

November 11, 2010

Reco	Previous Reco
Buy	Accumulate
CMP	Target Price
Rs391	Rs506
EPS change FY11E/12E (%)	- 9.6/-4.5
Target Price change (%)	-
Nifty	6,276
Sensex	20,876

Price Performance

(%)	1M	3M	6M	12M
Absolute	(3)	(5)	(13)	(23)
Rel. to Nifty	(5)	(17)	(29)	(40)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Offshore Oil Field Services
Bloomberg	GOFF@IN
Equity Capital (Rs mn)	372
Face Value(Rs)	10
No of shares o/s (mn)	37
52 Week H/L	584/364
Market Cap (Rs bn/USD mn)	14/316
Daily Avg Volume (No of sh)	223337
Daily Avg Turnover (US\$m)	1.9

Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	49.7	49.7	0.0
FII/NRI	11.1	8.3	7.0
Institutions	4.3	3.3	3.4
Private Corp	8.6	12.6	63.6
Public	26.3	26.1	26.0

Source: Capitaline

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- **APAT at Rs281 mn (-10.5% yoy) – in line estimates. Revenues at Rs1.99bn down 15.5% yoy) dragged by lower rates and absence of revenues from Rig Kedarnath**
- **Lower staff and maintenance costs boosts EBITDA margins by 1151bps to 52.6%. Overall EBITDA at Rs1.04bn, up 8.1%yoy – in line with estimates**
- **Cut FY11E/FY12E EPS by 9.6%/4.5% led by delayed ops of Rig Amarnath (mid Dec) and lower day rates for vessels. Remain bullish –deployment of Amarnath & rig V351 to drive earnings**
- **Valuation at 5.6X FY12E earnings ~ 33% discount to Aban offshore, remain compelling – Upgrade to BUY sighting multiple triggers for stock performance - target Rs506**

Topline down 15.5% on account of dry dock of vessels - below estimates

GOL's revenues for the quarter declined 15.5% yoy to Rs1.99bn on account of dry docking of rig Kedarnath (Dry dock period May –Oct 2010). Revenues from marine construction were absent this quarter due to monsoons. Offshore services revenues grew a healthy 27.8% qoq as high yield vessels like Malviya 36 (M36) & Malviya 9 (M9) and Malviya 33 (M33) which were under drydock/repair in Q1FY11 became operational this quarter. Overall utilisation of OSV fleet was at 80% as compared to 68% in Q1FY11). Consolidated revenues at Rs2876mn grew 1.3%yoy.

EBIDTA grows 8.1% with margins improving 1151bps yoy ~ 52.6%

GOL's EBITDA for the quarter atRs1.04 bn, grew 8.1% yoy (our estimate of Rs1.08bn) with aggregate EBITDA margins for the quarter improving 1151 bps to 52.6%. This is entirely attributed to sharp improvement in margins of offshore services division (53.1% as compared to 41.3% in Q2FY11). Further employee costs declined 28.4%yoy to Rs400mn whereas repairs and maintenance costs declined by 59%yoy taking the total expenditure to Rs943mn, down 32%yoy, thereby improving margins this quarter.

Depreciation charges up 43% drags down APAT by 10.5%

With addition of 6 vessels in FY10 GOL's depreciation charge for the quarter at Rs453mn increased by 43% yoy, and interest expenses jumped 12% to Rs340.4 mn. Consequently Reported PAT for the quarter declined 10.5% yoy to Rs281mn, slightly below estimates. Consolidated PAT declined 2.6% yoy to Rs445mn.

Consolidated Revenues up 1.3%yoy, net profit down 2.6%yoy

Consolidated revenues at Rs2876mn grew 1.3%yoy while net profit declined 2.6% yoy to Rs445mn. However on a sequential basis it improved by 56.6% driven by interest cost savings.

Financial Snapshot (Consolidated)

YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY09	10811	4830	44.7	2751	74.1	53.7	36.8	5.3	6.7	1.9
FY10	11656	5168	44.3	2201	59.1	-20.2	19.8	6.6	7.2	1.3
FY11E	12780	5750	45.0	2001	53.7	-9.1	15.4	7.3	6.8	1.1
FY12E	15885	7386	46.5	2608	70.0	30.3	16.8	5.6	4.8	0.9

