

Shipping Sector

Outlook:

Dry Bulk	- Positive
Tanker	- Firming up
Off shore	- Positive

The Shipping Companies' performance is expected to be marginally subdued due to correction in the tanker rates though huge capex and new vessel additions will help them in sustaining the earnings. We are positive on the Logistics and Ship building sector that have huge expansion plan along with a big order book on hand.

Investment Arguments

- Tanker rates were weak on the back of OPEC's decision to curb production and feared slow down in the US economy, but we expect the freight rates to rise marginally. The dry bulk segment will remain buoyant in the next two-three quarters on the back of sustained growth in China. Also the shift in trade pattern towards BRIC countries is expected to positively influence the ton-mile demand. On the other hand the Offshore segment is attracting a lot of attention because of its earnings visibility.
- Logistics is another very attractive sector wherein companies are aggressively networking their ware housing, distribution and freight management services to provide customised transport solutions. Ship building companies like Bharatiya and ABG Shipyard are adding more capacity and have a huge order book on hand.
- Though we see shipping companies' earnings subdued, the plans of offshore foreray makes them very attractive on the back of visibility in future earnings.

Quarterly Performance:

Rs Cr	Net Sales		% Change	Operating Profit		% Change	PAT		% Change
	Q3FY07E	Q3FY06		Q3FY07E	Q3FY06		Q3FY07E	Q3FY06	
Garware Offshore*	15.4	9.1	69.2	8.3	4.0	107.5	4.9	2.2	122.7
Mercator Lines	258.4	196.4	31.6	102.7	101.0	1.7	51.4	55.2	(6.9)
Shreyas Shipping	34.8	30.5	14.1	9.7	10.6	(8.5)	6.1	7.5	(18.7)

* December ending company

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Garware Offshore Services Limited
CMP: Rs 271
Key Data:

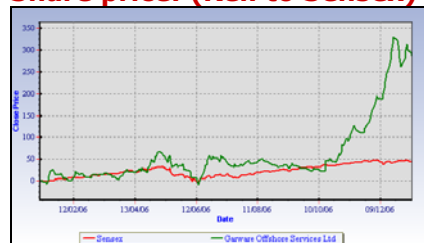
BSE Code	501848
NSE Code	GARWARS HIP
Sensex	14130
52 week H/L (Rs)	300/59
Dec. month H/L (Rs)	300/168
Market Cap (Rs Cr)	510
Avg. daily vol. (6M)	159027
Face Value	10

Source: Capitaline

Shareholding Pattern (%):

Promoters - Foreign	9.00
Promoters - Indian	24.00
Institutions	1.00
Public & Others	66.00

Source: Capitaline

Share price: (Rel. to Sensex)


Source: Capitaline

Quarterly highlights:

- Sustained growth and performance:** In Q4CY06, we expect the sales to increase by 68% YoY and 14% QoQ to Rs 15.4 Cr. Net profit will grow by 124% YoY and 10% QoQ to Rs 4.9 Cr.
- Margins to remain constant:** The operating margin as well as net margin will slightly decline for the quarter. The earning per share will remain constant on account of conversion of warrants.
- Acquired PSV on charter:** Garware Offshore's newly acquired MV Kailash has already been chartered at \$15,500 per day to offshore drilling company Transcore for three years.
- Future forays:** Recent talks with Havilla Shipping for cross marketing arrangements for deployment of vessels, which would fetch better value per vessel per day. Also Garware is planning to set up an offshore vessel design centre in India, in association with Norwegian shipyard Havyard Leirvik AS, a subsidiary of Havilla Shipping.
- Valuation:** At the current price of Rs 271, the stock quotes at 29.5x it's CY06E EPS of Rs 9.2 and 16.6x it's CY07E EPS of Rs 16.3.

Quarterly Performance: (December ending company)

Rs. Cr	Q4CY05	CY05	Q1CY06	Q2CY06	Q3CY06	Q4CY06E	CY06E
Net Sales	9.1	30.9	11.9	11.9	13.5	15.4	52.6
% Change (YoY)						69.2	70.2
Other Income	0.2	1.9	0.0	0.1	0.36	0.0	0.5
Total exp.	5.2	17.2	5.5	5.8	6.1	7.1	24.5
OPM (%)	43.5	44.2	53.5	61.4	54.6	54.0	55.7
PBIDT	4.0	13.7	6.4	7.3	7.4	8.3	29.3
Interest	0.3	0.5	1.3	1.6	1.7	1.8	6.3
Depreciation	0.9	3.6	1.3	1.5	1.6	1.7	6.1
Tax	-0.8	-0.8	-0.1	-0.1	0.0	0.0	-0.2
Adjusted PAT	2.2	10.6	3.8	4.1	4.4	4.9	17.2
% Change (YoY)						122.7	62.3
EPS (Rs)	1.2	5.7	2.0	2.2	2.4	2.6	9.2
NPM (%)	23.7	34.3	31.7	34.8	32.8	31.6	32.6

Mercator Lines Limited
CMP: Rs. 49
Key Data:

BSE Code	526235
NSE Code	MLL
Sensex	14130
52 week H/L (Rs.)	70/27
Dec. month H/L(Rs)	37/31
Market Cap (Rs Cr)	927
Avg. daily vol. (6M)	349516
Face Value	1

Source: Capitaline

Shareholding Pattern (%):

