

GOL – Key trigger

May 7, 2010

REDUCE

Price	Target Price
Rs268	Rs235

Sensex	16,988
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Price Performance

(%)	1M	3M	6M	12M
Absolute	(1)	(19)	77	206
Rel. to Sensex	4	(22)	67	116

Source: Bloomberg

Stock Details

Sector	Shipbuilding
Reuters	BHAR.BO
Bloomberg	BHSL@IN
Equity Capital (Rs mn)	276
Face Value(Rs)	10
No of shares o/s (mn)	28
52 Week H/L	353/86
Market Cap (Rs bn/USD mn)	7/155
Daily Avg Volume (No of sh)	994998
Daily Avg Turnover (US\$m)	6.1

Shareholding Pattern (%)

	M'10	D'09	S'09
Promoters	39.0	39.0	39.0
FII/NRI	6.9	7.5	6.8
Institutions	11.5	15.6	22.4
Private Corp	11.7	13.3	8.3
Public	31.0	24.6	23.5

Source: Capitaline

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Bharati Shipyard (BSL) standalone Q4FY10 net profit growth at 17.3% yoy to Rs356 mn was in line with our estimates, despite subdued operational performance. BSL witnessed cancellation of one PSV order worth USD 27.5 mn by Opielok Bereederungs GmbH, Germany. BSL further increased its stake in Great Offshore (GOL) from 44.3% to 49.6% for a total consideration of Rs0.9 bn. Consequently, BSL's consolidated net DER deteriorated further from 2.0X post the open offer to 2.4X.

We continue to maintain our negative bias on the global shipbuilding industry. Further, there are additional risk factors from (1) expected round of equity dilution in both BSL and GOL and (2) unutilized capacity in core shipbuilding business leading to under-recovery of fixed or idle costs. We have fine tuned our earning estimates for FY11E and FY12E to Rs35.3 and Rs(-)39.8 per share respectively. We retain our REDUCE rating with target price of Rs235 split as (1) Rs117 for core ship building business and (2) Rs118 for 49.6% stake in GOL (adjusted for interest cost). Thus, GOL now contributes about 50% of BSL's SoTP based target price. We have a positive bias on GOL and its business model (our offshore industry analyst has indicated probability of significant upsides in earnings). Hence, we will review our rating on BSL post clarity on the above from the management.

Q4FY10 net profits grew 17% yoy - in line with estimates

BSL's standalone Q4FY10 net profit growth at 17.3% yoy was in line with our estimates, despite subdued operational performance. Led by a declining unexecuted order book cover (2.0X revenues) revenues grew by 14.0% yoy to Rs3242 mn, in line with estimates. Operating margins declined 40 bps yoy to 16.9%, against our estimate of 240 bps yoy improvement – attributed to higher other expenditure. Consequently growth in operating profit was lower at 11.5% yoy to Rs548 mn, below estimates. However, net profit growth at 17.3% yoy to Rs356 mn was in line with our estimates due to muted growth in interest costs. Despite sharp rise in debt (net DER up at 2.4X from 1.1X), interest costs increased by mere 5.5% yoy to Rs240 mn post netting interest income from subsidiaries.

BSL witnesses order cancellation worth USD 27.5 mn

During the quarter, BSL witnessed cancellation of one PSV order valued at USD 27.5 mn received from Opielok Bereederungs GmbH, Germany, due to ongoing financial crisis in Europe. Further, BSL has already initiated arbitration proceedings against the customer. BSL had bagged order for 2 PSVs from Opielok in 2007. It has not booked any revenues on the above cancelled order till date.

Unexecuted order book at Rs26 bn – equivalent to 2X FY10E revenues

BSL failed to secure new orders amidst no revival of demand in the global shipbuilding industry – in line with our assessment. However, BSL's unexecuted order book increased marginally by 4% qoq to Rs25.6 bn due to change in scope of work of existing orders – equivalent to just 2X FY10E revenues. Correspondingly, the total order book also increased 2% qoq to Rs50.8 bn. We reiterate that revival in order inflows is crucial for revival in investor interest and valuations upgrade for the sector.

