Multi-Company

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Indian Shipbuilding

Raising Target Prices for ABG and Bharati

- Raising target prices for Indian shipyards — We are raising our target price for ABG Shipyard to Rs560 (Rs430 earlier) and Bharati Shipyard to Rs670 (Rs525 earlier) as we roll forward our target multiple for both companies to 12x FY09E PE (15x FY08E earlier), in line with valuations of similar-sized shipyards in the region.

- Raising Bharati's earnings by 10-23% — Strong order inflow in the past few months and healthy earnings visibility over the next three years leads us to upgrade our FY08-09E earnings by 10-23% for Bharati. We are also modestly adjusting our earnings by 2-4% for ABG and introducing FY10E for both companies. We expect Bharati, with a slew of new order wins and an order book of 4.4x FY08E sales, to deliver an EPS CAGR of 57% over FY07-10E. ABG which should announce new orders in the next few months, has an order book of 3.7x FY08E sales and EPS CAGR of 43%.

- Valuations remain attractive — Despite significant outperformance YTD, current valuations at 9x FY09E are attractive, in our view. Notwithstanding their exposure to cyclicality in global shipbuilding, we maintain our positive outlook for the sector and reiterate our Buy/Medium risk ratings on both stocks driven by 1) strong presence in the OSV segment which continues to generate demand driven by the robust E&P cycle; and 2) an emerging presence in the bulk carrier segment, which enjoys a strong global demand outlook.

- Positive triggers — 1) New order win announcements (especially by ABG), 2) positive developments on extension of the subsidy scheme, and 3) actual disbursal of subsidies by the government, would be positive for investor sentiment.

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Indian Shipyards – Statistical Abstract

Company Name	RIC Code	Rating	Mkt cap (US$m)	Share price 22-Jun-07	Target price	ETR %	P/E (x) FY08E	P/E (x) FY09E	EPS growth FY08-10E
ABG Shipyard	ABGS.BO	1M	526	419	560	33.9%	14.0	8.9	49.0%
Bharati Shipyard	BHAR.BO	1M	270	487	670	38.2%	12.6	8.7	51.7%

Source: Citigroup Investment Research

See Appendix A-1 for Analyst Certification and important disclosures.

[1]Citigroup Global Markets India Private Limited

Upgrading Earnings

We are upgrading our FY08-09E earnings for Bharati Shipyard by 10-23% on the back of strong order inflow over the past few months and higher revenue recognition from the Mangalore facility in the earlier years, driven by the acquisition of Swan Hunter. We are also introducing FY10E.

Figure 1. Bharati Shipyard – Earnings Revision

Year to	Net Profit (Rs Mils.)		Diluted EPS (Rs)			Div. Per Share (Rs)	
31-Mar	Old	New	Old	New	% Chg	Old	New
2008E	1,125	1,211	35.11	38.52	9.7%	2.5	3.0
2009E	1,452	1,716	45.32	55.87	23.3%	2.5	3.0
2010E	na	2,734	na	88.69	na	na	3.5

Source: Citigroup Investment Research estimates

We are also adjusting our FY08-09E assumptions for ABG Shipyard by 2-4% due to minor adjustments to revenues from the Dahej facility. We are also introducing FY10E. ABG has not made any new order win announcements recently, and we expect incremental news flow on this over the next few months, especially an order to construct a rig, to be a key stock price driver.

Figure 2. ABG Shipyard – Earnings Revision

Year to	Net Profit (Rs Mils.)		Diluted EPS (Rs)			Div. Per Share (Rs)	
31-Mar	Old	New	Old	New	% Chg	Old	New
2008E	1,470	1,524	28.86	29.92	3.7%	2.3	2.0
2009E	2,347	2,403	46.10	47.18	2.4%	3.7	2.5
2010E	na	3,382	na	66.42	na	na	3.5

Source: Citigroup Investment Research estimates

Valuation

We are rolling forward our target P/E multiple for the Indian shipyards to 12x FY09E vs. 15x FY08E earlier, thereby increasing our target price for ABG Shipyard to Rs560 (Rs430 earlier) and for Bharati Shipyard to Rs670 (Rs525 earlier). This is in line with the valuations of similar-sized Singapore shipyards which trade in the 11-14x CY08E earnings range. The Indian shipyards currently trade at ~9x FY09E earnings, a substantial discount to their Singapore counterparts, which we believe is not justified given their strong order book visibility and earnings growth of ~50% over FY08-10E. Robust earnings growth is likely to continue for Indian shipyards in FY10-11E when the contribution from the expanded capacities becomes more meaningful, lending comfort to our valuation. The valuation is also at a justifiable discount to Keppel Corp and SembCorp Marine, which are much larger and have strong capabilities in the design and construction of rigs and other offshore structures and vessels (both ABG and Bharati are entering the rig building segment).

