

Bharati Shipyard (BHASHI)

Rs 164

WHAT'S CHANGED...

PRICE TARGET Changed from Rs 179 to Rs 208
 EPS (FY10E).....Unchanged
 EPS (FY11E).....Unchanged
 RATING.....Changed from Hold to Outperformer

Improving outlook...

Bharati Shipyard (BSL) results are in line with our expectations and it appears to be on track to achieve our FY10 EPS estimate. BSL is planning to focus on the offshore and defence segment. It has bid for building defence vessels and expects the offshore segment to pick up as crude oil has risen from its lows and appear to be stabilizing.

Q2FY10 performance in-line

Bharati Shipyard delivered a stable performance in Q2FY10 as its sales increased by 42% YoY to Rs 333.5 crore. In spite of impressive growth in revenues, higher interest cost (up 116%) and a decline in EBITDA margin has resulted in a marginal decline of 1.1% in net profit to Rs 32.7 crore. BSL has booked lower subsidy in Q2FY10 on account of higher proportion of domestic orders and PAT without subsidy has increased by 15%.

Great Offshore bidding war continues

BSL has invested Rs 322 crores to acquire 23% in Great Offshore and is awaiting the approval from SEBI for the open offer. The open offer price for acquiring further 20% stake in Great offshore now stands revised at Rs 560. The outflow on account of the open offer would be to the tune of Rs 440 crore.

Valuation

With the outlook for offshore segment improving due to rise in crude oil price, the scenario for shipbuilding should see a revival. BSL has bid for defence orders and order flow should resume in the next two quarters. We have valued BSL on multiple valuation parameters with a target price of Rs 208.

Exhibit 1: Performance Highlights

(Rs. Crore)	Q2FY10	Q2FY09	Q1FY10	QoQ Gr.(%)	YoY Gr. (%)
Net Sales	333.5	235.4	329.4	1.2	41.6
EBITDA Margin (%)	23.0	27.0	24.6	(400bps)	(160bps)
Depreciation	3.6	2.3	3.5	4.0	56.2
Interest	23.6	10.9	24.1	-2.0	116.4
Other Inc/Ext. item	0.3	0.1	0.4	-15.0	385.7
Reported PAT	32.7	33.2	37.2	-12.1	-1.4
EPS (Rs)	11.8	12.0	13.5	-12.1	-1.4

Source: Company, ICICIdirect.com Research

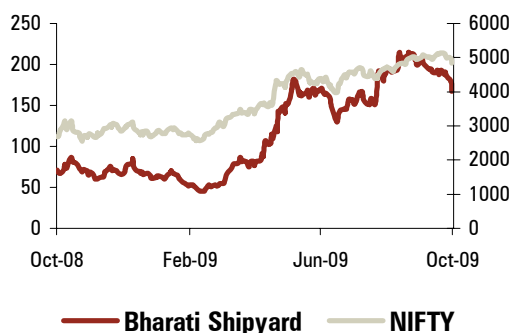
Rating matrix	
Rating	: Outperformer
Target	: Rs 208
Target Period	: 12 months
Potential Upside	: 27 %

Key Financials				
(Rs Crore)	FY08	FY09	FY10E	FY11E
Net Sales	701.8	1019.1	1248.0	1550.2
EBITDA	188.4	256.4	323.3	397.5
Net Profit	107.5	133.3	145.5	178.6

Valuation summary				
	FY08	FY09	FY10E	FY11E
PE (x)	4.2	3.4	3.1	2.6
Target PE (x)	5.3	4.3	3.9	3.2
EV to EBITDA(x)	3.5	4.8	3.5	2.9
Price to book (x)	0.8	0.7	0.6	0.5
RoNW (%)	18.6	19.0	17.5	17.9
RoCE (%)	18.2	14.8	19.3	21.8

Stock data	
Market Capitalisation	Rs 452.6 crore
Debt (FY09)	Rs 1002.8 crore
Cash (FY09)	Rs 227.9 crore
EV (FY09)	Rs 1238.0 crore
52 week H/L (Rs)	226/45
Equity capital	Rs 27.6 crore
Face value	Rs. 10
MF Holding (%)	8.3
FII Holding (%)	5.5

Price movement (stock vs. Nifty)



Analyst's name

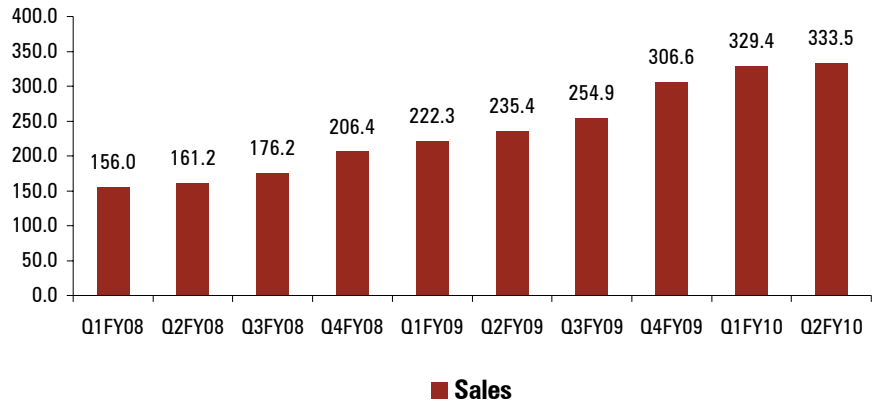
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BSL's revenues have seen a gradual improvement in the last one year with the preceding three quarters recording revenues of more than 300 crores in line with our estimates.

