

Bharati Shipyard

Poor order book visibility remains a drag

Bharati Shipyard (BSL) reported a robust 38% YoY increase in its topline to Rs 3.2bn. The EBITDA margin also came in at a healthy 18.6%, up 96bps YoY. Net level growth, however, was restricted at a mere 4% due to lower subsidy and higher interest outgo. BSL's order book remains stagnant at Rs 49.9bn since the last two years, raising concerns over the company's growth prospects. This, along with the recent run up in the stock price forces us to downgrade the stock from Buy to Hold. Our target price, however, stands revised to Rs 340 (from Rs 263 earlier).

Topline zooms 38% YoY: During Q3FY10, BSL's topline surged 38% YoY but remained flat sequentially at Rs 3.2bn, in line with our estimates. Going ahead, the company expects its topline to grow at a similar rate. The management has indicated that it is confident of securing domestic defence orders in the near-term.

EBITDA margin expands 96bps: BSL's EBITDA margin expanded 96bps YoY but slid 24bps QoQ. The YoY expansion in margin was driven by lower overheads (as a percentage of sales), offsetting the impact of a 68% increase in the interest outgo and a 28% drop in other income (including the subsidy).

PAT growth subdued at 4%: PAT increased only by a marginal 4% YoY to Rs 329mn; on a QOQ basis too, growth in PAT growth was restricted to 0.8%. The company received lower subsidy support of Rs 168mn in Q3FY10 vs. Rs 242mn in Q3FY09 mainly due to the nature of its vessels. On a YOY basis, PAT, excluding the subsidy, grew at a healthy 38%.

Order book stagnant at Rs 49.9bn: BSL's current order book stands at Rs 49.9bn, of which 49.6% or Rs 24.7bn (1.9x its FY10E revenues) is yet to be executed. Till date, the company has received orders of Rs 2.9bn only in FY10, mostly from the defence sector.

Other developments: BSL has acquired a 45.9% stake in Great Offshore at an average price of Rs 475/share (aggregating to Rs 8.1bn). The company has indicated that it will fund this acquisition through internal accruals – clarity on the same is awaited.

Downgrade to Hold: The stock is trading at a P/BV of 0.9x and 5.5x FY11E earnings. We have valued BSL's acquired stake in Great Offshore at Rs 170, at a 35% holding company discount to the current market price. BSL (standalone) has been assigned a multiple of 0.7x FY11 adj. P/BV (adjusted for subsidy), giving us a value of Rs 170. Our revised SOTP based target price thus stands at Rs 340/share. We believe that poor order book visibility remains an overhang on the stock. In addition, the recent 100% run-up in the stock price during the last three months forces us to downgrade our rating from Buy to Hold.

What's New?	Target	Rating	Estimates
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CMP	TARGET	RATING	RISK
Rs 302	Rs 340	HOLD	MEDIUM

BSE	NSE	BLOOMBERG
532609	BHARTISHIP	BHSL IN

Company data

Market cap (Rs mn / US\$ mn)	8326/180
Outstanding equity shares (mn)	27.6
Free float (%)	61.0
Dividend yield (%)	1.2
52-week high/low (Rs)	355/45
2-month average daily volume	2,675,019

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Bharati Ship	302	30.1	89.2	98.9
Sensex	16,358	(6.0)	1.9	7.8

Valuation matrix

(x)	FY08	FY09E	FY10E	FY11E
P/E @ CMP	7.6	6.2	6.1	5.5
P/E @ Target	8.5	7.0	6.9	6.2
EV/EBITDA @ CMP	19.1	14.4	10.4	8.7

Financial highlights

(Rs mn)	FY08	FY09	FY10E	FY11E
Revenue	6,451	9,341	13,325	15,193
Growth (%)	79.2	44.8	42.7	14.0
Adj net income	1,098	1,334	1,364	1,503
Growth (%)	50.0	21.5	2.3	10.2
FDEPS (Rs)	39.8	48.4	49.5	54.5
Growth (%)	74.3	21.5	2.3	10.2