Figure 3. Singapore Shipyards – Valuations

Company Name	RIC Code	Rating	Mkt. cap. (US$m)	P/E (2008E)
Jaya Holdings	JAYA.SI	NR	823	10.8
Labroy Marine Ltd	LABR.SI	NR	1,413	14.1
Pan-United Marine Ltd	PAUM.SI	NR	417	12.0
ASL Marine Holdings Ltd	ASLM.SI	NR	313	13.2
Average				**12.5**
Keppel Corp	KPLM.SI	1L	12,628	15.9
SembCorp Marine	SCMN.SI	1L	4,871	18.4

Source: I/B/E/S and Citigroup Investment Research estimates

The target multiple of 12x FY09E earnings for the Indian shipyards also compares favorably with the imputed target P/E (average 12.4x CY08E) of Korean shipyards, which though much larger in scale (catering primarily to vessels such as large crude carrier, containerships, and LNG tankers), have similar earnings growth over the next few years.

Figure 4. Korean Shipyards – Valuation Comparisons

Company Name	RIC Code	Rating	Target P/E CY08E	EPS CAGR CY07-09E
Hyundai Heavy Industries	009540.KS	1M	13.2	40.9%
Hyundai Mipo Dockyard	010620.KS	1M	13.0	31.1%
Daewoo Shipbuilding & Marine Engineering	042660.KS	1L	10.8	78.0%
Samsung Heavy Industries	010140.KS	1L	12.5	62.1%

Source: Citigroup Investment Research estimates

Though not a perfect comparison due to differing business dynamics and market forces, the Indian shipyards compare favorably with the Indian capital goods sector (which also has long order book cover), both in terms of earnings growth and order backlogs , as shown in Figure 5 below. The execution cycle for shipyards (c.18-24 months) and the average execution cycle for the selected capital good companies are similar, which therefore implies much better visibility for the former. The extent of the discount (~60%) to capital goods' valuations, therefore, appears unwarranted.

Figure 5. Comparison with Indian Capital Goods Sector

Company Name	RIC Code	Rating	P/E (FY09E)	EPS Growth (FY08-10E)	Order book/ FY08E sales
Larsen & Toubro	LART.BO	1L	25.2	28.8%	1.6
BHEL	BHEL.BO	1L	17.2	26.1%*	2.5
ABB	ABB.BO	1L	27.9	39.9%	0.5
ABG Shipyard	ABGS.BO	1M	9.0	49.3%	3.7
Bharati Shipyard	BHAR.BO	1M	8.7	51.7%	4.4

Source: Citigroup Investment Research estimates. *FY08-09E growth.

Company Focus

Rating change ☐
Target price change ☑
Estimate change ☑

Buy/Medium Risk	1M
Price (22 Jun 07)	Rs486.55
Target price	Rs670.00
from Rs525.00	
Expected share price return	37.7%
Expected dividend yield	0.5%
Expected total return	**38.2%**
Market Cap	Rs10,947M
	US$270M

Price Performance (RIC: BHAR.BO, BB: BHSL IN)

Bharati Shipyard (BHAR.BO)

Raising Target Price and Earnings Estimates

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	510	15.92	30.9	30.6	6.0	32.0	0.5
2007A	732	22.83	43.5	21.3	4.4	34.1	0.5
2008E	1,211	38.52	68.7	12.6	3.0	39.8	0.6
2009E	1,716	55.87	45.0	8.7	2.1	38.7	0.6
2010E	2,734	88.69	58.7	5.5	1.4	41.6	0.7

Source: Powered by dataCentral

- Increasing TP to Rs670 — We are raising our target price for Bharati Shipyard to Rs670 (Rs525 earlier), as we roll forward our target multiple to 12x FY09E PE (15x FY08E earlier), in line with valuations of similar-sized shipyards in the region.

- Raising earnings by 10-23% — Strong order inflow in the last few months and healthy earnings visibility over the next 3 years leads us to upgrade our FY08-09E earnings by 10-23% for Bharati. We now expect Bharati, with a slew of new order wins and an order book of 4.4x FY08E sales, to deliver an EPS CAGR of 57% over FY07-10E.

- Attractive valuations — Despite significant outperformance YTD, current valuations at 9x FY09E are attractive, in our view. On our new target price of Rs670, the stock offers 38% upside. We maintain our positive outlook for the sector and reiterate our Buy/Medium risk rating on the stock.