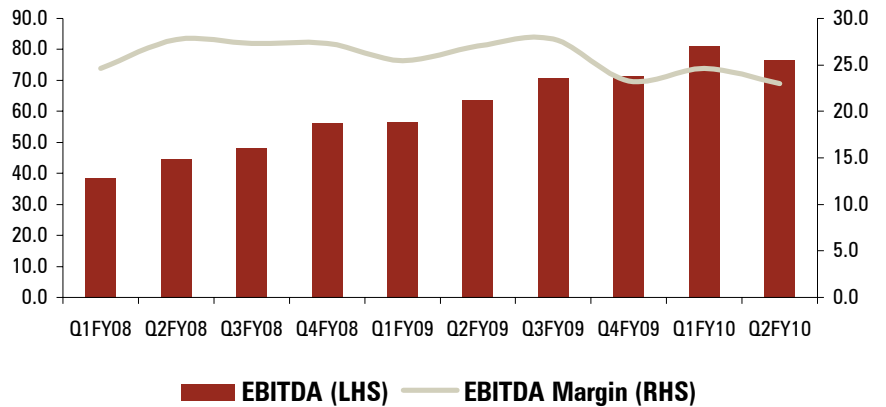
Exhibit 2: Stable sales performance



Source: Company, ICICIdirect.com Research

EBITDA margin has been in the range of 23%-24% during the preceding three quarters. We expect it to move up to 25% in the coming quarters.

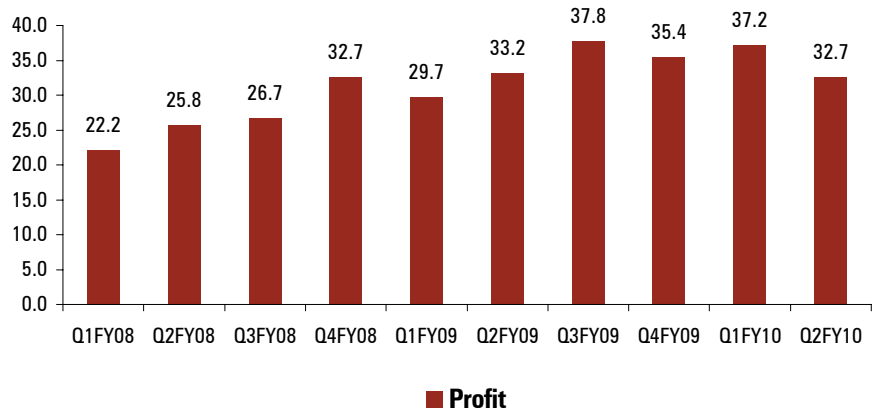
Exhibit 3: EBITDA margin expected to improve, going forward



Source: Company, ICICIdirect.com Research

BSL has been able to maintain its profitability even in the gloomy scenario witnessed by shipbuilders across the globe.

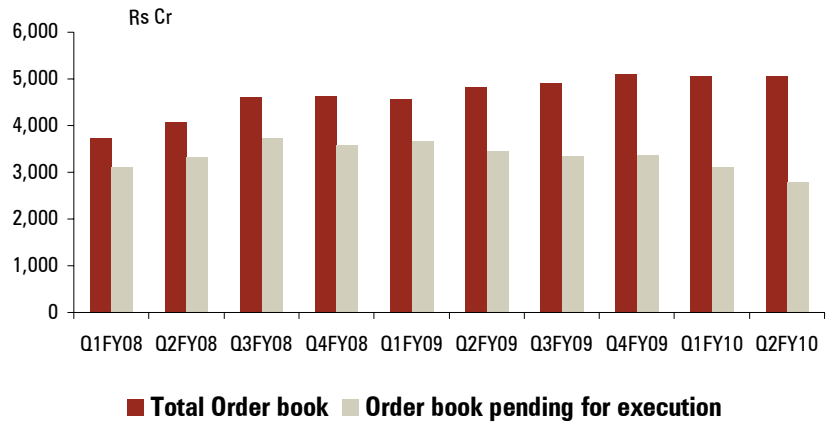
Exhibit 4: Stable profitability



Source: Company, ICICIdirect.com Research

Though the order flow for BSL has remained stagnant with no new orders, we expect the company to get new orders particularly from the offshore segment which has witnessed revival of demand owing to rise in crude oil price BSL has also bid for defence orders, which should help to swell its order book.

Exhibit 5: Order book expected to improve in H2FY10



Source: Company, ICICIdirect.com Research

BPR shipbuilding index has doubled from its October 2008 low, signifying recovery in the shipbuilding sector.

