

August 12, 2010

Rating	BUY
Price	Rs229
Target Price	Rs291
Implied Upside	27.0%
Sensex	18,074

(Prices as on August 12, 2010)

### Trading Data

Market Cap. (Rs bn)	6.9
Shares o/s (m)	30.3
Free Float	58.16%
3M Avg. Daily Vol ('000)	416.6
3M Avg. Daily Value (Rs m)	103.7

### Major Shareholders

Promoters	41.84%
Foreign	2.80%
Domestic Inst.	11.90%
Public & Others	43.46%

### Stock Performance

(%)	1M	6M	12M
Absolute	(5.3)	(20.9)	52.0
Relative	(6.1)	(32.8)	31.7

Price Performance (RIC: BHAR.BO, BB: BHSL IN)



Source: Bloomberg

■ **Revenues in-line, PAT disappoints:** Bharati Shipyard (BHSL) reported revenues of Rs3.3bn for the quarter, with a 9.4% YoY increase and 3% sequential increase. Margins also remained strong for the quarter at 19% as against 18.5% in Q1FY10 and 17.1% in Q4FY10. The company's PAT was extremely disappointing at Rs221m, a de-growth of 41% on a YoY basis and 38% on a sequential basis which was on account of a sharp 100%+ increase in interest expenses.

■ **Interest expenses soar:** Interest expenses charged to the P/L stood at Rs547m as against Rs240m in Q4FY10. A sharp increase on a QoQ basis is on account of part capitalization of the *Dabhol* Shipbuilding facility. Besides in Q4FY10, total interest expenses were netted off by interest income from money advanced to its subsidiary. Gross debt on BHSL's book stands at Rs27bn, while cash stands at -Rs3bn. The company's debt repayment obligation for the year is at -Rs3bn on account of the FCCB that stands due for redemption in December 2010. This in our opinion shall be re-financed through long-term debt, while interest obligation of -Rs24bn for the year shall be funded through internal accruals.

■ **Unexecuted order book declines:** BHSL's unexecuted order book for the quarter stood at Rs19.2bn which has declined on QoQ basis with the execution progress. Though the quarter did not see any order accretion, the company received a small order to the tune of Rs1.2bn in the month of July 2010.

■ **Future Outlook & Valuations:** The world shipbuilding order book position has been witnessing some improvement over the last few months and we expect this to percolate to the Indian order book over the next couple of quarters. We expect BHSL's order book to see gradual accretion from international and domestic orders. Besides, naval orders will provide an additional upside. We are valuing the company based on 5x FY12 PAT, excluding subsidy and dividend income from Great Offshore (GOFF) which translates to Rs80/share. Further, we are valuing its stake in GOFF at 6x FY12, with a 30% holding company discount translating to Rs211. We maintain 'BUY', with a target price of Rs291.

Key financials (Y/e March)	FY09	FY10	FY11E	FY12E
Revenues (Rs m)	9,349	12,645	15,015	16,517
Growth (%)	46.8	35.2	18.7	10.0
EBITDA (Rs m)	1,718	2,318	2,748	2,989
PAT (Rs m)	806	834	490	696
EPS (Rs)	29.2	27.5	16.2	23.0
Growth (%)	(3.6)	(6.0)	(41.2)	42.0
Net DPS (Rs)	3.0	4.5	5.0	5.5

Source: Company Data; PL Research

Financials & Valuations are ex-subsidy

Profitability & valuation	FY09	FY10	FY11E	FY12E
EBITDA margin (%)	18.4	18.3	18.3	18.1
RoE (%)	17.4	15.7	8.4	11.1
RoCE (%)	9.8	6.9	6.9	7.6
EV / sales (x)	1.50	1.49	1.36	1.18
EV / EBITDA (x)	8.2	8.2	7.4	6.5
PE (x)	7.8	8.3	14.2	10.0
P / BV (x)	1.3	1.2	1.2	1.1
Net dividend yield (%)	1.3	2.0	2.2	2.4

Source: Company Data; PL Research

Financials & Valuations are ex-subsidy

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## Q1FY10 Result Overview

(Rs m)

Y/e March	Q1FY11	Q1FY10	YoY gr. (%)	Q4FY10	FY11E	FY10	YoY gr. (%)
Sales	3,331	3,045	9.4	3,231	15,015	12,645	18.7
Expenditure	-	-		-			
Raw materials	1,847	1,668	10.7	1,829	8,589	7,040	22.0
<i>% of Net Sales</i>	<i>57.3</i>	<i>54.8</i>		<i>56.6</i>	<i>57.2</i>	<i>55.7</i>	
Manufacturing & Other expenses	435	407	6.9	409	1,967	1,685	16.7
<i>% of Net Sales</i>	<i>13.1</i>	<i>13.4</i>		<i>12.7</i>	<i>13.1</i>	<i>13.3</i>	
Staff Costs	417	407	2.5	455	1,712	1,602	6.8
<i>% of Net Sales</i>	<i>12.5</i>	<i>13.4</i>		<i>14.1</i>	<i>11.4</i>	<i>12.7</i>	
Total Expenses	2,699	2,482	8.7	2,680	12,267	10,327	18.8
EBITDA	632	563	12.3	551	2,748	2,318	18.5
<i>EBITDA Margin (%)</i>	<i>19.0</i>	<i>18.5</i>		<i>17.1</i>	<i>18.3</i>	<i>18.3</i>	
Depreciation	49	35	40.9	44	207	155	33.3
Other Income	4	4	8.7	23	287	39	629.1
Subsidy	295	249	18.4	250	1,250	836	49.5
EBIT	882	781	12.9	779	4,079	3,039	34.2
Less: Interest	547	241	127.0	240	2,100	965	117.6
PBT	335	540	(37.9)	539	1,979	2,073	(4.6)
Tax	114	168	(32.0)	183	647	689	(6.1)
<i>Effective Tax Rate (%)</i>	<i>34.0</i>	<i>31.0</i>		<i>34.0</i>	<i>32.7</i>	<i>33.2</i>	
PAT	221	372	(40.6)	356	1,332	1,385	(3.8)
PAT Without Subsidy*	15	198	(92.6)	181	490	834	(42.9)

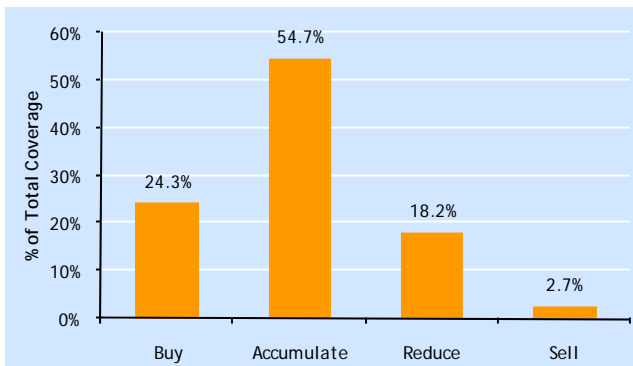
\*Adj. for 30% tax on Subsidy

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### Rating Distribution of Research Coverage



### PL's Recommendation Nomenclature

<b>BUY</b>	: Over 15% Outperformance to Sensex over 12-months	<b>Accumulate</b>	: Outperformance to Sensex over 12-months
<b>Reduce</b>	: Underperformance to Sensex over 12-months	<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month	<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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