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	30.6	21.3	12.6	8.7	5.5
EV/EBITDA adjusted (x)	13.3	10.0	7.1	5.7	4.2
P/BV (x)	6.0	4.4	3.0	2.1	1.4
Dividend yield (%)	0.5	0.5	0.6	0.6	0.7
Per Share Data (Rs)					
EPS adjusted	15.92	22.83	38.52	55.87	88.69
EPS reported	15.92	22.83	38.52	55.87	88.69
BVPS	80.50	110.16	160.56	233.42	350.95
DPS	2.50	2.50	3.00	3.00	3.50
Profit & Loss (RsM)					
Net sales	2,940	4,217	7,699	11,596	18,825
Operating expenses	-2,079	-2,987	-5,650	-8,632	-14,268
EBIT	**861**	**1,229**	**2,049**	**2,964**	**4,557**
Net interest expense	-98	-151	-339	-695	-1,072
Non-operating/exceptionals	18	31	20	20	20
Pre-tax profit	**781**	**1,110**	**1,730**	**2,288**	**3,505**
Tax	-271	-378	-519	-572	-771
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**510**	**732**	**1,211**	**1,716**	**2,734**
Adjusted earnings	510	732	1,211	1,716	2,734
Adjusted EBITDA	876	1,279	2,104	3,068	4,715
Growth Rates (%)					
Sales	52.7	43.4	82.6	50.6	62.3
EBIT adjusted	89.9	42.8	66.6	44.7	53.8
EBITDA adjusted	91.3	46.1	64.5	45.8	53.7
EPS adjusted	30.9	43.5	68.7	45.0	58.7
Cash Flow (RsM)					
Operating cash flow	**241**	**-1,085**	**-720**	**88**	**-37**
Depreciation/amortization	15	50	55	104	158
Net working capital	-283	-1,867	-1,986	-1,733	-2,929
Investing cash flow	**-921**	**-326**	**-2,100**	**-2,000**	**-2,000**
Capital expenditure	-921	-326	-2,100	-2,000	-2,000
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**5,326**	**257**	**457**	**784**	**2,011**
Borrowings	5,246	186	534	861	2,101
Dividends paid	-64	-64	-77	-77	-90
Change in cash	**4,647**	**-1,155**	**-2,363**	**-1,129**	**-26**
Balance Sheet (RsM)					
Total assets	**9,041**	**9,236**	**11,361**	**14,262**	**19,895**
Cash & cash equivalent	4,722	3,572	1,215	92	71
Accounts receivable	688	1,372	2,381	3,178	4,477
Net fixed assets	1,095	1,371	3,416	5,312	7,154
Total liabilities	**7,219**	**6,747**	**7,738**	**8,999**	**11,988**
Accounts payable	281	350	654	1,002	1,678
Total Debt	5,475	5,661	6,195	7,056	9,157
Shareholders' funds	**1,822**	**2,489**	**3,623**	**5,263**	**7,907**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	29.8	30.3	27.3	26.5	25.0
ROE adjusted	32.0	34.1	39.8	38.7	41.6
ROIC adjusted	24.9	20.5	20.7	21.1	24.2
Net debt to equity	41.4	83.9	137.4	132.3	114.9
Total debt to capital	75.0	69.5	63.1	57.3	53.7

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Raising Bharati Shipyard's Earnings by 10-23%

We have raised our FY08E earnings for Bharati Shipyard by 10%, primarily on the back of modest increase in shipbuilding revenues and lower tax rate assumptions, as contribution from the Mangalore shipyard (which comes under an SEZ) starts kicking in. We factor in increasing revenues from Mangalore to lead to a steady decline in tax rates, from 34% in FY07 to 22% by FY10E.

We have increased our shipbuilding revenue assumption for FY09E to Rs10.4bn from Rs9.1bn earlier, as the Swan Hunter acquisition would likely lead to faster execution of the Mangalore project and consequently higher revenue recognition in earlier years than earlier envisaged. This is the main reason for the 23% upgrade in our FY09E earnings. We expect shipbuilding revenues to increase to ~Rs17bn in FY10E, driven by increasing contribution from Mangalore and recognition of a large part of the revenues from the rig contract (order value of Rs7.6bn).

Figure 6. Bharati Shipyard – Earnings Revision

Year to	Net Profit (Rs Mils.)		Diluted EPS (Rs)			Div. Per Share (Rs)	
31-Mar	Old	New	Old	New	% Chg	Old	New
2008E	1,125	1,211	35.11	38.52	9.7%	2.5	3.0
2009E	1,452	1,716	45.32	55.87	23.3%	2.5	3.0
2010E	na	2,734	na	88.69	na	na	3.5

Source: Citigroup Investment Research

Our increasing revenue assumptions are backed by a very strong order book of Rs37bn (unexecuted portion of c.Rs30bn, providing a cover of 4.4x FY08E sales). Bharati recently announced significant new orders (over Rs11bn in the last two months) to manufacture specialized vessels in the offshore space. The company has also started receiving orders for delivery in 2010. This lends significant visibility to earnings over the next 2-3 years – we now forecast earnings to grow at a CAGR of 57% over FY07-10E.

Figure 7. Bharati Shipyard – Order Book Profile

Sr. No	Type of Vessel	Name of Client	Contract Value (Rs m)
1	5250DWT Product Tanker cum Ro-Ro Vessel	Al-Jaber Shipping Agency & Marine Est.	264
2	Anchor Handling Towing Supply Vessel	Halul Offshore Services	330
3	60 Mtr. Multi Purpose PSV	Bourbon Supply Investissments	352
4	2 Pallet /container Vessels	Sea Cargo Skips- Norway	1,235
5	2 Pallet /container Vessels	Nor Lines AS - Norway	1,270
6	6 Muti purpose carriers	M.K.Shipping B.V	2,970
7	140 Tons Bollard Pull AHTS	Gesco	2,663
8	2 60Mtr. Multi Purpose PSVs	Bourbon Supply Investments	786
9	1 no. Twin Screw Pilot Cum Survey Vessel	Kolkata Port Trust	131
10	5 no. 120 Tons Bollard Pull AHTS	Bourbon Supply Investissments	3,905
11	2 Pilot Boats	Reliance Industries Limited	162
12	Diving Support Vessel (DSV)	Reliance Industries Limited	379
13	3 no. 54 Tons Bollard Pull Tugs	Reliance Industries Limited	637
14	Jack Up Drill Rig	The Great Eastern Shipping Co. Ltd.	7,643
15	6 no. 20,000 DWT Carriers	Clipper Group (Management Ltd)	5,793
16	2 no. PSVs	Man Ferrostaal	4,187
17	2 no. PSVs	UP Offshore	1,927
18	2 no. 150 Tons Bollard Pull AHTSs	Norwegian Offshore Shipping I Ltd.	2,604
		TOTAL	**37,237**