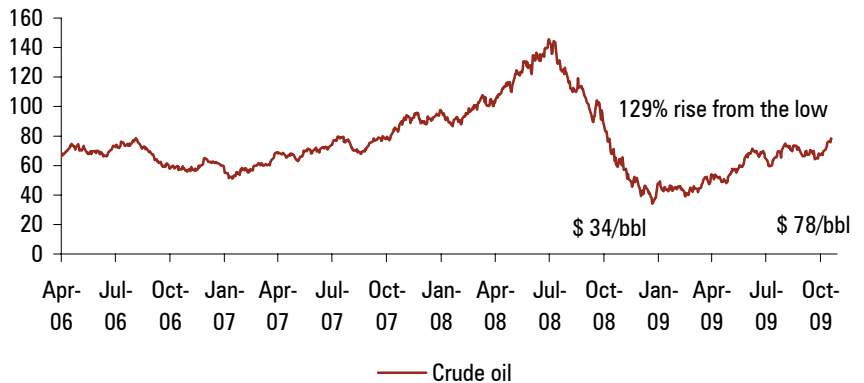
Exhibit 6: Recovery in Shipbuilding index



Source: Bloomberg, ICICIdirect.com Research

Crude oil prices have risen by 129% to \$78/bbl from the low of \$34/bbl in January 2009. The strength in crude oil prices will lead to an increase in exploration and processing activities, thereby increasing the demand for offshore vessels.

Exhibit 7: Rise in crude oil prices a positive development for Bharati Shipyard



Source: Bloomberg, ICICIdirect.com Research

Detailed valuation

Crude oil prices have revived substantially over the last nine months showing significant strength. This will lead to a rise in oil exploration and drilling activities in the coming months resulting in a rise in demand for offshore vessels. With the outlook for offshore segment improving due to rise in crude oil prices, the scenario for shipbuilding should see a revival. In addition to the revival of demand in offshore segment, BSL expects to bag orders from the defence segment as well. It has bid for defence orders and expects the order flow to resume in the next two quarters. We have valued BSL on multiple valuation parameters with a target price of Rs 208.

Exhibit 8: Valuation parameter

Valuation based on	Global average	Target multiple	Target price (Rs)
EV/Ebitda (x)	7.4	3.0	180
Mcap/revenues average (x)	1.2	0.4	220
PE multiple (x)	12.1	3.5	225
Average target price (Rs.)	-	-	208
Current market price (Rs)			164
Upside (%)			27

Source: ICICIdirect.com Research

Exhibit 9: Valuations

	Sales (Rs. crore)	Sales growth (%)	EPS (Rs.)	EPS Growth (%)	PE (x)	EV/EBIDTA (X)	RoNW (%)	RoCE (%)
FY09E	1019.1	45.2	48.4	24.1	3.4	4.8	19.0	14.8
FY10E	1248.0	22.5	52.8	9.2	3.1	3.5	17.5	19.3
FY11E	1550.2	24.2	64.4	22.0	2.5	2.9	17.9	21.8

Source: ICICIdirect.com Research

ICICIdirect.com coverage universe

			Sales (Rs. Crore)	EPS (Rs.)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Bharati Shipyard								
Idirect Code	BHASHI CMP	164 FY09E	1019.1	48.4	3.4	4.8	19.0	14.8
	Target	208 FY10E	1248.0	52.8	3.1	3.5	17.5	19.3
MCap	452.6 % Upside	27 FY11E	1550.2	64.4	2.5	2.9	17.9	21.8
			Sales (Rs. Crore)	EPS (Rs.)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
ABG Shipyard								
Idirect Code	ABGSHI CMP	193 FY09E	1413.0	33.6	5.7	6.4	19.3	13.8
	Target	213 FY10E	1828.2	34.2	5.6	5.2	13.7	14.7
MCap	982.4 % Upside	10 FY11E	2068.5	39.2	4.9	4.7	13.8	15.0

Source: ICICIdirect.com Research

Global Peers-Shipbuilding

Company	Country	EPS (USD)			P/E (x)			EV/EBITDA (x)			ROE (%)		
		CY08	CY09E	CY10E	CY08	CY09E	CY10E	CY08	CY09E	CY10E	CY08	CY09E	CY10E
Guangzhou Shipyard*	China	0.3	0.2	0.2	6.0	8.6	7.9	6.8	8.4	7.2	34.4	22.5	17.7
Keppel Corp. Ltd.*	Singapore	0.4	0.5	0.4	9.8	10.6	13.8	9.3	9.1	10.8	19.1	25.1	16.0
Yangzijiang Shipbuilding	China	0.1	0.1	0.1	7.9	8.7	8.7	3.6	5.9	5.6	33.1	36.2	28.1
Sembcorp*	Singapore	0.1	0.2	0.2	11.6	12.5	13.3	6.3	7.1	7.5	25.6	34.0	28.1
Cosco Corp*	Singapore	0.1	0.0	0.1	7.5	18.5	16.9	3.2	6.9	6.1	29.3	12.3	12.4

Source: Bloomberg, ICICIdirect.com Research

* Consensus

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Outperformer (OP): 20% or more;

Performer (P): Between 10% and 20%;

Hold (H): +10% return;

Underperformer (U): -10% or more;

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