

Date: May 3, 2010

CMP: Rs. 275

Target Price: Rs. 355

Stock Info

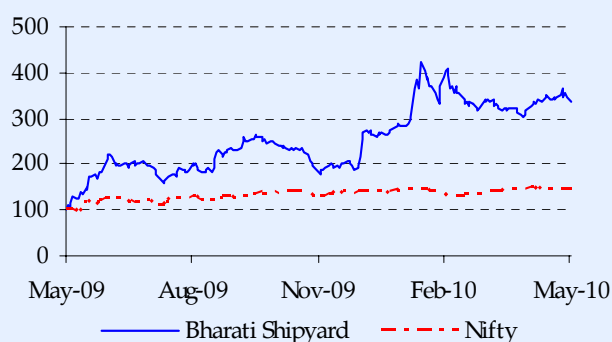
Face Value (Rs)	10
Shares O/S (mn)	28.9
Market Cap (Rs mn)	8876
52-Week Range(H/L)	353/45
1-Year Avg Vol	10,05,000
Nifty	5,225
Bloomberg Code	BHART.IN
Year End	March

(Rs Mn)

Key Financials	FY09	FY10U	FY11E	FY12E
Net Sales	9,349	12,645	14,040	15,443
YoY % change	44.92	35.26	11.03	10.00
Operating Profit	1,719	2,663	2,663	2,952
Net Profit	1336	1388	1108	1309
YoY % change	23.85	3.92	-20.15	18.07
Equity Capital	275.7	289.5	304.0	319.2
EPS	48.4	47.9	36.5	41.0
EBIDTA %	18.4	18.2	19.0	19.1
PAT %	14.3	11.0	7.9	8.5

Key Ratios	FY09	FY10U	FY11E	FY12E
P/E (x)	5.7	7.2	7.9	7.0
P/BV (x)	1.0	1.0	0.9	0.8
EV/Sales (x)	1.6	1.2	1.1	1.0
EV/EBITDA (x)	5.7	5.0	4.3	3.9
ROE (%)	19.8	14.5	11.9	12.3
ROCE (%)	18.6	12.8	11.9	12.5

Relative Price Performance



Grows at a healthy rate of +14% YoY, also took control of Great Offshore limited, order book diminishes

Bharati Shipyards Ltd reported its Q4FY10 net profit at Rs 358 million (+1 % YoY and -9 % QoQ) ~20 % higher than what we had estimated. This was primarily on account of booking of higher subsidy in the quarter of Rs 250 mn (post tax of Rs 167 mn which is almost 50% of PAT). Revenues have increased at Rs 3,242 million (+14 % QoQ and +2% YoY). No orders were received in the quarter while the company has upped its stake in Great Offshore Ltd (GOL) to 49.5% and have also got management control of GOL. Diminishing unexecuted order book is a concern which is down to Rs 2560 crores from Rs 3360 crores YoY reducing revenue visibility.

Financial Highlights:

Revenues - Company has reported revenue of Rs 3242 million for the quarter, +14% YoY revenue at Rs 2843 million.

EBIDTA - It reported an EBIDTA of Rs 549 million for the quarter translating into an ebidta margin of 17%

Subsidy - Company has booked a subsidy of Rs 250 million in the quarter. Till date the company has booked a cumulative subsidy of Rs 3360 million.

Other highlights:

BSL gains management control of GOL

Bharati today owns 49.5% stake in Great Offshore limited (GOL) and has 2 executive directors (amongst 3) on the board of GOL suggesting control on the management and affairs of GOL.

Orders from GOL to benefit BSL, but margins may be impacted

GOL which is looking forward to expand its operations would raise Rs 1800 crores in near term through a mix of debt and equity for purchase of more assets. We reckon the entire orders from GOL to flow to Bharati which would be to the tune of Rs 500 - 1000 crores per year for the next 3 to 4 years. Two implication of the above flow on Bharati: 1. Order book to improve in times when orders are tough to come and 2. Margins of Bharati (ex subsidy ebidta of 19%) may be impacted by 4 to 5% if these orders are be accepted by Bharati without any profit margins.