Source: Company, Citigroup Investment Research

We expect Bharati's margins to remain stable at c.18% over our forecast horizon, as better pricing of new orders mitigates potential increases on the cost front. The subsidy issue, not surprisingly, remains the key unknown for the sector and a key risk, in our view. Based on our discussions with managements of both companies, the government policy of providing continued impetus to the domestic shipbuilding industry, and the improved lobbying power of the industry as a result of larger industrial groups announcing plans to enter the space, we expect the present shipbuilding subsidy scheme (due to expire in August 2007) to be extended by the government. We, however, factor in subsidy as a proportion of shipbuilding revenues to decline from ~17% to 10% by FY10E. This is despite exports constituting over 60% of the current order book (the scheme provides for 30% subsidy on exports), as rig building contracts are not eligible for subsidy.

Figure 8. Bharati Shipyard – Key Financials

Rs m	FY07E	FY08E	FY09E	FY10E
Shipbuilding revenues	3,593	6,827	10,377	17,122
Subsidy	617	864	1,210	1,694
Subsidy as a % of shipbuilding revenues	17.2%	12.7%	11.7%	9.9%
Total revenues	4,217	7,699	11,596	18,825
EBITDA	1,279	2,104	3,068	4,715
EBITDA margin (ex-subsidy)	18.4%	18.1%	17.9%	17.6%
Profit before tax	1,110	1,730	2,288	3,505
Tax rate	34.1%	30.0%	25.0%	22.0%
Profit after tax	732	1,211	1,716	2,734

Source: Company reports and Citigroup Investment Research estimates

Our capex assumption of Rs4bn over FY08-09E on the Mangalore project remains broadly unchanged. We are, however, now incorporating additional capex to the tune of ~Rs2bn on further expansion at Mangalore. Acquisition of equipment from Swan Hunter will enable the company to manufacture ships of larger tonnage (upto c.100,000 DWT), though the company has not yet made any announcement to this effect. This would, however, require additional capex for expansion of the facilities at Mangalore, which we are now factoring into our FY10 forecasts.

Bharati Shipyard

Company description

Set up in 1973, Bharati Shipyard is one of the largest private shipyards in India. From its shipyards, spread across three regions – Ratnagiri, Ghodbunder, and Goa – the company has built ships including OSVs, cargo ships, and a wide range of tugs/deepwater trawlers. It is setting up a new shipyard in Mangalore and expanding its capacity in Ratnagiri. It has bagged an order to build a jack-up rig, a first for any Indian shipyard. It has an order book of Rs37bn. The company had an initial public offering in May 2004 and subsequently raised US$100m through an FCCB in Dec 2005.

Investment thesis

Bharati Shipyard has strong earnings momentum and an order book cover of 4.4x FY08E sales. We rate the stock Buy/Medium risk (1M) with a target price of Rs670. Fundamentals for Indian shipbuilders remain strong, driven by: (1) the robust E&P cycle ensuring demand in the OSV segment and (2) the continued tightness in the global shipbuilding sector. Our positive stance is backed by solid 57% earnings CAGR for FY07-FY10E. The company's current order book of Rs37bn is geared towards the oil & gas segment, which has strong demand drivers. The company has also bagged an order for a jack-up rig, the first of its kind for an Indian company. Its aggressive expansion plans are backed by its strong order book. The company has expanded its capacity at Ratnagiri, while its greenfield yard at Mangalore would start generating revenues in FY08E. The Mangalore yard will be able to produce ships of 60,000 DWT and will also house the rig building unit.

Valuation

We rate Bharati Shipyard Buy/Medium Risk (1M) with a target price of Rs670, based on 12x FY09E earnings. The valuation accounts for complete conversion of the FCCB – leading to a 42% dilution in earnings. This is based on our methodology of rating Indian shipbuilders in line with similar profiled Singapore shipyards, which trade in the 11-14x CY08E earnings range. Given Bharati's superior earnings CAGR of 57% over FY07-10E and an unexecuted order book that is 4.4x FY08E sales, we believe that Bharati deserves to trade at par with regional peers, subsidy concerns notwithstanding.

Risks

We rate Bharati Shipyard Medium Risk based on our global quantitative analysis. Being a small shipyard in the global context, Bharati is subject to industry-wide risk factors that include a rise in raw material costs and a steep rise in global shipbuilding capacity. Further, global macroeconomic variables such as a decline in GDP growth rates or a decline in sea trade could adversely affect Bharati Shipyards. Key risks include 1) removal of subsidies; 2) declining oil prices; and 3) execution risk.

