

Freight Index Movement - Mar 2010

Asset Class	Current	Change (%)		
		3M	6M	1Yr.
Dirty Tanker Index	964	18	69	79
Clean Tanker Index	708	12	37	90
Baltic Dry Index	2,998	0	35	86
Capesize Index	3,425	-12	20	66
Panamax Index	3,674	3	61	167
Supramax Index	2,431	9	24	89

Freight Rates – Mar 2010

VLCC	↑
Suezmax	↑
Aframax	↑
Capesize	↑
Panamax	↑
Supramax	↑
Handysize	↑

Top Picks – April 2010

Top Buy	% Upside
Bharati Shipyard	28
Mercator Lines	23

Top Sell	% Downside
Varun Shipping	-22

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Dry bulk, offshore companies likely to outperform in April...

- The Baltic Dry Index (BDI) rose by 9% to 2998 in March 2010 as against 2738 in February 2010. The gain was led by 8% rise in Capesize index to 3425 and 8% rise in Panamax index to 3674
- The Dirty Tanker Index gained 8% to 964 on account of a rise in crude oil shipments while the Clean Tanker Index declined by 7% to 708 in March 2010 on account of sluggish demand for refined crude oil products
- LPG freight rates for VLGC and LGC declined marginally in March 2010
- Utilisation level for drillship, jack-up rigs and semisubs were at 90%, 81% and 86%, respectively in March 2010
- New build asset prices remained flat except for capesize bulk carriers, which gained marginally. Five year old asset prices for tankers continued to remain weak. However, dry bulk asset prices firmed up led by rise in Capesize and Panamax asset prices
- New building orders for dry bulkers increased from 35 to 71 vessels while that for tankers increased from 18 to 29 vessels in March 2010
- Demolition of vessels continued unabated with 167 vessels scrapped in March 2010. Maximum demolitions were of 57 crude/product tankers, followed by 47 container vessels and 37 dry bulk vessels. Average scrap prices also increased from \$340 per LDT to \$367 per LDT

Outlook

Dry bulkers

Dry bulk freight rates are expected to show a significant improvement in the second half of April 2010 as import of iron ore by China picks up momentum post conclusion of iron ore contracts between mining companies and Japanese steel producers.

Tankers

We expect crude oil tanker freight rates to firm up on account of rise in shipments while product tanker rates are expected to remain flat.

LPG carriers

LPG rates are likely to recover after remaining sluggish for almost the entire year.

Offshore vessels

Crude oil prices spiked up sharply after being range bound for the last six months. The utilisation level of offshore vessels is expected to improve along with improvement in vessel day rates.

Tanker freight rates inched higher across all vessel categories. VLCC rates rose by 14% to \$29491 per day, Suezmax rates rose by 20% to \$17407 per day while Aframax rates gained by 28% to \$13401 per day.

Dry bulk freight rates showed strength and the benchmark index (BDI) rose by 9% during March 2010. Capesize vessel rates rose by 13% during the same period while the rates of Panamax vessels, which are the mid size vessels rose by 21% on account of higher demand for mid size vessels during March. Chinese import of iron ore from India increased sharply in March. As a majority of ports in India do not have infrastructure to handle Capesize vessels it resulted in higher demand for Panamax vessels and a resultant spike in panamax freight rates.

Tanker freight rates across all categories reported a rise with the maximum gains of 28% posted by Aframax vessels

Dry bulk freight also gained traction with maximum gains of 21% posted by mid size panamax vessels

LPG freight rates for VLGC and LGC vessels declined in March 2010. Freight rates for gas carriers have remained depressed since the last one year. This is a discomfoting factor

China's iron ore inventory level increased to 72 million tonnes in March 2010

Exhibit 1: Tankers & bulkers T/C (US\$ per day)

Asset class	Dec,09	Jan ,10	Feb ,10	Mar ,10
VLCC	24797	49108	25908	29491
Suezmax	17209	34911	14495	17407
Aframax	14572	17577	10476	13401
Capesize	55769	38877	30036	33881
Panamax	29500	29976	26308	31816
Supramax	26308	28200	27558	31358
Handysize	20292	16366	18889	20896