Diminishing order book - we estimate order book to grow at 10 % to 20% per annum in FY11E and FY12.E

BSL has not been receiving new orders for almost 7 quarters now. The unexecuted order book has fallen from Rs 3360 Q4FY09 to Rs 2500 crores in Q4FY10 (FY10U sales to order book of 2x). The last delivery from the present order book is scheduled for mid CY12. We expect 10% growth in order book in FY11E and FY12E with orders flowing primarily from GOL

Allotment of preferential warrants to promoters

There was a dilution of 5% (13,70,000 equity shares) in the equity capital in the current quarter due to conversion of preferential warrants issued to the promoters at Rs 80/share. The company mentioned in the concall that two another similar dilutions would take place in FY11E and FY12E increasing the stake of promoters in BSL from 46% in FY09 to 61% in FY12E. This would also help the company in deleveraging.

Capex for FY11E and FY12E – minimal capex

Bharati would be spending around Rs 100 to Rs 200 crores in FY11E and FY12E as capex mainly for ramping up Dabhol and Mangalore facility. We envisage no major capex in near term.

Huge debt in the books – highly leverage.

The parent has huge debt of Rs 2000 crores and cash of Rs 200 crores on its balance sheet which is equal to net debt to equity of 2x and interest outgo of Rs 160 to 200 crores per annum. With minimum capex, profitability of BSL would be towards deleveraging.

Valuation – revising TP to Rs 355 based on FY12E

We believe BSL would benefit from the flow of orders from GOL that would enable BSL to grow at CAGR of 20 to 25 % for the next 3 to 4 years. This order flow would at a time when orders are tough to come by for all the shipbuilders.

We are valuing BSL's core business at 1 x FY12E P/B in line with our view that the shipbuilding market will remain subdued in CY10E and CY11E. At our target price it would trade at a P/E of 9, EV/EBIDTA of 4.5x and P/B of 1x FY12E. We reiterate **BUY** rating

Receipt of accumulated subsidy and flow of fresh orders would act as valuation support and would provide upside for the stock

Quarterly Snapshot

Rs Mn	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10	FY10U	FY11E	FY12E
Sales(Excluding Subsidy)	2,843	3,045	3,164	3,194	3,242	12,645	14,040	15,443
QOQ % Growth	23.29	7.11	3.91	0.95	1.51			
YOY % Growth	54.26	48.25	47.99	38.51	14.04	35.26	11.03	10.00
Raw material	1,468	1,668	1,751	1,791	1,829	7,039	8,043	8,743
Employee	415	407	391	395	409	1602	1599	1795
Other Expenses	469	407	426	414	455	1702	1734	1953
Operating Expenditure	2,352	2,482	2,568	2,600	2,693	10,343	11,376	12,492
EBIDTA	491	563	596	594	549	2302	2663	2952
EBIDTA %	17.27	18.49	18.84	18.60	16.94	18.21	18.97	19.11
Depreciation	27	35	37	39	44	155	230	258
EBIT	464	528	559	555	505	2147	2434	2693
Interest	227	241	236	230	240	947	1647	1692
Other Income (Includes Subsidy)	224	253	172	175	276	876	867	952
Subsidy for the Qtr/Yr	223	249	169	168	250	836	842	927
Cumulative subsidy	2,528	2,777	2,946	3,114	3,364	3,364	4,207	5,133
PBT	461	540	495	500	541	2076	1654	1953
Taxation	107	167	168	170	183	688	546	645
Effective tax rate %	23.21	30.93	33.94	34.00	33.82	33.14	33.00	33.00
PAT	354	373	327	330	358	1388	1108	1309
PAT %	12.45	12.25	10.34	10.33	11.05	10.98	7.89	8.47
Equity Capital (diluted)	320.4	275.6	275.6	275.6	289.3	289.3	303.8	319.0
EPS	11.0	13.5	11.9	12.0	12.4	48.0	36.5	41.0
Total order book	50,937	50,655	50,655	49,874	50,760	50,760		
Order book pending execution	33,638	31,065	27,943	24,717	25,602	25,602	29,442	33,859