Company Focus

ABG Shipyard (ABGS.BO)

Raising Target Price to Rs560

Rating change ☐
Target price change ☑
Estimate change ☑

Buy/Medium Risk	1M
Price (22 Jun 07)	Rs419.25
Target price	Rs560.00
from Rs430.00	
Expected share price return	33.6%
Expected dividend yield	0.4%
Expected total return	**33.9%**
Market Cap	Rs21,349M
	US$526M

Price Performance (RIC: ABGS.BO, BB: ABGS IN)

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	837	16.44	19.4	25.5	4.4	26.3	0.3
2007A	1,163	22.84	38.9	18.4	3.6	21.7	0.4
2008E	1,524	29.92	31.0	14.0	2.9	23.1	0.5
2009E	2,403	47.18	57.7	8.9	2.2	28.5	0.6
2010E	3,382	66.42	40.8	6.3	1.7	30.3	0.8

Source: Powered by dataCentral

- Increasing TP to Rs560 — We are raising our target price for ABG Shipyard to Rs560 (Rs430 earlier), as we roll forward our target multiple to 12x FY09E PE (15x FY08E earlier), in line with valuations of similar-sized shipyards in the region.
- Adjusting earnings by 2-4% — We are adjusting our FY08-09E earnings by 2-4%, principally on the back of slight adjustments to revenues from the new shipyard at Dahej based on our discussions with management.
- New order wins likely — Unlike Bharati, ABG has not made any significant announcements on new order wins in the past few months. We, however, believe that the company is likely to announce new orders over the next few months, especially for constructing a rig at its upcoming Dahej facility, for which the company has admitted to being in negotiations.
- Maintain Buy — Any new order win announcements would be a key stock price driver, in our view, and would further improve order book visibility (order book cover is already at 3.7x FY08E sales, driving an EPS CAGR of 43% over FY07-10E). On our new target price, the stock offers a 34% upside. We maintain our positive outlook for the sector and reiterate our Buy/Medium risk rating on the stock.

Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	25.5	18.4	14.0	8.9	6.3
EV/EBITDA adjusted (x)	14.2	10.4	8.9	6.1	4.6
P/BV (x)	4.4	3.6	2.9	2.2	1.7
Dividend yield (%)	0.3	0.4	0.5	0.6	0.8
Per Share Data (Rs)					
EPS adjusted	16.44	22.84	29.92	47.18	66.42
EPS reported	16.44	22.84	29.92	47.18	66.42
BVPS	94.74	115.87	143.51	187.85	250.28
DPS	1.20	1.50	2.00	2.50	3.50
Profit & Loss (RsM)					
Net sales	5,433	7,044	10,328	17,307	24,518
Operating expenses	-4,060	-5,150	-7,779	-13,291	-18,875
EBIT	**1,373**	**1,894**	**2,549**	**4,016**	**5,642**
Net interest expense	-167	-267	-300	-442	-591
Non-operating/exceptionals	61	54	50	50	50
Pre-tax profit	**1,267**	**1,681**	**2,298**	**3,624**	**5,102**
Tax	-430	-518	-774	-1,221	-1,719
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**837**	**1,163**	**1,524**	**2,403**	**3,382**
Adjusted earnings	837	1,163	1,524	2,403	3,382
Adjusted EBITDA	1,409	1,953	2,619	4,173	5,870
Growth Rates (%)					
Sales	44.2	29.7	46.6	67.6	41.7
EBIT adjusted	54.3	38.0	34.6	57.6	40.5
EBITDA adjusted	53.0	38.6	34.1	59.4	40.6
EPS adjusted	19.4	38.9	31.0	57.7	40.8
Cash Flow (RsM)					
Operating cash flow	**1,064**	**-2,312**	**465**	**295**	**697**
Depreciation/amortization	36	59	70	158	228
Net working capital	190	-3,535	-1,129	-2,265	-2,913
Investing cash flow	**-617**	**-1,661**	**-3,400**	**-3,000**	**-3,000**
Capital expenditure	-617	-1,661	-3,400	-3,000	-3,000
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**2,731**	**1,526**	**784**	**2,255**	**2,197**
Borrowings	267	1,613	900	2,400	2,400
Dividends paid	-70	-87	-116	-145	-203
Change in cash	**3,567**	**-2,035**	**-1,535**	**464**	**1,140**
Balance Sheet (RsM)					
Total assets	**10,267**	**11,591**	**15,550**	**23,283**	**32,333**
Cash & cash equivalent	4,053	2,018	483	947	2,087
Accounts receivable	61	77	113	190	269
Net fixed assets	1,560	3,162	6,492	9,335	12,107
Total liabilities	**5,443**	**5,691**	**8,242**	**13,718**	**19,589**
Accounts payable	2,378	1,914	2,919	5,052	7,219
Total Debt	997	2,610	3,510	5,910	8,310
Shareholders' funds	**4,824**	**5,900**	**7,308**	**9,565**	**12,745**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	25.9	27.7	25.4	24.1	23.9
ROE adjusted	26.3	21.7	23.1	28.5	30.3
ROIC adjusted	40.2	26.8	17.9	19.0	19.5
Net debt to equity	-63.3	10.0	41.4	51.9	48.8
Total debt to capital	17.1	30.7	32.4	38.2	39.5

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ABG Shipyard – Modest Adjustments; Order Wins Likely

We are adjusting ABG Shipyard's FY08-09E earnings by 2-4%, principally on the back of slight adjustments to revenues from the new shipyard at Dahej based on our discussions with management.

