

Great Offshore (GROFF)

Rs 406

WHAT'S CHANGED...

PRICE TARGET	Changed from Rs 468 to Rs 476
EPS (FY11E)	Changed from Rs 49.6 to Rs 59.0
EPS (FY12E)	Changed from Rs 69.0 to Rs 76.8
RATING.....	Unchanged

Best placed in Indian offshore space...

Great Offshore Ltd (GOL) is the most consistent player among Indian shipping companies with a steady rise in revenue, stable margins and steady return ratios. The company also has a sizeable presence in the Indian offshore space with a diversified fleet of 46 vessels consisting of 28 offshore support vessels, 12 harbour tugs, three construction barges and three drilling rigs. The company has a successful operating track record and long-term contracts with domestic and foreign oil exploration and drilling companies.

Slightly subdued performance

Great Offshore reported a 14% QoQ drop in topline at Rs 239.3 crore as against Rs 278.5 crore. The main factor contributing to the drop in topline was dry docking of its drilling rigs, which contribute substantially to the topline of the company in addition to softening of freight rates. The operating margin also witnessed a contraction from 50.4% to 41.7% on a QoQ basis with Rs 99.8 crore of EBITDA as against Rs 140.3 crore in the sequentially previous quarter. The company reported a net profit of Rs 26.7 crore i.e. 11.2% net profit margin in Q1FY11.

Valuation

We expect revenues to grow by 21% in FY12E as the utilisation levels of its drilling rigs increases. Three of its drilling rigs (Badrinath, Kedarnath and Amarnath) have secured long-term contracts and will be operating at 100% utilisation levels in FY12. The company has a slightly higher debt equity ratio of 2.1. However, it is not a concern as it is expected to improve to 1.1 by FY12 as GOL has completed most of its capex spend with very marginal new capex over the next two years while the earnings from operations are expected to rise significantly over the same period.

We have valued Great Offshore on multiple valuation parameters to arrive at price target of Rs 476. We maintain our **BUY** recommendation.

Exhibit 1: Financial Performance

(Rs. Crore)	Q1FY11	Q1FY11E	Q1FY10	Q4FY10	YoY Gr. (%)	QoQ Gr.(%)
Net Sales	239.3	244.5	229.3	278.5	4.4	-14.1
EBITDA	99.8	107.3	79.5	140.3	25.4	-28.9
EBITDA Margin (%)	41.7	43.9	34.7	50.4	700 bps	(870 bps)
Depreciation	44.0	34.5	29.8	36.3	47.4	21.1
Interest	31.1	25.5	25.1	26.1	23.9	19.3
Reported PAT	26.7	43.5	22.2	73.1	20.4	-63.4
EPS (Rs)	7.2	11.7	6.0	19.6	20.4	-63.4

Source: Company, ICICIdirect.com Research

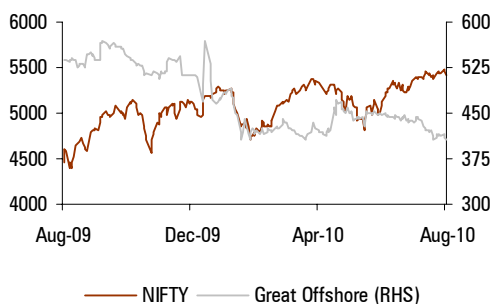
Rating matrix	
Rating	: Buy
Target	: Rs 476
Target Period	: 12 months
Potential Upside	: 17%

Key Financials				
(Rs crore)	FY09	FY10	FY11E	FY12E
Net Sales	1081.1	1165.6	1246.7	1507.6
EBITDA	483.0	542.6	560.4	677.0
Net Profit	275.5	201.0	219.8	285.8

Valuation summary				
	FY09	FY10	FY11E	FY12E
PE (x)	5.5	7.5	6.9	5.3
Target PE (x)	6.4	8.8	8.1	6.2
EV to EBITDA (x)	6.8	6.9	6.1	4.2
Price to book (x)	2.0	1.4	1.1	1.0
RoNW (%)	36.9	18.1	16.7	18.0
RoCE (%)	13.1	11.6	10.7	12.8

