

November 4, 2008

Rating	Accumulate
Price	Rs883
Target Price	Rs1,808
Implied Upside	104.8%
Sensex	10,338

(Prices as on November 3, 2008)

Trading Data

Market Cap. (Rs bn)	33.3
Shares o/s (m)	38.5
Free Float	39.1%
3M Avg. Daily Vol ('000)	159.1
3M Avg. Daily Value (Rs m)	253.0

Major Shareholders

Promoters	60.9%
Foreign	16.1%
Domestic Inst.	4.7%
Public & Others	18.3%

Stock Performance

(%)	1M	6M	12M
Absolute	(49.9)	(75.0)	(83.2)
Relative	(31.5)	(33.2)	(34.4)

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



Source: Bloomberg

Aban Offshore

In-line with estimates

- **Strong topline on account of rig additions:** Aban Offshore (Aban) reported strong topline growth of 73.1% to Rs8,243m on account of higher number of operational rigs during the quarter. The company has 14 operational rigs as against 11 rigs in 2Q FY08.
- **Margin expansion due to lower operating expenditure (opex):** The opex as percentage to sales declined on account of the addition of newer vessels, resulting in margin expansion, from 52.7% in 2Q FY08 to 55.9% in the current quarter. However, it was below our expectations. Since Aban VII and Murmanskaya are not contracted as yet, margins remained muted.
- **Current contracts:** The last two contracts that Aban entered into were for DD-3 and DD-5. DD-3 has been contracted in Malaysia for a period of four years at an approximate day rate of US\$165,000 and DD5 has been contracted with Husky Oil China for 180 days at an approximate day rate of US\$210,000.
Three of the company's jackups (Aban VIII, Murmanskaya and DD-6) which are not under any contract are being marketed, while DD-2's contract is likely to expire in December 2008 and is hence also being marketed.
- **PAT strong despite high interest expenditure:** On account of the higher number of assets under operations, the company's PAT was strong despite high interest expenses of Rs2,373m. The company reported PAT of Rs2,678m, as against Rs89.9m in 2Q FY08.
- **Valuations:** Since margins were below expectation, we are downgrading our earnings estimates by 11% and 13% for FY09 and FY10, respectively. At CMP, the stock currently trades at PER of 3.6x FY09 and 2.0x FY10. We rate the stock **Accumulate** with a price target of Rs1,808 based on 4x FY10.

Key financials (Y/e March)	FY07	FY08	FY09E	FY10E
Revenues (Rs m)	7,187	20,211	38,002	51,742
Growth (%)	46.6	181.2	88.0	36.2
EBITDA (Rs m)	3,474	10,536	23,110	35,127
PAT (Rs m)	(140)	1,230	11,665	19,980
EPS (Rs)	(8.1)	24.5	244.5	452.0
Growth (%)	NM	NM	898.4	84.9
Net DPS (Rs)	3.0	3.6	4.0	4.5

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08	FY09E	FY10E
EBITDA margin (%)	48.3	52.1	60.8	67.9
RoE (%)	(6.2)	5.1	70.3	65.4
RoCE (%)	(4.0)	3.7	10.5	14.7
EV / sales (x)	17.1	7.5	3.8	2.5
EV / EBITDA (x)	35.5	14.3	6.3	3.6
PE (x)	NM	36.0	3.6	2.0
P / BV (x)	5.4	3.8	1.9	1.0
Net dividend yield (%)	0.34	0.41	0.45	0.51

Source: Company Data; PL Research

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Q2FY09 Result Overview

(Rs m)

