

November 3, 2008

	Accumulate
Rating	
Price	Rs126
Target Price	Rs167
Implied Upside	32.9%
Sensex	10,338

(Prices as on November 3, 2008)

Trading Data

Market Cap. (Rs bn)	6.9
Shares o/s (m)	54.9
Free Float	43.1%
3M Avg. Daily Vol ('000)	27.4
3M Avg. Daily Value (Rs m)	9.0

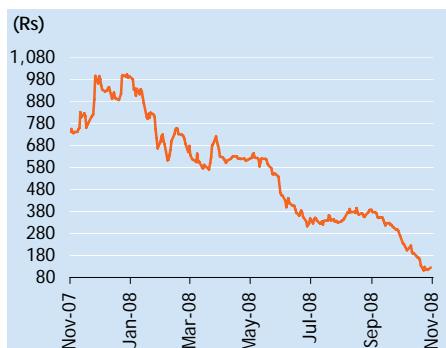
Major Shareholders

Promoters	56.9%
Foreign	11.1%
Domestic Inst.	22.3%
Public & Others	9.7%

Stock Performance

(%)	1M	6M	12M
Absolute	(53.4)	(79.5)	(83.1)
Relative	(35.9)	(38.3)	(34.8)

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



Source: Bloomberg

■ **Topline in line with estimates, subsidy booking low:** ABG Shipyard (ABG) reported topline of Rs2,744m, broadly in-line with our estimates, thereby representing growth of 42.3% YoY. The company's subsidy booking was low at Rs58m as it is currently executing an order from Precious Shipping which is a group company and hence does not book subsidy on the same.

■ **High interest cost on account of rig inventory:** ABG reported a sharp increase in the interest amounting to Rs363m as against Rs109m in 2Q FY08. Of the total interest cost, Rs147m was booked due to the pile-up of inventory on account of the two 350 feet jackup rig orders it received from Essar Oilfield Services for US\$480m. The average rate of interest also spiked to 13.5%, coupled with an increase in the Letter of Credit (LC) charges.

■ **23.6% PAT decline YoY; reducing estimates:** On account of the lower subsidy booking and high interest cost, ABG's PAT declined by 23.6% YoY and 44.5% QoQ to Rs261m.

On account of the turmoil in the shipping sector, we are reducing our earnings estimates for FY09 and FY10, respectively, as the company's order book is largely skewed towards the cargo vessels. This could result in customers pushing orders to later delivery dates. We are therefore reducing our topline estimates by 10.5% for FY09 and 11.2% for FY10. On account of the high interest cost, we are reducing PAT estimates by 22.8% for FY09 and 15.2% for FY10.

■ **Valuations:** AT CMP, the company trades at 4.0x FY09 and 2.3x FY10 with subsidy and 4.8x FY09 and 3.0x FY10 without subsidy. Despite the reduction in estimates, earnings growth remains strong at 37.8% CAGR over the next two years. Hence we maintain **Accumulate** rating on the stock, with a target price of Rs167 based on 3x FY10E.

Key financials (Y/e March)	FY07	FY08	FY09E	FY10E
Revenues (Rs m)	6,242	8,851	12,831	21,834
Growth (%)	33.2	41.8	45.0	70.2
EBITDA (Rs m)	1,134	2,100	3,233	4,607
PAT (Rs m)	1,163	1,607	1,731	3,052
EPS (Rs)	22.8	29.3	31.5	55.6
Growth (%)	38.9	28.1	7.8	76.3
Net DPS (Rs)	1.5	2.0	2.5	3.5

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08	FY09E	FY10E
EBITDA margin (%)	18.2	23.7	25.2	21.1
RoE (%)	24.1	25.6	18.4	23.4
RoCE (%)	15.4	14.9	13.3	15.8
EV / sales (x)	1.6	1.5	1.0	0.4
EV / EBITDA (x)	9.0	6.1	3.8	1.9
PE (x)	5.5	4.3	4.0	2.3
P / BV (x)	1.2	1.0	0.6	0.5
Net dividend yield (%)	1.2	1.6	2.0	2.8

Source: Company Data; PL Research

Kejal Mehta
KejalMehta@PLIndia.com
+91-22-6632 2246



Q2FY09 Result Overview

(Rs m)

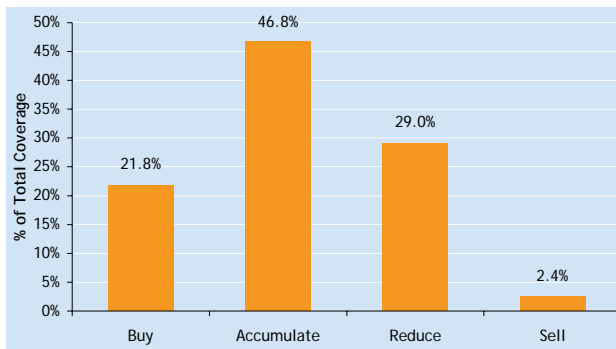
Y/e March	Q2FY09	Q2FY08	YoY gr. (%)	Q1FY09	H1FY09	H1FY08	YoY gr. (%)
Net Sales	2,744	1,928	42.3	2,655	5,399	3,453	56.3
Expenses							
Inc/ Dec in stock	(1,650)	(162)		(1,953)	(3,603)	(135)	
Raw materials consumed	3,227	1,386	132.9	3,441	6,668	2,394	178.6
<i>% of NS</i>	<i>57.5</i>	<i>63.5</i>		<i>56.1</i>	<i>56.8</i>	<i>65.4</i>	
Employee cost	65	47	39.4	78	143	81	77.5
<i>% of NS</i>	<i>2.4</i>	<i>2.4</i>		<i>2.9</i>	<i>2.7</i>	<i>2.3</i>	
Other manufacturing expenses	318	203	56.4	388	706	341	107.4
<i>% of NS</i>	<i>11.6</i>	<i>10.5</i>		<i>14.6</i>	<i>13.1</i>	<i>9.9</i>	
Total Expenses	1,961	1,474	33.0	1,954	3,915	2,680	46.1
EBITDA	783	454	72.5	701	1,484	774	91.8
<i>% of NS</i>	<i>28.5</i>	<i>23.5</i>		<i>26.4</i>	<i>27.5</i>	<i>22.4</i>	
Depreciation	27	17	57.4	22	49	31	56.6
EBIT	756	437	73.0	679	1,435	743	93.2
Interest	363	109	233.6	153	516	123	318.8
Other Income	3	1	140.2	79	82	35	135.2
Subsidy	58	190	(69.5)	68	126	260	(51.6)
PBT	454	520	(12.5)	672	1,126	914	23.2
Tax	194	178	8.6	202	395	309	27.8
<i>Effective tax rate (%)</i>	<i>42.6</i>	<i>34.3</i>		<i>30.0</i>	<i>35.1</i>	<i>33.8</i>	
PAT	261	341	(23.6)	470	731	605	20.9

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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