T/C- term charter

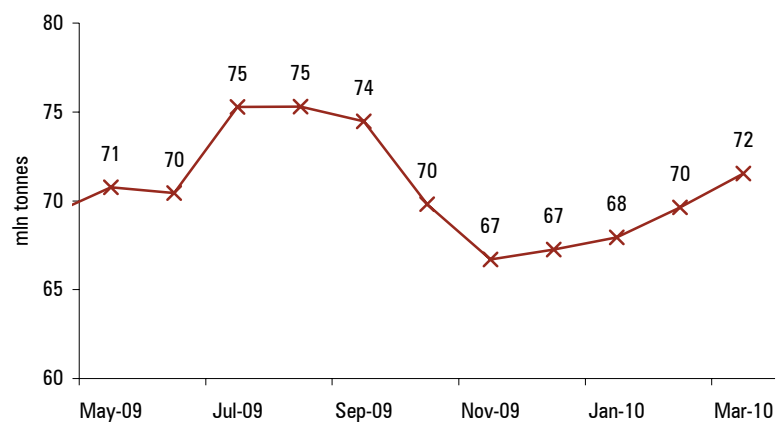
Source: Bloomberg, ICICIdirect.com Research

Exhibit 2: LPG T/C (US\$ per day)

Asset class	Feb-10		Mar-10	
	Monthly	Daily	Monthly	Daily
VLGC-TC 78,000 cbm	455,000	14,967	450,000	14,803
LGC-TC 57,000 cbm	610,000	20,066	580,000	19,079
MGC-TC 35,000 cbm	585,000	19,243	575,000	18,914
MGC-TC 30,000 cbm	565,000	18,585	565,000	18,585
MGC- TC 28,000 cbm	515,000	16,941	515,000	16,941
MGC- TC 24,000 cbm	490,000	16,118	490,000	16,118

Source: Bloomberg, ICICIdirect.com Research

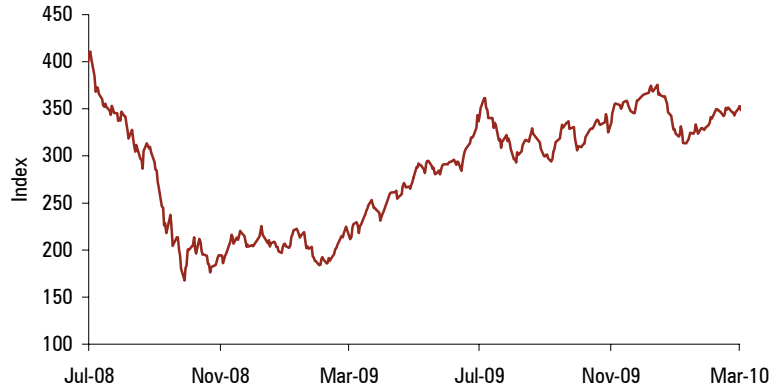
Exhibit 3: China's monthly iron ore inventory



Source: Bloomberg, ICICIdirect.com Research

Exhibit 4: Asia Pacific iron ore index

The Asia Pacific iron ore index increased 5.7% in March to 349 levels from the previous month's level of 330

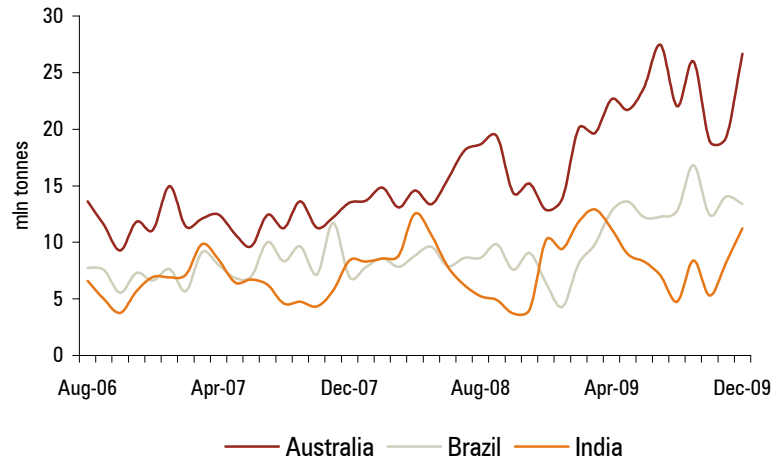


Source: Bloomberg, ICICIdirect.com Research

Exhibit 5: China iron ore import trend analysis

China's iron ore import from Australia and India increased by 38% and 37%, respectively. However, imports from Brazil declined by 5% in December

The offtake from Australia and India has been strong for two months in a row while it has been largely subdued from Brazil

