Company In-Depth

18 December 2006 | 29 pages

Bharati Shipyard (BHAR.BO)

Buy: Navigating for growth

- **Initiating with Buy/Medium risk (1M) rating** — Bharati is our preferred pick among Indian shipbuilders, with a target price is Rs421. It has a c5x FY07E orderbook cover and strong earnings visibility. With its strong track record and execution skills Bharati should capitalize on the strong global outlook, especially for offshore vessels. This version corrects the EV/EBITDA figures.
- **Strong Earnings Outlook** — A strong order book of Rs23bn extending until FY10 provides strong earnings visibility for the at least the next three years. We expect earnings to grow by 41% over FY06-FY09E. This will be backed by capacity expansion, with a new yard in Mangalore.
- **Entering New Segments** — The company recently bagged an order for a jack-up rig worth US$160m. With its expansion plans underway we expect it to manufacture higher-value vessels of up to 60,000 DWT. However, the company remains a play on offshore capex – with about 75% of the order book linked to the offshore market.
- **Valuations Attractive** — We value Bharati at 12x FY08E fully diluted earnings. The target price of Rs421 provides upside of 34%, which should be well supported by earnings CAGR of 41%.
- **Key Risks** — Key downside risks include 1) implementation delays; 2) withdrawal of government subsidies; 3) sharp correction in crude prices; and 4) an upturn in the commodity cycle.

Buy/Medium Risk	1M
Price (15 Dec 06)	Rs315.15
Target price	Rs421.00
Expected share price return	33.6%
Expected dividend yield	0.8%
Expected total return	**34.4%**
Market Cap	Rs7,091M
	US$159M

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

See page 27 for Analyst Certification and important disclosures.

Figure 1. Bharati Shipyards – Statistical Abstract

Year to	EPS	EPS Growth	P/E	EV/EBITDA	P /Book	ROE	ROCE	DPS	Div. Yield
31-Mar	(Rs)	(%)	(x)	(x)	(x)	(%)	(%)	(Rs)	(%)
2005	8.6	356.2	36.8	14.7	7.3	32.1	56.3	2.5	0.8
2006	16.0	86.7	19.7	8.8	5.6	32.1	46.5	2.5	0.8
2007E	20.5	28.0	15.4	8.6	4.2	31.2	27.4	2.5	0.8
2008E	35.1	71.3	9.0	6.4	3.0	38.7	25.9	2.5	0.8
2009E	45.8	30.4	6.9	5.4	2.1	35.7	23.3	2.5	0.8

Source: Citigroup Investment Research estimates

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Fiscal year end 31-Mar	2005	2006	2007E	2008E	2009E
Valuation Ratios					
P/E adjusted (x)	36.7	19.7	15.4	9.0	6.9
EV/EBITDA adjusted (x)	na	8.6	7.9	5.9	5.3
P/BV (x)	5.2	3.9	3.0	2.1	1.5
Dividend yield (%)	0.8	0.8	0.8	0.8	0.8
Per Share Data (Rs)					
EPS adjusted	8.58	16.01	20.49	35.11	45.79
EPS reported	8.58	16.01	20.49	35.11	45.79
BVPS	60.95	80.52	105.59	151.37	212.30
DPS	2.50	2.50	2.50	2.50	2.50
Profit & Loss (RsM)					
Net sales	1,926	2,933	3,964	7,316	10,120
Operating expenses	-1,465	-2,071	-2,842	-5,397	-7,578
EBIT	**461**	**862**	**1,123**	**1,919**	**2,543**
Net interest expense	-82	-98	-136	-324	-548
Non-operating/exceptionals	-4	18	4	5	6
Pre-tax profit	**375**	**782**	**990**	**1,600**	**2,001**
Tax	-101	-271	-337	-480	-540
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**274**	**511**	**654**	**1,120**	**1,461**
Adjusted earnings	274	511	654	1,120	1,461
Adjusted EBITDA	466	876	1,170	2,018	2,712
Growth Rates (%)					
Sales	na	52.3	35.2	84.5	38.3
EBIT adjusted	na	86.8	30.3	70.9	32.5
EBITDA adjusted	na	88.2	33.5	72.5	34.4
EPS adjusted	na	86.7	28.0	71.3	30.4
Cash Flow (RsM)					
Operating cash flow	**-141**	**61**	**-992**	**-68**	**622**
Depreciation/amortization	4	15	47	100	170
Net working capital	-528	-683	-1,759	-1,431	-1,069
Investing cash flow	**-92**	**-1,081**	**-1,160**	**-2,692**	**-2,277**
Capital expenditure	-76	-843	-1,000	-2,000	-2,000
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**786**	**5,181**	**215**	**1,121**	**993**
Borrowings	8	5,240	279	1,211	1,083
Dividends paid	0	-64	-64	-90	-90
Change in cash	**553**	**4,162**	**-1,937**	**-1,639**	**-662**
Balance Sheet (RsM)					
Total assets	**2,166**	**9,018**	**9,012**	**11,705**	**14,479**
Cash & cash equivalent	548	4,713	2,776	1,137	475
Accounts receivable	498	1,220	1,978	3,612	4,472
Net fixed assets	196	1,018	1,970	3,871	5,701
Total liabilities	**795**	**7,206**	**6,636**	**8,299**	**9,702**
Accounts payable	349	1,285	345	653	913
Total Debt	230	5,470	5,749	6,960	8,042
Shareholders' funds	**1,371**	**1,812**	**2,376**	**3,406**	**4,777**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	24.2	29.9	29.5	27.6	26.8
ROE adjusted	na	32.1	31.2	38.7	35.7
ROIC adjusted	na	28.2	17.8	18.3	17.5
Net debt to equity	-23.2	41.7	125.1	171.0	158.4
Total debt to capital	14.3	75.1	70.8	67.1	62.7

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Investment Summary

Bharati is our preferred pick in the Indian Shipbuilding sector. We are initiating coverage with a Buy/Low risk (1L) rating and target price of Rs412. Bharati is one of the leading private shipyards in India and is well positioned for growth. It has built a reputation for timely delivery and is well respected in its niche of offshore vessels. The company provides strong earnings visibility backed by a robust orderbook.

Our preferred pick in the sector

Strong Earnings Visibility

Despite higher depreciation and interest expenses we believe PAT will increase by 41% between FY06-FY09, driven by a sales growth of 50% over the same period. This growth is backed by:

- Unexecuted orderbook of Rs18bn i.e. about 5x FY07E sales.
- Capacity Expansion that should lead to faster execution for the orderbook.
- The company's diversification into new segments such as the jack-up rigs and higher value ships.

Diversifying Into New Areas

With a capacity expansion at its existing yard at Ratnagiri and a new yard at Mangalore, Bharati can manufacture vessels of up to 60,000 DWT. The expansion is backed by a strong order book of Rs23bn; of which Rs18bn is unexecuted with delivery dates extending until FY10. The company recently bagged an order for a jack-up rig – the first for an Indian private sector player.

Macro economic variables favorable

OSV demand likely to remain strong

With continuously high oil prices, strong E&P expenditure and high replacement demand for an aging fleet, we expect demand for offshore vessels to remain strong. Bharati which has developed a niche in the offshore segment should benefit from this strong environment.

Valuations – Attractive

Valuations remain attractive

At 9x FY08E earnings Bharati trades at discount to similar profiled Singaporean shipyards, which trade at 14.6x FY08E earnings. It is also cheaper than the large Korean yards (10x FY08E) and the Indian capital good companies (20x FY08E). We value Bharati at 12x FY08E earnings, which we believe is conservative given the strong 41% earnings CAGR for FY06-09E.

Key Risks

Key risks to our buy recommendation are: 1) implementation delays; 2) withdrawal of government subsidies without granting infrastructure status; 3) a sharp correction in crude prices; 4) an upturn in the commodity cycle. The key triggers for the stock would include 1) announcement of new orders; and 2) extension of subsidies

Orderbook – Deep, Diversified and Dynamic

- Unexecuted order book at Rs18bn, c5x FY07E earnings, order book extends until FY10.
- The offshore market contributes about 75% of the order book (including rigs and tugs). Offshore rig orders are valued at Rs7.6bn.
- Export orders are c50%, domestic 50% (including the rig); excluding the rig orders exports are about 79% and domestic orders 21%.

Orderbook at c5x FY07E sales

Bharati's current orderbook stands at Rs22.54bn (unexecuted portion at Rs18bn) with orders extending until October 2009 (excluding the jack-up drill). The majority of the order book dominated by OSVs, but it also includes a substantial proportion of multi-purpose carriers and small container vessels.

