Latin Manharlal Securities Pvt Ltd

Weekender

September 19th , 2008

Index	Closing	Chg	Chg (%)
Sensex	14042.3	41.5	0.3%
Nifty	4245.3	16.8	0.4%
Auto	3958.3	6.4	0.2%
Bankex	7109.9	80.7	1.1%
Cap.Goods	11740.1	-96.5	-0.8%
Cons.Durables	3311.1	-264.2	-7.4%
FMCG	2175.2	-31.1	-1.4%
Healthcare	3924.7	-244.6	-5.9%
IT	3666.8	-140.0	-3.7%
Metal	10033.6	-847.8	-7.8%
Oil & Gas	9468.4	352.0	3.9%
Power	2529.8	-16.7	-0.7%
Realty	4102.6	-591.1	-12.6%

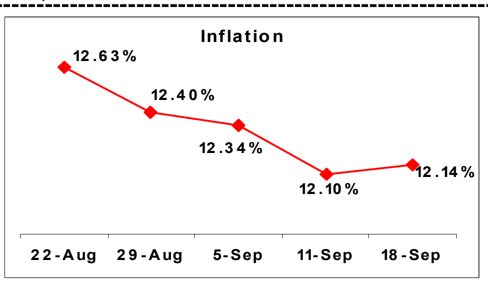
World Index	Closing	Chg	Chg (%)
Dow	11388.4	-33.5	-0.3%
Nasdaq	2273.9	12.6	0.6%
Hang Seng	19327.7	-25.2	-0.1%
Nikkei	11920.9	-293.9	-2.4%
FTSE 100	5311.3	-105.4	-1.9%

Top Gainers	Closing	Chg (Rs)	Chg (%)
KSK ENERGY	232.2	44.7	23.8%
AKRUTI CITY	908.2	82.2	9.9%
PUNJ LLOYD	311.4	27.0	9.5%
INDIAN OVER.	108.7	8.9	8.9%

Top Losers	Closing	Chg (Rs)	Chg (%)
NMDC LTD	218.0	-61.1	-21.9%
RANBAXY LAB.	356.9	-97.1	-21.4%
SESA GOA	109.1	-26.8	-19.7%
GUJ.NRE COKE	65.7	-16.1	-19.6%

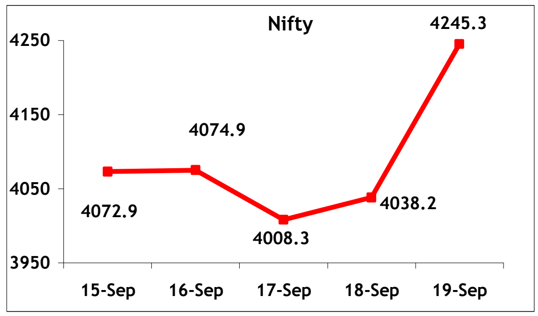
Metal	Closing	Chg	Chg (%)
Gold ($/oz)	873.6	108.1	14.1%
Silver ($/oz)	12.6	1.8	16.1%
Aluminium ($/MT	2483.5	-136.8	-5.2%
Copper ($/MT)	7085.0	-84.5	-1.2%
Lead ($/MT)	1890.5	-43.5	-2.2%
Zinc ($/MT)	1751.5	-115.3	-6.2%

Date	DII (Cash)	FII (Cash)	FII (FO)
15-Sep-08	130.9	-856.4	-777.4
16-Sep-08	242.1	-629.3	1156.2
17-Sep-08	434.0	-1240.6	-1053.2
18-Sep-08	939.5	-1333.5	382.8
19-Sep-08	-	-598.7	995.6



SNAP SHOT

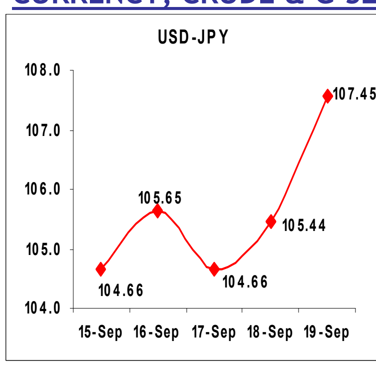
Markets witnessed high volatility due to US financial crisis and credit crunch. The Nifty index recovered sharply intraday on Thursday after making a fall of 209pts in early trading hours as Finance Ministers statement that Indian public sector banks are not exposed to US financial crisis assured domestic stability. It rallied 207 pts on Friday tracking rebound in world equity indices on hopes of US Govt making a more comprehensive move to curb credit crisis. Crude Oil exhibited high volatility, making a high of 102 $/bbl on Thursday and there by retrenched $3 as US refiners restarted operations following Hurricane Ike. Rupee gained 27paise against dollar as Asian Equity Markets rebounded thereby easing concern over FII outflow.