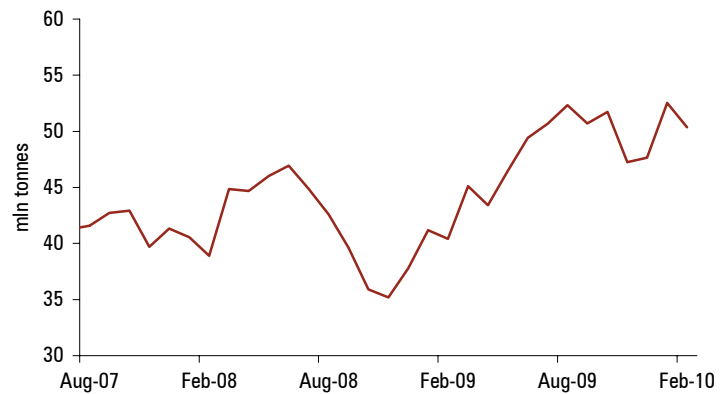


Source: Bloomberg, ICICIdirect.com Research

Exhibit 6: China's monthly steel production

Steel production in China declined by 2.2 million tonnes (4.1%) in February 2010

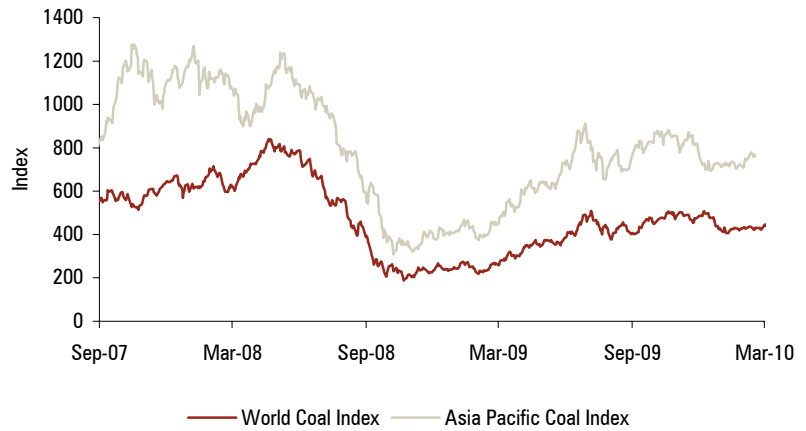
We expect production to pick up in April 2010. This would lead to a drop in iron ore inventories and increase in shipments



Source: Bloomberg, ICICIdirect.com Research

World Coal Index as well as Asia Pacific Coal Index both gained by 3% in March 2010

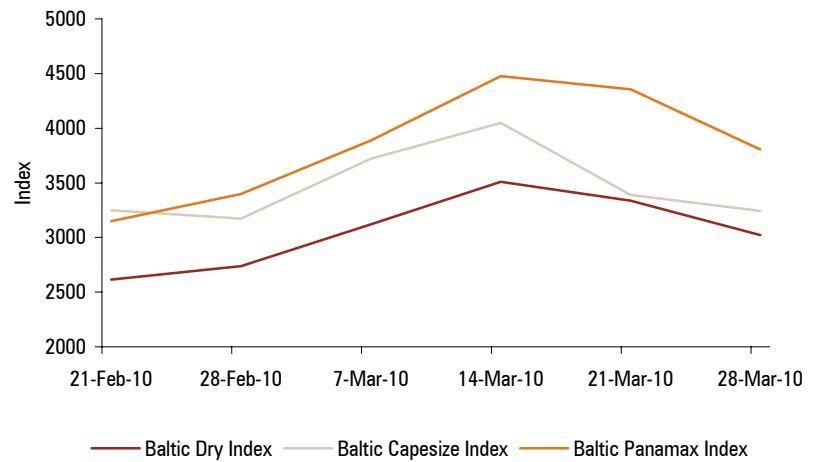
Exhibit 7: Coal Index



Source: Bloomberg, ICICIdirect.com Research

Dry bulk indices rose in the first half of March after which it declined towards the end of the month