Profitability and return ratios

(%)	FY08	FY09	FY10E	FY11E
EBITDA margin	20.0	18.4	17.7	18.6
EBIT margin	18.8	17.3	16.6	17.4
Adj PAT margin	17.0	14.3	10.2	9.9
ROE	26.7	20.8	17.9	16.8
ROIC	12.1	8.8	8.8	8.0
ROCE	14.0	13.0	9.3	7.3





Other highlights

Recovery in the global trade and the Baltic dry index: During the last three months, there has been a spurt in the stock price of BSL and other shipyard companies due to the improving market sentiment on the ship building industry. The uptick in stock price follows the securing of a US\$1.6bn order by Daewoo Shipbuilding – one of the largest bagged by any shipbuilding company in the recent past. This has reignited hopes of other shipbuilding companies on winning similar orders. Even the Baltic dry index has gone up four times from the lows of last year.

Result highlights

Fig 1 - Quarterly performance

(Rs mn)	Q3FY10	Q3FY09	% Chg YoY	Q2FY10	% Chg QoQ
Revenue	3,195	2,307	38	3,163	1.0
Expenditure	2,601	1,900	37	2,567	1.3
Operating profit	594	407	46	596	(0.3)
Other income	175	242	(28)	172	1.8
Interest	231	137	68	236	(2.4)
Depreciation	40	27	47	36	8.5
PBT	499	485	3	495	0.8
Tax	170	167	2	168	0.8
PAT	329	318	4	327	0.8
EBITDA margin (%)	18.6	17.6	97bps	18.8	(24bps)
FDEPS (Rs)	11.95	11.54	4	11.86	0.8

Source: Company, RHH

Topline surges 38% YoY but remains flat sequentially

The EBITDA margin expands 96bps YoY on lower employee & other costs

Fig 2 - Revised estimates

Key parameters (Rs mn)	FY10E			FY11E		
	Old	New	% Chg	Old	New	% Chg
Revenue	14,500	13,325	(8.1)	15,965	15,193	(4.8)
EBITDA margin (%)	20.3	17.7	(256bps)	21.6	18.6	(301bps)
Net profit	1,559	1,364	(12.5)	1,841	1,503	(18.4)
FDEPS (Rs)	56.5	49.5	(12.5)	66.8	54.5	(18.4)

Source: RHH

Estimates pruned due to poor order book visibility

Fig 3 - Trend in order backlog

(Rs mn)	Q1FY09	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10
Total order book	45,772	48,311	48,981	50,937	50,655	50,655	49,874
Order book unexecuted	33,694	34,598	33,629	33,629	31,065	27,943	24,717
Unexecuted order book to total order book ratio	73.6	71.6	68.7	66.0	61.3	55.2	49.6
Sales to order book ratio (%)	4.9	4.9	5.2	6.0	6.5	6.6	6.7

Source: RHH



Financials

Profit and Loss statement

Y/E March (Rs mn)	FY08	FY09	FY10E	FY11E
Revenues	6,451	9,341	13,325	15,193
Growth (%)	79.2	44.8	42.7	14.0
EBITDA	1,293	1,714	2,364	2,824
Growth (%)	97.9	32.5	37.9	19.5
Depreciation & amortisation	81	101	146	186
EBIT	1,212	1,614	2,218	2,638
Growth (%)	101.2	33.2	37.5	18.9
Interest	252	625	958	1,102
Other income	686	966	782	740
EBT	1,646	1,954	2,042	2,276
Income taxes	549	620	678	774
Effective tax rate (%)	33.3	31.8	33.2	34.0
Extraordinary items	-	-	-	-
Min into / inc from associates	-	-	-	-
Reported net income	1,098	1,334	1,364	1,503
Adjustments	-	-	-	-
Adjusted net income	1,098	1,334	1,364	1,503
Growth (%)	50.0	21.5	2.3	10.2
Shares outstanding (mn)	27.6	27.6	27.6	27.6
FDEPS (Rs) (adj)	39.8	48.4	49.5	54.5
Growth (%)	74.3	21.5	2.3	10.2
DPS (Rs)	3.0	3.5	4.5	5.0