Stock data	
Market Cap.	Rs. 1512 crore
Debt (FY09)	Rs. 2343 crore
Cash (FY09)	Rs. 100 crore
EV	Rs. 3755 crore
52 week H/L	Rs. 584 / 245
Equity capital	Rs. 37.2 crore
Face value	Rs. 10
MF Holding (%)	1.4
FII Holding (%)	8.2

Price movement



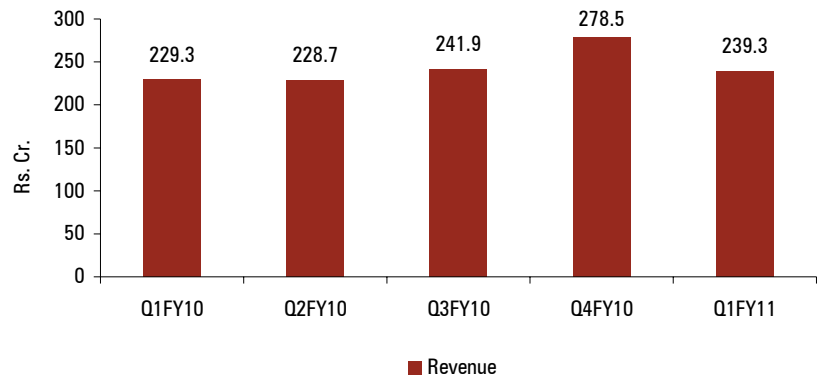
Analyst's name

Bharat Chhoda
bharat.chhoda@icicisecurities.com

Jehangir Master
jehangir.master@icicisecurities.com

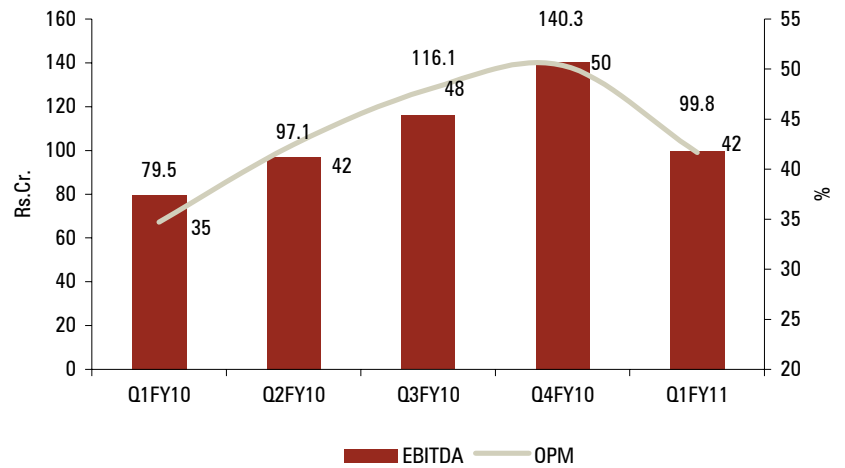
The topline registered a QoQ drop of 14% at Rs 239.3 crore, which was mainly on account of dry docking of its drilling rigs, which are the highest revenue earners for the company

Exhibit 2: Topline performance



Source: Company, ICICIdirect.com Research

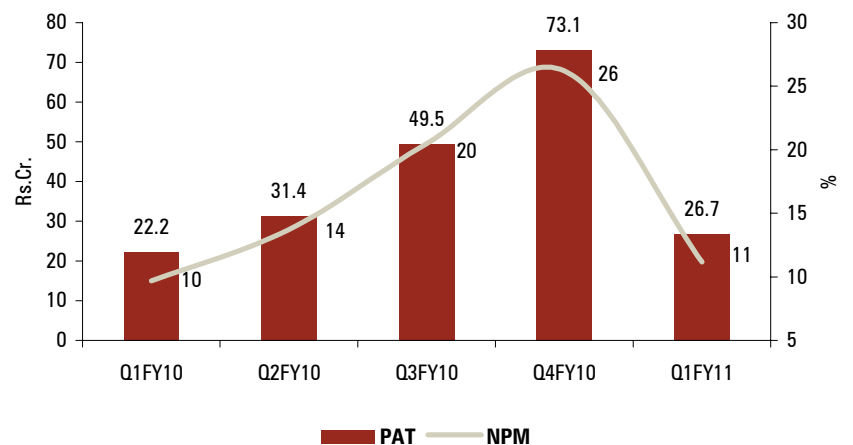
Exhibit 3: EBITDA performance



Source: Company, ICICIdirect.com Research

The company reported a steep drop in its EBITDA margin to 42% from 50% in the immediately preceding quarter