Y/e March	Q2FY09	Q2FY08	YoY gr. (%)	FY09	H1FY09	H1FY08	YoY gr. (%)
Sales	8,243	4,761.3	73.1	7,494	15,737	7,897	99.3
Expenditure							
Consumption Stores & Spares	526	293.9	78.9	436	962	549	75.2
<i>% of Net Sales</i>	<i>6.4</i>	<i>6.2</i>		<i>5.8</i>	<i>6.1</i>	<i>7.0</i>	
Staff cost	838	422.2	98.5	757	1,596	778	105.2
<i>% of Net Sales</i>	<i>10.2</i>	<i>8.9</i>		<i>10.1</i>	<i>10.1</i>	<i>9.8</i>	
Rental Charges for machinery	462	130.3	254.7	153	615	219	180.6
<i>% of Net Sales</i>	<i>5.6</i>	<i>2.7</i>		<i>2.0</i>	<i>3.9</i>	<i>2.8</i>	
Repairs to machinery	50	45.8	10.1	135	185	71	161.8
<i>% of Net Sales</i>	<i>0.6</i>	<i>1.0</i>		<i>1.8</i>	<i>1.2</i>	<i>0.9</i>	
Insurance	169	149.1	13.6	134	303	285	6.6
<i>% of Net Sales</i>	<i>2.1</i>	<i>3.1</i>		<i>1.8</i>	<i>1.9</i>	<i>3.6</i>	
Other exp	1,592	1,210.7	31.5	1,864	3,456	2,066	67.3
<i>% of Net Sales</i>	<i>19.3</i>	<i>25.4</i>		<i>24.9</i>	<i>22.0</i>	<i>26.2</i>	
Total Expenses	3,638	2,252.0	61.5	3,479	7,117	3,967	79.4
EBITDA	4,605	2,509.4	83.5	4,015	8,620	3,931	119.3
<i>EBITDA Margin %</i>	<i>55.9</i>	<i>52.7</i>		<i>53.6</i>	<i>54.8</i>	<i>49.8</i>	
Depreciation	1,133	434.2	160.9	932	2,065	915	125.7
Other Income	1,599	398.3	301.3	208	1,806	868	108.1
Goodwill amortised	-	15.7		-	-	31	
EBIT	5,071	2,457.7	106.3	3,291	8,362	3,852	117.1
Less: Interest	2,027	2,283.1	-11.2	1,590	3,618	3,466	4.4
PBT	3,043	174.7	1642.3	1,701	4,744	387	1126.8
Tax	671	318.6	110.5	608	1,278	610	109.5
<i>Effective Tax Rate %</i>	<i>22.0</i>	<i>182.4</i>		<i>35.7</i>	<i>26.9</i>	<i>157.8</i>	
PAT	2,373	(143.9)	NM	1,093	3,466	(224)	NM
Share in JV	307	233.8	31.3	144	451	339	33.0
Minority Interest	2	-		1	2	-	
PAT after Minority Interest	2,678	89.9	NM	1,237	3,915	116	NM



Highlights

Vessel Details

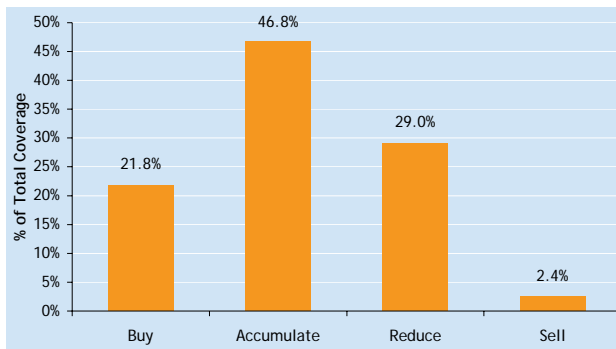
Name	Current Contract With	Day Rate
Aban Offshore		
Aban II	ONGC	Rs 3.68m
Aban III	ONGC	\$0.16m
Aban IV	ONGC	\$0.16m
Aban V	ONGC	\$0.16m
Aban VI	Oriental Oil Corporation	Eur0.06m
Aban Ice	ONGC (New contract to start in January 2009)	Rs6.2m
Tahara	Hardy Oil	\$0.09m
Aban Singapore		
Aban VII	Under Marketing	
Aban VIII	Petropars	\$0.2m
Deep Driller 1	GSPC	\$ 0.19m
Deep Driller 2	Petrofac	\$ 0.19m
Deep Driller 3	Malaysia	New contract at \$0.165m
Deep Driller 4	NA	\$0.2m
Deep Driller 5	Current Contract with Petronas, new contract with Husky Oil China	New Contract at \$0.21m
Deep Driller 6	Under Marketing	
Deep Driller 7	Thailand	\$0.2m
Deep Driller 8	Due for delivery in Feb. 2009	
Murmanskaya	Under Marketing	
Aban Abraham	Pioneer Natural Resources-Contract to start in September 2008	\$0.32m
Deep Venture	Maersk Oil Angola	\$0.42m
Aban Pearl	Latin America	\$0.3m

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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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