

January 19, 2008

Rating	BUY
Price	Rs761
Target Price	Rs948
Implied Upside	24.6%
Sensex	19,014

*(Prices as on January 18, 2007)*

#### Trading Data

Market Cap. (Rs bn)	24.4
Shares o/s (m)	32.0
Free Float	62.2%
Avg. Daily Vol ('000)	37.6
Avg. Daily Value (Rs m)	27.9

#### Major Shareholders

Promoters	42.1%
Foreign	15.1%
Domestic Inst.	36.8%
Public & Others	6.0%

#### Stock Performance

(%)	1M	6M	12M
Absolute	6.4	41.8	80.4
Relative	6.8	5.7	46.6

Price Performance (RIC: BHAR.BO, BB: BHSL IN)



Source: Bloomberg

## Bharati Shipyard

### Capex line-up to increase profitability

- Commences work on rig building:** Bharati Shipyard has commenced work on the rig project in Dabhol. The panel lines of the rig are already under construction, while the entire rig is likely to be completed on schedule by December 2008.
- Strong capex line-up:** The company has a strong line-up of capex planned over the next 2-3 years. Its Dabhol and Mangalore shipyards are likely to generate revenues of Rs20bn and Rs16bn respectively by FY11. Besides, its shipyard on the east coast, which it will set-up in a JV with the Apeejay group, will be used to build vessels upto the VLCC size, thereby adding scale to its operations.
- Estimates revised:** Owing to the expansion at Dabhol and Mangalore, we are upgrading our revenue estimates by 14% in FY09 to Rs11.2bn. Revenue and profits are expected to grow at a CAGR of 70% and 50% respectively over FY07-10. We are introducing FY10 estimates, whereby revenue growth in FY10 is expected to be 54% to Rs17.3bn along with net profit growth of 45% to Rs2.4bn.
- Valuations - rating revised:** The company currently trades at 14.4x FY09E and 9.9x FY10E. On account of strong order book, coupled with firm capex line-up, we are upgrading our price target and rating on the stock. We rate the stock BUY with a price target of Rs948. At our price target the stock will trade at 18x FY09E and 12.4x FY10E.

Key financials (Y/e March)	FY07	FY08E	FY09E	FY10E
Revenue (Rs m)	3,555	6,404	11,270	17,338
Growth (%)	36.3	80.1	76.0	53.8
EBITDA (Rs m)	650	1,146	2,039	3,103
PAT (Rs m)	732	1,025	1,688	2,451
EPS (Rs)	32.5	32.0	52.7	76.5
Growth (%)	43.6	(1.7)	64.7	45.2
Net DPS (Rs)	3.0	3.0	3.5	4.5

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08E	FY09E	FY10E
EBITDA margin (%)	18.3%	17.9%	18.1%	17.9%
RoE (%)	31.6%	18.5%	18.1%	21.2%
RoCE (%)	10.6%	13.0%	16.9%	19.2%
EV / sales (x)	5.2	3.5	2.1	1.5
EV / EBITDA (x)	28.7	19.3	11.6	8.1
PE (x)	23.4	23.8	14.4	9.9
P / BV (x)	6.3	2.9	2.4	1.9
Net dividend yield (%)	0.4	0.4	0.5	0.6

Source: Company Data; PL Research

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## Rig building underway at Dabhol

Bharati Shipyard has already commenced work on the rig, ordered by Great Offshore, at its newly announced Dabhol Shipyard. The panel lines of the rig are currently under construction, while the entire rig is likely to be completed on schedule in December 2008.

With Swan Hunter equipment to be fitted at the Dabhol Shipyard, it is likely to be one of the most advanced shipyards in India. The company has already completed acquisition of 180 acres of land and is in the process of acquiring another 75 acres. The yard is likely to be completed by 2011 with an installed capacity of 100,000DWT, following which it will contribute a revenue of Rs20bn in FY12.

Revenue generating capacity at Dabhol	(Rs bn)
FY08	2.5
FY09	6.0
FY10	11.0
FY11	16.0
FY12	20.0

*Source: Company Data, PL Research*

Total investment in the Dabhol shipyard will be to the tune of Rs6bn, of which Rs4bn will be funded through debt and the remaining through internal accruals.

## New machinery ordered for Mangalore yard

The company will place orders for new machinery and equipment to be installed at its Mangalore yard, as it has now decided to install Swan Hunter equipment, originally for the Mangalore yard, at Dabhol. Only a part of the Swan Hunter machinery, which will not be installed at Dabhol, will be used at Mangalore. The Mangalore yard, work on which is likely to be completed by FY11, will start generating revenue from 4QFY09. It will be a 60,000DWT shipyard and will generate revenue of Rs16bn at its peak.

## JV with Apeejay to scale-up business operations

Bharati Shipyard's 50:50 JV with the Apeejay group to set-up a large-sized yard on the east coast will provide further impetus to the company's earnings from FY11 onwards. The yard will be used to build ships upto the very large crude carrier (VLCC) size, thereby taking the company's operations to a new level.



Total investment in the JV will be to the tune of Rs16-20bn, with both parties contributing Rs1.25bn each as equity contribution. The remaining will be funded through debt, public equity participation and advances from customers. However, on account of plans being at a nascent stage, we are not factoring any upside from this venture in our revenue estimates.