Exhibit 8: Weekly dry bulk indices movement



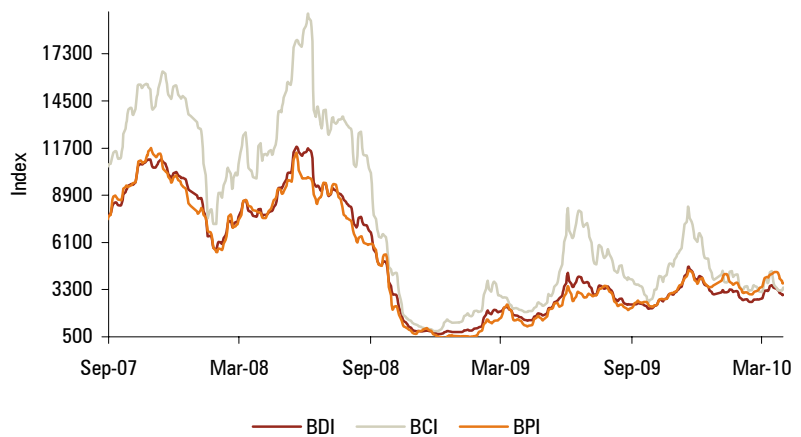
Source: Bloomberg, ICICIdirect.com Research

The BDI rose by 9% in March to 2998 level

The Baltic Capesize index rose by 8% in March to 3425 level

The Baltic Panamax index rose by 8% in March to the 3674 level

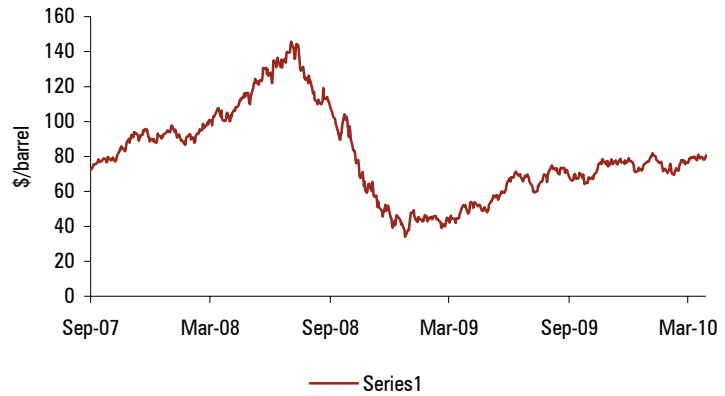
Exhibit 9: Dry bulk indices



Source: Bloomberg, ICICIdirect.com Research

Exhibit 10: International crude oil prices

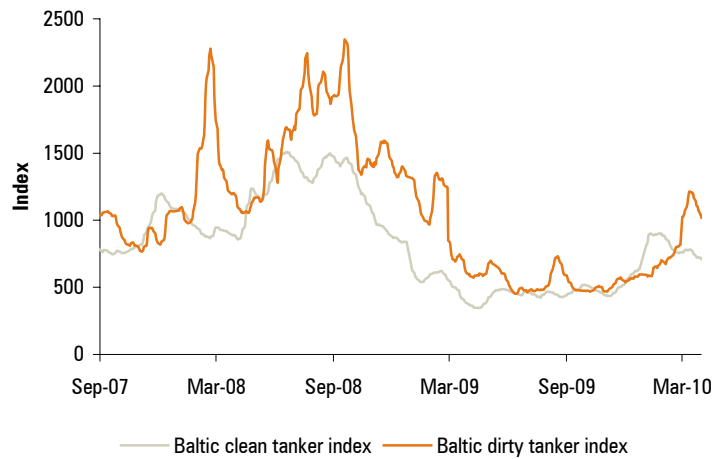
Crude oil prices in March 2010 rose by 6% to \$81/barrel. Crude oil prices have shown significant strength in the last one month



Source: Bloomberg, ICICIdirect.com Research

Exhibit 11: Baltic clean & dirty tanker index

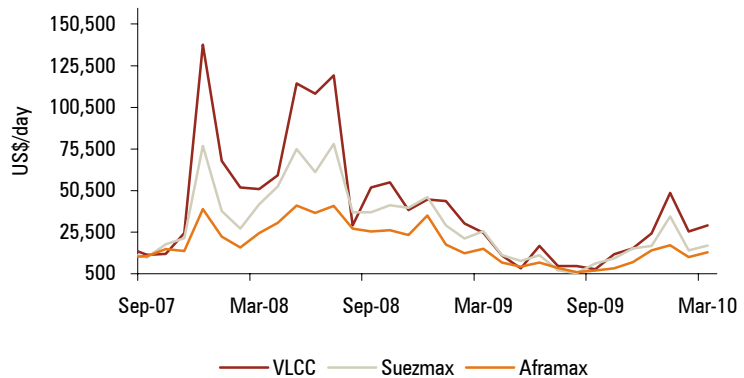
The BCTI declined by 7.1% to 708 while the BDTI rose by 7.5% to 964 in March 2010. While clean tanker rates declined on account of high US gasoline inventories, dirty tanker rates showed strength on account of a rise in crude oil shipments in March 2010