Exhibit 4: PAT performance

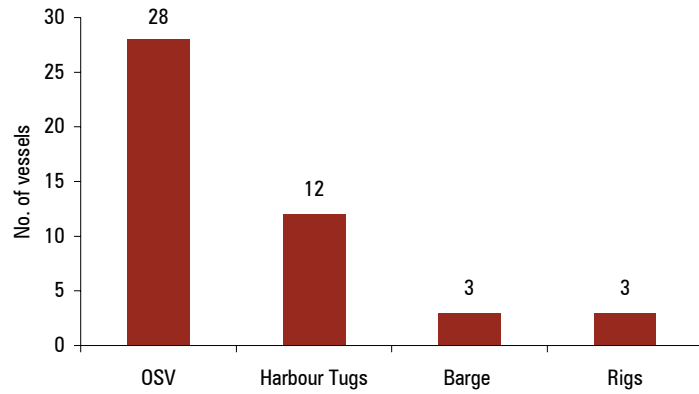


Source: Company, ICICIdirect.com Research

The company reported a net profit of Rs 26.7 crore in Q1FY11

The current fleet consists of 46 vessels, which include 28 offshore support vessels, 12 harbour tugs, three construction barges and three jack-up rigs

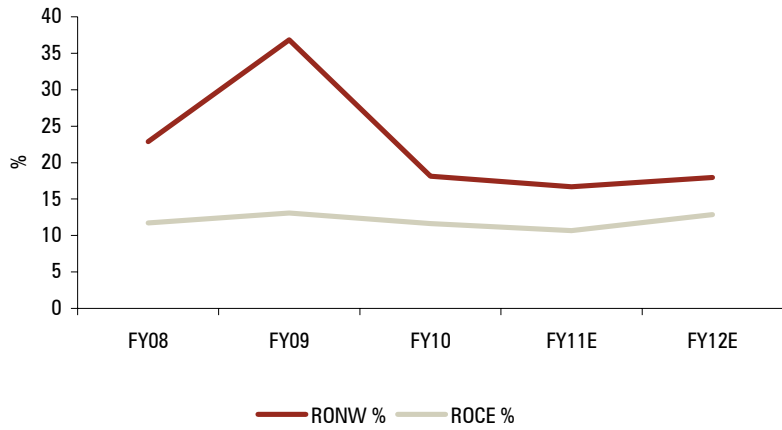
Exhibit 5: Current fleet profile



Source: Company, ICICIdirect.com Research

The company is expected to provide stable returns, going ahead, on account of its diversified fleet profile and long-term contracts