Figure 2. Bharati Shipyards – Order Book

Type of Vessel	Name of Client	Contract Value Rs. in Millions	Delivery Schedule
5250DWT Product Tanker cum Ro-Ro Vessel	Al-Jaber Shipping Agency & Marine Est.	251.06	Mar-07
120 Ton Bollard Pull Anchor Handling Tug cum Supply Vessel	The Great Eastern Shipping Co. Ltd.	574.53	Mar-07
Anchor Handling Towing Supply Vessel	Halul Offshore Services	315.59	Apr-07
80 Ton Bollard Pull Anchor Handling Tug cum Supply Vessel	The Great Eastern Shipping Co. Ltd.	479.99	Dec-06
60Mtr. Multi Purpose Offshore Platform Supply Vessel	Bourbon Supply Investissments	349.37	Jan-07
60Mtr. Multi Purpose Offshore Platform Supply Vessel	Bourbon Supply Investissments	349.37	Oct-07
1nos. Pallet /container Vessel	Sea Cargo Skips- Norway	614.49	Oct-07
1nos. Pallet /container Vessel	Sea Cargo Skips- Norway	614.49	Feb-08
1nos. Pallet /container Vessel	Nor Lines AS , Norway	631.75	Jun-08
1nos. Pallet /container Vessel	Nor Lines AS , Norway	631.75	Sep-08
Dredger	Adani Global FZE ltd.	298.31	Dec-06
Muti purpose carriers	M.K.Shipping B.V	495.22	March-08
Muti purpose carriers	M.K.Shipping B.V	495.22	Sept-08
Muti purpose carriers	M.K.Shipping B.V	495.22	Dec-08
Muti purpose carriers	M.K.Shipping B.V	495.22	Feb-09
Muti purpose carriers	M.K.Shipping B.V	495.22	June-09
Muti purpose carriers	M.K.Shipping B.V	495.22	Sept-09
140tons Bollard Pull Anchor Handling Tug Cum supply Vessel	Gesco	783.84	Jan-09
60Mtr. Multi Purpose Offshore Platform Supply Vessel	Bourbon Supply Investments	385.17	Mar-07
60Mtr. Multi Purpose Offshore Platform Supply Vessel	Bourbon Supply Investments	385.17	Jun-07
1 No. Twin Screw Pilot Cum -Survey Vessel	Kolkata Port Trust	131.40	March-08
120tons Bollard Pull Anchor Handling Tug Cum supply Vessel	Bourbon Supply Investissments	780.96	Feb-08
120tons Bollard Pull Anchor Handling Tug Cum supply Vessel	Bourbon Supply Investissments	780.96	Apr-08
120tons Bollard Pull Anchor Handling Tug Cum supply Vessel	Bourbon Supply Investissments	780.96	Aug-08
120tons Bollard Pull Anchor Handling Tug Cum supply Vessel	Bourbon Supply Investissments	780.96	Oct-08
120tons Bollard Pull Anchor Handling Tug Cum supply Vessel	Bourbon Supply Investissments	780.96	Dec-08
Pilot Boat	Reliance Industries Limited	84.24	Oct-07
Pilot Boat	Reliance Industries Limited	84.24	Nov-07
Diving Support Vessel (DSV)	Reliance Industries Limited	394.06	Feb-08
54tons Bollard Pull Tug	Reliance Industries Limited	220.90	Jul-07
54tons Bollard Pull Tug	Reliance Industries Limited	220.90	Aug-07
54tons Bollard Pull Tug	Reliance Industries Limited	220.90	Jan-08
Jack Up Drill Rig	The Great Eastern Shipping Co. Ltd.	7,642.80	Nov-09
TOTAL		**22,540.41**	

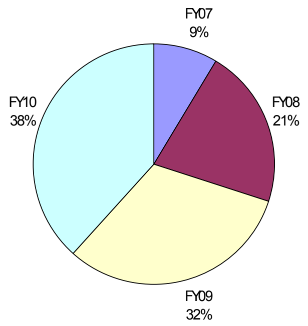
Source: Company Reports

Bharati's order book is clearly skewed towards the offshore segment – AHTSs, OSVs and the jack-up rig account for about 75% of Bharati's orderbook. In fact, many of the multipurpose carriers and tugs are likely to be used for the offshore business. Hence, Bharati appears to be a play on the offshore cycle.

Over 70% of the orderbook caters to the oil & gas segment

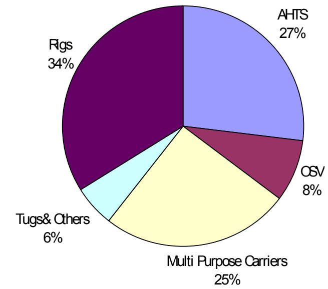
The other comforting factor is the long order book position. More than 70% of the current order book is due in FY09 and FY10. This provides a high degree of earnings visibility. Further, many of these orders have been booked in a strong market – indicating healthy margins for the next few years.

Figure 3. Bharati Shipyards – Order Book by Year of Delivery (Value)



Source: Company, Citigroup Investment Research

Figure 4. Bharati Shipyards – Order Book by Vessel Type (Value)



Source: Company, Citigroup Investment Research

Capacity Expansion

- Greenfield project at Mangalore likely to be at full capacity by CY08, contribution to begin by 2H FY08.
- Mangalore yard located in an SEZ and will receive complete tax break on export orders.
- The rig manufacturing unit will come up at this yard, with the first rig to be delivered by November 2009.
- Ratnagiri capacity was increased by 20% recently.

Bharati Shipyards has emerged as one of the largest private sector shipyards in India. It has developed a niche in the offshore segment and has been able to secure orders in the high-value rig market. The expansion of capacity at its yards signals its foray into larger, higher value conventional ships.

Expansion reflects management's positive outlook

We believe the expansion plans reflect the management's positive outlook. The huge orderbook (extending into FY10) provides a cushion for the capacity utilization in the near term.

Ratnagiri and Ghodbunder – Bharati shipyards has facilities in three locations in India: Ratnagiri, Goa and Ghodbunder. All are located on the West coast in Maharashtra. The facility at Ratnagiri is a sheltered lagoon that provides the yard with a natural barrier – this allows building activities to continue throughout the year even during monsoons. The Ghodbunder yard is a hull-building facility – hulls are then transported to the Ratnagiri shipyard. The Ghodbunder unit can erect 14 hulls. After expansion (at a cost of Rs650m), the Ratnagiri shipyard will be able to simultaneously erect 18-20 smaller vessels (or eight large vessels) with a maximum weight of 20,000 DWT.

Capacity expansion at Ratnagiri

Pinky Shipyard – The facility at Goa is due to an acquisition in 2005. It belonged to Pinky Shipyard, which manufactured hulls for Bharati on a contract basis. The yard has a capacity of one vessel – expansion is being undertaken.

Mangalore yard will build rigs and vessels with a capacity of 20,000 DWT

Mangalore Facility – The company has also undertaken a new greenfield shipbuilding facility at Mangalore. The new yard will have capacity to build ships of 60,000 DWT. The yard, located in a SEZ, will be exempt from income taxes for five years with a 50% rebate for the next five years. The cost for the project is about Rs4.5bn and it is expected to be complete by end FY08. The yard also has capacity to manufacture jack-up rigs and can produce Handysize vessels.

Earnings Outlook

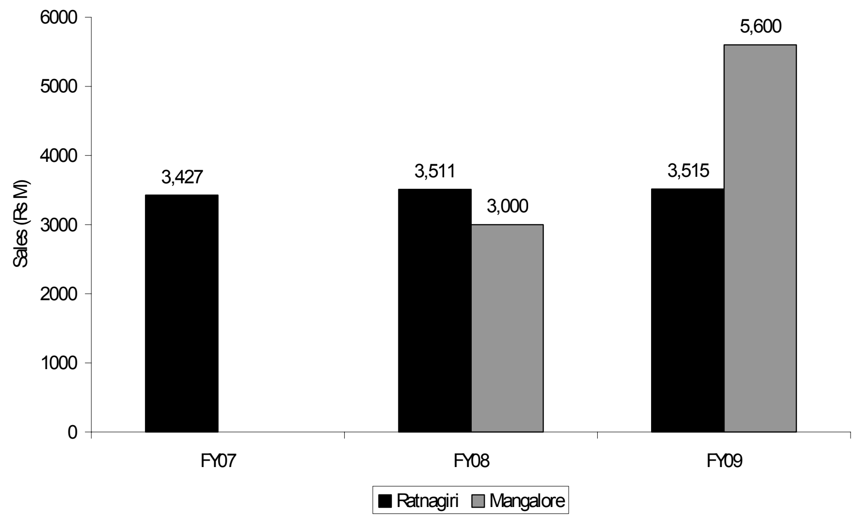
- Profit CAGR of 41%, sales CAGR of 50% during FY06-09E.
- Expect the Mangalore yard to contribute meaningfully from FY08 onwards with 45% of FY08E sales.
- Ex-subsidy OPMs to marginally increase, however subsidies as a percentage of sales to decline; trimming operating margins,
- Higher depreciation and interest costs, moderated by lower tax rates as the Mangalore yard would be tax free.