Quarterly financials

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Revenue	2,358	2,507	2,739	2,359	1,992	-15.5	-15.6	4,351	4,828	-9.9
Expenditure	1,388	1,259	1,382	1,395	943	-32.0	-32.4	2,339	2,878	-18.7
<i>as % of sales</i>	58.9	50.2	50.5	59.2	47.4			53.8	59.6	
Staff costs	559	477	377	507	400	-28.4	-21.2	907	974	-6.9
<i>as % of sales</i>	23.7	19.0	13.8	21.5	20.1			20.8	20.2	
Repairs & maint- fleet & rigs	274	118	342	141	113	-58.8	-19.9	254	425	-40.3
<i>as % of sales</i>	11.6	4.7	12.5	6.0	5.7			5.8	8.8	
Engineering Project Expenses	11	278	387	429	18	57.5	-95.9	447	336	33.3
<i>as % of sales</i>	0.5	11.1	14.1	18.2	0.9			10.3	6.9	
Other exps	545	386	276	318	413	-24.2	29.8	731	1,143	-36.0
<i>as % of sales</i>	23.1	15.4	10.1	13.5	20.7			16.8	23.7	
EBITDA	970	1,248	1,357	964	1,048	8.1	8.8	2,012	1,951	3.1
Depreciation	317	344	363	440	453	42.9	3.0	893	615	45.1
EBIT	653	904	994	524	596	-8.8	13.7	1,119	1,335	-16.2
Other Income	4	-85	49	130	26	542.5	-80.2	155	13	1103.1
Interest	305	265	261	311	340	11.8	9.5	651	556	17.2
PBT	352	554	782	342	281	-20.3	-18.0	623	793	-21.4
Total Tax	39	58	51	75	0	-100.0	-100.0	75	66	13.1
Adjusted PAT	314	495	731	267	281	-10.5	5.1	548	726	-24.5
(Profit)/loss from JV's/Ass/MI										
APAT after MI	314	495	731	267	281	-10.5	5.1	548	726	-24.5
Extra ordinary items									-191	-100.0
Reported PAT	314	495	731	267	281	-10.5	5.1	548	536	2.3
Reported EPS	8.5	13.3	19.7	7.2	7.6	-10.5	5.1	14.8	19.6	-24.5

Margins (%)	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	(bps)	(bps)	YTD'11	YTD'10	YoY (%)
EBIDTA	41.1	49.8	49.5	40.8	52.6	1150.7	1178.8	46.2	40.4	584.3
EBIT	27.7	36.1	36.3	22.2	29.9	221.0	769.8	25.7	27.7	-193.0
EBT	14.9	22.1	28.5	14.5	14.1	-84.4	-41.2	14.3	16.4	-209.4
PAT	13.3	19.8	26.7	11.3	14.1	78.9	277.2	12.6	15.0	-244.5
Effective Tax rate	10.9	10.5	6.6	21.9	0.0	-1092.5	-2193.3	12.0	8.4	367.3

Cut FY11 earnings by 9.6% (EPS of Rs53.7) & FY12 by 4.5% (EPS of Rs70)

We are downgrading our FY11 EPS estimates by 9.6% (EPS of Rs53.7) & FY12 by 4.5% (EPS of Rs70), led by delayed ops of Rig Amarnath and lower day rates for vessels.

Downgrade FY11 earnings by 9.6% and FY12 earnings by 4.5%

	FY11E			FY12E		
	Earlier	Revised	Change	Earlier	Revised	Change
Revenues	13032	12780	-1.9%	15303	15885	3.8%
EBITDA	5976	5750	-3.8%	7373	7386	0.2%
EBITDA Margin(%)	45.9	45.0		48.2	46.5	
PAT	2213	2001	-9.6%	2731	2607.8	-4.5%
EPS	59.5	53.7	-9.6%	73.4	70.0	-4.5%

Valuation at 5.6X FY12E PER remain compelling – Upgrade to BUY

We remain bullish on GOL as revenues from high yield vessels like Malviya 36 (M36) & Malviya 9 (M9) are likely to ensure regaining of earnings momentum. Further contribution from rig Amarnath (Mid Dec) & renewal of contract for its rig Kedarnath (day rate of USD 69K v/s USD46k earlier – Deployment in early Dec) to further fuel earnings momentum from Q3FY11. The delivery of a 350 ft jack up rig (V351) by the end of FY11 is expected to help the growth momentum in FY12. Valuation at 5.6X FY12E earnings ~ 33% discount to Aban offshore, remain compelling. In view of multiple earnings (Deployment of 3 rigs over next 3 quarters) & valuation triggers (High discount to Aban offshore, planned IPO of Great ship India) we upgrade our rating on stock to BUY (ACCUMULATE earlier). We maintain our price target of Rs506, which is based on 10% discount to our target valuations for Aban Offshore. Further our target is based on average of 1) 8X PER 2)1.4X P/B & 3) 6.3X EV/EBIDTA (on average of FY11 & FY12 number).

Financials

Income Statement

Y/E, Mar (Rs m)	FY09	FY10	FY11E	FY12E
Net Sales	10811	11656	12780	15885
Growth (%)	44.9	7.8	9.6	24.3
Total Expenditure	5981	6489	7031	8499
Staff costs	1889	1955	2287	2981
Repairs and maintenance	1270	1127	1015	1227
Engineering & Project Exp	652	1001	1187	1171
Other expenses	2170	2407	2542	3119
EBIDTA	4830	5168	5750	7386
Growth (%)	54.6	7.0	11.3	28.5
EBIDTA %	44.7	44.3	45.0	46.5
Depreciation	1148	1409	1951	2486
EBIT	4286	3829	3929	5030
EBIT margin (%)	39.6	32.8	30.7	31.7
Other income	604	70	130	130
Interest	1065	1157	1626	1920
PBT	3221	2672	2303	3109
Tax	470	471	302	502
Effective tax rate (%)	14.6	17.6	13.1	16.1
Adjusted PAT	2751	2201	2001	2608
Growth (%)	49.8	-20.0	-9.1	30.3
Net Margin (%)	25.4	18.9	15.7	16.4
(Profit)/loss from JVs/Ass/MI				
Reported PAT	2751	2201	2001	2608
E/O items	0	-191	0	0
Reported PAT	2751	2010	2001	2608
Growth (%)	36.4	-26.9	-0.5	30.3