Figure 9. ABG Shipyard – Earnings Revision

Year to	Net Profit (Rs Mils.)		Diluted EPS (Rs)			Div. Per Share (Rs)	
31-Mar	Old	New	Old	New	% Chg	Old	New
2008E	1,470	1,524	28.86	29.92	3.7%	2.3	2.0
2009E	2,347	2,403	46.10	47.18	2.4%	3.7	2.5
2010E	na	3,382	na	66.42	na	na	3.5

Source: Citigroup Investment Research estimates

ABG's current order book stands at Rs42bn (unexecuted portion of Rs34bn, providing a cover of 3.7x FY08E sales). Unlike Bharati, ABG has not made any announcements of new order wins in the past few months. We are, however, of the opinion that the company is likely to announce new order wins over the next few months, especially for construction of a rig (at its upcoming facility at Dahej), negotiations for which are in progress. This would improve order book visibility further and could be a key trigger for stock performance. We forecast ABG can deliver an EPS CAGR of 43% over FY07-10E based on our estimates. A key point to be noted here is that the bulk of revenues from any potential rig order would be recognized in FY11E, contributing to sustained growth in that year, as the rig building facility is slated to commence operations in 2HCY08, with the first rig unlikely to be delivered before mid-CY10.

Figure 10. ABG Shipyard – Order Book Profile

Sr. No.	Type of Vessel	Name of Client	Contract Value (Rs m)
1	1 No. 2950DWT Dual Barge	Essar Steel Ltd	50
2	1 No. Offshore Support and Supply Vessel	VROON B.V., Netherlands	394
3	6 Nos. Anchor Handling Tug Supply Vessels	Deep Sea Supply ASA, Norway	2,757
4	1 No. Azimuthing Production Support Vessel	Lamnalco Ltd, Cyprus	410
5	1 No. Pipe Lay Barge	Maridive Offshore Projects S.A.E., Egypt	322
6	3 Nos. Pollution Control Vessels	Indian Coast Guard	3,688
7	3 Nos. Anchor Handling Tug Supply Vessels	Maridive & Oil Services S.A.E., Egypt	1,242
8	1 No. 500 Passenger Vessel	Andaman & Nicobar Administration	820
9	3 Nos. Anchor Handling Tug / Supply Vessels	Tag Sealogistics Ltd	1,691
10	3 Nos. Anchor Handling Tug Supply Vessels	Deep Sea Supply ASA, Norway	1,265
11	11 Nos. Interceptor Boats	Indian Coast Guard	1,939
12	4 Nos. 54K Supramax	Essar Shipping & Logisctics Ltd, Cyprus	6,392
13	3 Nos. Azimuthing Production Support Vessels	Lamnalco Ltd, Cyprus	1,366
14	1 No. LOA - Diving Support Vessel	Maridive & Oil Services S.A.E., Egypt	550
15	3 Nos. Seismic Survey Vessel	Scan Geophysical AS, Norway	2,251
16	1 No. Azimuthing Production Support Vessel	Lamnalco Ltd, Cyprus	485
17	1 No. 4000 DWT Self Unloading Bulk Cement Carrier	Gujarat Ambuja Cements Ltd	456
18	1 No. Azimuthing Production Support Vessel	Lamnalco Ltd, Cyprus	621
19	1 No. Geared Bulk Carrier	SEB Leasing Oy, Finland	1,417
20	2 Nos. 78M Diving Support Vessel	Vroon Offshore B.V., Netherlands	1,922
21	1 No. Geared Bulk Carrier	ESL Shipping Oy, Finland	1,417
22	3 Nos. 54K Supramax	Pacific First Shipping Pte Ltd, Singapore	4,071
23	4 Nos. 180T B.P. Anchor Handling Tug Supply Vessel	Pacific First Shipping Pte Ltd, Singapore	3,938
24	5 Nos. 82T B.P. Anchor Handling Tug Supply Vessels	Pacific First Shipping Pte Ltd, Singapore	2,530
		TOTAL	41,993

Source: Company, Citigroup Investment Research

We expect margins to remain stable at c.17% over our forecast horizon as better pricing of new orders would mitigate potential increases on the cost front. We factor in subsidy as a proportion of shipbuilding revenues to decline from ~13% to 10% by FY10E, in line with our assumptions for Bharati. This is despite exports constituting more than 70% of the current order book, as rig building contracts are not eligible for subsidy. ABG has, however, received in-principle approval for c.Rs820m of subsidies, of the total amount due of c.Rs2bn. Given the provision of Rs1.3bn by the government in the Union Budget towards disbursal of subsidy to private sector shipyards in FY08, ABG is likely to receive some amount as subsidy this year, which would be a positive for the company.