Financial Snapshot

Rs Mn

	Net Sales	EBITDA (Core)	EBITDA (%)	AEPS APAT	AEPS (Rs)	EV/ EBITDA	Div Yld (%)	RoE (%)	P/E
FY2009	9,341	1,896	20.3	1,283	46.5	8.0	1.1	20.0	5.8
FY2010P	12,645	2,302	18.2	1,367	47.2	7.2	0.8	16.8	5.7
FY2011E	11,154	2,045	18.3	1,073	35.3	7.4	0.6	9.6	7.6
FY2012E	3,205	-347	-10.8	-1,210	-39.8	-38.5	0.7	-9.7	-6.7

BSL increases its stake in Great Offshore to 49.6%

BSL has further increased its stake in Great Offshore (GOL) from 44.3% (post open offer) to 49.6% for a total consideration of Rs0.9 bn at an average cost of Rs478 per share. This being a leveraged buy-out, BSL's consolidated net DER has further deteriorated from 2.0X post the open offer to 2.4X currently. We believe that - astronomically high DER is serious risk to operations – especially in a challenging business environment.

Retain Reduce rating, But likely to review post clarity on GOL

We continue to maintain our negative bias on the global shipbuilding industry amidst (1) no signs of revival in demand and (2) expected round of order cancellations and delays/postponements in scheduled deliveries owing to excessive capacity in the shipping industry. Further, there are additional risk factors from (1) Expected round of equity dilution in both BSL and GOL and (2) Unutilized capacity in core shipbuilding business leading to under-recovery of fixed or idle costs. We have fine tuned our earning estimates for FY11E and FY12E to Rs35.3 and Rs(-)39.8 per share respectively and retain our REDUCE rating on BSL. We maintain our target price of Rs235 split as Rs117 for core ship building business and Rs118 for 49.6% stake in GOL (adjusted for interest cost on acquisition). Thus, GOL now contributes about 50% of BSL's SoTP based target price. We have a positive bias on GOL and its business model (our offshore industry analyst has indicated probability of significant upsides in earnings). Hence, we will review our rating on BSL post clarity on the above from the management.

Key Financials

YE Mar (Rs Million)	Q4FY10	Q4FY09	YoY Gr(%)	FY10	FY09	YoY Gr(%)
Net Sales	3,242	2,843	14.0	12,645	9,341	35.4
Expenses	2,694	2,351	14.6	10,344	7,627	35.6
Raw Materials	1,829	1,468	24.6	7,040	5,098	38.1
% Of Sales	56.4	51.6	-	55.7	54.6	-
Employee Cost	409	415	-1.3	1,602	1,251	28.1
% Of Sales	12.6	14.6	-	12.7	13.4	-
Other expenditure	455	469	-2.9	1,702	1,278	33.2
% Of Sales	14.0	16.5	-	13.5	13.7	-
Operating Profit	548	491	11.5	2,301	1,714	34.2
Operating Margin (%)	16.9	17.3	-40 bps	18.2	18.3	-20 bps
Other Income	26	1	1880.2	39	4	881.3
Subsidy Income	250	223	12.0	836	851	-1.8
Interest	240	228	5.5	948	567	67.2
Depreciation	44	27	64.0	155	101	54.2
PBT	539	461	16.9	2,073	1,902	9.0
Tax	183	158	16.2	705	652	8.1
PAT (Before EO Item)	356	303	17.3	1,369	1,250	9.5
Net Margin (%)	11.0	10.7	30 bps	10.8	13.4	-260 bps
E/O Item	-	50	-100.0	-	50	-100.0
Reported PAT	356	354	0.6	1,369	1,300	5.3
Earnings	12.3	11.0	11.7	47.3	45.3	4.3
Order Book Details						
O/s Order Book				50,760	50,937	-0.3
Unexecuted Order Bk				25,603	33,638	-23.9