Promoters - Indian	44.00
Non-promoter Corp.	16.00
Public & Others	40.00

Source: Capitaline

Share price: (Rel. to Sensex)


Source: Capitaline

Quarterly highlights:

- Good growth in sales:** The Company is expected to show satisfactory results with robust growth in sales that is expected to grow by 31.6% YoY and 16.8% QoQ to Rs 258 Cr. Net profit is expected to show degrowth by 7% YoY but rise by more than 100% QoQ. We expect both the operating as well as net profit margins to expand on sequential basis.
- Fleet addition:** MLL has taken the delivery of a 1998 built Aframax Tanker of about 1,10,000 DWT. Mercator Lines Singapore contracted a VLCC on charter on January 1, 2007. With new additions of fleets, the revenue is expected to raise and the further firming up of the freight rates will help MLL to generate more profits.
- Second offshore rig:** MLL is planning to buy another second hand rig for \$200-250 Mn. The first jack up rig will be delivered in Q1FY09. Two new bulk carriers' orders have been placed, one of which will be delivered in Jan 2007 and another in June 2007, which is expected to join the Singapore subsidiary.
- Valuation:** At the current price of Rs 49, the stock quotes at 8.1x its FY07E EPS of Rs 6. We believe that the long term contracts of MLL, firming up of freight rates and the fleet addition will provide voluminous revenue growth for MLL along with contribution from the off shore segment.

Quarterly Performance:

Rs Cr	Q3FY06	Q4FY06	FY06	Q1FY07	Q2FY07	Q3FY07E
Net Sales	196.4	150.2	621.9	176.4	221.14	258.4
% Change (YoY)						31.6
Other Income	-0.3	14.2	16.0	10.1	0.6	0.0
Total exp.	95.1	71.3	307.0	125.7	157.8	155.7
OPM (%)	51.4	62.0	53.2	34.5	28.9	39.7
PBIDT	101.0	93.1	330.9	60.8	63.9	102.7
Interest	18.4	16.5	56.3	15.1	15.3	21.9
Depreciation	26.4	26.0	93.7	26.3	25.4	28.0
Tax	0.99	1.3	3.2	1.0	1.7	1.4
Adj.PAT	55.2	49.3	177.8	18.4	21.5	51.4
% Change (YoY)						-7.0
EPS (Rs)	2.9	2.6	9.4	1.0	1.1	2.7
NPM (%)	28.1	32.8	28.6	10.4	9.7	19.9

Shreyas Shipping and Logistics Ltd.
CMP: Rs 117
Key Data:

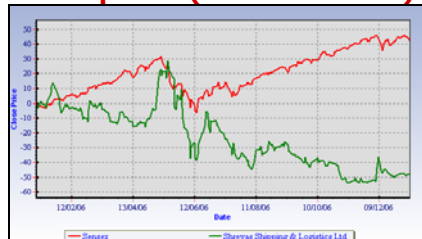
BSE Code	520151
NSE Code	SHREYAS
Sensex	14130
52 week H/L (Rs.)	290/101
Sept. month H/L(Rs)	160/125
Market Cap (Rs Cr)	256
Avg. daily vol. (6M)	9650
Face Value	10

Source: Capitaline

Shareholding Pattern (%):

Promoters - Foreign	68.67
Promoters - Indian	4.91
Non-promoter Corp.	3.77
Public & Others	22.65

Source: Capitaline

Share price: (Rel. to Sensex)

Quarterly highlights:

- We attended the conference call of Shreyas Shipping and we believe that the FY 2008 is a transition year for the company engaged in shipping and logistic to bet on the market cyclicality by reducing the dependence on the seasonality nature of the shipping income.
- In Q3FY07, we expect the sales to grow by 14% YoY and by 5% QoQ to Rs 34.8 Cr. Net profit will degrow by 19% YoY and rise by 10% QoQ to Rs 6.1 Cr.
- We expect improvement in OPM and NPM on account of firming up of the charter hire rates and marginal reduction of maintenance costs.
- Shreyas has taken delivery of the fully cellular ship 'Independent Spirit' of 1,300 TEU capacities, which is currently on charter hire and will later be added to company's own fleet to meet the growth in logistic business.
- **Valuation:** At the current price of Rs 117, the stock quotes at 11.7x its FY07E EPS of Rs 10. Considering the transition phase of Shreyas, we believe that the stock is fairly priced. We are positive on the growth prospects for the next financial year 2008, with better margin contribution from the logistics segment.

Quarterly Performance:

Rs Cr	Q3FY06	Q4FY06	FY06	Q1FY07	Q2FY07	Q3FY07E
Net Sales	30.5	31.2	124.2	30.1	33.2	34.8
% Change (YoY)						14.1
Total expenditure	23.1	22.2	82.6	22.8	25.6	26.1
OPM (%)	24.3	28.8	33.5	24.3	23.0	25.0
Other income	3.2	0.6	3.9	1.1	0.7	1.0
PBDIT	10.6	9.6	45.5	8.4	8.4	9.7
Interest	0.5	0.0	1.9	0.4	0.8	1.5
Depreciation	2.1	0.4	8.5	1.8	2.0	2.0
Tax	0.4	1.8	0.6	0.3	0.0	0.2
Adj. PAT	7.5	7.2	34.4	5.9	5.5	6.1
% Change (YoY)						(18.7)
EPS (Rs)	4.2	3.3	17.0	2.7	2.5	2.8
NPM (%)	24.6	23.1	27.7	19.7	16.5	17.4

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