Figure 11. ABG Shipyard – Key Financials

Rs m	FY07E	FY08E	FY09E	FY10E
Shipbuilding revenues	6,159	9,238	15,704	22,300
Subsidy	820	1,025	1,538	2,153
Subsidy as a % of shipbuilding revenues	13.3%	11.1%	9.8%	9.7%
Total revenues	7,044	10,328	17,307	24,518
EBITDA	1,953	2,619	4,173	5,870
EBITDA margin (ex-subsidy)	18.2%	17.1%	16.7%	16.6%
Profit before tax	1,681	2,298	3,624	5,102
Tax rate	30.8%	33.7%	33.7%	33.7%
Profit after tax	1,163	1,524	2,403	3,382

Source: Company reports and Citigroup Investment Research estimates

Our capex assumptions of Rs4bn on Dahej I (of which c.Rs1.6bn was spent in FY07) and Rs6bn on Dahej II (rig building facility) remain broadly unchanged. We are, however, incorporating additional capex of c.Rs1bn on modernization of the recently acquired Vipul Shipyard, as indicated by management.

ABG Shipyard

Company description

ABG Shipyard, the largest private sector yard in India, has built more than 90 ships since 1990. It has a shipbuilding facility in Magdala, near Surat in Gujarat, which is focused on the offshore support vessel market. It is now setting up a new shipyard at Dahej besides expanding its capacity at Surat. The first phase of the Dahej shipyard, being constructed at a cost of Rs4bn, can build ships with capacity of up to 120,000 DWT, targeted at the dry-bulk segment. The company also plans to set up a facility at Dahej to manufacture rigs, a big-ticket profitable segment.

Investment thesis

ABG Shipyard is India's leading private shipbuilder and has one of the world's largest AHTS (Anchor Handling Tug) order books. The company has a robust order book of c.Rs42bn, providing earnings visibility until FY10. Fundamentals for Indian shipbuilders remain strong, driven by: (1) the robust E&P cycle ensuring demand in the OSV segment, and (2) continued tightness in the global shipbuilding sector. ABG has expanded its existing yard at Surat and is building a new greenfield yard at Dahej, which will be commissioned in April 2008. The Dahej yard will have capability to produce ships up to 120,000 DWT and is targetted at the fast growing dry-bulk segment. In its second phase of expansion, the yard would also have a rig-building facility. This should increase the order book execution rate and provide an entry into new shipbuilding segments. With strong, visible earnings growth (CAGR of 43% over FY07-10E), we believe current valuations remain attractive.

Valuation

We rate ABG Shipyard Buy/Medium Risk (1M). We value ABG at Rs560, which is 12x FY09E earnings, in line with similar profiled Singapore shipyards that trade in the 11-14x CY08E earnings range. Given ABG's superior earnings CAGR of 43% over FY07-10E and an order book that provides a cover of 3.7x FY08E sales, we believe ABG deserves to trade at par with regional peers, subsidy concerns notwithstanding.

Risks

We rate ABG Shipyard Medium Risk, which differs from our 260-day quantitative rating of High Risk. We believe the lower rating is justified given the strong order book cover of 3.7x FY08E sales driven by the offshore segment where strong demand drivers remain in place and the continued tightness in global shipbuilding. Being a small shipyard in the global context, ABG is subject to industry-wide risk factors that include a rise in raw material costs and a steep rise in global ship building capacity. Key risks include: 1) removal of subsidies; 2) declining oil prices; and 3) execution risk.

Appendix A-1

Analyst Certification

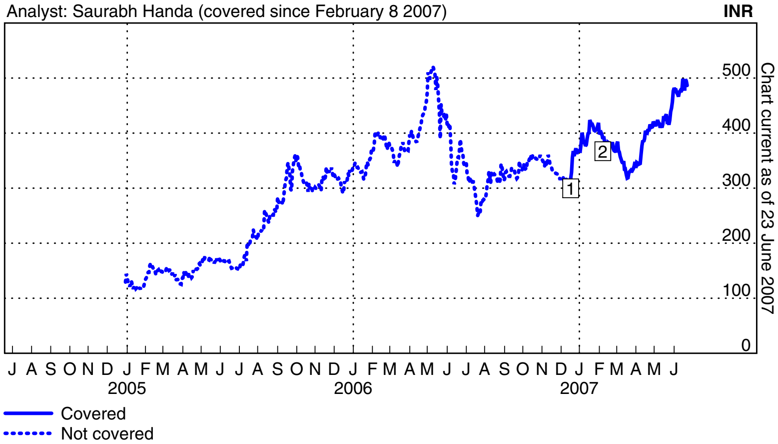
We, Saurabh Handa and Rahul Singh, research analysts and the authors of this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

IMPORTANT DISCLOSURES

Bharati Shipyard (BHAR.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Saurabh Handa (covered since February 8 2007)