Sales – Backed by capacity expansion expect a CAGR of 50%

Expansion led sales growth of 50%

Bharati has a long and deep order book of Rs18bn. This provides it a strong earnings visibility over the next few years. We estimate sales to grow by about 33% in FY07 and close to 84% in FY08. The growth in the current year is on the back of expanded capacity at its yard at Ratnagiri. The Mangalore yard which is likely to be complete by end 2008 will however contribute substantially to the revenues in FY08. The expected doubling of revenue in FY08 is on account of the capacity expansion in the yard.

Figure 5. Bharati Shipyards – Contribution by Yard – Excluding Subsidy



Source: Citigroup Investment Research estimates, Company

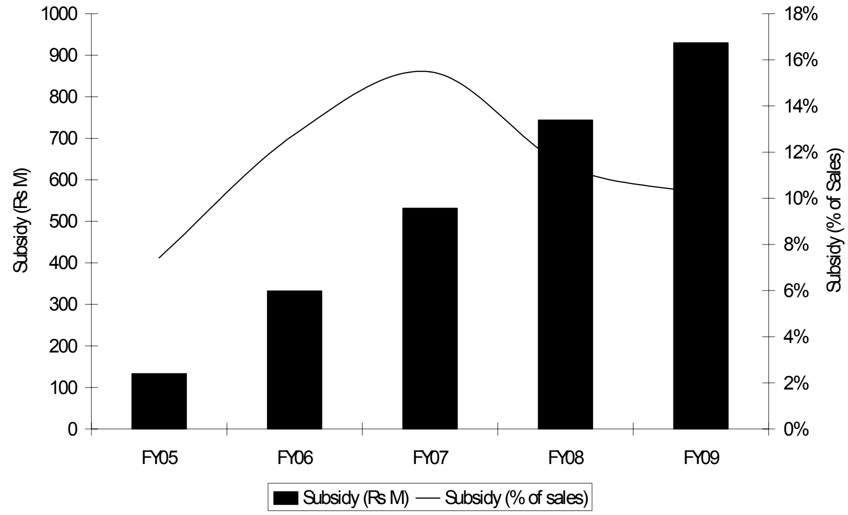
Our combined sales estimates for Bharati between 2HFY07 and FY09 total Rs17.5bn (ex-subsidies). This is below the unexecuted order book of Rs18bn.

Hence we believe our estimates remain conservative. The single largest order of Bharati – its jack-up rig is likely to provide a substantial boost to sales from FY09 onwards.

Also given the strong global environment for both OSVs and Fleet Ships we believe the order book can be sustained at these levels for the next three years.

Subsidies as a percentage of sales likely to decline as domestic order book is executed

Figure 6. Bharati Shipyards – Subsidy as a percentage of sales



Source: Citigroup Investment Research estimates, Company

Although we expect subsidies to increase in absolute terms, we estimate subsidies as a percentage of sales will decline to about 10%. This would be due to a higher percentage of domestic sales. This is especially true for Bharati's orders with Reliance Industries and also the huge jack-up rig order.

Costs – Relatively stable – estimate ex-subsidy margins at 18%

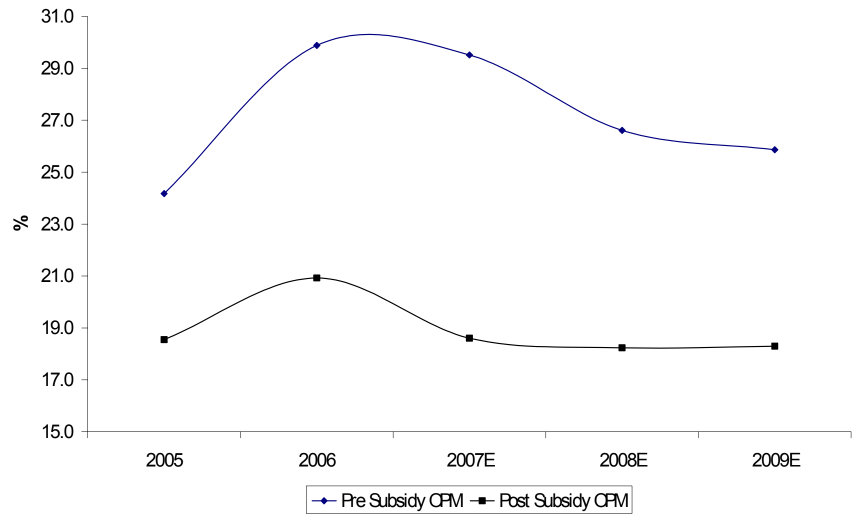
We estimate raw material costs to remain at about the current levels through FY09. We expect the orderbook to drive sales going forward between 2007 and 2009. Since Bharati has already entered forward contracts for its raw materials the costs are likely to remain stable.

Costs to remain stable; much of the raw material is hedged.

We estimate the pre-subsidy operating margins at around 18%. Subsidy estimated at between 13% of total sales. Hence, operating margins on net revenues including subsidies can be estimated as close to 26%.

The margins are lower than those in FY06. The year FY06 had higher margins due to higher final deliveries during the year; else we expect Bharati to maintain margins inline with FY05, at about 18%.

Figure 7. Bharati Shipyards – Operating Profit Margin



Source: Citigroup Investment Research estimates, Company

PAT – expected to grow at 41% p.a. between FY06- FY09E

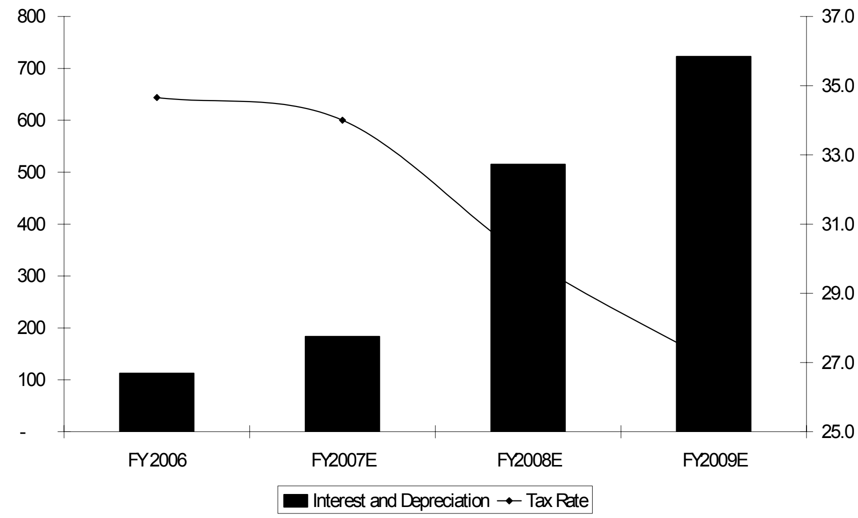
PAT to grow at 41% CAGR

We expect the interest cost to rise appreciably over the period. Now, interest on the FCCB is amortised while income from cash balances is accrued to Bharati. As cash balances decline net interest costs rise. With the higher asset base (Rs5bn worth of capex is expected over the next three years) depreciation expenses are expected to quadruple between FY06 and FY09.

Hence, while we expect pre-subsidy operating profits to grow by a 50% CAGR between FY06 and FY09, overall PAT is expected to rise by 41% over FY06-09 which is slower that the top line growth of the company.

Tax rate to decline as the Mangalore yard is in an SEZ

Figure 8. Bharati Shipyards – Depreciation, Interest and Taxes



Source: Citigroup Investment Research estimates, Company

Interest and depreciation costs likely to increase

Two factors affect the bottom line of the company:

- Higher interest and depreciation costs: We expect interest and depreciation costs to rise substantially. This is due to higher capex (about Rs5bn over the next three years) and higher interest expenses (due to higher debt). While interest on the FCCB is to be amortised initially, net interest will be affected by higher utilization of the existing cash balances (implying lower interest earnings). Also other interest expenses on account of bank guarantees will somewhat depress earnings.

