

RESULT UPDATE ✓

Bharati Shipyard (BHASHI)

WHAT'S CHANGED...

PRICE TARGET.....	Changed to Rs 110 from Rs 141
EPS (FY09E).....	Changed to Rs 39.89 from Rs 44.09
EPS (FY10E).....	Changed to Rs 42.54 from Rs 56.67
RATING.....	Unchanged

Strong order book provides revenue visibility...

Bharati Shipyard (BSL) registered a YoY growth of 44.6% in revenue (including subsidy), mainly on account of utilisation of expanded capacities at its yards. The EBITDA margin rose by 47 bps (YoY) and 80 bps (QoQ) to 27.81% in Q3FY09. The EBITDA margin (excluding subsidy) decreased marginally by 10 bps to 20.2% in Q3FY09 from 20.3% in Q3FY08. Even with an increase of 107% in interest cost the company's net profit rose 41.6% YoY and 13.9% QoQ to Rs 27.81 crore.

BSL has a current order book of Rs 4898.13 crore of which the unexecuted portion is Rs 3362.88 crore. The order book is more than 7x the company's FY08 revenues. Though the order book provides good revenue visibility, we feel the future order inflows will slow down on account of the financial turmoil and fall in global trade. Operational delays have slowed down the speed of order execution. Hence, we are revising our revenue estimates downwards (by 4.8% and 10.9%) and net profit (by 9.4% and 24.7%) for FY09E and FY10E, respectively.

Valuations

BSL is trading at 1.6x FY09E earnings and 1.5x FY10E earnings. BSL's strong order book in excess of 7x its FY08 revenues and less exposure to the dry bulk segment provides substantial revenue and earning visibility. A substantial fall in BSL's stock price has made the stock attractive at current valuations compared to its global peers, which have come down from their peak valuations of 16x-18x their FY10E earnings to 5x-6x due to the overall global meltdown. We have valued BSL on multiple valuation parameters using global benchmarks, with a target price of Rs 110, an upside of 77%.

Exhibit 1: Key Financials

	Q3FY09A	Q3FY08	Q2FY09	YoY Gr. (%)	QoQ Gr. (%)	YTDFY09	FY09E	FY10E
Net Sales	254.90	176.22	235.41	44.65	8.28	712.63	979.47	1243.07
EBITDA	70.89	48.18	63.59	47.14	11.48	185.13	250.00	311.95
EBITDA Margin (%)	27.81	27.34	27.01	47bps	80bps	25.98	25.52	25.10
Depreciation	2.68	2.08	2.33	28.85	15.02	7.35	12.10	46.20
Interest	13.73	6.62	10.90	107.40	25.96	33.93	46.00	55.00
Other Income/ Extraordinary item	0.00	1.21	0.07	-100.00	-100.00	0.20	2.00	3.00
Reported PAT	37.81	26.69	33.18	41.66	13.95	94.65	128.94	137.41
EPS (Rs)	13.70	11.86	12.02	15.49	13.97	34.29	39.89	42.54
Valuation								
PE	-	-	-	-	-	-	1.60	1.50
Target PE	-	-	-	-	-	-	2.75	2.58
EV to EBIDTA	-	-	-	-	-	-	2.41	2.58
Price to book	-	-	-	-	-	-	0.41	0.36
RoNW	-	-	-	-	-	-	15.10	14.03
RoCE	-	-	-	-	-	-	19.75	19.46

Source: Company, ICICIdirect.com Research,

Current Price Rs 62	Target Price Rs 110
Potential upside 77%	Time Frame 12-15 months

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Stock data

Market Cap.	Rs. 198.65 Crore
Debt(FY08)	Rs. 224.56 Crore
Cash (FY08)	Rs. 76.84 Crore
EV	Rs. 346.37 Crore
52 week H/L	Rs. 659/59
Equity capital	Rs. 32.04 Crore
Face value	Rs. 10
MF Holding	33.61%
FII Holding	13.50%