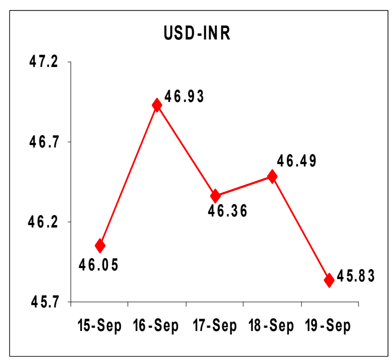


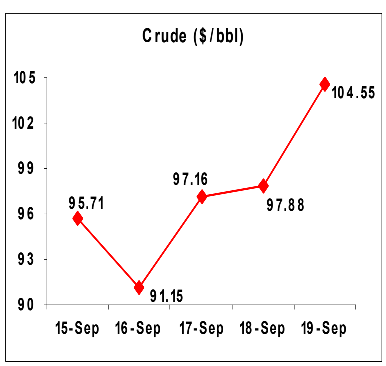
World indices plunged on Monday as the 4th largest investment banker Lehman Brothers filed for bankruptcy. US Fed Reserve, European Central Bank and the Bank of Japan collectively injected $247bn on Friday to calm mounting fears of US financial crisis with Morgan Stanley also looking out for selling its stake to the state owned China Investment Corporation and Washington Mutual awaiting rescue.

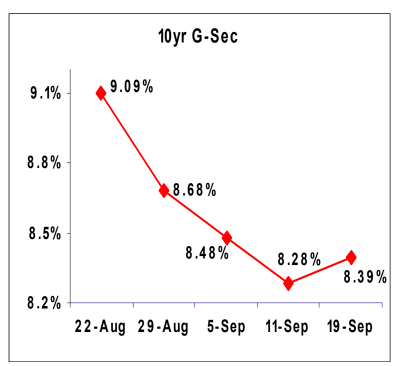
Inflation increased marginally to 12.14% vs 12.1% last week.

CURRENCY, CRUDE & G-SEC









ABG Shipyard:

ABG a Surat-based company is the largest private sector ship building company providing complete solutions from Ship building to Ship repair. The company provides wide range of vessels like Interceptor Boats, Self Loading and Discharging Bulk Cement Carriers, Floating Cranes, Articouple Tugs and Flotilla, Split Barges, Bulk Carriers, Newsprint Carriers, Offshore Supply Vessels, Dynamic Positioning Ships, Anchor Handling Tug Supply Vessels, Multi-purpose Support Vessel, Diving Support Vessels, etc. for leading companies in India and abroad. It has 2 major operational plants at Surat and Dahej. With following expansion plans:

Surat

Phase I

This unit is spread over 35 acres of land, having a capacity to build 36 vessels of 20000 dwt and 150mtrs in length. The company has planned a capex of Rs.496Crs for this unit which would be funded through internal accruals. The company has already used Rs.170crs for the same.

It had acquired Vipul Shipyard in 2007 near Surat, which is having a capacity to build 8 vessels, which is spread over an area of 7acres. Post this acquisition the company's vessel capacity has scaled upto 44vessels. The company has also acquired another 10 acres of land in Surat near Vipul shipyard. It plans to organize its operations by shifting its existing fabrication unit in Surat yard to new Vipul Shipyard sfacility thereby freeing the space to double the ship assembly berth area.

Phase II

The company is also setting up a new yard at Surat to build large vessels like VLCC's upto 350mtrs of length. It would build 6-8 vessels with the expected turnover of Rs.2000Crs.

Dahej

Phase I

The phase I of Dahej Shipyard has been completed and is now operational, having a capacity to build 12 vessels simultaneously on modular basis upto 1,20,000 DWT having length upto 250mtrs. It is spread over 165 acres of land with 1000 mtrs of water front. The company has already bagged orders for this yard for 39 bulk carriers valued at Rs.56bn executable over a period of 6yrs.