- Lower Tax Rate: The new yard at Mangalore is situated in a Special Economic Zone. Hence all export orders executed through this yard would be tax free. Hence we expect the tax rate to fall progressively from 34% to 26% in FY09E.

Financial Analysis

- Unusually long working capital cycle as the company prefers to keep raw material on its books.

- ROE, ROCE higher than its peers; though some pressure in the near term.

- FCCB if converted, could lead to a dilution of 42%

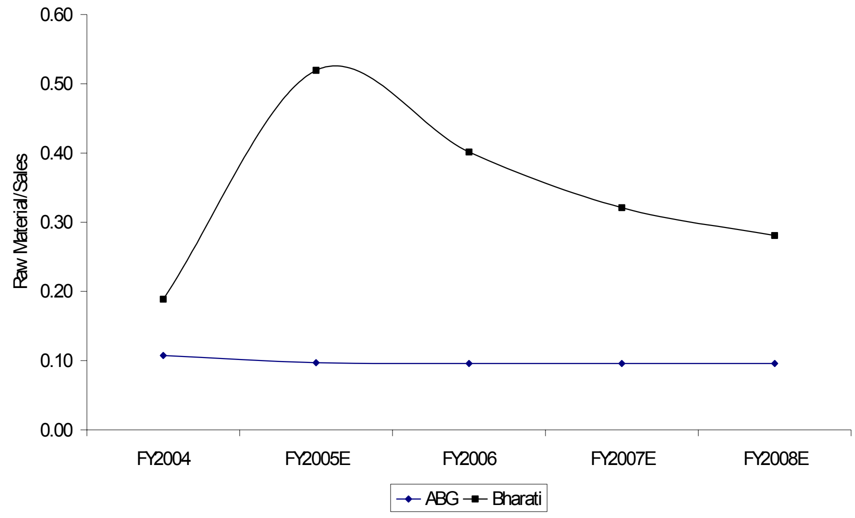
Working Capital Cycle

Bharati has a much longer working capital cycle than its peers. This is largely due to its huge raw material inventory. While raw material inventory formed about 10% of the ex-subsidy sales for ABG, it was close to 50% for Bharati. With a larger raw inventory Bharati can protect itself against possible price hikes in contracts. However, we believe the extraordinary inventory may have stemmed from Bharati's willingness to deploy its additional cash. It may have wanted to benefit from the difference in price between the forward contract and spot value.

Working capital cycle nearly twice as that of its peers

Going ahead, we believe the raw material on Bharati's books could come down as the company enters forward contracts. We believe this would be especially true in FY09 and FY10 if cash flow requirements increase.

Figure 9. Raw Material Inventory/Sales



Source: Citigroup Investment Research estimates, Company

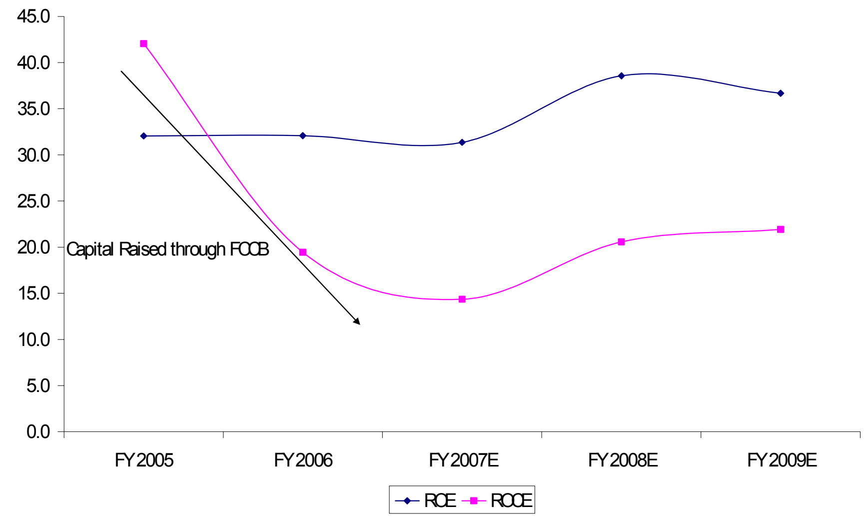
Further, Bharati imports much of its needs for steel for cash payments. This is against the domestic steel consumption of ABG.

Finally, the subsidy accrued to the company has not been received. This adds to net working capital. One key element affecting the cash flows has been the delayed payment of subsidies. Subsidies are accounted as a part of the sundry creditors.

Return Ratios – Near-term pressure likely

The company plans to spend nearly Rs5bn over the next three years on account of its capex plan. We believe this huge capex could lead to a decline in the return ratios – most notably the ROCE in the near term.

Figure 10. Bharati Shipyards – Return Ratios



Source: Citigroup Investment Research estimates, Company

ROCE dipped in FY06 as the capital raised through FCCB's was still being invested

However, the post subsidy ROE of 31% in FY08 is higher than that of its peers. This is partially due to its higher margins as well as relatively higher capital turnover ratio.

FCCB - dilution effect substantial

The debt equity ratio excluding the FCCB at about 0.5 is reasonable. We exclude the FCCB amount of US$100m as conversion to shares maybe expected (conversion price of Rs421 and 497. for FY09 and FY11 bonds about 35% and 45% over current market value).

FCCB to lead to a 42% dilution

Figure 11. Bharati Shipyards – FCCB Conversion Rate

	Amount Rs	Conversion Price	Additional Shares
FY09	907.7	421.94	2.2
FY10	3630.6	497.85	7.3

Source: Citigroup Investment Research estimates

Figure 12. Dilution Effect

Current Shares	**22.5**
New Shares	9.4
Total Shares	31.9
Dilution (%)	**42.0%**

Source: Citigroup Investment Research

Financials

Figure 13. Bharati Shipyards – P&L, FY05-09E

Year to 31 March	FY05	FY06	FY07E	FY08E	FY09E
Net sales	**1,926**	**2,933**	**3,964**	**7,316**	**10,120**
% change YoY	*58.3*	*52.3*	*35.2*	*84.5*	*38.3*
Raw material expenses	1,100	1,497	2,008	3,813	5,337
percentage of net sales	*57.1*	*51.0*	*50.7*	*52.1*	*52.7*
Manpower expenses	179	253	343	652	912
percentage of net sales	9.3	8.6	8.7	8.9	9.0
Manufacturing expenses	78	167	257	489	684
percentage of net sales	*4.1*	*5.7*	*6.5*	*6.7*	*6.8*
Selling and Distribution expenses	104	140	185	343	475
percentage of net sales	*5.4*	*4.8*	*4.7*	*4.7*	*4.7*
Total Operating Costs	1,460	2,056	2,794	5,297	7,408
percentage of net sales	*75.8*	*70.1*	*70.5*	*72.4*	*73.2*
EBITDA	**466**	**876**	**1,170**	**2,018**	**2,712**
Interest	82	98	136	324	548
Other income	(4)	18	4	5	6
Depreciation	4	15	47	100	170
Pre-Tax Profit	375	782	990	1,600	2,001
Tax	101	271	337	480	540
Net profit	**274**	**511**	**654**	**1,120**	**1,461**
Profit Margins (%)					
EBITDA	24.2	29.9	29.5	27.6	26.8
EBIT	23.9	29.4	28.3	26.2	25.1
Other income /EBDIT	-0.9	2.0	0.3	0.2	0.2
Interest cover (x)	5.6	9.2	8.6	6.2	5.0
Effective Tax rate	27.0	34.7	34.0	30.0	27.0
Per Share Data					
No. of O/S shares (Mils)	31.90	31.90	31.90	31.90	31.90
EPS (Rs)	8.6	16.0	20.5	35.1	45.8
Cash flow /share (Rs)	8.7	16.5	22.0	38.2	51.1
Dividend /share (Rs)	2.5	2.5	2.5	2.5	2.5