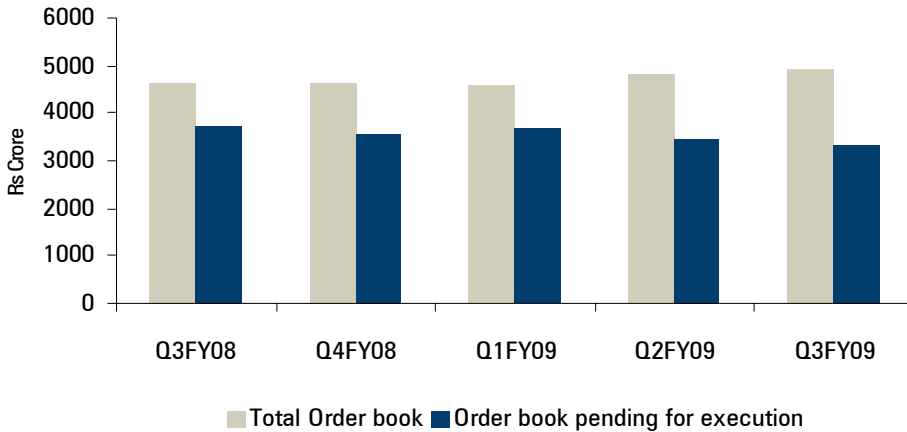
Price performance

Company	Returns (%)			
	1M	3M	6M	12M
ABG Shipyard	-49	-40	-79	-90
Bharati Shipyard	-20	-7	-78	-90

Order book stagnant

BSL's order book has not seen significant growth in the last five quarters. The total order book registered a meagre growth of 1.3% to Rs 4898.13 crore in Q3FY09 from Rs 4831.10 crore in Q2FY09. With the order book stretched till FY12 BSL's revenues are protected. However, with the credit crisis and falling ship prices we expect future order inflows to slow down.

Exhibit 2: BSL order book



BSL's future order inflows expected to slow down due to credit crisis and falling ship prices

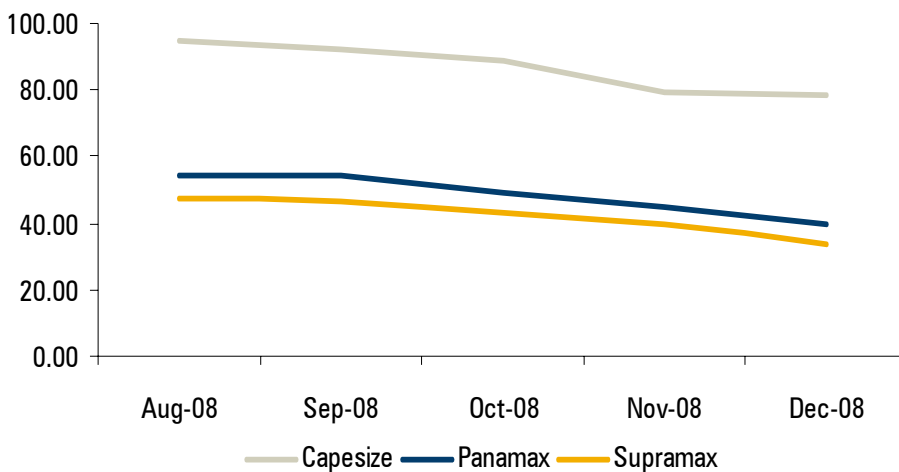
Source: Company, ICICIdirect.com Research

Lower risk to order book

The shipbuilding sector has borne the brunt of the slowdown in the pace of global trade and the financial turmoil. Not only has the demand for new build vessels slowed down to a trickle, but also existing orders have been cancelled across the globe owing to the lack of financing.

A majority of BSL's order book consist of offshore vessels, values of which have not declined very significantly as is the case with the dry bulk segment (see Exhibit 3). BSL's exposure to the dry bulk segment is only 15%. Therefore, it faces lesser risk of cancellation of orders.

Exhibit 3: New build vessel values (US\$ million)



Up to 25% fall in the new build dry bulk vessel values since August 2008, showing slowdown in the dry bulk segment

Source: Company, ICICIdirect.com Research

Subsidy renewal — still pending

Indian shipyards were entitled to a subsidy of 30% on orders for exports taken before August 2007. The policy has expired and is still pending for renewal. The removal of subsidy would be negative for the Indian shipbuilding industry, as it would affect the competitiveness of Indian shipyards vis-à-vis its global peers. The management has indicated that the subsidy may be reduced from 30% to 20%. BSL's revenues and earnings till FY10 will not be impacted even if the subsidy is removed as the entire orders are eligible for subsidy as they were procured before August 2007.