Phase II

The company has envisaged a capex of Rs.675 Crs for its phase II for building a Rigyard facility at Dahej. The company plans to fund this huge investment majorly through debt of Rs.615crs and the rest from internal accruals. This rigyard would have the capacity to build 4 rigs simultaneously per year, which would be commissioned from Q4FY09. It would build Ultra deep water jack up drilling rigs, Semi-submersibles/Off-shore Structures.

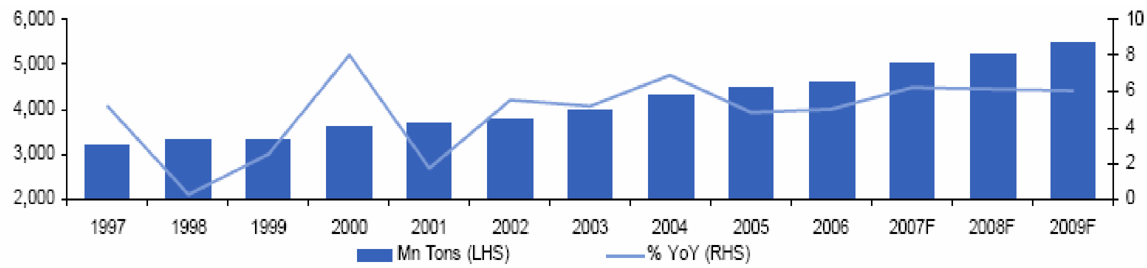
Investment Arguments:

Oil & Gas Exploration Activities- "to create huge opportunities"

High crude oil prices have propelled oil importing countries to increase their oil and gas exploration activities, to meet their needs domestically. Offshore supply vessels that facilitate the movement of rig for offshore exploration, have thus witnessed huge demand.

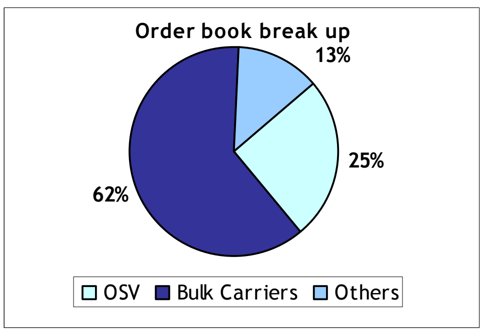
Demand for rigs has increased spectacularly with the Government offering 57 blocks, which include 28 offshore and 29 on land blocks under NELP –VII. This has created huge opportunities for the company to tap as it has now stepped into building of rigs in its Dahej facility.

Increase in Seaborne trade- "to fuel growth"



The increase in dry bulk trade as shown in the diagram above has led to surge in demand for Dry bulk carriers. Iron ore and Coal imported by countries like China and India for their power plants accounts for ~50% of the dry bulk cargo. China one of the largest manufacturers of steel, alone accounts for 43% of the global iron ore imports. Also the regulation set by International Maritime Organization for conversion of single hull carriers to dry bulk carriers by 2010 has fuelled the demand for dry bulk carriers.

Order Book- "to help maintain topline CAGR of 37%"

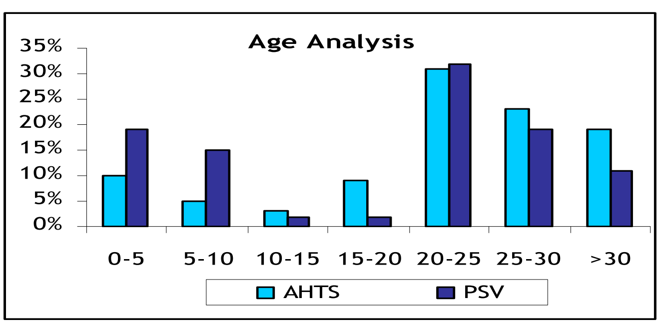


The company's order book till date stands at Rs.9400Crs i.e 9.7x its FY08 Sales of Rs.966.8Crs executable over a period of 6 years. The current order book comprises of 39 Bulk carriers accounting for 62%, while Offshore Supply Vessels account for 25% of the total order book. The company is establishing a strong foothold globally with export accounting for 90% of the total order book. 46% of the total order book consists of orders from repeat customers there by providing clear revenue visibility.

