

ABG Shipyard

Performance Highlights

Y/E March (Rs cr)	1QFY11	1QFY10	% yoy	4QFY10	% qoq
Net sales	428	368	16.4	473	(9.4)
EBITDA	(325)	(285)	14.0	(409)	(20.5)
OPM margin (%)	24.2	22.5	162bp	13.6	1,059bp
PAT	38	48	(19.8)	53	(27.3)

Source: Company, Angel Research

ABG Shipyard (ABG) 1QFY2011 result (adjusted for subsidy) was marginally below our estimates due to lower execution. The substantial improvement in OPM due to lower raw material costs and other expenses was offset by higher depreciation expenses. ABG delivered three vessels in 1QFY2011. The company targets to deliver 24 vessels in FY2011, though there could be some setback. ABG's unexecuted order book (OB) stands at ~Rs8,000cr, and executable by FY2014E. This translates into 4.9x FY2010 sales. The company's net debt position increased by Rs100cr this quarter to Rs2,600cr (D/E ratio 3.0x), which remains a concern. **Hence, we downgrade the stock from Buy to Accumulate.**

Lower execution, strong OPM: ABG's revenue (ex subsidy) grew 16.4% yoy (down 9.4% qoq) to Rs429cr in 1QFY2011 on account of lower execution. OPM came in at 24.2%, much above our estimate on account of lower raw material and other expenses. During 1QFY2011, ABG booked Rs21cr as subsidy as against Rs47cr in 4QFY2010 and Rs25cr in 1QFY2010. However, there was a three-fold yoy increase in depreciation to Rs14cr due to part capitalisation of the project at the Dahej Shipyard and 24.8% yoy increase in interest costs due to higher working capital requirements. Further, the company has booked a one-time loss of Rs14cr due to the sale of stake in Great Offshore. Consequently, PAT declined 19.8% yoy and 27.3% qoq to Rs38.4cr. However, adjusted for subsidy and exceptional loss PAT increased by 17.1% yoy and 122.9% qoq.

Outlook and Valuation: At the CMP, ABG is trading at 6.5x FY2012E earnings, 7.3x FY2012E EV/EBITDA and 1.2x FY2012E P/BV. We have revised our Target P/E multiple from 8x to 7x to factor in concerns of increasing debt position and lack of visibility of new order inflows. Hence, we have downgraded stock from Buy to Accumulate, with a revised Target Price of Rs271.

Key Financials (Consolidated)

Y/E March (Rs cr)	FY2009	FY2010	FY2011E	FY2012E
Net Sales	1,350	1,628	1,988	2,482
% chg	52.5	20.6	22.1	24.8
Reported Net Profit	171.2	218.1	211.4	315.4
% chg	6.5	27.4	(3.1)	49.2
Adj Net Profit *	124.5	67.9	131.5	197.0
FDEPS (Rs)	24.5	13.3	25.8	38.7
EBITDA Margin (%)	19.9	17.7	22.0	22.0
P/E (x)	10.3	18.9	9.7	6.5
RoE (%)	19.5	8.9	14.9	19.4
RoCE (%)	14.2	8.5	11.0	13.2
P/BV (x)	1.9	1.5	1.4	1.2
EV/Sales (x)	2.2	2.3	1.9	1.6
EV/EBITDA (x)	11.2	13.0	8.6	7.3

Source: Company, Angel Research

ACCUMULATE

CMP	Rs258
Target Price	Rs271

Investment Period	12 Months
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Stock Info

Sector	Ship Building
Market Cap (Rs cr)	1,282
Beta	1.0
52 Week High / Low	346/170
Avg. Daily Volume	256,487
Face Value (Rs)	10
BSE Sensex	18,167
Nifty	5,452
Reuters Code	ABGS.BO
Bloomberg Code	ABGS@IN

Shareholding Pattern (%)

Promoters	57.1
MF / Banks / Indian Fls	8.1
FII / NRIs / OCBs	20.0
Indian Public / Others	8.8

Abs. (%)	3m	1yr	3yr
Sensex	5.2	17.1	21.0
ABG	(7.9)	43.4	(52.8)

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Exhibit 1: 1QFY2011 performance (consolidated)