Detailed valuations

BSL's existing order book of Rs 4831 crore is expected to be executed by FY12 providing stability to the revenues. Though the short-term outlook for the global shipbuilding industry is bleak owing to the slowdown in global trade and the financial turmoil, we believe the current fall in BSL's stock price has been overdone. BSL has an order book in excess of 7x FY08 revenues and higher operating margin compared to global shipyards and is trading at 1.5x FY10E earnings. We have valued BSL on multiple valuation parameters using global benchmarks. At a target price of Rs 110, BSL would trade at a multiple of 0.4x its FY10E price to book value, FY10E market cap to revenues multiple of 0.2x and a P/E of 2.5x FY10E earnings, which is at a significant discount to its global peers.

Exhibit 4: Valuation parameters

Valuation based on	Global average	Target multiple	Target price(Rs)
Price to book value (x)	1.00	0.30	93
Mcap/revenues average (x)	0.60	0.20	110
PE multiple (x)	5.20	3.00	128
Average target price (Rs.)	-	-	110
Current market price (Rs)			62
Upside (%)			77

Source: Company, ICICIdirect.com Research

Exhibit 5: Valuations

	Sales (Rs. crore)	Sales growth (%)	EPS (Rs.)	EPS Growth (%)	PE (x)	EV/EBIDTA (X)	RoNW (%)	RoCE (%)
FY08	694.65	64.31	32.63	0.26	1.90	2.65	14.34	18.57
FY09E	979.47	41.00	39.89	22.26	1.55	2.41	15.10	19.75
FY10E	1243.07	26.91	42.54	6.63	1.46	2.58	14.03	19.46

Source: Company, ICICIdirect.com Research

ICICIdirect.com Coverage Universe

Exhibit 6: Universe Matrix

Bharati Shipyard				Sales		EV/EBITDA			
Idirect Code				(Rs. Crore)	EPS (Rs.)	PE (x)	(x)	RoNW (%)	RoCE (%)
	BHASHI CMP	62 FY08		694.65	32.63	1.90	2.65	14.34	18.57
	Target	110 FY09E		979.47	39.89	1.55	2.41	15.10	19.75
MCap	198.65 % Upside	77 FY10E		1243.07	42.54	1.46	2.58	14.03	19.46
ABG Shipyard				Sales		EV/EBITDA			
Idirect Code				(Rs. Crore)	EPS (Rs.)	PE (x)	(x)	RoNW (%)	RoCE (%)
	ABGSHI CMP	69 FY08		966.84	31.56	2.19	2.70	20.97	20.03
	Target	78 FY09E		1263.73	31.45	2.19	3.94	20.53	17.26
MCap	351.21 % Upside	13 FY10E		1838.33	33.30	2.07	4.13	14.84	15.52

Source: Company, ICICIdirect.com Research

Peer Valuation

Exhibit 7: Valuation Matrix

	CMP (USD)	M Cap (USD million)	EPS (USD)			P/E (x)			EV/EBIDTA (x)			ROE (%)			Price/book (x)		
			FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E
Guangzhou Shipyard international *	1.1	948.6	0.3	0.3	0.3	3.7	3.4	3.2	4.7	4.0	3.8	35.0	29.9	24.4	0.8	0.7	0.5
Keppel Corp. Ltd.*	2.7	4440.0	0.5	0.4	0.4	6.1	6.1	6.5	6.2	6.1	6.4	19.1	18.8	16.5	1.1	1.1	1.0
Yangzijang Shipbuilding *	0.3	1100.0	0.1	0.1	0.1	4.5	3.9	3.7	1.4	1.2	1.0	33.3	29.4	24.3	1.4	1.1	0.9
Sembcorp*	1.1	2270.0	0.1	0.2	0.2	7.3	6.4	6.6	3.3	2.9	2.9	25.2	27.1	24.4	1.8	1.6	1.5
Cosco Corp*	0.5	1220.0	0.1	0.1	0.1	5.2	6.2	6.0	1.5	1.6	1.5	29.9	22.2	18.4	1.4	1.3	1.1
Bharati Shipyard	1.3	42.0	0.7	0.8	0.9	2.0	1.6	1.5	2.7	2.4	2.6	14.3	15.1	14.0	0.3	0.4	0.4

*CY

Source: Bloomberg, ICICIdirect.com Research

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