Source: Bloomberg, ICICIdirect.com Research

Exhibit 12: Tanker rates trend

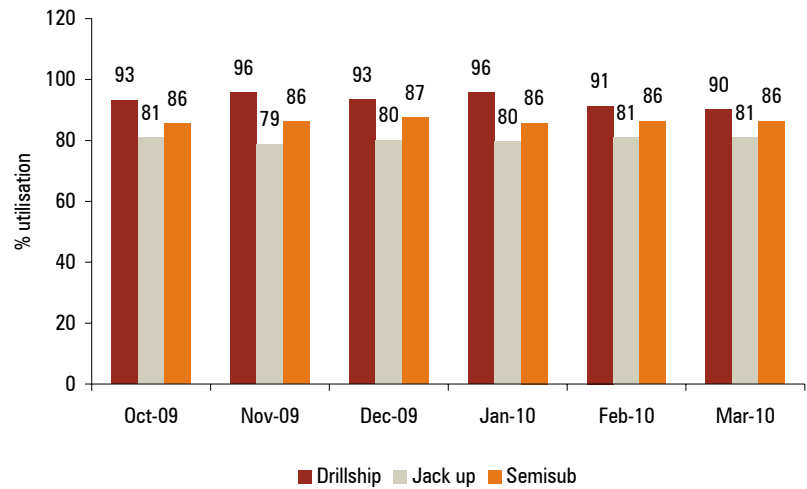
Freight rates for VLCC rose by 14% to \$29491/day; Suezmax rose by 20% to \$17407/day while for Aframax it rose by 28% to \$13401/day



Source: Bloomberg, ICICIdirect.com Research

Exhibit 13: Offshore rig utilisation levels

Rig utilisation levels for drill ships declined to 90% while utilisation levels for jack-up rigs and semisubs rigs remained flat at 81% and 86%, respectively, in March 2010



Source: Bloomberg, ICICIdirect.com Research

Exhibit 14: BPR Asia Pacific Shipbuilding Index

The BPR Asia Pacific Shipbuilding Index gained by 8.7% in March 2010



Source: Bloomberg, ICICIdirect.com Research

Exhibit 15: Vessel value (US\$ million)

New build asset prices of Capesize vessels reported a marginal rise

Five year old asset prices of tankers remained weak

Five year old asset prices of dry bulk vessels especially Capesize vessels reported strength

Asset Class	t (USD Mn)			1 M Change (%)		3 M Change(%)		1Yr. Change(%)	
	DWT	NB	5Yr.	NB	5Yr.	NB	5Yr.	NB	5Yr.
Tankers									
VLCC/ULCC	300,000	97.0	77.0	0.0	0.0	-3.0	0.0	-14.9	-26.7
SUEZMAX	150,000	68.0	58.0	0.0	-1.7	-1.4	-3.3	-20.0	-17.1
AFRAMAX	105,000	49.0	39.0	0.0	0.0	0.0	0.0	-30.0	-29.1
PANAMX	70,000	41.0	33.0	0.0	0.0	-6.8	-5.7	-30.5	-28.3
MR TANKERS	47,000	33.0	22.5	0.0	-6.3	-1.5	-10.0	-28.3	-42.3
Bulk	DWT								
CAPESEIZE	170,000	69.0	53.0	1.5	1.9	4.5	6.0	38.0	17.8
PANAMAX	74,000	41.0	33.3	0.0	0.9	-1.2	0.9	36.7	23.3
SUPRAMAX	52,000	33.0	26.8	0.0	-0.7	-2.9	-0.7	26.9	16.5

Source: Bloomberg, ICICIdirect.com Research

There was hardly any movement in new build asset prices except a 1.5% rise in Capesize vessel prices. There was significant activity in the re-sale market with correction in tanker asset prices but dry bulk asset prices showed significant strength.