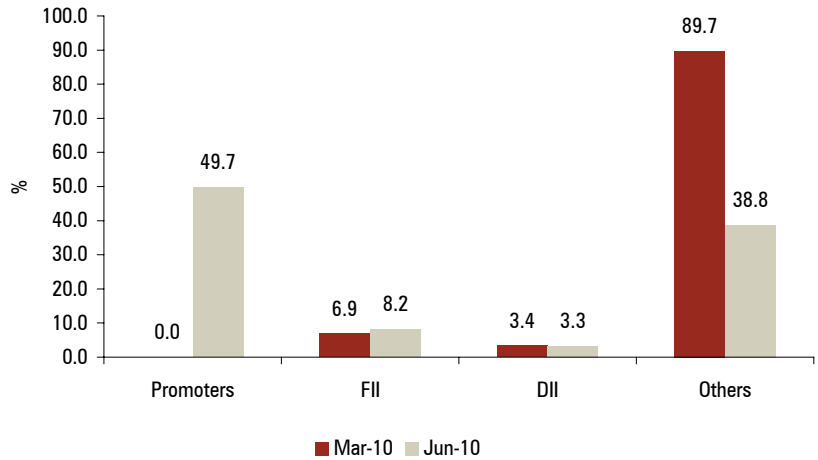
Exhibit 6: Return ratios



Source: Company, ICICIdirect.com Research

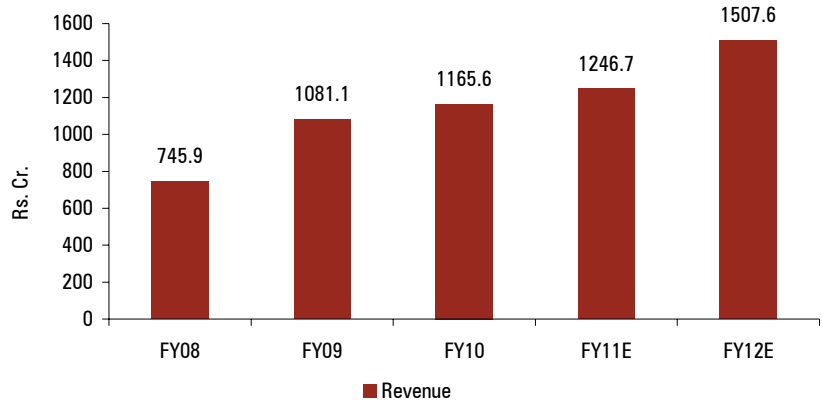
Post the completion of the open offer, Bharati Shipyard has emerged as the promoter in Great Offshore with a 49.7% stake in the company. This is a positive development as the company has a promoter group in place and is also part of the management team

Exhibit 7: Shareholding pattern change

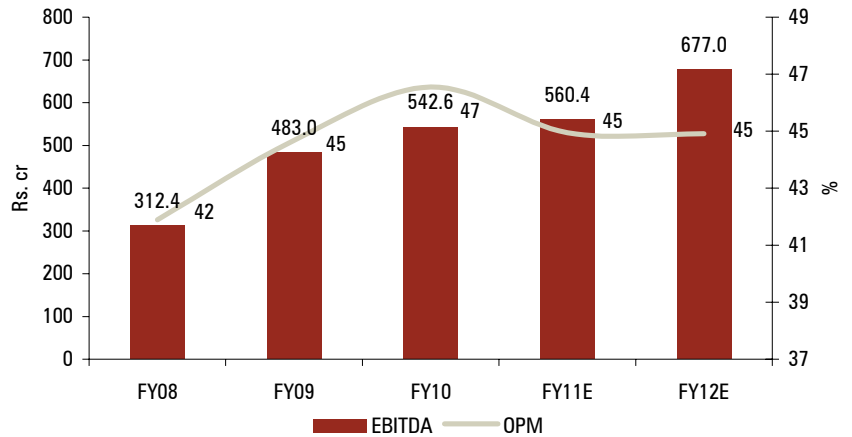


Source: Company, ICICIdirect.com Research

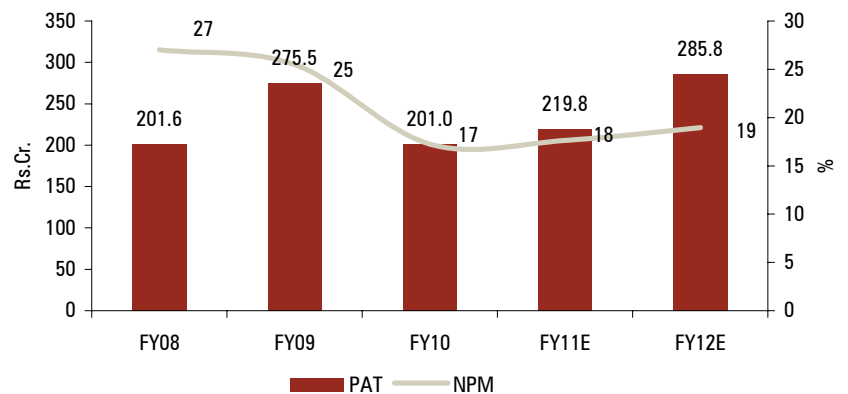
Further, FIIs have also shown their confidence in the company by raising their stake to 8.2% in the company in the last quarter

Exhibit 8: Revenue likely to report significant traction in FY12

Source: Company, ICICIdirect.com Research

Exhibit 9: Operating margin, going ahead, likely to be lower but stable

Source: Company, ICICIdirect.com Research

Exhibit 10: Likely to improve significantly in FY12

Source: Company, ICICIdirect.com Research

Great Offshore is the most consistent player among Indian shipping companies with a steady rise in revenue, stable margin and steady return ratios. The company also has a sizeable presence in the Indian offshore space with a diversified fleet of 46 vessels consisting of 28 offshore support vessels, 12 harbour tugs, three construction barges and three drilling rigs. GOL also has a successful operating track record and long-term contracts with domestic and foreign oil exploration and drilling companies.