Y/E March (Rs cr)	1QFY11	4QFY10	qoq chg (%)	1QFY10	yoy chg (%)	FY10	FY09	yoy chg (%)
Revenues	428	473	(9.4)	368	16.4	1,628	1,350	20.6
Total expenditure	(325)	(409)	(20.5)	(285)	14.0	1,340	1,081	23.9
EBIDTA	103	64	61.2	83	24.8	288	269	7.4
OPM (%)	24.2	13.6	1,059bp	22.5	162bp	17.7	19.9	(219bp)
Depreciation	(14)	(12)	11.6	(5)	201.5	39	15	165.5
Interest	(42)	(36)	15.8	(34)	24.8	161	74	117.4
Subsidy	21	47	(55.3)	25	(16.0)	184	63	192.8
Other income	3	3	(18.8)	3	(12.0)	15	7	103.4
EO/Min Int	(14)	(5)		0		29	5	
PBT	71	66	8.5	73	(1.8)	317	255	24.2
Tax	(19)	(8)		(25)		98	84	17.5
Tax rate (%)	26.8	11.7		33.9		31.1	32.8	
PAT*	37	17	122.9	31	17.1	68	129	(47.5)
PAT margin (%)*	8.6	3.5	510bp	8.5	5.5bp	4.2	9.6	(541bp)
No. of shares	51	51		51		51	51	
Reported PAT	38	53	(27.3)	48	(19.8)	218	171	27.4
Adj EPS (Rs)*	7	3	122.9	6	17.1	13.3	25.4	(47.5)

Source: Company, Angel Research; Note: *excluding subsidy

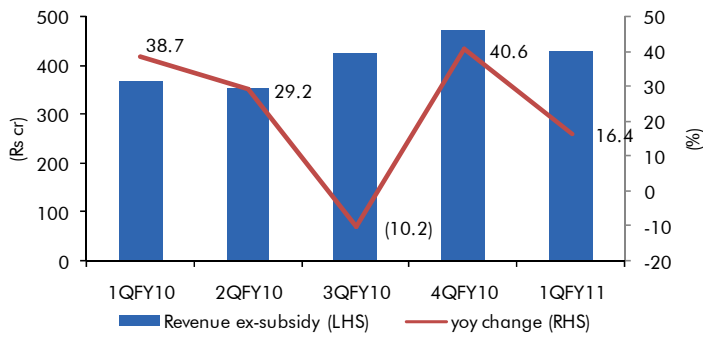
Update on stake sale in Great Offshore

ABG had garnered ~15.2% stake in Great Offshore through an open offer at Rs520 per share in 2010, of which it has sold ~11% stake in the open market. The selling price was lower than the purchase price of Rs520, resulting in losses of Rs19cr so far. We expect ABG to exit Great Offshore stake over the next six months.

Strong order book; lack of visibility in order inflows

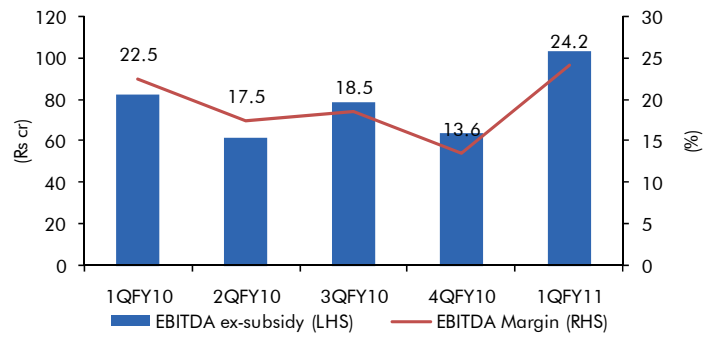
ABG's total unexecuted order book stands at Rs8,000cr, translating into 5.0x FY2010 sales, thus providing strong revenue visibility for the company. During the current economic crisis, ABG managed to avoid any cancellations or price negotiations of its order book. However, since the last one year, ABG received new orders worth just Rs385cr (from Precious Shipping, Thailand). Management has guided strong order inflows in FY2011.

Exhibit 2: Quarterly revenue trend



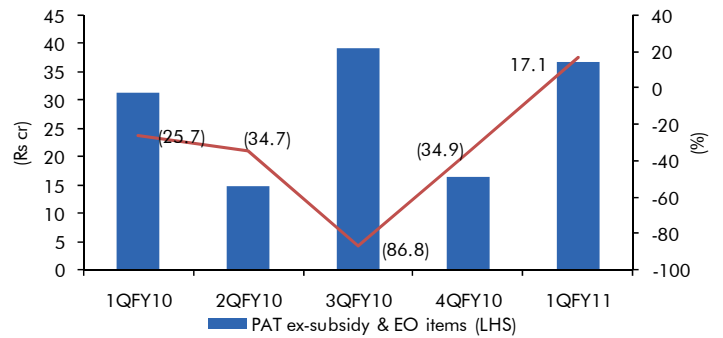
Source: Company, Angel Research

Exhibit 3: Quarterly EBITDA trend



Source: Company, Angel Research

Exhibit 4: Quarterly profitability trend



Source: Company, Angel Research

Investment Arguments

Strong revenue visibility

ABG's total unexecuted order book stands at around Rs8,000cr executable by FY2014E. This translates into 5.0x FY2010 revenues, thus providing strong revenue visibility. Commendably, the company has managed to avoid any cancellations or price negotiations of its order book even amidst the economic crisis. Thus, we believe that ABG's top clients are unlikely to default on vessel payments.