Exhibit 16: Global order book size

Asset Class	2010	2011	2012	2013	Total Order Book
Tankers					
VLCC/ULCC	71	88	13	0	172
SUEZMAX	44	57	9	1	111
AFRAMAX	83	49	7	3	142
PANAMAX	29	36	2	2	69
MR TANKERS	192	114	17	2	325
0-35K DWT	183	62	13	1	259
Total(a)	602	406	61	9	1078
Bulk					
CAPESIZE	328	217	103	36	684
80-100k WT	192	187	62	23	464
PANAMAX	84	65	35	9	193
SUPRAMAX	363	245	73	7	688
HANDYMAX	301	249	103	9	662
Total(b)	1268	963	376	84	2691
Total Vessel(a + b)	1870	1369	437	93	3769

Source: Bloomberg, ICICIdirect.com Research

Exhibit 17: New building order breakdown

	Bulk carriers	Container	Tanker	LPG/LNG	All Others	Total Units
Oct-09	27	2	8	0	30	67
Nov-09	39	2	11	0	31	83
Dec-09	49	0	38	5	13	105
Jan-09	42	0	12	6	8	68
Feb-09	35	0	18	4	18	75
Mar-09	71	5	29	3	13	121

Source: Bloomberg, ICICIdirect.com Research

Exhibit 18: Sale of vessels in second-hand market

	Dry	Wet	Total
Oct-09	33	15	48
Nov-09	44	23	67
Dec-09	42	11	53
Jan-10	86	60	146
Feb-10	81	35	116
Mar-10	157	39	196

Source: Bloomberg, ICICIdirect.com Research

Tanker rates are expected to gradually improve over the course of 2010 with the phasing out of single hull tankers. However, new vessel deliveries would cap upsides in freight rates

Bulk rates would remain under pressure due to new vessel additions. Rise in commodity demand could be the only respite and support for dry bulk freight rates

Orders for new build vessels increased sharply in March with the highest number of orders placed for vessels in the last six months

Sale of dry bulk vessels picked up pace in March 2010 with 157 vessels being sold in the second hand market

Demolition activities reported a significant increase with 167 vessel demolitions in March 2010. India continued to lead with 45 vessel demolitions followed by Bangladesh and China

Tankers/product carriers reported the maximum scrapping with 57 vessels being demolished, followed by container and dry bulk vessels

Exhibit 19: Leading countries involved in demolition work

	India	China	Bangladesh	Pakistan	All Others	Total Units
Oct-09	23	8	11	6	4	52
Nov-09	30	27	28	7	6	98
Dec-09	32	11	5	5	2	55
Jan-10	56	11	12	4	2	85
Feb-10	35	7	10	5	10	67
Mar-10	45	29	37	17	39	167

Source: Bloomberg, ICICIdirect.com Research

Exhibit 20: Demolition statistics

	Dry	Wet	Containers	Others	Total
Jan-10	13	38	25	9	85
Feb-10	24	10	14	19	67
Mar-10	37	57	47	26	167

Source: Bloomberg, ICICIdirect.com Research

Recent events

▪ Aban Offshore (AOL)

Aban Offshore entered into a contract for deployment of its jack-up rig Deep Driller 1 on a firm contract of one year at a rate of ~ \$118000/day with an option to extend the contract for a further period of one year. The deployment is likely to commence during Q1FY11.

In yet another development its jack-up rig Deep Driller 8 has entered into a firm contract of four years at a rate of ~ \$1,15,000/day. The deployment is likely to commence during Q2FY11.

▪ Essar Shipping Ports and Logistics Ltd (ESPLL)

The promoters of Essar Group are undergoing stake restructuring of group companies with inter-se transfer between April 9 and April 30. This would lead to more clear ownership. The move is directed to facilitate the listing of the group holding company at London Stock Exchange.

In yet another development, Ravi Ruia resigned from the board of ESPLL due to other commitments.

▪ GE Shipping

GE Shipping modified its new build order placed with Hyundai Heavy Industries for construction of two Suezmax crude carriers and substituted it with three VLCCs. The vessels are expected to be delivered in Q4FY12.

▪ Pipavav Shipyard (PSL)

Punj Lloyd offloaded its 19.43% stake in Pipavav Shipyard to SKIL Infrastructure Ltd at an average price of ~ Rs 51 per share aggregating Rs 656 crore. SKIL Infrastructure Ltd i.e. the promoters of Pipavav Shipyard have also issued an open offer to shareholders for acquiring an additional 20% stake in the company at Rs 61.50 per share. The offer is expected to commence from May 21, 2010 and will close on June 9, 2010.

Atul Punj and Luv Chhabra also resigned from the board of directors of the company.

The company also informed the stock exchange of its decision to raise Rs 178 crore by issuing compulsory and mandatory convertible unsecured debentures to FIs.