We expect revenues to grow by 21% in FY12E as the utilisation levels of its drilling rigs increases. Three of its drilling rigs (Badrinath, Kedarnath and Amarnath have secured long-term contracts and will be operating at 100% utilisation levels in FY12. The company has a slightly higher debt equity ratio of 2.1. However, it is not a concern as the ratio is expected to improve to 1.1 by FY12. This is since GOL has completed most of its capex spend with very marginal new capex over the next two years while the earnings from operations are expected to rise significantly over the same period.

We have valued Great Offshore on multiple valuation parameters to arrive at price target of Rs 476 and maintain our **BUY** recommendation.

Exhibit 11: Operating margin expected to improve in FY12

Valuation based on	Global average	Target multiple	Target price(Rs)
PE multiple (x)	7.94	6.00	461
Price to book value (x)	1.01	1.15	491
Average target price (Rs.)			476
Current market price (Rs)			406
Upside (%)			17.2

Source: Company, ICICIdirect.com Research

Exhibit 12: Operating margin expected to improve in FY12

	Sales (Rs. cr)	Sales Growth (%)	EPS (Rs.)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY10	1165.6	8.5	54.0	-27.4	7.5	6.9	18.1	11.6
FY11E	1246.7	7.0	59.0	9.3	6.9	6.1	16.7	10.7
FY12E	1507.6	20.9	76.8	30.1	5.3	4.2	18.0	12.8

Source: Company, ICICIdirect.com Research

Exhibit 13: Operating margin expected to improve in FY12

	Old		New	
	FY11E	FY12E	FY11E	FY12E
Sales	1275.7	1408.0	1246.7	1507.6
EBITDA	532.6	605.0	560.4	677.0
Net Profit	184.5	257.0	219.8	285.8
EPS	49.6	69.0	59.0	76.8

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Shipping)