Source: Citigroup Investment Research estimates, Company

Figure 14. Bharati Shipyards – Balance Sheet, FY05-09E

Year to 31 March	FY05	FY06	FY07E	FY08E	FY09E
Share capital	225	225	225	225	225
Reserves and surplus	1,146	1,587	2,151	3,181	4,552
Share holders equity	**1,371**	**1,812**	**2,376**	**3,406**	**4,777**
Secured loans	230	931	1,211	2,421	3,504
Unsecured loans	-	4,538	4,538	4,538	4,538
Total Borrowings	**230**	**5,470**	**5,749**	**6,960**	**8,042**
Total Capital	**1,609**	**7,434**	**8,277**	**10,518**	**12,972**
Net Fixed Assets	**196**	**1,018**	**1,970**	**3,871**	**5,701**
Investments	65	25	25	25	25
Miscellaneous Expenditure	54	49	49	49	49
Current Assets					
Inventories	806	1,993	2,213	3,011	3,757
Accounts Receivable	244	688	1,286	2,228	2,811
Cash and Bank Balances	548	4,713.43	2,776.39	1,136.98	474.87
Loans and Advances	254	532	692	1,384	1,661
Others	-	-	-	-	-
Total Current Assets	**1,851**	**7,927**	**6,968**	**7,760**	**8,704**
Current Liabilities					
Accounts Payable	349	276	345	653	913
Others	3	13	13	13	13
Provisions	205	286	378	521	581
Total Current Liabilities	**557**	**1,583**	**735**	**1,186**	**1,507**
Net Current Assets	**1,294**	**6,343**	**6,233**	**6,574**	**7,197**
Total Assets	**1,609**	**7,434**	**8,277**	**10,518**	**12,972**
Key Ratios					
NAV (Rs)	43.0	56.8	74.5	106.8	149.7
Total debt /Equity (%)	16.7	51.4	51.0	71.1	73.4
ROE (%)	32.1	32.1	31.2	38.7	35.7
ROCE (%)	42.0	19.4	14.3	20.5	21.7

Source: Citigroup Investment Research estimates, Company

Figure 15. Bharati Shipyards – Cash Flows, FY05-09E

	FY05E	FY06E	FY07E	FY08E	FY09E
Net Profit before Tax	375.0	781.5	990.5	1599.9	2000.9
Depreciation	4.4	14.7	47.2	99.7	169.7
Forex Gain	7.9	-3.9	0.0	0.0	0.0
Interest Expenses	82.1	97.7	136.3	323.8	547.8
Dividend Income	-2.8	-1.4	-2.0	-3.0	-4.0
Operating profit before WC changes	**466.6**	**888.6**	**1172.0**	**2020.4**	**2714.4**
Change in receivables	-130.2	-444.2	-598.2	-941.8	-583.3
Change in inventories	-369.5	-1187.2	-220.4	-797.8	-746.1
Change in trade payables	-28.5	948.1	-940.3	308.6	260.2
Cash Generated from operations	-61.7	205.4	-587.0	589.4	1645.3
Direct Taxes Paid	-0.25	-47.98	-270.87	-336.77	-479.96
Net Cash from Operating Activities	-61.9	157.5	-857.8	252.6	1165.3
Cash flow from Investing Activities					
Purchase of fixed assets	-75.8	-842.8	-1000.0	-2000.0	-2000.0
Change in deposits	48.8	-278.4	-159.7	-692.1	-276.8
Dividends received	2.8	1.4	2.0	3.0	4.0
Net Cash from Investing Activities	**-24.2**	**-1119.8**	**-1157.7**	**-2689.1**	**-2272.8**
Cash flow from financing activities					
Issue of share capital	832.6	0.0	0.0	0.0	0.0
Issue of FCCB	0.0	4538.3	0.0	0.0	0.0
Change in Investments	-65.1	40.6	-0.5	0.0	0.0
Miscellaneous expenditure	-54.2	5.3	0.0	0.0	0.0
Proceeding from borrowings	7.6	701.7	279.4	1210.6	1082.9
Interest Paid	-82.1	-97.7	-136.3	-323.8	-547.8
Dividend Paid	0.0	-64.1	-64.1	-89.7	-89.7
Net Cash from Financing	**638.8**	**5124.0**	**78.5**	**797.1**	**445.4**
Net Increase in Cash	**552.7**	**4161.7**	**-1937.0**	**-1639.4**	**-662.1**

Source: Citigroup Investment Research estimates, Company

Valuations

- Value Bharati at 12x FY08E fully diluted EPS versus the current valuation of C9x FY08E earnings.
- Closest peer set are smaller Singaporean shipyards which have a similar size and product profile. Indian yards trade at a c45% discount to this peer set.
- Also trades at a discount to Korean shipbuilders and the Indian capital goods sector.

Value Bharati at 12x FY08E fully diluted earnings

We rate Bharati Shipyards as a Buy, Medium Risk (1M) with a target price of Rs421, which is 12x FY08E fully diluted earnings. This is in line with our methodology of rating Indian Shipbuilders.

We value the Indian Shipbuilders at 12x FY08E fully diluted EPS. The yards trade at a substantial discount to shipyards that have a similar order book profile, the Korean Shipbuilders and the Indian capital goods sector. We believe the smaller Singaporean shipyards, which are of a similar size and produce similar offshore vessels are the ideal peer set for the Indian companies.

However, we do look at the Korean shipyards and the Indian capital goods sector for indicative purposes.

Comparison with shipyards with similar order book profile

Bharati Shipyard trades at 9x FY08E earnings. Amongst the closest global peer set for Indian companies we include Jaya Holdings (3rd largest AHTS order book in the world), Labroy Marine (4th largest AHTS shipbuilder), Pan United (5th largest) and Keppel Corp. Although Keppel is geared towards the rig segment we include it in our valuation set as the Indian shipyards aim to enter the rig segment.

The peer set trades in a band of 12.3-16.4x FY08E earnings vis a vis 9x for the Indian Shipbuilders

This peer set trades in a 12.3-16.4x FY08E earning band – a substantial premium to Indian companies. Even allowing for the uncertainty regarding subsidies, we believe this premium is not entirely justified given the strong growth rates and expansion plans of Indian shipbuilders.

Figure 16. Similar Profile Shipyards – Relative Valuations

Company	MCAP (USD)	P/E (FY08E)
Jaya Holdings	729	14.3
Labroy Marine	981	12.3
Pan United Marin	217	16.4
Keppel Corp	8,959	15.6
Average	**10,886**	**14.6**
Bharati Shipyards	151	9.0
ABG Shipyards	248	9.2

Source: Citigroup Investment Research estimates. Bloomberg estimates, DataCentral

Comparison with Korean builders

Bharati trades at a c10% discount to larger Korean Shipyards. However, we believe the Korean Shipyards are not in the correct peer set for Indian builders due to the difference in product profile. Korean shipbuilders produce large LNG tankers and are more likely to be affected by a change in global trends than the Indian players that currently cater to niche segment.

Trades at a discount to Korean Shipbuilders

Figure 17. Korean Shipbuilders – Relative Valuations

Company	MCAP (USD)	P/E (FY08E)
Hyundai Heavy Industries	10,463	8.4
Samsung Heavy Industries	5,543	11.3
Hyundai MIPO Shipyards	2,753	12.3
Daewoo Shipbuilding	5,820	8.0
Average	**24,579**	**10.0**
Bharati Shipyards	151	9.0
ABG Shipyards	248	9.2

Source: Citigroup Investment Research, Bloomberg

Further, our Korean Shipbuilding analyst Sokje Lee values the Korean shipyards at c15x FY08E earnings, which is at a substantial premium to Indian shipbuilders.

Comparison with Indian capital goods sector

Bharati was listed recently so it does not have any meaningful historical trading bands. Shipbuilders are similar to the capital goods sector with respect to the long order book cover. However, they differ in terms of the business dynamics – 1) capacities for production/business implementation can easily be expanded 2) The capital goods companies broadly cater to the domestic Indian market rather than the global sector.

Our peer set of companies in the capital goods sector are valued at an average P/E of 22x with a similar growth profile – the extent of discount again seems unqualified.

Same growth as capital goods but at a discount

Figure 18. Capital Good Companies – Relative Valuations

	P/E (08E)	EPS CAGR (06-09E)
L&T	25	29%
BHEL	22	27%
Suzlon	21	39%
Average	**22**	**32%**
Bharati	9	41%
ABG	9	20%

Source: Citigroup Investment Research estimates, Bloomberg

Going ahead we see two key triggers that could drive valuations:

- Announcement on continuation/payment of subsidies
- New order inflows
- Continued strength in global shipbuilding prices

Risks

We rate Bharati shipyards Medium Risk based on our global quantitative analysis. Being a small shipyard in the global context, Bharati is subject to industry-wide risk factors that include a rise in raw material costs and a steep rise global ship building capacity. Further, the global macro economic variables such as a decline in GDP growth rates or a decline in sea trade could adversely impact Bharati Shipyards. Besides these factors we highlight risks unique to Bharati and the Indian Shipbuilding industry.