Global Valuations

Company	Country	P/BV (x)			P/E (x)			EV/EBITDA (x)			ROE (%)		
		CY09	CY10E	CY11E	CY09	CY10E	CY11E	CY09	CY10E	CY11E	CY09	CY10E	CY11E
Dry Bulk/Tankers													
Teekay Corp.*	USA	0.7	0.8	0.8	-	44.6	22.3	11.5	9.4	8.6	-	2.8	5.2
Diana Shipping*	USA	1.1	1.0	1.0	9.2	9.1	9.4	6.8	6.4	6.6	13.5	11.5	9.7
Genco Shipping*	USA	0.8	0.6	0.7	4.7	6.0	13.6	6.2	6.6	8.7	18.0	11.2	3.3
DryShips*	USA	0.7	0.6	0.6	6.0	7.2	5.0	7.5	6.5	4.9	7.2	7.5	11.2
Frontline Ltd*	Norway	3.1	2.8	2.8	20.8	13.5	13.2	10.3	9.0	8.9	14.9	19.8	20.4
GE Shipping#	India	0.7	0.7	0.6	8.4	6.7	4.7	7.1	5.5	3.9	8.8	10.1	12.9
Mercator Lines#	India	0.6	0.6	0.5	29.2	13.5	6.7	5.8	4.8	3.4	2.0	4.2	7.8
SCI#	India	1.0	1.0	0.9	18.5	17.1	20.0	15.7	14.5	11.2	5.3	5.6	4.7
LPG/LNG													
BW Gas*	Norway	-	-	-	-	6.7	-	-	-	-	-	-	-
Exmar*	Belgium	0.8	1.1	1.1	-	-	12.0	17.6	14.6	10.1	1.6	10.2	8.5
Mitsui OSK Lines*#	Japan	1.2	1.1	1.0	149.3	15.9	11.9	17.0	9.8	8.3	0.7	6.6	8.3
Varun Shipping#	India	1.0	1.0	1.0	-	-	30.6	16.5	10.3	9.4	-	-	3.3
Offshore													
Transocean*	USA	1.4	1.2	1.1	7.5	9.8	8.3	6.1	6.9	6.3	18.7	13.7	15.1
Hercules Offshore*	USA	0.5	0.6	0.6	-	-	-	7.9	8.4	6.5	-	-	-
ENSCO*	USA	1.3	1.2	1.1	9.1	12.1	10.0	5.4	6.7	5.8	14.9	10.1	11.2
Diamond Offshore*	USA	3.5	3.3	3.1	9.0	10.6	10.3	6.0	6.4	6.1	39.8	32.3	34.4
Aban Offshore#	India	1.9	1.3	1.0	16.2	4.0	4.6	10.3	5.9	6.1	6.7	28.6	18.4
Great Offshore#	India	1.7	1.5	1.2	9.0	8.4	6.2	7.5	5.7	4.4	19.4	17.8	20.0
Garware Offshore#	India	1.8	1.5	1.3	9.2	8.9	9.8	8.8	8.1	8.1	19.0	16.9	13.5
Shipbuilding													
Hyundai Heavy Industries*	South Korea	2.4	1.7	1.4	9.1	7.7	7.8	7.1	6.1	6.3	29.9	23.2	19.1
Samsung Heavy Industries*	South Korea	2.0	1.6	1.4	8.8	7.8	9.0	6.8	6.7	8.8	26.8	22.5	15.6
Daewoo Shipbuilding*	South Korea	1.6	1.3	1.1	6.4	6.0	7.5	6.7	6.2	8.4	27.8	23.9	16.0
Keppel Corp. Ltd.*	Singapore	2.6	2.2	2.1	11.7	14.4	14.8	10.9	12.3	12.7	27.9	16.4	15.0
Sembcorp*	Singapore	5.4	4.2	3.7	17.1	15.3	17.7	10.6	9.1	10.7	35.5	29.7	22.9
Bharati Shipyard#	India	0.9	0.8	0.7	5.4	3.5	3.3	8.0	7.0	7.3	16.5	13.7	10.5