ESPLL				Sales (Rs. Crore)	EPS (Rs.)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)	
Idirect Code	ESSSHI	CMP (Rs.)	123	FY10	2999.4	1.5	80.8	13.4	1.1	3.9
		Target (Rs.)	112	FY11E	3222.0	2.7	45.3	12.3	2.4	4.8
MCap	7574.3	% Upside	-9	FY12E	4227.4	5.3	23.1	9.9	4.3	6.3
G.E Shipping				Sales (Rs. Crore)	EPS (Rs.)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)	
Idirect Code	GESHIP	CMP (Rs.)	313	FY10	2856.5	33.7	9.3	8.8	9.0	4.8
		Target (Rs.)	334	FY11E	3194.7	36.7	8.5	7.5	9.1	6.5
MCap	4757.6	% Upside	7	FY12E	3687.5	45.4	6.9	5.9	10.4	8.7
Mercator Lines				Sales (Rs. Crore)	EPS (Rs.)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)	
Idirect Code	MERLIN	CMP (Rs.)	52	FY10	1808.7	2.2	23.5	5.0	2.3	5.3
		Target (Rs.)	56	FY11E	2180.3	3.6	14.4	3.9	3.6	6.2
MCap	1227.2	% Upside	8	FY12E	2570.5	7.8	6.7	2.5	7.2	8.0
SCI				Sales (Rs. Crore)	EPS (Rs.)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)	
Idirect Code	SCI	CMP (Rs.)	168	FY10	3463.1	8.9	18.9	13.5	3.5	1.6
		Target (Rs.)	162	FY11E	3771.8	9.2	18.3	14.9	2.5	1.6
MCap	7114.8	% Upside	-4	FY12E	4004.9	5.9	28.4	12.8	0.8	1.7
Varun Shipping				Sales (Rs. Crore)	EPS (Rs.)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)	
Idirect Code	VARSHI	CMP (Rs.)	43	FY10	666.2	0.8	51.4	14.0	1.5	0.1
		Target (Rs.)	36	FY11E	636.7	-	-	12.9	-	-
MCap	645.0	% Upside	-16	FY12E	749.7	-	-	8.7	-	3.8
Aban Offshore				Sales (Rs. Crore)	EPS (Rs.)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)	
Idirect Code	ABALLO	CMP (Rs.)	880	FY10	3358.7	71.5	12.3	8.4	14.3	10.0
		Target (Rs.)	947	FY11E	3553.0	87.9	10.0	6.8	15.2	12.0
MCap	3326.4	% Upside	8	FY12E	3679.8	199.7	4.4	6.0	26.1	12.9
Garware Offshore				Sales (Rs. Crore)	EPS (Rs.)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)	
Idirect Code	GARSHI	CMP (Rs.)	147	FY10	163.2	17.8	8.3	9.1	15.4	7.9
		Target (Rs.)	182	FY11E	232.3	17.4	8.5	7.8	16.2	9.3
MCap	349.9	% Upside	24	FY12E	234.7	21.1	7.0	7.4	14.4	9.2
Great Offshore				Sales (Rs. Crore)	EPS (Rs.)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)	
Idirect Code	GREOFF	CMP (Rs.)	406	FY10	1165.6	54.0	7.5	6.9	18.1	11.6
		Target (Rs.)	476	FY11E	1246.7	59.0	6.9	6.1	16.7	10.7
MCap	1506.3	% Upside	17	FY12E	1507.6	76.8	5.3	4.2	18.0	12.8
ABG Shipyard				Sales (Rs. Crore)	EPS (Rs.)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)	
Idirect Code	BHASHI	CMP (Rs.)	258	FY10	1812.4	42.8	6.0	7.1	0.3	19.6
		Target (Rs.)	239	FY11E	2334.8	45.3	5.7	6.3	0.1	17.5
MCap	712.1	% Upside	-7	FY12E	2721.2	50.6	5.1	5.6	0.1	16.6
Bharati Shipyard				Sales (Rs. Crore)	EPS (Rs.)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)	
Idirect Code	BHASHI	CMP (Rs.)	246	FY10	1349.0	47.4	5.4	8.3	16.0	10.3
		Target (Rs.)	327	FY11E	1334.1	55.6	4.6	7.6	10.1	10.1
MCap	679.0	% Upside	33	FY12E	1287.2	74.5	3.5	7.4	8.4	9.7

Global Valuation (Shipping)

Company	Country	P/BV (x)			P/E (x)			EV/EBITDA (x)			ROE (%)		
		CY09	CY10E	CY11E	CY09	CY10E	CY11E	CY09	CY10E	CY11E	CY09	CY10E	CY11E
Offshore													
Transocean*	USA	0.8	0.7	0.7	4.4	6.5	5.9	4.1	5.1	4.9	18.7	12.2	12.0
Hercules Offshore*	USA	0.3	0.3	0.4	-	-	-	6.7	7.0	6.3	-	-	-
ENSCO*	USA	1.0	0.9	0.9	7.5	10.6	9.4	4.2	5.5	4.8	14.9	9.5	10.4
Diamond Offshore*	USA	2.4	2.3	2.1	6.3	8.4	8.5	4.2	4.8	4.8	39.8	29.5	28.9
Aban Offshore#	India	1.7	1.5	1.1	12.1	9.9	4.4	8.4	6.8	6.0	14.3	15.2	26.1
Garware Offshore#	India	1.1	1.0	0.9	7.3	10.3	7.2	7.3	9.5	7.8	15.4	10.1	12.8
Great Offshore#	India	1.4	1.1	1.0	7.5	6.9	5.3	6.9	6.1	4.2	18.1	16.7	18.0

*consensus

With regards to Indian companies, three year data represents FY10, FY11 and FY12 (financial year ending in March)

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Strong Buy: 20% or more;
 Buy: Between 10% and 20%;
 Add: Up to 10%;
 Reduce: Up to -10%
 Sell: -10% or more;

Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICIdirect.com Research Desk,
 ICICI Securities Limited,
 7th Floor, Akruiti Centre Point,
 MIDC Main Road, Marol Naka,
 Andheri (East)
 Mumbai – 400 093**

research@icicidirect.com

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