#### Revenue generating capacity

(Rs bn)

	Existing	Planned
Ratnagiri + Ghodbunder	3.5	3.5
Goa-Pinky	0.3	0.5
Kolkata	0.3	0.8
Mangalore	-	16.0
Dhabhol	-	20.0

### Revenue growth of 70% CAGR

The company's revenue is expected to grow at 70% CAGR over FY07-10 on account of strong expansion plans lined-up by the company, coupled with extremely healthy order book position.

Owing to Dabhol expansion, along with Mangalore, we are upgrading our revenue estimates for FY09 by 14% to Rs11.2bn. However, the upgrade in PAT estimate is only 1% on account of reduction in subsidy estimate.

Besides, we expect extremely strong revenue and net profit growth in FY10 of 54% and 45% respectively. Our revenue and PAT estimates for FY10 stand at Rs17.3bn and Rs2.4bn respectively.

### Order book looks extremely healthy at 7.2x FY08E

The company's order book position of Rs46.3bn is extremely strong at 7.2x FY08E. The unexecuted order book stands at 6.1x FY08E. Further, we expect healthy stream of new orders on account of buoyant demand, coupled with the company's strong line-up of expansion.

### Valuation

The company currently trades at 14.4x FY09E and 9.9x FY10E. On account of strong order book, coupled with firm capex line-up, we are upgrading our price target and rating on the stock. We rate the stock BUY with a price target of Rs948. At our price target the stock will trade at 18x FY09E and 12.4x FY10E.

## An aerial view of Dabhol shipbuilding yard



## Rig building underway at Dabhol



## Financials

Income statement						<i>(Rs m)</i>
Y/e March	FY06	FY07	FY08E	FY09E	FY010E	
Sales	2,608	3,555	6,404	11,270	17,338	
<b>Expenditure</b>						
Raw materials	1,497	2,042	3,650	6,446	9,934	
<i>% of net sales</i>	<i>57.4</i>	<i>57.4</i>	<i>57.0</i>	<i>57.2</i>	<i>57.3</i>	
Mfg. & others expenses	307	482	852	1,489	2,289	
<i>% of net sales</i>	<i>11.8</i>	<i>13.6</i>	<i>13.3</i>	<i>13.2</i>	<i>13.2</i>	
Staff costs	261	433	756	1,296	2,011	
<i>% of net sales</i>	<i>10.0</i>	<i>12.2</i>	<i>11.8</i>	<i>11.5</i>	<i>11.6</i>	
Total expenses	2,065	2,904	5,258	9,231	14,234	
EBITDA	543	650	1,146	2,039	3,103	
<i>EBITDA margin (%)</i>	<i>20.8</i>	<i>18.3</i>	<i>17.9</i>	<i>18.1</i>	<i>17.9</i>	
Depreciation	15	51	91	149	249	
Other income	18	36	104	161	178	
Subsidy	332	617	650	900	1,000	
EBIT	879	1,252	1,809	2,950	4,033	
Less: interest	98	144	256	401	531	
PBT	781	1,109	1,553	2,549	3,501	
Tax	271	376	528	862	1,050	
<i>Effective tax rate %</i>	<i>34.7</i>	<i>33.9</i>	<i>34.0</i>	<i>33.8</i>	<i>30.0</i>	
PAT	510	732	1,025	1,688	2,451	

Source: Company Data, PL Research



## Balance sheet

(Rs m)

Y/e March	FY06	FY07	FY08E	FY09E	FY10E
<b>Source of funds</b>					
Equity share capital	225	225	320	320	320
Reserves & surplus	1,586	2,223	7,625	9,181	11,463
Networth	1,926	2,707	8,374	10,229	18,085
Total debt	5,475	5,555	1,766	2,766	3,566
Deferred tax liability	153	287	483	802	1,190
Minority interest	11	11	11	11	11
<b>TOTAL</b>	<b>7,401</b>	<b>8,262</b>	<b>10,140</b>	<b>12,995</b>	<b>16,466</b>
<b>Application of funds</b>					
Gross block	927	1,669	2,769	4,819	7,319
Less: depreciation	129	186	278	427	676
Depreciation for the year	21	57	91	149	249
Net block	798	1,483	2,491	4,392	6,643
CWIP	297	975	1,175	1,325	67
Investments	10	20	35	45	65
Current assets, loans & adv.	7,883	9,520	12,043	15,641	20,622
Less: current liab. & prov.	1,590	3,738	5,607	8,411	10,934
Net working capital	6,293	5,782	6,436	7,230	9,688
Goodwill on consolidation	3	3	3	3	3
Misc. expenditure	49	39	65	85	85
<b>TOTAL</b>	<b>7,401</b>	<b>8,262</b>	<b>10,140</b>	<b>12,995</b>	<b>16,466</b>



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#### PL's Recommendation Nomenclature

<b>BUY</b>	: > 15% Outperformance to BSE Sensex	<b>Outperformer (OP)</b>	: 5 to 15% Outperformance to Sensex
<b>Market Performer (MP)</b>	: -5 to 5% of Sensex Movement	<b>Underperformer (UP)</b>	: -5 to -15% of Underperformance to Sensex
<b>Sell</b>	: <-15% Relative to Sensex		
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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