Capacity expansion and execution are key risks

Company Specific Risks

Delay in Capacity Expansion

Bharati plans to triple its current capacities for which orders have been received. Any delay in the scheduled capacity expansion would inevitably compromise the delivery schedules of the current order book – time over runs would lead to imposition of financial penalties. This would also impact the company's reputation and could adversely affect future order flows.

Execution Risks

Bharati will be producing a new type of ships – such as the jack-up rigs. While it has international partners for support, cost and time over runs in the initial stages of the learning curve cannot be ruled out. Further, performance guarantees are typically in place for 6 months – any below par performance could lead to financial penalty. Besides the financial impact, it would adversely affect the company's reputation and a potential loss of orders.

Industry Risks

Subsidy retraction by the government

Without subsidies offered by the government, net profit would fall by c45% in FY07E. We believe subsidies would affect profitability only if it is removed and infrastructure status is not granted. Please refer to the appendix for details.

Decline in Oil Prices

Demand for offshore vessels is affected by the E&P budgets of oil companies. These are in turn determined by the *expected long-term* fuel prices. A sustained and continuous decline in oil prices would negatively impact demand for offshore vessels which account for nearly 70% of Bharati's orderbook.

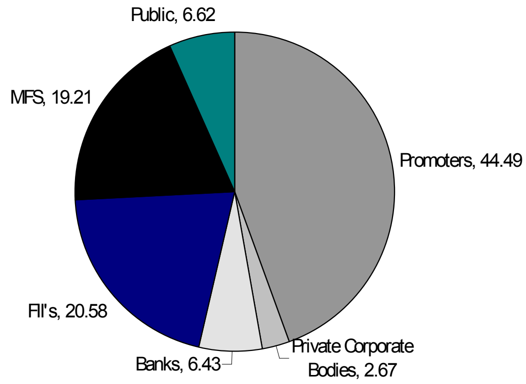
Company Description

Set up in 1973, Bharati Shipyard is one of the largest private shipyards in India. From its shipyards, spread across three regions – Ratnagiri, Ghodbunder and Goa – the company has built ships including OSVs, cargo ships and a wide range of tugs/deepwater trawlers. The company is in the process of setting up a new shipyard in Mangalore and expanding its capacity in Ratnagiri. It recently bagged an order for building a jack-up rig – a first for any Indian shipyard. It has an unexecuted order book of Rs18bn. The company had an initial public offering in May 2004 and subsequently raised $100m through an FCCB in Dec 2005.

Management and Ownership

Bharati Shipyard was established by Mr. PC Kapoor and Mr. Vijay Kumar – both qualified technocrats. The management is well respected for its execution skills, which have earned the company a reputation for timely delivery. This has been reflected in the number of repeat orders.

Figure 19. Bharati Shipyards – Shareholding Pattern



Source: Citigroup Investment Research, BSE

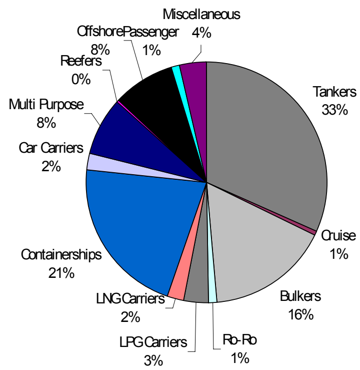
Appendix 1 – OSV markets: Initial Successes; Bright Future

- About 65% of private shipbuilders' order book is geared towards the oil & gas sector; globally India has one of the largest AHTS order books.
- India's prominence in the sector due to: 1) unfeasibility of producing niche vessels in the large shipyards; and 2) availability of skilled labour.
- Demand drivers for OSVs namely E&P expenditure, average fleet age and technological advancements remain favourable.

Offshore vessels account for 8% of the world orderbook, while they contribute close to 46% of India's order book

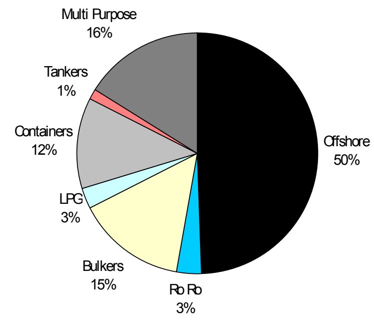
India has been extremely successful in the OSV markets. Bharati and ABG shipyards are amongst the top yards in terms of number of AHTS order book. While offshore vessels account for 8% of the world orderbook, they contribute close to 46% of India's orderbook.

Figure 20. World – Order Book (number of ships)



Source: Citigroup Investment Research, Clarksons

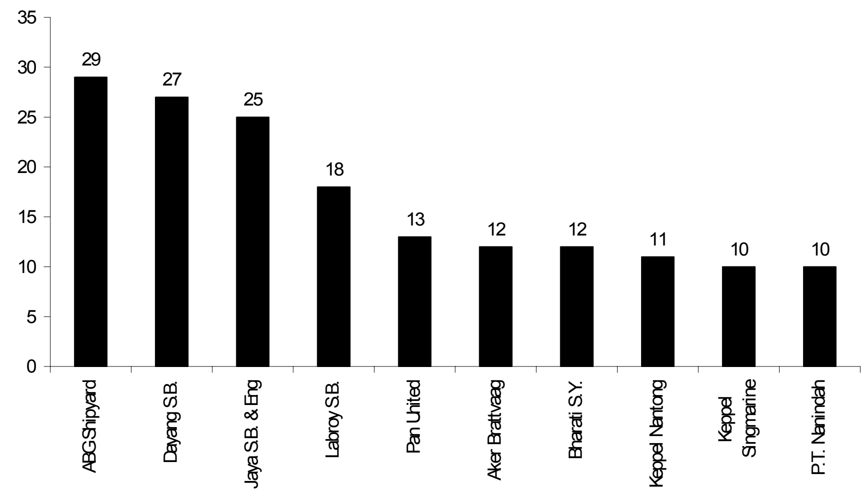
Figure 21. India – Order Book (number of ships)



Source: Citigroup Investment Research, Clarksons

In fact a look at the OSV market shares by countries indicates a clear shift towards countries without a strong shipping history. Shipyards from India, China and Singapore dominate the list of the top 10 shipyards by AHTS order book. India's ABG has the highest orderbook for AHTSs worldwide.

Figure 22. AHTS orderbook s – Top 10 Yards



Source: Clarksons

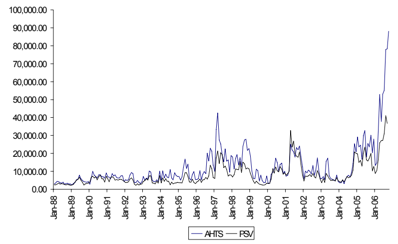
We believe the success of the Indian builders in this segment has been due to two key factors:

- Bigger yards unfeasible to produce OSV: The yards at major shipbuilding countries such as Korea and Japan have capacities where the production of OSVs would have been uneconomical. In addition, major shipyards in the world have huge order backlogs of cargo vessels (which are priced much higher) forcing the owner of OSVs to look towards newer shipyards, creating the shift toward countries such as India.

- Capitalizing on skilled labour: The OSV segment utilizes one of India's key advantages – lower *skilled* labour costs. OSVs typically require a higher degree of technological skill than vessels in the tanker/bulk segments. This has helped India succeed against more competitive Chinese shipbuilders that have been able to build plain vanilla tanker vessels, which are more labour intensive.

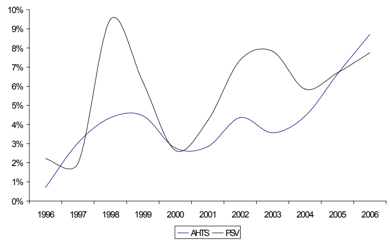
We also believe production of OSVs could be a stepping stone towards building higher tonnage vessels. India lacks a strong reputation for shipbuilding. Once the shipyards can earn a reputation for timely and quality building we would expect them to migrate towards higher tonnage ships. In fact, this impending shift can be seen in the capacity expansion programs of ABG and Bharati. They are clearing looking to expand their capacities substantially – ABG plans to be able to build ships up to 1,20,000 DWT at its shipyard in Dahej.