Banking on offshore segment

ABG has a diverse order book mix, with a substantial exposure to the offshore segments (40% of its order book). The sharp recovery in crude oil prices has spurred the oil companies to carry out exploration and production, in turn lending a fillip to the deepwater rig contractors. There is also a constraint on the supply side for rigs and offshore support vessels due to the ageing fleets and demand for younger vessels with higher specifications.

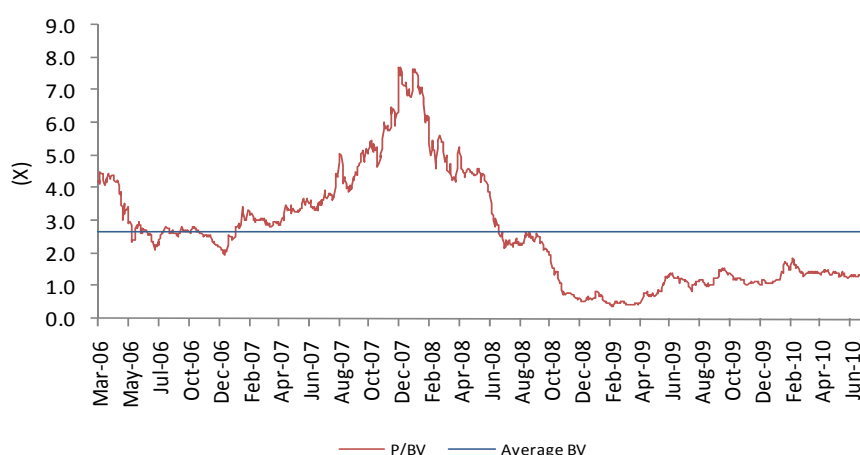
High debt remains a concern

The company's net debt increased by Rs100cr in 1QFY2011 to Rs2,600cr (3.0x) which remains a concern. Timely execution and receipt of payment from clients, fresh order inflow and subsidy payment are the vital requirements for ABG to improve its cash flow position. Since FY2009, the company has just received new orders worth Rs385cr and received only Rs100cr cash payment by way of subsidy from the government. Management has indicated that the subsidy component in its existing order book would be around Rs1,800cr, and is likely to be collected over the next five years. Further, it has indicated strong order inflows in FY2011E.

Outlook and Valuation

The Indian shipbuilding industry is well poised to register robust growth aided by the expected surge in sea-borne trade, availability of cheap labour in India and strong capex lined up in the offshore and defense sectors. We believe that ABG's healthy unexecuted order book of Rs8,000cr (5.0x FY2010 sales) by FY2014E provides strong revenue visibility. At the CMP, ABG is trading at 6.5x FY2012E earnings, 7.3x FY2012E EV/EBIDTA and 1.2x FY2012E P/BV. We have revised our Target P/E multiple from 8x to 7x to factor in concerns of the company's increasing debt and lack of visibility of new order inflows. **Hence, we downgrade the stock from Buy to Accumulate, with revised Target Price of Rs271 (Rs327).**

Exhibit 5: Four-year average P/BV (one-year forward) at 2.7x



Source: Bloomberg, Angel Research

Exhibit 6: Global peer valuation

Global Players	Mkt Cap USD (MN)	P/E (x)		P/BV (x)		ROE (%)		EPS CAGR (%)
		CY10E	CY11E	CY10E	CY11E	CY10E	CY11E	
Hyundai Heavy	17,762	6.9	7.9	1.6	1.4	26.8	18.9	(9.3)
Samsung Heavy	5,027	6.7	7.2	1.6	1.3	27.7	21.9	(0.1)
Daewoo Shipbuilding	3,539	7.0	7.7	1.3	1.1	21.8	15.8	(2.9)
Guangzhou Shipyard	1,254	9.7	9.8	1.5	1.3	16.4	14.6	4.3
Yangzijiang Shipbuilding	3,939	11.0	11.4	1.9	1.9	31.3	24.5	3.6
Keppel Corp	10,282	12.4	12.7	2.1	1.9	16.5	15.0	(13.1)
Sembcorp Marine	4,903	11.5	12.6	2.0	1.8	18.2	15.5	(10.0)
Average		9.3	9.9	1.7	1.5	22.7	18.0	