Huge expansion plans-"to help tap opportunities"

Keeping in mind the aforesaid demand and huge order book the company has planned a huge capex for expanding its current capacity and product profile. It is setting up a Greenfield plant at Surat to build large vessels upto 350mtrs, scaling up its capacity in this unit to 55 vessels. It has also set up a rig yard in Dahej which would get fully operational by Q4FY09 with a capacity of 4 rigs per year.

Aging Fleet -"to generate huge demand"

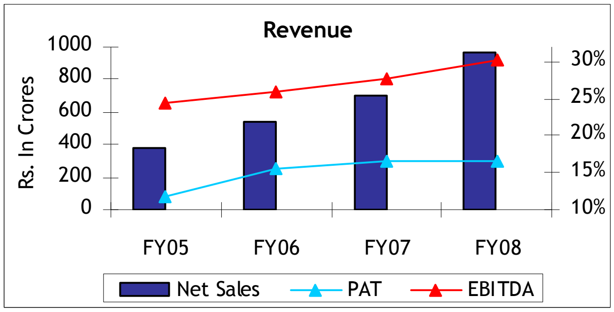


As seen in the diagram 73% of the Anchor Handling Tugs (AHTS) and 62% of the Platform supply vessels (PSV) are above the age of 20years. Also 62% of Handymax, a bulk carrier which is also built by the company, is globally above the age of 20yrs. The company would be the key beneficiary of this huge replacement demand.

Acquisition of WIS- "to add another activity in the value chain"

The company is in process to acquire 62% stake in Western India Shipyard, subject to WIS getting the approval for its restructuring scheme under Sec 391-394 of the Companies Act. WIS is the largest private sector player in ship and rig repair facilities in India. The company with its strategic location in Goa and having a capacity to build vessels upto 60000 DWT would help ABG add ship and rig repair services to its existing biz, enabling it to be a complete solution provider. Also this being a high margin business, it would help ABG improve its margin.

Financial Performance



The company has posted a topline growth of 37.26% YoY to Rs.966.8Crs in FY08. Its EBITDA margin has improved by 244bps to 30.17% despite of rise in raw material prices. The PAT margin has increased marginally by 9bps YoY to 16.62%. The company has also witnessed a growth of 33.9% YoY in its Q1FY09 revenue. Its EBITDA and PAT margin have also increased by 120bps and 85 bps respectively for this quarter.

Concerns:

1) The Dept. of Shipping had introduced a subsidy scheme in Aug '02 for a period of 5years, providing 30% incentive on the evaluated price of vessels that are more than 80mtrs in length. The new proposed scheme is modified to the extent of providing 20% subsidy on the above mentioned ships, subject to globally bid tenders. The company's topline would be hit if this new proposed scheme is adopted by the Govt.
2) A high execution risk prevails considering the long gestation period for the execution of the order book.
3) This being a raw material intensive industry, high raw material prices could keep margins under pressure.
4) Global slowdown and credit crunch could also keep buyers from placing new orders for ships.

Valuations:

At the CMP of Rs.326 the stock is trading at P/E of 10.3x its FY08 EPS of Rs.31.6. The company is currently growing at a topline CAGR 36.9% and bottomline CAGR of 53.1%. The huge order book of Rs.9400Crs coupled with high replacement demand for vessels would be the key trigger to fuel the company's growth. However keeping in mind the concerns over subsidy scheme coupled with high execution risk we do not have any rating for the stock.

Financials

P& L ABG Shipyard (Rs in Cr.)	FY07	FY08
Net Sales	704.4	966.8
% Growth	*30.0%*	*37.3%*
Net Raw Materials	422.6	535.4
Employee Cost	14.9	29.3
Other Mfg Exp	71.6	110.5
Total Expenditure	509.0	675.2
EBITDA	195.3	291.7
EBITDA (%)	*27.7%*	*30.2%*
Depreciation	5.9	7.4
EBIT	189.4	284.3
EBIT (%)	*26.9%*	*29.4%*
Interest	26.7	45.7
Other Income	5.41	7.4
PBT	168.1	246.0
PBT (%)	*23.9%*	*25.4%*
TAX	51.8	85.3
% of PBT	*30.8%*	*34.7%*
PAT	116.3	160.69
PAT (%)	*16.5%*	*16.6%*
Share Capital	50.9	50.9
FV	10	10
EPS	22.8	31.6
CMP	326	326
P/E	14.3	10.3
RONW (%)	228.4%	315.6%
M.Cap/Sales	2.4	1.7
EV/EBITDA	8.5	5.7

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