

## EBIDTA above Estimates- Net profit disappoints

November 8, 2010

<b>Reco</b>	<b>Previous Reco</b>
Hold	Hold
<b>CMP</b>	<b>Target Price</b>
Rs841	Rs875
EPS change FY11E/12E (%)	-12.1/-
Target Price change (%)	-
Nifty	6,273
Sensex	20,852

### Price Performance

(%)	1M	3M	6M	12M
Absolute	(7)	(7)	(22)	(31)
Rel. to Nifty	(9)	(19)	(37)	(48)

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	Offshore Oil Field Services
Bloomberg	ABAN@IN
Equity Capital (Rs mn)	87
Face Value(Rs)	2
No of shares o/s (mn)	43
52 Week H/L	1,538/637
Market Cap (Rs bn/USD mn)	36/813
Daily Avg Volume (No of sh)	1574671
Daily Avg Turnover (US\$mn)	29.1

### Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	53.1	53.1	52.9
FII/NRI	4.9	6.4	10.6
Institutions	6.1	6.0	14.5
Private Corp	9.8	9.2	4.0
Public	26.1	25.3	18.0

Source: Capitaline

### Ajit Motwani

ajit.motwani@emkayglobal.com  
+91 22 6612 1255

### Chandan Asrani

chandan.asrani@emkayglobal.com  
+91 22 6624 2241

- **Aban's Q2FY11 APAT (ex profit from assoc) at Rs1.19 bn (+8% qoq) above est. Reported profit of Rs 752 mn below expectations, impacted by losses in JV and higher tax rate**
- **Revenue at Rs8.28 bn, though down 1.7% qoq were above estimates. Lower other exp. boost EBIDTA margins to 67.2% driving better than expected EBITDA (Rs5.56 bn +6.9% qoq)**
- **Continued idle status of Deep venture and higher tax rate assumptions results in 12.1% downgrade in FY11 earnings**
- **Stock trades at 8.2X PER and 6.9X EV/EBIDTA. Though we see near term earnings traction, downward revision in rates for standalone fleet to drag down FY12 EPS. Maintain HOLD**

### Topline at Rs8.28 bn –beats our estimates....

Aban's consolidated revenues for the quarter stood at Rs8.28 bn (+17.8% yoy, down 1.7% sequentially), better than our estimates. Sequential revenue decline led by Idle status of the rig - Aban Abraham which went off contract from April 2010 and sinking of rig - Aban Pearl in the month of May 2010.

### ....so does EBIDTA at Rs5.56 bn

EBIDTA for the quarter stood at Rs5.56 bn (our expectation Rs4.78 bn) grew 22.8%yoy and 6.9% qoq. EBITDA margins expanded by 274bps yoy to 67.2% (against our estimate of 59.6%) driven by lower other expenditure. Expect margins to stabilize at current levels for FY11E and decline in FY12E led by renewals of rig contracts at lower day rates in the parent company.

### Losses in associate company leads to lower than estimated APAT

Drive by higher than expected EBIDTA Aban's APAT ex profit from associates at Rs1.19 bn came in above our expectation (Rs1.0 bn). However with Aban's 50% JV Venture Drilling (For drillship Deep Venture) registering a loss of Rs302 mn (on account of idle status of the rig) APAT including profit/(loss) from associates at Rs0.89 bn (+24.7% yoy down 56.7% qoq) was below estimates (Rs1.08 bn). Tax rate for the quarter rose to 38.8% (+80bps qoq) because of higher withholding tax rates. Reported net profit stood at Rs751.6mn (+51% yoy) which includes Rs 0.13 bn on account of further write off in relation to Aban's Rs1.95 bn investment in Petrojack Drilling, a Norway Based drilling company that filed for bankruptcy early in CY10.

### Key Financials

YE-	Net	EBITDA		EPS	EPS	RoE		EV/		
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY09	30501	17327	56.8	3240	77.3	-15.6	20.6	10.7	10.7	2.2
FY10	33587	21004	62.5	5518	119.4	54.4	28.0	7.0	8.1	1.9
FY11E	35315	21948	62.1	5316	114.7	-3.9	24.9	7.2	6.8	1.8
FY12E	35848	20382	56.9	4751	101.8	-11.3	18.3	8.2	6.9	1.5