Cash flow statement

Y/E March (Rs mn)	FY08	FY09	FY10E	FY11E
Net income + Depreciation	1,179	1,434	1,510	1,688
Non-cash adjustments	221	503	(729)	96
Changes in working capital	(1,103)	281	(354)	(24)
Cash flow from operations	297	2,218	427	1,760
Capital expenditure	(2,277)	(4,536)	(843)	(500)
Change in investments	(1,095)	(3,292)	(8,122)	(8,528)
Other investing cash flow	(15)	(1)	-	-
Cash flow from investing	(3,387)	(7,829)	(8,965)	(9,028)
Issue of equity	-	-	(0)	(0)
Issue/repay debt	1,446	5,717	7,828	7,828
Dividends paid	(83)	(97)	(66)	(105)
Other financing cash flow	(1)	-	-	-
Change in cash & cash eq	(1,728)	10	(776)	455
Closing cash & cash eq	2,270	2,280	1,504	1,959

Economic Value Added (EVA) analysis

Y/E March	FY08	FY09	FY10E	FY11E
WACC (%)	11.2	8.3	11.0	11.0
ROIC (%)	12.1	8.8	8.8	8.0
Invested capital (Rs mn)	8,863	16,281	17,332	26,197
EVA (Rs mn)	79	80	(376)	(781)
EVA spread (%)	0.9	0.5	(2.2)	(3.0)

Balance sheet

Y/E March (Rs mn)	FY08	FY09	FY10E	FY11E
Cash and cash eq	2,270	2,280	1,504	1,959
Accounts receivable	1,865	2,811	3,372	3,886
Inventories	6,016	8,478	9,975	9,839
Other current assets	2,918	6,378	8,966	10,071
Investments	34	34	8,156	16,684
Gross fixed assets	1,983	2,898	4,398	5,898
Net fixed assets	1,709	2,519	3,873	5,187
CWIP	2,623	6,157	5,500	4,500
Intangible assets	-	-	-	-
Deferred tax assets, net	(304)	(345)	(345)	(345)
Other assets	33	20	18	17
Total assets	17,165	28,331	41,018	51,797
Accounts payable	509	1,099	1,825	1,873
Other current liabilities	5,524	8,671	12,237	13,648
Provisions	1,015	1,512	825	936
Debt funds	4,317	10,028	17,856	25,684
Other liabilities	13	(0)	29	62
Equity capital	276	276	276	276
Reserves & surplus	5,512	6,746	7,970	9,318
Shareholder's funds	5,788	7,022	8,246	9,593
Total liabilities	17,165	28,331	41,018	51,797
BVPS (Rs)	209.9	254.7	299.1	348.0

Financial ratios

Y/E March	FY08	FY09	FY10E	FY11E
Profitability & Return ratios (%)				
EBITDA margin	20.0	18.4	17.7	18.6
EBIT margin	18.8	17.3	16.6	17.4
Net profit margin	17.0	14.3	10.2	9.9
ROE	26.7	20.8	17.9	16.8
ROCE	14.0	13.0	9.3	7.3
Working Capital & Liquidity ratios				
Receivables (days)	92	91	85	87
Inventory (days)	431	519	462	453
Payables (days)	51	58	73	85
Current ratio (x)	2.2	2.0	1.7	1.7
Quick ratio (x)	0.7	0.5	0.2	0.3
Turnover & Leverage ratios (x)				
Gross asset turnover	3.6	3.8	3.7	3.0
Total asset turnover	0.4	0.4	0.4	0.3
Interest coverage ratio	4.8	2.6	2.3	2.4
Adjusted debt/equity	0.3	0.7	1.3	1.8
Valuation ratios (x)				
EV/Sales	3.8	2.6	1.9	1.6
EV/EBITDA	19.1	14.4	10.4	8.7
P/E	7.6	6.2	6.1	5.5
P/BV	1.4	1.2	1.0	0.9



