Garware Offshore Services Ltd (GOSL) delivered robust Q1 CY07 results on back of its acquisition of a platform support vessel in the month of November 2006. GOSL reported 63% yoy growth in sales to Rs193mn. Higher margins for the PSV segment helped margins expand by 6 percentage points. However, higher interest outgo and depreciation charge restricted PAT growth to 42.3% to Rs54mn.

Financial highlights

	Q1 CY07	Q1 CY06	Growth (%)	CY06	CY05	Growth (%)
Net Sales	193	119	63.0	524	309	69.7
Total Expenditure	(78)	(55)	42.2	(229)	(172)	33.3
Operating Profit	115	64	81.1	295	137	115.7
Other Income	2	0	660.0	14	19	(26.9)
Interest	(34)	(13)	170.5	(68)	(5)	1,151.9
Depreciation	(29)	(13)	119.2	(76)	(36)	113.4
PBT	55	38	43.2	164	114	44.1
Tax	(1)	(1)	98.3	(9)	(8)	2.4
PAT	54	38	42.3	156	106	47.4
Extraordinary	-	-		-	-	
APAT	54	38	42.3	156	106	47.4
Equity	190	166		188	144	
OPM (%)	59.5	53.5		56.2	44.3	
EPS Annualized (Rs)	11.3	9.1		8.3	7.3	
CMP (Rs)	216.0			216.0		
P/E (x)	19.1			26.1		

Addition of a PSV to fleet spurs topline

After addition of a PSV in the month of November 2006 to its fleet, GOSL now has 4 anchor handling tugs (AHTs) and 2 platform support vessels. The day rate tied-up for the second PSV is US$15,400/day. As a result, net sales were up by 63% yoy to Rs193mn in Q1 FY07.

OPM swells on higher contribution of PSVs to total income

Operating profit jumped by 81.1%yoy to Rs115mn in Q1 CY07 and OPM surged by 6 percentage points to 59.5%. The jump was primarily because of higher contribution of PSVs to total income as PSVs command margins of 65-70% whereas AHTs earn a margin of 50%.

Cost Analysis

As % of Sales	Q1 CY07	Q1 CY06	Inc/(Dec)	CY06	CY05	Inc/(Dec)
Inc/Dec in Stock	0.7	0.3	0.4	(5.5)	(2.3)	(3.2)
Staff Expenditure	23.3	28.8	(5.5)	20.9	23.5	(2.6)
Other Expenditure	32.0	31.2	0.8	28.4	34.5	(6.2)
Total Expenditure	56.1	60.4	(4.3)	43.8	55.7	(12.0)

Sale of Havyard designs fuels other income

GOSL has entered into a tie up with a Norwegian Ship Yard Havyard to sell its ship designs and ships in India. GOSL will have the sole marketing rights and the commissions could range between 3-5% of the value of the ship or the design delivered. The company in the recent past has sold 4 ship designs to ABG Shipyard for which it earned Rs10mn and only 10% of it has been accounted in other income whereas rest will accrue in the forthcoming quarters. As a result, other income for Q1 CY07 was at Rs2mn against Rs300,000 in Q1 CY06.

Increased interest outgo and depreciation charge lowers PAT growth

On back of its acquisition of two vessels over the last 15 months (financed through a debt-equity mix of 75:25), the interest expense jumped from Rs13mn in Q1 CY06 to Rs34mn in Q1 CY07 and depreciation surged from Rs13mn in Q1 CY06 to Rs29mn in Q1 CY07. This restricted transfer of gains at operating level to PAT and PAT growth was restricted to 42.3%yoy to Rs54mn.

Outlook

GOSL is expecting to have a fleet size off 11 vessels from current level of 6 vessels. The delivery schedule of which is as follows:

Table: Delivery schedule

Delivery date	Vessel
May-07	PSV
Mar-08	PSV
Jun-08	AHTSV
Jul-08	AHTSV
Dec-08	PSV

Source: Company

We believe that the tightness in the market will help GOSL to get higher charter rates for the vessels than in the past translating into realization growth. Higher contribution from PSV will enable the company to earn better margins than in the past. With GOSL, already receiving technical qualification for tenders of both ONGC (28 ships) and Shipping Corporation of India (10 ships), there can be significant rise in other income.