Source: Bloomberg, Angel Research

Profit & Loss Statement (Consolidated)

Y/E March (Rs cr)	FY07	FY08	FY09	FY10	FY11E	FY12E
Gross sales	624	885	1,350	1,628	1,988	2,482
Less: Excise duty	-	-	-	-	-	-
Net Sales	624	885	1,350	1,628	1,988	2,482
Other operating inc.	-	-	-	-	-	-
Total operating income	624	885	1,350	1,628	1,988	2,482
% chg	33.2	41.8	52.5	20.6	22.1	24.8
Total Expenditure	528	678	1,081	1,340	1,551	1,936
Net Raw Materials	424	523	843	1,016	1,163	1,452
Other Mfg costs	46	77	104	-	159	199
Personnel	16	29	30	48	65	81
Other	42	49	105	276	164	205
EBITDA	96	207	269	288	437	546
% chg	67.9	114.7	30.0	7.4	51.6	24.8
(% of Net Sales)	15.4	23.4	19.9	17.7	22.0	22.0
Depreciation	6	7	15	39	56	61
EBIT	90	199	254	250	381	485
% chg	68.2	120.7	27.5	(1.7)	52.5	27.3
(% of Net Sales)	14.5	22.5	18.8	15.3	19.2	19.5
Interest & other charges	9	42	74	161	193	200
Other Income	5	7	7	15	12	15
(% of PBT)	3.1	3.0	2.9	5.2	3.4	3.1
Subsidy Income	82	82	63	184	150	180
Recurring PBT	168	246	250	287	350	480
% chg	32.7	46.3	1.7	14.9	21.9	37.0
Extraordinary exp/(inc)	-	-	-	29.3	(18.8)	-
PBT (reported)	168	246	250	317	331	480
Tax	61	88	84	98	120	164
(% of PBT)	36.3	35.7	33.5	31.1	36.2	34.2
PAT (reported)	107	158	166	218	211	315
Less: Minority Interest	-	-	-	-	-	-
Less: Prior period tax adj.	(0.7)	(0.4)	(1.7)	-	-	-
MAT credit entitlement	10.0	3.0	6.5	-	-	-
PAT after MI (reported)	116.3	160.7	171.2	218.1	211.4	315.4
ADJ. PAT* (ex-subsidy)	54.9	105.6	124.5	67.9	131.5	197.0
% chg	74.2	92.4	18.0	(45.5)	93.8	49.8
(% of Net Sales)	8.8	11.9	9.2	4.2	6.6	7.9
Basic EPS (ex-subsidy)	12.6	21.2	25.4	13.3	22.2	38.7
Fully Diluted EPS (Rs)	12.6	20.7	24.5	13.3	25.8	38.7

Balance Sheet (Consolidated)

Y/E March (Rs cr)	FY07	FY08	FY09	FY10E	FY11E	FY12E
SOURCES OF FUNDS						
Equity Share Capital	51	51	51	51	51	51
Share Warrants	-	32	32	32	32	32
Reserves & Surplus	537	684	836	1,030	1,218	1,509
Shareholders Funds	588	766	918	1,113	1,300	1,592
Sh.holder's funds*	456	582	693	841	930	1,103
Minority Interest	-	-	-	-	-	-
Total Loans	410	522	1,771	2,571	2,571	2,771
Deferred Tax Liability	108	168	222	222	222	222
Total Liabilities	1,105	1,456	2,911	3,906	4,093	4,585
APPLICATION OF FUNDS						
Gross Block	179	258	605	1,055	1,255	1,355
Less: Acc. Depreciation	48	59	88	126	183	244
Net Block	131	199	518	929	1,072	1,111
Capital WIP	165	386	1,008	1,209	1,451	1,596
Goodwill	-	-	-	-	-	-
Investments	-	6	24	320	25	25
Current Assets	1,343	1,606	2,663	2,843	3,051	3,497
Cash	140	87	51	109	91	70
Loans & Advances	662	1,103	1,347	1,491	1,641	1,821
Other	540	416	1,265	1,242	1,318	1,606
Current liabilities & prov.	534	741	1,301	1,395	1,506	1,645
Net Current Assets	809	865	1,363	1,448	1,545	1,852
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	1,105	1,456	2,911	3,906	4,093	4,585