Figure 23. OSV Rates – Reflecting Strong Demand



Source: Citigroup Investment Research, Clarksons

Figure 24. Orderbook as a percentage of fleet



Source: Citigroup Investment Research, Clarksons

OSV segment – Strong growth prospects

The key demand drivers for the offshore Supply Vessels are largely favorable. Strong E&P spending, *expected* crude prices, increasing requirements of vessels per rig and an aging fleet should drive growth going forward.

Expected Crude Prices: E&P activities dictate demand for OSVs. The E&P budget is a direct function of the *expected* crude oil prices. Typically an expectation of higher oil prices leads to a surge in exploration activity. Exploration activities now occur deep within the seas with floating production facilities (or rigs). This increases demand for OSVs, which service these markets. As per the survey done by our global analyst Geoffrey Kieburtz only a decline in oil prices below the $42 level could bring down global E&P budgets and consequently decrease demand for offshore vessels.

Figure 25. What Oil Price in Next Six Months Would Be Required to Alter Current Spending Plans by 10% (Question to oil companies in the E&P Survey by Geoff Kieburtz)

	10% Decrease For		10% Increase for	
	2006	2007E	2006	2007E
US Independents	$41.36	45.91	77.14	75
Canada	44.58	45	77.5	71.36
Outside North America	36.11	33.75	83.33	76.67
Worldwide	**42.08**	**42.71**	**78.16**	**74**

Source: Citigroup Investment Research estimates

Strong E&P expenditure: The outlook for spending also remains positive – the E&P budgets are estimated to have been increased by 22% in FY06. This is the 7th consecutive year of an increase in E&P budgets.

Figure 26. World – E&P Expenditure remains strong (US$ M)

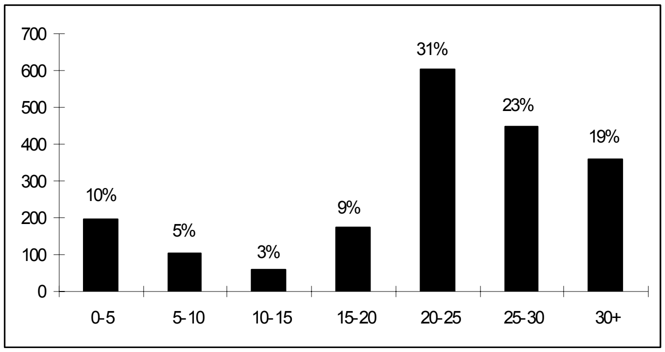
	2005A	2006E	% Change
US Independents	34,370	44,280	28.8%
US Majors	14,812	17,974	21.3%
US Total	49,182	62,254	26.6%
Canada	25,570	27,777	8.6%
Outside North America	132,269	162,994	23.2%
Worldwide	**207,021**	**253,025**	**22.2%**

Source: Citigroup Investment Research estimates

Number of vessels/rigs: Demand for OSVs depends on the number of vessel required to service a rig. New, more advanced rigs (4th and 5th generation) has a drilling speed which is three times that of older rigs. A higher drilling speed leads to a demand for a greater number of service vessels. Currently it is estimated that about 1.75 vessels per day are required for a floating rig - this could increase going forward.

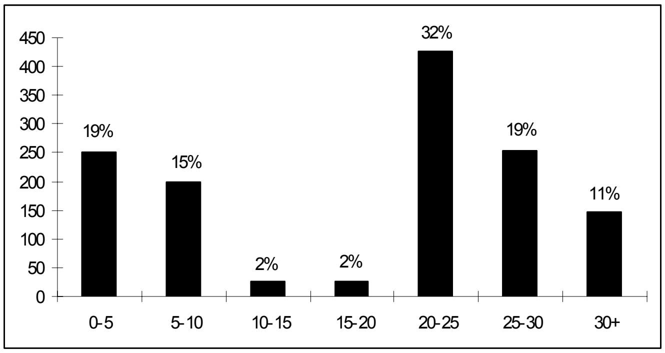
Profile of the Fleet: Like all vessels, OSVs have a fixed life span beyond which operation become uneconomical. The typical lifespan of an AHTS is about 20 years. As the graph shows about 73% of the AHTS fleet and 62% of the PSV fleet is over 20 years old – these vessels were ordered in the oil boom of 1973 and 1979. During this period oil prices increased from $1 to $10/barrel in 1973 and $40/barrel in 1979. Between the late 1980's and late 1990's virtually no OSVs were ordered. Hence the skewed age profile. Despite this the order book currently forms below 10% of the current fleet – clearly indicating a huge potential.

Figure 27. AHTS Fleet – Age Profile



Source: Clarksons, Citigroup Investment Research estimates

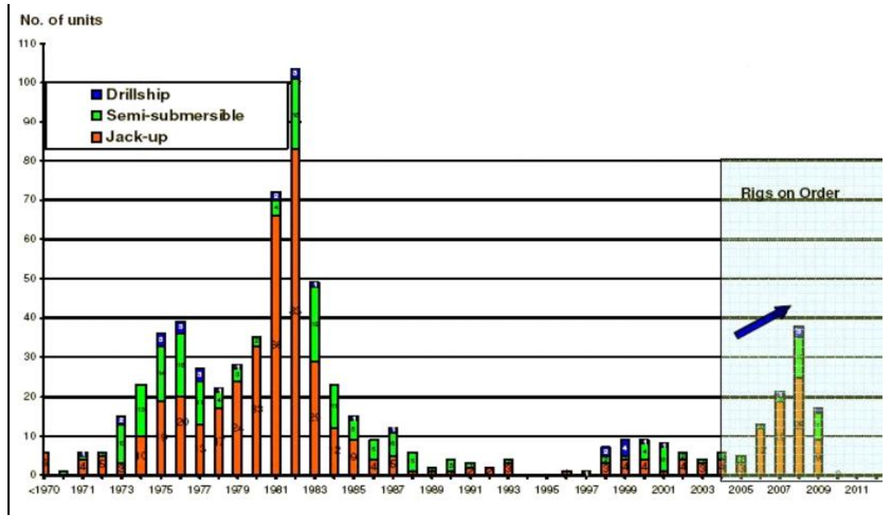
Figure 28. PSV Fleet – Age Profile



Source: Clarksons, Citigroup Investment Research estimates

Jack-up rigs are a new area where Indian shipbuilders – notably ABG and Bharati shipyards – have entered. Just like the OSVs rigs, they are also a direct play on the E&P cycle. The fleet development of rigs has been very similar to that of OSVs with deliveries peaking during the boom of the 1980s and the sudden fall in demand immediately after. As pointed out the newer oil rigs (4th and 5th generation) being 3-4 times faster than older drilling rigs the replacement demand will also be higher.

Figure 29. World – Rigs on Order



Source: SembCorp, ODS PetroData

More than 90% of the jack-up rigs are over 20 years old.

As the above graph shows over 90% of the jack-up rigs are over 20 years old. This has not only enhanced the funds required or repairing but also enhanced downtime. Hence we expect strong replacement demand. An estimated 350 rigs are over 20 years old but only 70 are under construction – deliveries of these stretch well into FY09, so we expect strong demand extending into the next decade.

Appendix 2 – Subsidy or Infrastructure Status would be as good

- Subsidies account for c50% of the profitability of Indian builders like Bharati and ABG.
- Calculations suggest a shift from outright 30% subsidies to granting "infrastructure status" to the industry would be equally beneficial
- The grant of infrastructure status would also improve cash flows as currently no currently company has received subsidies.

In 2002, the government announced a policy of providing subsidies to private sector shipbuilding companies. The policy guidelines however, came through only in mid-2003. The policy was introduced for a five-year period ending July 2007. The government was to provide 30% of the sale price on all ships for foreign orders. Ships on domestic orders would however be eligible for subsidy if: 1) The vessels were a minimum of 80 metres in length and 2) The orders are won through a global tendering process.

While technically the sales price of the ship value is to be used for the subsidy calculation; the sales price is evaluated by a DGCA committee. This committee evaluates the sale price and may alter the ship value before awarding an in-principal approval. Historically in-principal approval has been marginally below the sales price. For private players the subsidy payment is made only after the delivery of the ship; while payment to the public sector yards is stage based.

No private player has actually received cash subsidy

Following the in-principal approval a budget is sanctioned after which final payout is made. It is noteworthy that *no private player has actually received any subsidy until now*. However, ABG recently received a budget approval for some of the ships delivered and is confident of an actual cash payment in the coming months.

The tremendous margin growth of private players since 2005 has largely been due to subsidies (we estimate that subsidies would reduce the FY08E PAT of Bharati and ABG by about 44% and 51% respectively). Hence the continuation of subsidies beyond July 2007 assumes significance.