*consensus

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

Source: Bloomberg, ICICIdirect.com Research

ICICIdirect.com coverage universe

			Sales (Rs. Crore)	EPS (Rs.)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
G.E Shipping								
Idirect Code	GESHIP CMP (Rs.)	324 FY10E	2830.2	33.0	9.8	7.1	8.8	8.8
	Target (Rs.)	387 FY11E	3379.9	41.4	7.8	5.5	10.1	10.1
MCap	4924.8 % Upside	19 FY12E	3832.2	60.0	5.4	3.9	12.9	12.9
Mercator Lines								
Idirect Code	MERLIN CMP (Rs.)	60 FY10E	1910.1	2.0	30.7	5.8	2.0	5.6
	Target (Rs.)	74 FY11E	2045.5	4.2	14.2	4.8	4.2	6.4
MCap	1416.0 % Upside	23 FY12E	2231.3	8.5	7.1	3.4	7.8	7.9
SCI								
Idirect Code	SCI CMP (Rs.)	158 FY10E	3485.6	7.9	20.0	15.7	5.3	5.9
	Target (Rs.)	159 FY11E	3590.9	8.5	18.5	14.5	5.6	6.0
MCap	6691.3 % Upside	1 FY12E	3738.8	7.3	21.7	11.2	4.7	5.4
Varun Shipping								
Idirect Code	VARSHI CMP (Rs.)	51 FY10E	679.5	-	-	16.5	-	5.8
	Target (Rs.)	40 FY11E	771.8	-	-	10.3	-	9.6
MCap	765.0 % Upside	-22 FY12E	819.0	1.7	30.6	9.4	3.3	10.5
Aban Offshore								
Idirect Code	ABALLO CMP (Rs.)	1223 FY10E	3151.7	80.2	15.2	10.0	7.6	8.4
	Target (Rs.)	1448 FY11E	5243.0	332.4	3.7	5.5	30.8	15.0
MCap	4622.9 % Upside	18 FY12E	4815.4	280.3	4.4	5.7	19.2	12.9
Garware Offshore								
Idirect Code	GARSHI CMP (Rs.)	168 FY10E	239.9	22.4	7.5	9.0	19.0	9.4
	Target (Rs.)	182 FY11E	244.2	23.3	7.2	8.2	16.9	10.0
MCap	399.8 % Upside	8 FY12E	232.4	21.2	7.9	8.2	13.5	9.2
Great Offshore								
Idirect Code	GREOFF CMP (Rs.)	414 FY10E	1081.1	74.2	5.6	6.9	22.5	12.2
	Target (Rs.)	430 FY11E	1112.0	55.9	7.4	5.3	19.0	12.1
MCap	1535.9 % Upside	4 FY12E	1232.9	55.9	7.4	4.1	20.0	13.7
Bharati Shipyard								
Idirect Code	BHASHI CMP (Rs.)	289 FY10E	1321.4	49.3	5.9	8.5	16.5	11.3
	Target (Rs.)	369 FY11E	1361.7	76.7	3.8	7.4	13.7	12.3
MCap	797.6 % Upside	28 FY12E	1214.6	79.8	3.6	7.8	10.5	11.4

Source: ICICIdirect.com Research

Glossary**Tankers**

VLCC	Very large crude carrier tanker of 200,000+ DWT
Suezmax	A vessel of 120,000 to 200,000 DWT, whose dimension enables her to pass through the Suez Canal
Aframax	A tanker measuring between 80,000 and 120,000 in DWT terms primarily used for the carriage of crude oil
Small Tankers	A vessel of 10,000-60,000 DWT

Bulkers

Capesize	Dry bulk carrier of 80,000-200,000 DWT
Panamax	A vessel of 60,000 to 100,000 DWT, whose dimension enables her to pass through the Panama Canal
Handymax	Bulk carrier vessel of 40,000-60,000 DWT
Handysize	Bulk carrier vessel of 10,000-40,000 DWT

Offshore

AHTSV	Anchor handling tug supply vessel, a vessel specially designed to handle offshore oil & gas platforms and rigs.
PSV	Platform supply vessel, a vessel specially designed for providing support services to offshore oil & gas platforms and drilling rigs.
Drillship	A maritime vessel that has been fitted with drilling apparatus and is able to drill in water depths of over 2000 meters.
Jack up rig	Mobile offshore oil and gas drilling platform that is able to stand still on the sea floor, resting on a number of supporting legs. Jack up rigs can only be placed in shallow water (Up to 1000 feet).

LPG

VLGC	Very large gas carrier of 70,000+ CBM
MGC	Medium gas carrier with a capacity of 20,000-50,000 CBM
LGC	Large gas carrier of 50,000-70,000 CBM

Miscellaneous

DWT	Dead Weight Tonne
LDT	Light Displacement Tonne

RATING RATIONALE

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