## Results table

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
<b>Revenue</b>	<b>7,029</b>	<b>8,413</b>	<b>10,210</b>	<b>8,425</b>	<b>8,281</b>	17.8	(1.7)	<b>16,705</b>	<b>14,964</b>	11.6
<b>Expenditure</b>	<b>2,500</b>	<b>3,220</b>	<b>3,618</b>	<b>3,223</b>	<b>2,718</b>	8.7	(15.7)	<b>5,940</b>	<b>5,746</b>	3.4
as % of sales	35.6	38.3	35.4	38.3	32.8			71.1	76.5	(7.1)
Consumption of RM	266	387	265	333	276	4.0	(16.9)	609	648	(6.0)
<b>As % of Sales</b>	3.8	4.6	2.6	3.9	3.3			7.3	8.6	(15.3)
Employee Cost	544	737	866	884	870	59.9	(1.6)	1,754	1,280	37.0
<b>As % of Sales</b>	7.7	8.8	8.5	10.5	10.5			21.0	17.0	23.4
Other expenditure	1,690	2,096	2,487	2,006	1,572	(7.0)	(21.6)	3,577	3,818	(6.3)
<b>As % of Sales</b>	24.0	24.9	24.4	23.8	19.0			42.8	50.9	(15.9)
<b>EBITDA</b>	<b>4,529</b>	<b>5,193</b>	<b>6,592</b>	<b>5,202</b>	<b>5,563</b>	22.8	6.9	<b>10,765</b>	<b>9,218</b>	16.8
Depreciation	994	1,352	1,281	1,291	1,230	23.7	(4.7)	2,521	1,983	27.1
<b>EBIT</b>	<b>3,535</b>	<b>3,841</b>	<b>5,312</b>	<b>3,911</b>	<b>4,333</b>	22.6	10.8	<b>8,244</b>	<b>7,235</b>	13.9
Other Income	70	39	10	143	24	(65.9)	(83.2)	167	170	(1.7)
Interest	2611	2599	2194	2272	2406	(7.8)	5.9	4678	4975	(6.0)
<b>PBT</b>	<b>995</b>	<b>1,281</b>	<b>3,127</b>	<b>1,783</b>	<b>1,950</b>	96.0	9.4	<b>3,733</b>	<b>2,430</b>	53.6
Total Tax	711	711	541	678	757	6.6	11.7	1,435	1,319	8.8
<b>Adjusted PAT</b>	<b>284</b>	<b>570</b>	<b>2,586</b>	<b>1,105</b>	<b>1,193</b>	319.8	8.0	<b>2,298</b>	<b>1,111</b>	106.8
(Profit)/loss from JV's/Ass/MI	430	324	215	952	-302	(170.2)	(131.7)	650	712	(8.7)
<b>APAT after MI</b>	<b>714</b>	<b>894</b>	<b>2,801</b>	<b>2,057</b>	<b>891</b>	24.7	(56.7)	<b>2,948</b>	<b>1,823</b>	61.7
Extra ordinary items	0	0	-2408	-3496	-139	#DIV/0!	(96.0)	-3635	0	
<b>Reported PAT</b>	<b>714</b>	<b>894</b>	<b>393</b>	<b>(1,439)</b>	<b>752</b>	5.2	(152.2)	<b>(687)</b>	<b>1,823</b>	(137.7)
<b>Reported EPS</b>	<b>18.9</b>	<b>20.6</b>	<b>9.0</b>	<b>(33.1)</b>	<b>17.3</b>	(8.6)	(152.2)	<b>(15.8)</b>	<b>48.2</b>	(132.8)

Margins (%)					(bps)	(bps)			(bps)	
EBIDTA	64.4	61.7	64.6	61.7	67.2	274.3	543.3	64.4	61.6	283.7
EBIT	50.3	45.7	52.0	46.4	52.3	203.0	589.6	49.4	48.3	100.2
EBT	14.2	15.2	30.6	21.2	23.6	939.9	239.6	22.3	16.2	610.8
PAT	4.0	6.8	25.3	13.1	14.4	1,036.4	129.4	13.8	7.4	633.0
Effective Tax rate	71.4	55.5	17.3	38.0	38.8	(3,260.4)	80.9	0.4	0.5	(15.8)

## Downgrade FY11 earnings by 12.1%– Maintain HOLD

On account of delayed commencement of operation by Aban Abraham and continue idle status of Deep venture, we are downgrading our FY11 estimates for Aban by 12.1% (EPS of Rs114.7). Though we expect Aban's earnings to see some traction over H2FY11 driven by deployment of Aban Abraham, we believe the traction to fizzle out in FY12 led by downward revision in day rate for Aban III, IV and V (current contract rates at ~USD 155K). Stock trades at 8.2X PER and 6.98X EV/EBIDTA for FY12. Maintain HOLD with target of Rs875.