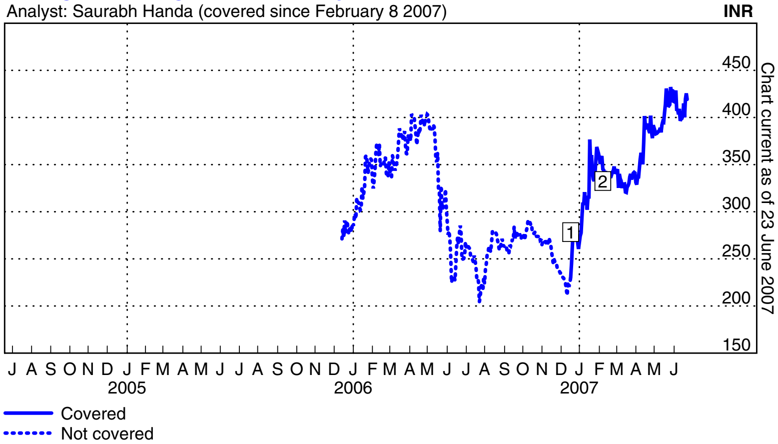
#	Date	Rating	Target Price	Closing Price
1:	18 Dec 06	1M	421.00	317.10
2:	7 Feb 07	1M	*525.00	389.50

*Indicates change.

ABG Shipyard (ABGS.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Saurabh Handa (covered since February 8 2007)



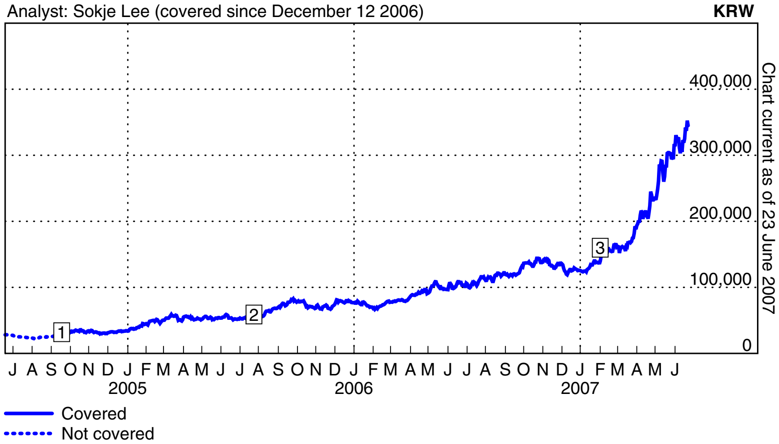
#	Date	Rating	Target Price	Closing Price
1:	18 Dec 06	1M	291.00	230.10
2:	7 Feb 07	1M	*430.00	345.15

*Indicates change.

Hyundai Heavy Industries (009540.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Sokje Lee (covered since December 12 2006)



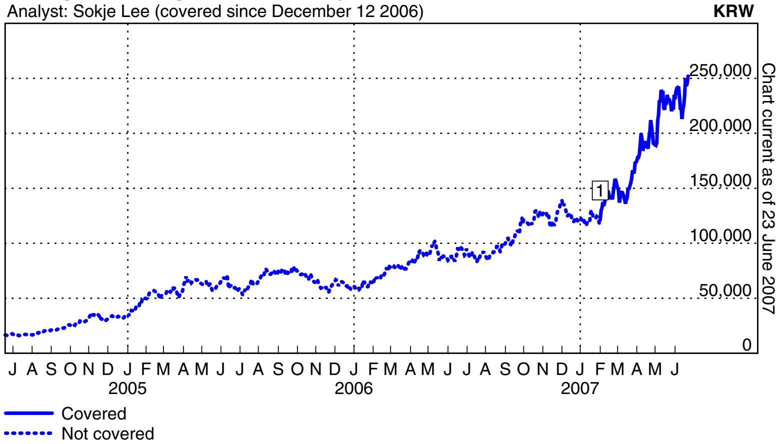
#	Date	Rating	Target Price	Closing Price
1:	17 Sep 04	2M	32,500.00	28,750.00
2:	25 Jul 05	*3M	32,500.00	55,900.00
3:	1 Feb 07	*1L	*235,000.00	139,500.00

*Indicates change.

Hyundai Mipo Dockyard (010620.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Sokje Lee (covered since December 12 2006)



#	Date	Rating	Target Price	Closing Price
1:	1 Feb 07	1M	245,000.00	121,500.00

*Indicates change.

Daewoo Shipbuilding & Marine Engineering (042660.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Sokje Lee (covered since December 12 2006)

#	Date	Rating	Target Price	Closing Price
1:	17 Sep 04	1H	19,400.00	15,050.00
2:	1 Aug 05	*2M	*22,900.00	20,900.00
3:	14 Nov 05	2M	*24,000.00	21,650.00
4:	9 May 06	*3M	24,000.00	31,900.00
5:	2 Jan 07	*1M	*42,000.00	29,700.00

*Indicates change.

Samsung Heavy Industries (010140.KS)

Ratings and Target Price History - Fundamental Research

Analyst: Sokje Lee (covered since December 12 2006)

#	Date	Rating	Target Price	Closing Price
1:	17 Sep 04	2M	6,100.00	5,290.00
2:	25 Jul 05	*3M	6,100.00	10,900.00
3:	24 Apr 07	*1L	*33,000.00	30,300.00

*Indicates change.

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