Quarterly trend

Particulars	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10
Revenue (Rs mn)	2,307	2,843	3,045	3,163	3,195
YoY growth (%)	43.6	54.3	48.3	48.0	38.5
QoQ growth (%)	7.9	23.2	7.1	3.9	1.0
EBITDA (Rs mn)	380	464	528	559	555
EBITDA margin (%)	16.5	16.3	17.3	17.7	17.4
Adj net income (Rs mn)	318	354	372	327	329
YoY growth (%)	19	8	25	(1)	4
QoQ growth (%)	(4)	11	5	(12)	1

DuPont analysis

(%)	FY07	FY08	FY09	FY10E	FY11E
Tax burden (Net income/PBT)	66.0	66.7	68.2	66.8	66.0
Interest burden (PBT/EBIT)	183.9	135.8	121.1	92.1	86.3
EBIT margin (EBIT/Revenues)	16.7	18.8	17.3	16.6	17.4
Asset turnover (Revenues/Avg TA)	35.0	44.7	41.1	38.4	32.7
Leverage (Avg TA/Avg equitiy)	483.5	350.8	355.2	454.2	520.3
Return on equity	34.4	26.7	20.8	17.9	16.8

Company profile

Bharati Shipyard (Bharati) is India's second largest listed private shipbuilder. The company has a total order book of Rs 50.9bn, of which Rs 33.6bn remains to be executed. About 68% of the order book comprises offshore rigs/vessels, with the rest being split between dry bulk, defence and other smaller vessels. The company has five yards across India, including Ratnagiri, Ghodbunder, Goa, Dabhol and Mangalore.

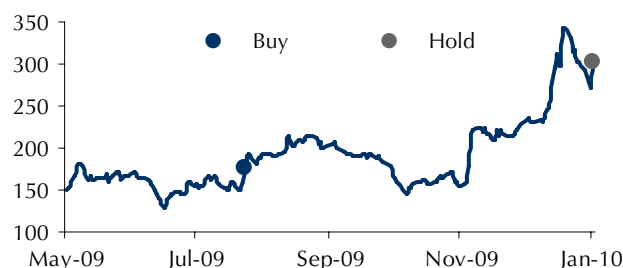
Shareholding pattern

(%)	Jun-09	Sep-09	Dec-09
Promoters	39.0	39.0	39.0
FIs	5.9	6.8	7.5
Banks & FIs	26.7	22.4	15.6
Public	28.4	31.8	37.9

Recommendation history

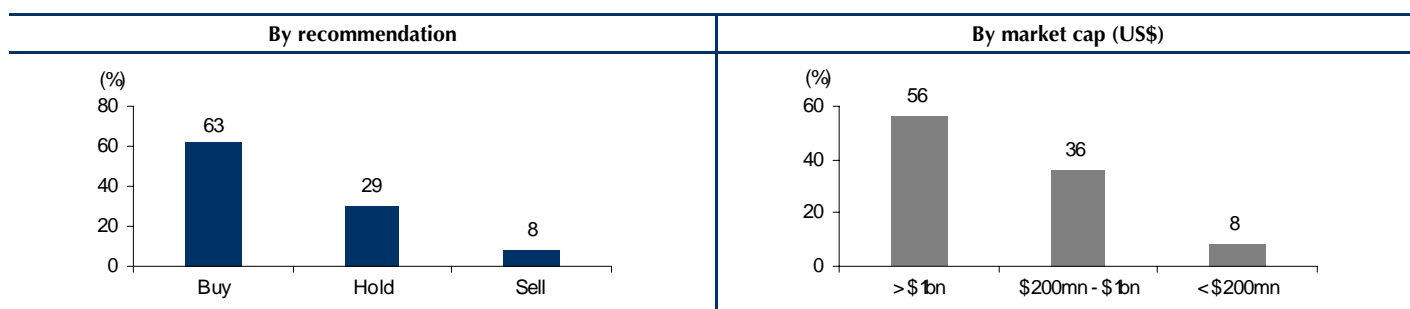
Date	Event	Reco price	Tgt price	Reco
21-Aug-09	Initiating Coverage	177	263	Buy
29-Jan-10	Results Review	302	340	Hold

Stock performance





Coverage Profile



Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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