Note: *ex-subsidy

Cash Flow Statement (Consolidated)

Y/E March (Rs cr)	FY07	FY08	FY09	FY10E	FY11E	FY12E
Profit before tax	168	246	250	287	350	480
Depreciation	6	7	15	39	56	61
Change in Working Capital	(584)	(123)	(529)	(14)	(116)	(328)
Less: Other income	27	46	34	-	-	-
Direct taxes paid	(12)	(12)	(23)	(98)	(120)	(164)
Cash Flow from Operations	(396)	164	(254)	213	171	48
(Inc.)/Dec. in Fixed Assets	(148)	(299)	(924)	(652)	(442)	(245)
(Inc.)/Dec in Investments	-	1	(24)	(296)	295	-
Eq sh Appl in Subsidiary Co.	(0)	(6)	-	-	-	-
Other income	-	-	-	29	(19)	-
Cash Flow from Investing	(148)	(304)	(947)	(919)	(166)	(245)
Equity & warr. Issue (net of exp)	-	32	(0)	-	-	-
Inc./(Dec.) in loans	310	105	1,249	800	-	200
Dividend Paid (Incl. Tax)	(7)	(9)	(12)	(36)	(24)	(24)
Others	(24)	(41)	(74)	-	-	-
Cash Flow from Financing	279	87	1,163	764	(24)	176
Inc./(Dec.) in Cash	(265)	(53)	(39)	59	(18)	(21)
Opening Cash balances	405	140	89	51	109	91
Closing Cash balances	140	87	51	109	91	70

Key Ratios

Y/E March	FY07	FY08	FY09	FY10E	FY11E	FY12E
Valuation Ratio (x)						
P/E (on FDEPS)	20.0	12.1	10.3	18.9	9.7	6.5
P/CEPS	10.5	11.4	9.2	12.0	6.8	5.0
P/BV	2.8	2.2	1.9	1.5	1.4	1.2
Dividend yield (%)	0.6	0.8	0.8	1.6	1.6	1.6
EV/Sales	2.5	1.9	2.2	2.3	1.9	1.6
EV/EBITDA	16.1	8.3	11.2	13.0	8.6	7.3
EV / Total Assets	1.4	1.2	1.0	1.0	0.9	0.9
Per Share Data (Rs)						
EPS (Basic)	12.6	21.2	25.4	13.3	22.2	38.7
EPS (fully diluted)	12.6	20.7	24.5	13.3	25.8	38.7
Cash EPS	24.0	22.2	27.3	20.9	36.9	50.7
DPS	1.5	2.0	2.0	4.0	4.0	4.0
Book Value	89.6	114.4	136.0	165.2	182.6	216.6
Dupont Analysis						
EBIT margin	14.5	22.5	18.8	17.4	18.5	19.0
Tax retention ratio	0.6	0.6	0.7	0.7	0.6	0.7
Asset turnover (x)	1.5	1.0	0.8	0.6	0.6	0.7
ROIC (Post-tax)	14.0	14.7	9.9	6.8	7.0	8.6
Cost of Debt (Post Tax)	2.3	5.9	4.3	5.1	4.8	4.9
Leverage (x)	(0.0)	0.6	1.6	2.5	2.7	2.3
Operating ROE	13.5	20.0	18.5	11.0	12.9	17.1
Returns (%)						
ROCE (Pre-tax)	13.2	20.2	14.2	8.5	11.0	13.2
Angel ROIC (Pre-tax)	29.8	33.4	25.0	14.3	18.8	23.3
ROE	12.8	20.3	19.5	8.9	14.9	19.4
Turnover ratios (x)						
Asset Turnover (GB)	3.9	4.1	3.1	2.0	1.7	1.9
Inventory / Sales (days)	221	194	221	270	225	205
Receivables (days)	4	3	7	11	10	10
Payables (days)	304	333	336	354	319	269
Wkg. cap. (ex-cash, days)	221	298	283	297	256	238
Solvency ratios (x)						
Net debt to equity	0.6	0.7	2.5	2.9	2.7	2.4
Net debt to EBITDA	2.8	2.1	6.4	8.5	5.7	4.9
Int. coverage (EBIT/Int)	9.6	4.7	3.4	1.5	2.0	2.4

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Disclosure of Interest Statement

ABG Shipyard

1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below Rs 1 lakh for Angel, its Group companies and Directors.

Ratings (Returns) :	Buy (> 15%)	Accumulate (5% to 15%)	Neutral (-5 to 5%)
	Reduce (-5% to 15%)	Sell (< -15%)	