

28 April 2008

BUY

Price	Target Price
Rs257	Rs288

Sensex	17,126
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Price Performance

(%)	1M	3M	6M	12M
Absolute	23	26	11	21
Rel. to Sensex	15	26	25	0

Source: Capitaline

Stock Details

Sector	Offshore Oil Field Services
Reuters	GRSHBO
Bloomberg	GWOS@IN
Equity Capital (Rs mn)	238
Face Value (Rs)	10
No of shares o/s (mn)	23.8
52 Week H/L	310/162
Market Cap (Rs bn/USD mn)	5/125
Daily Avg Vol. (No of shares)	51854
Daily Avg Turnover (US\$m)	0.3

Shareholding Pattern (%)

	M'08	D'07	S'07
Promoters	30.0	29.8	34.7
FII/NRI	22.1	21.8	14.8
Institutions	3.1	3.2	3.9
Private Corp	15.3	12.4	7.6
Public	29.5	32.7	39.0

Source: Capitaline

Ajit Motwaniajit.motwani@emkayshare.com

+91 22 6612 1255

Chirag Dhaifulechirag.dhaifule@emkayshare.com

+91 22 6612 1238

Garware Offshore

Q4FY08 Results in line with expectations

Result Update

GOSL's Q4FY08 net profit at Rs64.4 mn is in line with our expectations. Revenues for the quarter increased by 36.5% yoy to Rs263.9 mn primarily on account of repricing of assets at higher day rates and addition of a new vessel PSV Kailash. Operating profit increased by 29.5% to Rs148.9 mn while operating profit margin stood at 56.4%, down 304 bps. The fall in operating profit margin was on account of dry docking expense for PSV M.V.Everest and one time DP fitting expense for an old AHTSV. Interest cost increased by 27% to Rs43.3 mn on account of debt taken by the company for acquisition of vessel. Correspondingly depreciation cost increased by 50.2% yoy. APAT (excluding forex gain) increased by a 20.3% to Rs64.4 mn, but PAT margin witnessed a decline of 327 bps to 24.4% on account of non contribution from one AHTSV for a period of 1.5 months. We remain positive on the entire offshore oil field services pack due to high level of earnings visibility and strong demand for offshore support assets. We believe that GOSL's move to enter into bareboat agreement for construction barge will be value accretive as it would take off pressure from funds required for capex. We are aligning our earnings estimates on account of change in planned capex and change in accounting year. We expect GOSL to report EPS of Rs18.4 and Rs25.4 for FY09E and FY10E. At current price of Rs257, the stock is trading at 13.9x and 10x its FY09E and FY10E earnings respectively. We maintain our BUY recommendation with a price target of Rs288.

Result Highlights

- Garware Offshore Services Ltd (GOSL) reported revenues of Rs263.9 mn for Q5CY07, a yoy increase of 36.5%. The increase is on account of repricing of one existing AHTSV, which has been deployed with ONGC at a considerable higher day rate of USD8800 and from PSV III M.V.Kailash, which has been deployed with Transocean for a period of 3 years at USD15500. On a qoq basis, the revenues witnessed a marginal drop of 3.8% on account of one AHTSV being out of action for a period of 1.5 months. The vessel is now DP fitted and is on contract with ONGC for a period for 5 years (ending Feb 2013). The topline growth is decent after considering the rise in rupee against USD.
- Operating profit increased by 29.5% to Rs148.9 mn. However operating profit margin declined marginally to 56.4% on account of a one time DP fitting expenditure and dry docking expense on PSV M.V.Everest incurred by the company. The employee expenses jumped significantly by 53.5%. On a qoq basis, operating profit degrew by 6.4% mainly on account of non contribution of one AHTSV for 1.5 months.
- The interest cost increased by 27% to Rs43.3 mn on account of debt taken by the company for acquisition of vessel. Correspondingly, depreciation increased by 50.2% yoy.
- GOSL's net profit for the quarter grew by 20.3% yoy to Rs64.4 mn while the PAT margin at 24.4% was down 327 bps on a yoy basis.

Recent developments:

- GOSL has secured a long term contract for its new 60t AHTSV being delivered in June 2008. Day rates for the 3 year contract with annual revenues of Rs175 mn works out to USD12000, much higher than our earlier estimates of USD9000.
- The management has also indicated on entering into a bareboat charter agreement for one additional 60t AHTSV to be delivered in H2FY10.
- The company has sold off one of its old AHTSV (1983 built) for a total consideration of Rs120 mn.
- The company entered into a MoU for acquisition of one 60t AHTSV scheduled to be delivered in February 2009.
- Accordingly, the company's fleet size stands at 6 vessels (3 old AHTSVs and 3 PSVs). The company is scheduled to expand its fleet as under

Vessel type	Expected date of joining
60t AHTSV 1	June 2008
60t AHTSV 2	Aug 2008
60t AHTSV 3	Jan 2009
PSV 4	July 2008
PSV 5	Jan 2009
Construction Barge	Aug 2009 (bareboat charter)

Outlook

Considering the rising day rates and strong demand for offshore supply vessels, we are bullish on the entire offshore arena. We believe that GOSL with its planned capex to significantly expand its fleet size will be able to capitalize on the strong undercurrent in offshore arena. Further, with the bareboat agreement coming into play, we believe that the pressure on the return ratios will be reduced significantly. We are aligning our earnings estimates on account of change in planned capex and change in accounting year. We expect GOSL to report EPS of Rs18.4 and Rs25.4 for FY09E and FY10E. At current price of Rs257, the stock is trading at 13.9x and 10x its FY09E and FY10E earnings respectively. We maintain BUY recommendation with a price target of Rs288.

Results Table

(Rs mn)	Q4FY08A	Q4FY07	% yoy	Q3FY08	%qoq
Net Sales	263.9	193.4	36.5%	274.2	-3.8%
Total Expenditure	115.0	78.4	46.7%	115.0	0.0%
Stock Adjustment	-17.6	1.0		-11.0	
Employee Expenses	50.0	32.6	53.5%	49.1	1.8%
Other Expenses	82.6	44.8	84.5%	76.9	7.5%
EBITDA	148.9	115.0	29.5%	159.1	-6.4%
Other Income	2.4	2.3	5.2%	1.4	76.8%
Interest	43.3	34.1	27.0%	48.4	-10.6%
PBDT	108.0	83.2	29.9%	112.1	-3.6%
Depreciation	42.8	28.5	50.2%	42.1	1.7%
PBT	65.2	54.7	19.3%	70.0	-6.8%
Tax	0.9	1.2	-28.4%	1.5	-44.6%
Tax	0.7	0.8	-8.5%	0.6	9.9%
Fringe Benefit Tax	0.2	0.4	-64.2%	0.9	-83.2%
Deferred Tax	0.0	0.0		0.0	
APAT	64.4	53.5	20.3%	68.4	-5.9%
Extraord - Exch Gain/Loss	-0.3	0.0		23.8	-101.4%
RPAT	64.1	53.5	19.7%	92.3	-30.6%
AEPS	2.70	2.25	20.3%	2.87	-5.9%
Equity	238.2	238.2	0.0%	238.2	
Margin Ratios					
PBIDTM(%)	56.4	59.5	-304.1	58.0	-161.8
PBDTM(%)	40.9	43.0	-208.6	40.9	6.2
PATM(%)	24.4	27.7	-327.3	25.0	-56.2

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Emkay Share and Stock Brokers Ltd.,
Paragon Center, Ground Floor, C-6
Pandurang Budhkar Marg, Worli, Mumbai – 400 013. , Tel no. 66121212. Fax: 66121299