Cash Flow

Y/E, Mar (Rs m)	FY09	FY10	FY11E	FY12E
PBT (Ex-Other income)	2617	2602	2173	2980
Depreciation	1148	1409	1951	2486
Interest Provided	1065	1157	1626	1920
Other Non-Cash items				
Chg in working cap	-461	-1254	-3132	-775
Tax paid	470	471	302	502
Operating Cash flow	4424	3602	819	4318
Capital expenditure	-8677	-8964	-2928	-345
Free Cash Flow	-5087	-5970	-2109	3973
Other income	604	70	130	130
Investments	0	0	0	0
Investing Cash flow	-9511	-9572	-2928	-345
Equity Capital Raised	0	80	0	0
Loans Taken / (Repaid)	5099	4670	4293	345
Interest Paid	1065	1157	1626	1920
Dividend paid (incl tax)	-609	-109	-109	-109
Income from investments				
Others				
Financing Cash flow	4490	4641	4184	236
Net chg in cash	-597	-1329	2075	4209
Opening cash position	3268	2330	1002	3077
Closing cash position	2671	1002	3077	7286

Balance Sheet

Y/E, Mar (Rs m)	FY09	FY10	FY11E	FY12E
Equity share capital	371	372	372	372
Reserves & surplus	7103	10720	12612	15111
Net worth	7475	11092	12984	15483
Minority Interest				
Secured Loans	18366	21287	23851	24196
Unsecured Loans	2258	2146	3876	3876
Loan Funds	20624	23433	27726	28071
Net Deferred tax liability	-69	32	32	32
Total Liabilities	28030	34557	40742	43586
Gross Block	21018	26851	38517	38517
Less: Depreciation	6095	7498	9449	11934
Net block	14923	19353	29068	26583
Capital work in progress	8717	11843	3105	3450
Investment/Goodwill	937	937	937	937
Current Assets	6279	4839	9998	15318
Inventories	94	139	175	435
Sundry debtors	2786	2835	3501	4352
Cash & bank balance	2671	1002	3077	7286
Loans & advances	729	863	3245	3245
Other current assets	3	27	27	27
Current Liab & Prov	2830	2441	2393	2729
Current liabilities	2666	2324	2276	2611
Provisions	164	117	117	117
Net current assets	3450	2398	7605	12589
Misc. exp	0	0	0	0
Total Assets	28030	34557	40742	43586

Ratio

Y/E, Mar	FY09	FY10	FY11E	FY12E
Profitability (%)				
EBITDA Margin	44.7	44.3	45.0	46.5
Net Margin	25.4	18.9	15.7	16.4
ROCE	18.5	12.2	10.4	11.9
ROE	36.8	19.8	15.4	16.8
RoIC	25.6	18.2	13.0	12.9
Per Share Data (Rs)				
EPS	74.1	59.1	53.7	70.0
CEPS	105.0	96.9	106.1	136.8
BVPS	201.3	297.9	348.7	415.9
DPS	3.5	2.5	2.9	2.9
Valuations (x)				
PER	5.3	6.6	7.3	5.6
P/CEPS	3.7	4.0	3.7	2.9
P/BV	1.9	1.3	1.1	0.9
EV / Sales	3.0	3.2	3.1	2.2
EV / EBITDA	6.7	7.2	6.8	4.8
Dividend Yield (%)	0.9	0.6	0.7	0.7
Gearing Ratio (x)				
Net Debt/ Equity	2.4	2.0	1.9	1.3
Net Debt/EBIDTA	3.7	4.3	4.3	2.8
Working Cap Cycle (days)	7.2	20.4	40.0	50.0

Recommendation History: Great Offshore – GOFF IN

Date	Reports	Reco	CMP	Target
12/08/2010	Great Offshore Q1FY11 Result Update	Accumulate	406	506
22/04/2010	Great Offshore Q4FY10 Result Update	Accumulate	425	528
02/02/2010	Great Offshore Q3FY10 Result Update	Accumulate	441	528
06/11/2009	Great Offshore Q2FY10 Result Update	Hold	517	528

Recent Research Reports

Date	Reports	Reco	CMP	Target
10/11/2010	Garware Offshore Q2FY11 Result Update	Hold	173	160
08/11/2010	Aban Offshore Q2FY11 Result Update	Hold	841	875
01/11/2010	Century Plyboards Q2FY11 Result Update	Buy	68	80
01/11/2010	Grasim Q2FY11 Result Update	Accumulate	2,240	2,600

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