Income Statement

Y/E, Mar (Rs. m)	FY09	FY10E	FY11E	FY12E
Net Sales	9,341	12,645	11,154	3,205
Growth (%)	45.5	35.4	-11.8	-71.3
Expenses	7,445	10,343	9,110	3,553
Growth	45.7	38.9	-11.9	-61.0
Raw Materials	5,097	7,040	6,143	1,725
% Of Sales	54.6	55.7	55.1	53.8
Employee Cost	1,251	1,604	1,430	1,105
% Of Sales	13.4	12.7	12.8	34.5
Manufacturing Expenses	381	643	533	153
% Of Sales	4.1	5.1	4.8	4.8
Admin Expenses	277	399	424	402
% Of Sales	3.0	3.2	3.8	12.5
Selling & Distribn Expenses	439	657	580	167
% Of Sales	4.7	5.2	5.2	5.2
Operating Profit	1,896	2,302	2,045	-347
Growth (%)	44.5	21.4	-11.2	-117.0
Operating Margin (%)	20.3	18.2	18.3	-10.8
Other Income	784	873	966	286
Interest	625	949	953	717
Depreciation	101	155	431	431
PBT	1,954	2,072	1,627	-1,210
Tax	671	705	554	0
PAT (Before EO Item)	1,283	1,367	1,073	-1,210
Growth (%)	20.8	6.5	-21.5	-212.8
Net Margin (%)	13.7	10.8	9.6	-37.7
E/O Item	50	0	0	0
Reported PAT	1,333	1,367	1,073	-1,210

Cash Flow Statement

Y/E, Mar (Rs. m)	FY09	FY10E	FY11E	FY12E
Pre-Tax Profit	1,954	2,072	1,627	-1,210
Depreciation	283	155	431	431
Chg in Working Cap	-3,000	-2,577	-2,557	2,669
Tax Paid	-144	-705	-554	0
Operating Cash Flow	-907	-1,055	-1,052	1,890
Capex	-4,536	-800	0	0
Free Cash Flow	-5,443	-1,855	-1,052	1,890
Investments	-1	0	0	0
Equity Capital	0	973	2,764	0
Loans	5,717	0	-1,449	-900
Dividend	-97	-87	-46	-46
Others	0	0	0	0
Net Change in Cash	176	-970	216	944
Opening Cash Position	2,262	2,280	1,310	1,526
Closing Cash Position	2,438	1,310	1,526	2,470

Balance Sheet

Y/E, Mar (Rs. m)	FY09	FY10E	FY11E	FY12E
Equity Share Capital	276	289	304	304
Reserves	6,746	8,984	12,760	11,504
Networth	7,022	9,274	13,064	11,808
Secured Loans	6,979	6,979	8,579	7,679
Unsecured Loans	3,049	3,049	0	0
Loan Funds	10,028	10,028	8,579	7,679
Total Liabilities	17,050	19,302	21,643	19,487
Gross Block	2,898	2,898	8,898	8,898
Less: Depreciation	380	535	966	1,397
Net Block	2,519	2,364	7,932	7,501
Capital Work In Progress	6,157	6,957	957	957
Investments	34	34	34	34
Current Assets	19,947	21,040	22,719	16,068
Inventories	8,478	8,926	7,861	3,066
Debtors	282	316	279	80
Cash & Bank	2,280	1,310	1,526	2,470
Loans & Advances	8,908	10,488	13,053	10,452
Current Liabilities & Provs	11,282	10,767	9,674	4,747
Net Current Assets	8,665	10,272	13,045	11,320
Miscellaneous Expenditure	20	20	20	20
Deferred Tax	-345	-345	-345	-345
Total Assets	17,050	19,302	21,643	19,487

Key Ratios

Y/E, Mar	FY09	FY10E	FY11E	FY12E
Profitability %				
EBITDA Mgn	20.3	18.2	18.3	-10.8
PAT Mgn	13.7	10.8	9.6	-37.7
ROCE	19.0	16.6	12.6	-2.4
ROE	20.0	16.8	9.6	-9.7
Per Share Data				
EPS	46.5	47.2	35.3	-39.8
CEPS	49.5	50.8	44.7	-25.6
BVPS	254.7	320.4	429.9	388.6
DVPS	2.5	3.0	1.5	1.5
Valuations				
PER	5.8	5.7	7.6	-6.7
CPER	5.4	5.3	6.0	-10.5
P/BV	1.1	0.8	0.6	0.7
Ev/Sales	1.6	1.3	1.4	4.2
Ev/Ebitda	8.0	7.2	7.4	-38.5
Dividend Yield	0.9	1.1	0.6	0.6
Turnover X Days				
Debtor TO	9	9	9	9
Inventory TO	355	307	336	561
Gearing Ratio				
Net Debt/Equity	1.1	0.9	0.5	0.4
Total Debt/Equity	1.4	1.1	0.7	0.7

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