8	3,018.2	1,935.0	(1,647.8)	(4,435.7)	(4,381.0)	(2,952.2)
Net Change in Cash	460.9	(447.6)	2,748.9	642.0	(638.6)	(232.2)	961.2
Closing Cash & Bank Balance	1,024.0	576.4	3,325.3	3,967.3	3,328.7	3,096.6	4,057.8

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