Source: SBICAP Securities Research

Recent Reports

Date	Company Name	Recommendation	Recommended Price	Target Price
22-Apr-10	Steel Authority of India Ltd	Buy	226	264
1-Apr-10	Pipavav Shipyard Ltd	Sell	73	50
28-Mar-10	Aban Offshore Limited (Update)	Buy	1,200	1,410
23-Mar-10	GE Shipping Co (Update)	Buy	285	330
22-Mar-10	Camson Bio Technologies Ltd	Buy	134	280
22-Mar-10	Deccan Chronicle Holdings Limited (Update)	Buy	173	215
22-Feb-10	Sadbhav Engineering Ltd	Buy	1,170	1,568
20-Feb-10	Aban Offshore Limited	Buy	1,190	1,410
6-Feb-10	Bharati Shipyard Ltd (Update)	Buy	297	530
6-Feb-10	ABG Shipyard Ltd (Update)	Sell	310	265
2-Feb-10	Himadri Chemicals and Industries Ltd	Buy	400	520
25-Jan-10	Paint Sector Initiating Coverage			
	Kansai Nerolac Paints Limited	Buy	1,061	1,476
	Berger Paints India Limited	Buy	58	70
20-Jan-10	Deccan Chronicle Holding Ltd	Buy	162	215
18-Dec-09	Jindal Steel & Power Ltd	Buy	707	815
4-Dec-09	Aries Agro Ltd	Buy	65	125
23-Oct-09	Container Corporation of India	Marketperform	1,110	1,130
21-Oct-09	Vinati Organics Ltd	Buy	253	375
25-Sept-09	Lupin Ltd	Outperform	1,133	1,280
22-Sept-09	Bajaj Hindusthan (<i>Earnings Upgrade</i>)	Buy	180	300
14-Sept-09	Yes Bank	Buy	175	239
28-Aug-09	Power Transmission Sector Report			
	Jyoti Structures Ltd	Buy	146	223
	KEC International Ltd	Buy	537	692
	Kalpataru Power Transmission Ltd	Sell	853	820
5-Aug-09	Balrampur Chini Mills Limited	Buy	126	149
23-July-09	Bajaj Hindusthan Limited	Buy	171	235
4-July-09	Triveni Engineering Industries Limited	Buy	99	121
1-Jun-09	Colgate Palmolive India Ltd (Update)	Buy	475	624
28-May-09	Godrej Consumer Products Ltd (Update)	Outperform	176	195
26-May-09	Oracle Financial Services Software Ltd (Update)	Outperform	1,079	1,200
20-May-09	Godrej Consumer Products Ltd (Update)	Marketperform	160	-
18-May-09	Infosys Technologies (Update)	Marketperform	1,750	-
14-May-09	ABG Shipyard Ltd (Update)	Buy	145	265
27-Apr-09	Hindustan Unilever Ltd	Marketperform	231	-
17-Apr-09	GlaxoSmithKline Pharmaceuticals Ltd	Outperform	1,099	1,200

Key to investment Ratings: Guide to the expected return relative to market over the next 12 months. 1=Buy (expected to outperform the market by 15 or more percentage points); 2=Outperform (expected to outperform the market by 5-15 percentage points); 3=Marketperform (expected to perform in line with the market); 4=Underperform (expected to underperform the market by 5-15 percentage points); 5=Sell (expected to underperform the market by 15 or more percentage points)

SBICAP Securities Limited

Corporate Office: 191, Maker Tower 'F', Cuffe Parade, Mumbai 400005. Tel.: 91-22-30273301 Fax: (022) 30273420

Web: www.sbicapsec.com

Name	Designation	Phone	E-mail
Equity Research		(022) 30273301	sbicapresearch@sbicapsec.com
Anil Advani	Head (Institutional Research)	(022) 30273339	anil.advani@sbicapsec.com
Institutional Sales		(022) 22160112	
Ajit Thakkar	Head (Institutional Sales)	(022) 30273302	ajit.thakkar@sbicapsec.com
Ankur Kaul	Manager (Institutional Sales)	(022) 3027 3356	ankur.kaul@sbicapsec.com
Institutional Dealing		(022) 22165247	
Cash Market		(022) 22160112	
Derivatives		(022) 22160014	