The industry is of the opinion that the subsidy is likely to extend beyond 2007 until at least 2012. Further subsidy is available on all ships contracted before 2007 – hence the current order book which will power growth in FY08 and FY09 will receive the subsidy benefit.

Very little difference between subsidy and infrastructure status

There is also a possibility of subsidy being removed and shipbuilding receiving an infrastructure status. We analyse the profitability of a typical shipbuilder receiving subsidy, not receiving subsidy and one with infrastructure status.

Figure 30. Bharati Shipyard – Subsidy & Infrastructure Status

	With Subsidy	With Infrastructure Status	Without Subsidy	Comments
Sales	**100**	**100**	**100**	Sales without subsidy
Raw Material	60	57	60	About 60% of total sales value
- Domestic	*21*	*18*	*21*	*Infrastructure Status Benefit : 16% excise duty benefit on domestic purchases*
- Imported	*39*	*39*	*39*	
Other Expenses	23	19	23	*Infrastructure Status Benefit : 4% CST benefit*
EBITDA	**17**	**24**	**17**	
Value of Subsidy	15	0	0	Subsidy at an average of 15% of sales
Adjusted EBITDA	32	24	17	
Interest Charges	3.5	3.2	3.5	*Infrastructure Status Benefit : Interest costs could be about 10% lower*
Depreciation	1	1	1	
Other Income	0.5	0.5	0.5	
PBT	**28**	**20.7**	**13**	
Tax	9.2	2.5	4.3	*Infrastructure Status Benefit :Pays only MAT instead of the regular 33% tax rate*
PAT	**18.8**	**18.2**	**8.7**	**Net difference between subsidy status and Infrastructure Status negligible**

Source: Citigroup Investment Research estimates

Cash flows will increase if infrastructure status is granted

We believe the profitability will be largely unchanged for the company with infrastructure status vis a vis with subsidy. Further, it would imply *immediate* accretion to the company's cash flow (vis a vis a long delayed subsidy payment).

Bharati Shipyards

Company Description

Set up in 1973, Bharati Shipyard is one of the largest private shipyards in India. From its shipyards, spread across three regions – Ratnagiri, Ghodbunder and Goa – the company has built ships including OSVs, cargo ships and a wide range of tugs/deepwater trawlers. It is setting up a new shipyard in Mangalore and expanding its capacity in Ratnagiri. It recently bagged an order to build a jack-up rig – a first for any Indian shipyard. It has an unexecuted order book of Rs18bn. The company had an initial public offering in May 2004 and subsequently raised $100m through an FCCB in Dec 2005.

Investment Summary

Bharati has strong earnings momentum and an order book of c5x FY07E sales. It is our preferred pick in the Indian Shipbuilding space. We initiate on Bharati Shipyards with a Buy/Medium risk (1M) rating and target price of Rs421. Our stance is backed by solid 41% earnings CAGR for FY06-FY09E.The company's order book of Rs23bn (unexecuted portion of Rs18bn) is heavily geared towards the oil & gas segment, which has strong demand drivers. The company recently bagged an order for a jack-up rig – the first for an Indian company. Its aggressive expansion plans are backed by its strong orderbook. The company will expand its capacity at Ratnagiri by 20%, while its new yard at Mangalore should generate revenues in FY08. The Mangalore yard can produce ships of 60,000 DWT and also house the rig building unit. Current valuations are attractive.

Valuation

We rate Bharati shipyards Buy/Medium Risk (1M) with a target price of Rs421, or 12x FY08E earnings. The valuation accounts for complete conversion of the FCCB – leading to a 42% dilution in earnings. This is in line with our methodology of rating Indian shipbuilders. At our target price ABG would provide 35% upside from current levels. The current valuations at 9x FY08E earnings are at a substantial discount to the smaller Singaporean yards. Singaporean yards including Jaya Holdings, Lebroy Marine, Pan United Marine and Keppel have an order book profile that most closely matches that of Bharati; and trade at an average of 14.6x FY08E. ABG also trades at a discount to Korean shipyards (10x FY08E) and is substantially cheaper than the Indian capital goods companies (20x FY08E). With a profit growth of 41% CAGR expected between FY06-09E, we believe valuations remain conservative. The robust orderbook at c5x FY07E sales would provide greater comfort.

Risk

We rate Bharati shipyards Medium risk based on our global quantitative analysis. Being a small shipyard in the global context, Bharati is subject to industry-wide risk factors that include a rise in raw material costs and a steep rise global ship building capacity. Further, global macro economic variables such as a decline in GDP growth rates or a decline in sea trade could adversely impact Bharati Shipyards. Key risks include (1) removal of subsidies; (2) declining oil prices; and (3) execution risk.

ABG Shipyards

Company Description

ABG, the largest private sector yard in India has built more than 90 ships since 1990. It has a shipbuilding facility in Magdala, near Surat in Gujarat. It is now setting up a new shipyard at Dahej and expanding its capacity in Surat. The first phase of the Dahej shipyard, being constructed at a cost of Rs4bn, can build ships with a capacity of up to 120,000 DWT. At Dahej, it can build rigs – a large-ticket profitable segment.

Investment Summary

ABG is India's leading private shipbuilder and has the world's largest AHTS (Anchor Handling Tug) order book. The company has a strong earnings visibility with a robust order book of Rs23bn (unexecuted portion of Rs15.5bn), to be executed until FY10.The company has strong expansion plans at its existing yards at Surat where it plans to increase capacity by 40%. Its new Greenfield yard at Dahej, which will be commissioned in April 2008, will have capability to produce ships up to 120,000 DWT. In its second phase of expansion, the yard would also have a rig-building facility. This should increase the orderbook execution rate and provide an entry into new shipbuilding segments. With earnings CAGR of 20% over FY06-09E, we believe current valuations are attractive.

Valuation

We rate ABG Shipyards Buy/Medium Risk (1M). We value ABG Shipyards at Rs291, which is 12x FY08E earnings. This is in line with our methodology for rating Indian shipbuilders. At our target price ABG provides 29% upside from current levels. The current valuations at 9x FY08E earnings are at a substantial discount to the smaller Singaporean yards. These include Jaya Holdings, Lebroy Marine, Pan United Marine and Keppel, which have order book profiles that most closely match that of ABG; trade at an average of 14.6x FY08E. ABG also trades at a discount to Korean shipyards (10x FY08E) and is substantially cheaper than the Indian capital goods companies (20x FY08E). We believe the valuations will be supported by earnings growth of 20% CAGR for FY06-09E. The strong orderbook provides comfort to the valuations.

Risk

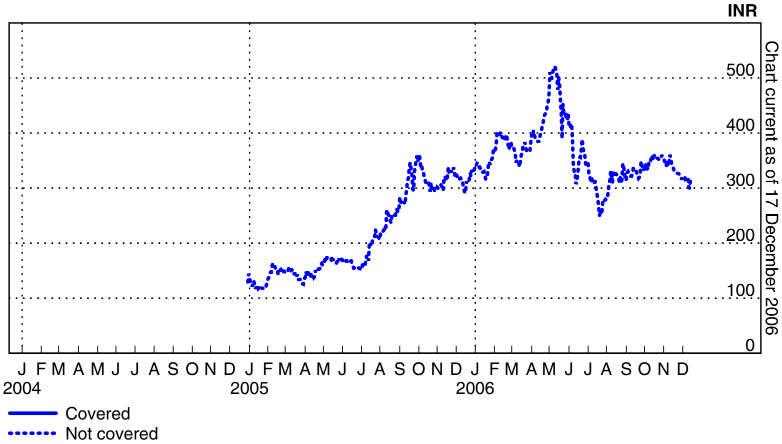
We rate ABG Shipyards Medium Risk, which differs from our 260 day quantitative rating of High Risk. We believe, the lower rating is justified given the strong order book cover of c3x FY07E sales and the offshore segment seems to have strong demand drivers in place. Being a small shipyard in the global context, ABG is subject to industry-wide risk factors that include a rise in raw material costs and a steep rise in global ship building capacity. Key risks include: (1) removal of subsidies; (2) declining oil prices; and (3) execution risk.

Analyst Certification Appendix A-1

We, Deepak Jain and Jamshed Dadabhoy, research analysts and the authors of this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

IMPORTANT DISCLOSURES

Bharati Shipyard Ltd (BHAR.BO)
Ratings and Target Price History - Fundamental Research



#	Date	Rating	Target Price	Closing Price

*Indicates change.

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