## Downgrade FY11 earnings

	FY11		
	Earlier	Revised	change
<b>Sales</b>	38572	35315	-8.4%
<b>EBITDA</b>	24007	21948	-8.6%
<b>EBITDA margin (%)</b>	62.2	62.1	-0.1%
<b>PAT</b>	5675	4990.0	-12.1%
<b>EPS</b>	130.5	114.7	-12.1%

## Financials

## Income Statement

Y/E, Dec (Rs. m)	FY09	FY10	FY11E	FY12E
<b>Net Sales</b>	<b>30501</b>	<b>33587</b>	<b>35315</b>	<b>35848</b>
Growth (%)	50.9	10.1	5.1	1.5
<b>Total Expenditure</b>	<b>13174</b>	<b>12583</b>	<b>13367</b>	<b>15466</b>
Manpower Costs	3442	2884	3064	3545
Consumption of stores	1893	1303	1385	1602
Repairs & Rentals to machinery	1685.5	1087.7	1155.5	1337.0
Other Exps	6153	7307	7763	8982
<b>EBIDTA</b>	<b>17327</b>	<b>21004</b>	<b>21948</b>	<b>20382</b>
Growth (%)	64.5	21.2	4.5	-7.1
<b>EBIDTA %</b>	<b>56.8</b>	<b>62.5</b>	<b>62.1</b>	<b>56.9</b>
Depreciation	4501	4616	5137	5474
<b>EBIT</b>	<b>12826</b>	<b>16388</b>	<b>16811</b>	<b>14908</b>
<b>EBIT margin (%)</b>	<b>42.1%</b>	<b>48.8%</b>	<b>47.6%</b>	<b>41.6%</b>
Other income	362	218	481	481
Interest	8553	9768	9450	8819
<b>EBT</b>	<b>4635</b>	<b>6838</b>	<b>7843</b>	<b>6571</b>
Tax	2508	2571	3292	2571
Effective tax rate (%)	54.1	37.6	42.0	39.1
<b>Adjusted PAT</b>	<b>2128</b>	<b>4268</b>	<b>4550</b>	<b>4000</b>
Growth (%)	464.8	100.6	6.6	-12.1
<b>Net Margin (%)</b>	<b>7.0</b>	<b>12.7</b>	<b>12.9</b>	<b>11.2</b>
(Profit)/loss from JVs/Ass/MI	1113	1250	766	751
<b>Adjusted PAT After JVs/Ass/MI</b>	<b>3240</b>	<b>5518</b>	<b>5316</b>	<b>4751</b>
E/O items	-2167	2407.9	3350.0	0.0
Preference dividend	318.9	326.3	326.3	326.3
<b>Reported PAT</b>	<b>2921</b>	<b>5192</b>	<b>4990</b>	<b>4425</b>
Growth (%)	-15.6	77.7	-3.9	-11.3

## Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
<b>PBT (Ex-Other income)</b>	<b>4273</b>	<b>6620</b>	<b>7361</b>	<b>6090</b>
Depreciation	4501	4616	5137	5474
Interest Provided	<b>8553</b>	<b>9768</b>	<b>9450</b>	<b>8819</b>
Other Non-Cash items				
Chg in working cap				
Tax paid	2508	2571	3292	2571
<b>Operating Cashflow</b>	<b>16589</b>	<b>-115</b>	<b>10029</b>	<b>9518</b>
Capital expenditure	-53178	13944	10809	0
<b>Free Cash Flow</b>	<b>-35948</b>	<b>14629</b>	<b>20838</b>	<b>9518</b>
Other income	362	218	481	481
Investments	640	800	0	0
<b>Investing Cashflow</b>	<b>-52537</b>	<b>14744</b>	<b>10809</b>	<b>0</b>
Equity Capital Raised	0	6975	0	0
Loans Taken / (Repaid)	35921	-24714	-19574	-8970
Interest Paid	8553	9768	9450	8819
Dividend paid (incl tax)	-478	-510	-510	-510
Income from investments				
Others				
<b>Financing Cashflow</b>	<b>35443</b>	<b>-18248</b>	<b>-20083</b>	<b>-9480</b>
<b>Net chg in cash</b>	<b>-505</b>	<b>-3619</b>	<b>754</b>	<b>38</b>
Opening cash position	6453	5948	2360	3115
<b>Closing cash position</b>	<b>5948</b>	<b>2329</b>	<b>3115</b>	<b>3153</b>

