India Infoline Result Update
Great Offshore Ltd *(FY07)*
CMP: Rs751 May 03, 2007

Great Offshore Ltd (GOL) reported strong FY07 results with 54.8% yoy growth in net sales to Rs5.4bn. The growth was driven by higher number of operating days for its 'Kedarnath' rig, additional assets and higher day rates. Operating margin for the company expanded by 440bps yoy to 48.5% despite of 8 vessels undergoing a dry dock. PAT grew by 54% yoy to Rs1.4bn.

Financial Highlights

	Q4 FY07	Q3 FY07	Q2 FY07	Q1 FY07	FY07	FY06
Income from Operations	1,493	1,483	1,271	1,122	5,368	3,468
Growth qoq %	0.7	16.7	13.2		54.8	
Total Expenditure	(812)	(761)	(646)	(543)	(2,762)	(1,937)
Operating Profit	681	722	624	579	2,606	1,531
Growth qoq %	(5.7)	15.6	7.8		70.2	
Other Income	27	6	9	36	78	29
Interest	(133)	(95)	(73)	(58)	(360)	(164)
Growth qoq %	39.7	31.2	24.9		118.9	
Depreciation	(220)	(193)	(147)	(137)	(697)	(422)
Growth qoq %	14.0	31.9	7.4		65.2	
PBT	354	439	414	421	1,628	974
Tax	(54)	(64)	(26)	(70)	(214)	(56)
PAT	299	375	388	351	1,414	918
Growth qoq %	(20.3)	(3.2)	10.5		54.0	
OPM (%)	45.6	48.7	49.1	51.6	48.5	44.1
Equity	381	381	381	381	381	381
EPS (Rs Annualized)	31.4	39.4	40.7	36.8	37.1	24.1

Revenues boosted by a host of factors

GOL registered a topline growth of 54.8%yoy to Rs5.4bn in FY07. The growth was driven by higher number of operating days for the Kedarnath rig, which was under dry dock for almost 6 months in FY06. GOL have also added 6 vessels during the fiscal of which 4 have commenced operations and have contributed to revenues. Also on an average the day rates for various vessels were higher when compared to FY06.

Operating margins up despite higher dry dock expenses

During FY07, operating profit for GOL rose by 70.2% yoy to Rs2.6bn and OPM jumped by 440bps to 48.5%. The jump in margins was commendable as the company clocked such high margins despite of 250bps increase in repairs and maintenance cost as a percentage of net income from operations. The company managed to reduce direct operating expense and overheads by 400bps and 260bps yoy respectively as a percentage of net income from operations.

Cost Analysis

As % of Income from operations	Q4 FY07	Q3 FY07	Q2 FY07	Q1 FY07	FY07	FY06
Staff cost	22.1	20.6	23.1	19.9	21.5	21.8
Repairs and Maintenance	12.5	11.9	6.7	8.3	10.1	7.6
Direct Operating Expense	8.1	8.5	11.0	9.8	9.2	13.2
Other Expense	11.7	10.3	10.1	10.4	10.6	13.2
Total	54.4	51.3	50.9	48.4	51.5	55.9

Higher interest expense, depreciation charge and tax rate restrict PAT growth

As compared to a 70.2% yoy growth in operating profit, PAT rose by 54% yoy in FY07 to Rs1.4bn. The lower growth was primarily on back of 119% yoy increase in interest outgo and 65% yoy rise in depreciation charge, which was as a result of addition of vessels to the fleet financed through higher proportion of debt. Effective tax rate for the company increased by 7.4 percentage points to 13.1% as non-tonnage tax income was higher as compared to previous year (primarily income from Kedarnath rig). Some cushion was provided by 166% jump in other income on account of foreign exchange gains.

Outlook

- ✓ Q1 FY08 performance will be impacted by non operation of Badrinath rig which is into dry docking at Bahrain. The rig is likely to become operational from the month of October 2007. The total dry dock expense is estimated to be at US$10-12mn. However, post its dry docking the rig is likely to earn US$80,000/day.

- ✓ Kedarnath rig lost 25 days of revenue as it was sailed from Iran to India. Further, the day rates for the ONGC contract is lower by about US10,000/day in comparison to its one year contract with ONGC Videsh Ltd. (Currently, Kedarnath will be in operations with ONGC at a day rate of YS$45,000/day).

- ✓ The company expects around 8-10 vessels to go in for dry dock every year with expenses ranging from Rs7.5mn to Rs12mn each.

- ✓ GOL has 3 vessels for delivery in the pipeline over the next 3 years. One MSV anytime now, a rig in FY09 and a MSV in April 2009. The total capital expenditure for these vessels is estimated to be US$240mn, most of which will be funded through borrowed funds.

- ✓ 2 AHTSVs, Malaviya 34 and Malaviya 36 commence operations in Q1 FY08.

- ✓ Most of the revenues for the company are booked in US Dollars but as 50% of its expenses are also US Dollar denominated, GOL has a natural hedge to some extent, especially in light of the recent appreciation of the Indian Rupee against the US Dollar.

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