DISCLAIMER

SBICAP Securities Limited is a full service, Stock Broking Company and is a member of Bombay Stock Exchange Ltd. (BSE) and National Stock Exchange of India Ltd. (NSE). It is a wholly owned subsidiary of SBI Capital Markets Ltd. (SBICAP), which is an integrated investment banker. SBICAP also is an underwriter of securities. ("SBICAP and SBICAP Securities Ltd. are collectively referred to as SBICAP Group") SBICAP has Investment Banking, Advisory and other business relationships with a significant percentage of the companies covered by our Research Group. Our research professionals provide important inputs into our Investment Banking and other business selection processes. Recipients of this report should assume that SBICAP Group is seeking or may seek or will seek Investment Banking, advisory, project finance or other businesses and may receive commission, brokerage, fees or other compensation from the company or companies that are the subject of this material/ report. SBICAP group and its officers, directors and employees, including the analysts and others involved in the preparation or issuance of this material and their dependant, may on the date of this report or from, time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. Our sales people, dealers, traders and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinion that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. SBICAP Group may have earlier issued or may issue in future reports on the companies covered herein with recommendations/ information inconsistent or different from those made in this report. In reviewing this document, you should be aware that any or all of the foregoing, among other things, may give rise to potential conflicts of interest. SBICAP Group may rely on information barriers, such as "Chinese Walls" to control the flow of information contained in one or more areas within SBICAP Group into other areas, units, groups or affiliates of SBICAP Group.

The projections and forecasts describe in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. Projections and forecasts are necessarily speculative in nature, and it can be expected that one or more of the estimates on which the projections and forecasts were based will not materialize or will vary significantly from actual results, and such variances will likely increase over time. All projections and forecasts described in this report have been prepared solely by the authors of this report independently of the Bank. These projections and forecasts were not prepared with a view toward compliance with published guidelines or generally accepted accounting principles. No independent accountants have expressed an opinion or any other form of assurance on these projections or forecasts. You should not regard the inclusion of the projections and forecasts described herein as a representation or warranty by or on behalf of the Bank, SBICAP, the authors of this report or any other person that these projections or forecasts or their underlying assumptions will be achieved. For these reasons, you should only consider the projections and forecasts described in this report after carefully evaluating all of the information in this report, including the assumption underlying such projections and forecasts.

This report is for information purposes only and this document/ material should not be construed as an offer to sell or the solicitation of an offer to buy, purchase or subscribe to any securities, and neither this document nor anything contained herein shall form the basis of or be relied upon in connection with any contract or commitment whatsoever. This document does not solicit any action based on the material contained herein. It is for the general information of the clients of SBICAP Group. Though disseminated to clients simultaneously, not all clients may receive this report at the same time. SBICAP Group will not treat recipients as clients by virtue of their receiving this report. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Similarly, this document does not have regard to the specific investment objectives, financial situation/ circumstances and the particular needs of any specific person who may receive this document. The securities discussed in this report may not be sui for all the investors. The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Persons who may receive this document should consider and independently evaluate whether it is sui for his/ her/ their particular circumstances and, if necessary, seek professional/ financial advice. Any such person shall be responsible for conducting his/ her/ their own investigation and analysis of the information contained or referred to in this document and of evaluating the merits and risks involved in the securities forming the subject matter of this document. The price and value of the investments referred to in this document/ material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance. Future returns are not guaranteed and a loss of original capital may occur. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. SBICAP Group does not provide tax advice to its clients, and all investors are strongly advised to consult regarding any potential investment. SBICAP Group and its affiliates accept no liabilities for any loss or damage of any kind arising out of the use of this report. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk. Certain transactions including those involving futures, options, and other derivatives as well as non-investment grade securities give rise to substantial risk and are not sui for all investors. Please ensure that you have read and understood the current risk disclosure documents before entering into any derivative transactions.

This report/ document has been prepared by the SBICAP Group based upon information available to the public and sources, believed to be reliable. Though utmost care has been taken to ensure its accuracy, no representation or warranty, express or implied is made that it is accurate or complete. SBICAP Group has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed. SBICAP Group endeavors to update on a reasonable basis the information discussed in this document/ material, but regulatory, compliance or other reasons may prevent us from doing so. The opinions expressed in this document/ material are subject to change without notice and have no obligation to tell the clients when opinions or information in this report change.

This report or recommendations or information contained herein do/ does not constitute or purport to constitute investment advice in publicly accessible media and should not be reproduced, transmitted or published by the recipient. The report is for the use and consumption of the recipient only. This publication may not be distributed to the public used by the public media without the express written consent of SBICAP Group. This report or any portion hereof may not be printed, sold or distributed without the written consent of SBICAP Group. Neither this document nor any copy of it may be taken, transmitted or sent into the United States, Canada, Japan or to any U.S. persons or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions. Failure to comply with this restriction may constitute a violation of U.S., Canada or Japanese securities laws. Neither SBICAP Group nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information.