## Balance Sheet

Y/E, Dec (Rs. m)	FY09	FY10	FY11E	FY12E
Equity share capital	76	87	87	87
Preference Capital	3260	3260	3260	3260
Reserves & surplus	14105	18459	19916	24158
<b>Networth</b>	<b>17440</b>	<b>21806</b>	<b>23263</b>	<b>27505</b>
<b>Minority Interest</b>	<b>8</b>	<b>0</b>	<b>0</b>	<b>0</b>
Secured Loans	156082	138622	0	0
Unsecured Loans	10273	3018	0	0
<b>Loan Funds</b>	<b>166355</b>	<b>141641</b>	<b>122067</b>	<b>113097</b>
<b>Net deferred tax</b>	<b>516</b>	<b>436</b>	<b>436</b>	<b>436</b>
<b>Total Liabilities</b>	<b>184318</b>	<b>163883</b>	<b>145766</b>	<b>141038</b>
Gross Block	144113	173147	159128	159128
Less: Depreciation	15513	19634	24771	30245
<b>Net block</b>	<b>128601</b>	<b>153513</b>	<b>134357</b>	<b>128883</b>
<b>CWIP (incl cap adv)</b>	<b>47003</b>	<b>131</b>	<b>-8</b>	<b>-8</b>
<b>Investment</b>	<b>5751</b>	<b>4951</b>	<b>4951</b>	<b>4951</b>
<b>Current Assets</b>	<b>17054</b>	<b>14629</b>	<b>15664</b>	<b>16402</b>
Inventories	2275	2478	2411	2573
Sundry debtors	5766	7691	8038	8576
Cash & bank balance	5948	2360	3115	3153
Loans & advances	3065	2100	2100	2100
Other current assets				
<b>Current Liab &amp; Prov</b>	<b>14090</b>	<b>9341</b>	<b>9198</b>	<b>9190</b>
Current liabilities	12742	7891	7748	7740
Provisions	1348	1450	1450	1450
<b>Net current assets</b>	<b>2964</b>	<b>5288</b>	<b>6466</b>	<b>7212</b>
Misc. exp				
<b>Total Assets</b>	<b>184318</b>	<b>163883</b>	<b>145766</b>	<b>141038</b>

## Key ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
<b>Profitability (%)</b>				
EBITDA Margin	56.8	62.5	62.1	56.9
Net Margin	7.0	12.7	12.9	11.2
ROCE	9.5	8.2	9.0	10.8
ROE	20.6	28.0	24.9	18.3
RoIC	14.4	9.9	9.2	11.1
<b>Per Share Data (Rs)</b>				
EPS	77.3	119.4	114.7	101.8
CEPS	236.5	225.5	309.9	227.6
BVPS	375.2	426.5	460.0	557.5
DPS	3.6	3.6	3.6	3.6
<b>Valuations (x)</b>				
PER	10.7	7.0	7.2	8.2
P/CEPS	3.5	3.7	2.7	3.6
P/BV	2.2	1.9	1.8	1.5
EV / Sales	6.1	5.1	4.3	3.9
EV / EBITDA	10.7	8.1	6.8	6.9
Dividend Yield (%)	0.4	0.4	0.4	0.4
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	11.1	7.4	5.9	4.5
Net Debt/EBIDTA	9.1	6.6	5.3	5.3
Working Cap Cycle (days)	-56.2	24.8	27.9	34.7

**Recommendation History: Aban Offshore – ABAN IN**

Date	Reports	Reco	CMP	Target
29/07/2010	<a href="#">Aban Offshore Q1FY11 Result Update</a>	Hold	878	875
26/05/2010	<a href="#">Aban Offshore Q4FY10 Result Update</a>	Hold	688	800
14/05/2010	<a href="#">Aban Offshore Event Update</a>	UR	1,017	UR
29/01/2010	<a href="#">Aban Offshore Q3FY10 Result Update</a>	Accumulate	1,130	1,325

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
01/11/2010	<a href="#">Century Plyboards Q2FY11 Result Update</a>	Buy	68	80
01/11/2010	<a href="#">Grasim Q2FY11 Result Update</a>	Accumulate	2,240	2,600
01/11/2010	<a href="#">Jaiprakash Associates Q2FY11 Result Update</a>	Accumulate	120	150
27/10/2010	<a href="#">Ultratech Cement Q2FY11 Result Update</a>	Reduce	1,100	1,040

**Emkay Global Financial Services Ltd.**

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

**DISCLAIMER:** This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Emkay Global Financial Services Ltd. is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon. Neither Emkay Global Financial Services Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Global Financial Services Ltd.'s prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.