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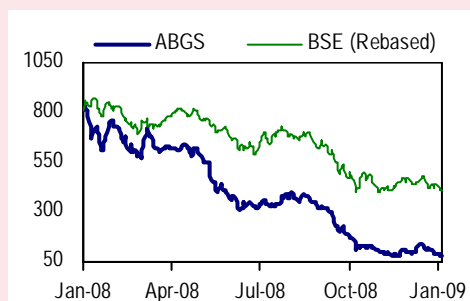
STOCK DATA

Market Cap	Rs4bn.
Book Value per share	Rs144
Eq Shares O/S (F.V. Rs.10)	50.9mn.
Median Vol (12 mths)	62,935 (BSE+NSE)
52 Week High/Low	Rs850/73
Bloomberg Code	ABGS@IN
Reuters Code	ABGS.BO

STOCK PERFORMANCE (%)

	1M	3M	12M
Absolute	(20.5)	(53.5)	(90.7)
Relative	(11.3)	(47.6)	(81.5)

STOCK PRICE PERFORMANCE



ABG Shipyard Ltd's (ABG) Q3FY09 results were above our expectations as net revenues (excl. subsidy) surged by 84% to Rs4.8bn against our estimate of Rs3.5bn. OPM declined by 250bps to 22.6%. Higher interest expense affected net profits which declined by 2.3% to Rs460mn as against our estimate of Rs360mn.

● **Revenues surge on back of rig revenues**

Revenues galloped by 84% on back of incremental revenues being booked from the 2 jack up rigs which ABG is executing for *Essar Oilfields*. The rig revenues booked during the quarter were to the tune of Rs1.6bn.

● **Net profit decline on back of higher interest charges**

OPM contracted by 250bps to 22.6% on account of higher input costs. Higher interest expense due to term loan taken to finance the greenfield rigyard expansion led to net profits declining by 2.3% to Rs460mn.

● **Order backlog robust, though order inflows dry up**

ABG has an order backlog of Rs11.4bn consisting of 96 vessels and two rigs executable over the next 3 years. Till date there have been no cancellation of orders despite the bleak macro environment. ABG booked orders for two jack up rigs during the quarter.

● **Capacity expansion**

ABG's greenfield ship yard at Dahej (1.4mn dwt) is already operational while the rig yard commenced commercial operations during the quarter and should scale up by end FY09. The brownfield expansion at its flagship facility in Surat (clubbing it with Vipul Shipyard, which it acquired) should be completed by end FY09 and this should expand its capacity by ~40% to 0.9mn dwt.

VALUATIONS AND RECOMMENDATION

The present macro scenario is bleak with erosion in demand for ship yards following a cyclical downturn in the shipping industry. However, ABG has not faced any cancellations or delays till date. In addition, since a substantial part of ABG's order backlog caters to the offshore industry, which has not seen such a steep fall as in case of shipping, it remains relatively insulated. We have factored in order postponements and cancellations in its bulk order book in our earnings estimate for FY10 & FY11.

At the CMP of Rs73, ABG trades at a P/E & P/BV of 2x and 0.3x its FY10E earnings. Based on stable quarterly performance & revenue visibility, we maintain our 'BUY' recommendation with a revised price target of Rs102 based on a P/BV of 0.4x, a substantial discount to its global peers.

KEY FINANCIALS (CONSOLIDATED)

Rs mn	Yr Ended (March)				
	2007	2008	2009E	2010E	2011E
Net Sales	6,242	8,851	13,783	20,157	23,718
YoY Gr. (%)	33.2	41.8	55.7	46.3	17.7
Op. Profits	1,134	2,100	3,432	4,672	5,069
Op. Marg. (%)	18.2	23.7	24.9	23.2	21.4
Net Profits	1,163	1,607	1,493	2,024	2,159
Eq Capital	509	509	549	549	549

KEY RATIOS

	Yr Ended (March)				
	2007	2008	2009E	2010E	2011E
Dil. EPS (Rs)	21.2	29.3	27.2	36.8	39.3
ROCE (%)	25.3	29.0	23.3	18.0	15.1
RONW (%)	21.7	24.3	18.2	17.7	14.6
P/E (x)	3.2	2.3	2.7	2.0	1.9
EV/Sales (x)	0.7	0.9	1.3	1.1	0.9
EV/EBDIT (x)	2.1	2.8	4.7	4.3	3.8

Estimate Changes

Rs mn	FY09			FY10		
	Previous	Revised	% Ch.	Previous	Revised	% Ch.
Net Sales	12,200	13,783	13.0	24,666	20,157	(22.4)
Op. Profit	3,149	3,432	9.0	6,434	4,672	(37.7)
Net Profit	1,456	1,493	2.5	3,068	2,024	(51.6)
Diluted EPS	26.5	27.2	2.6	55.9	36.8	(51.9)

Financial Results for the quarter & nine months ended 31 December 2008

Particulars (Rs mn)	Quarter Ended			Nine Months Ended			Year Ended
	31/12/08	31/12/07	Gr %	31/12/08	31/12/07	Gr %	31/03/08
Net Sales	4,764	2,584	84.4	10,163	6,446	57.7	8,851
Total Expenditure	3,688	1,934	90.7	7,603	4,973	52.9	6,751
(Inc.) / Dec. Stock-in-trade	(660)	(82)		(4,263)	(294)		(1,500)
Materials Consumed	3,674	1,633	125.0	10,342	4,421	133.9	6,854
Staff Cost	80	67	18.8	223	156	43.2	261
Other expenditure	594	316	88.0	1,300	690	88.3	1,137
Operating profit	1,076	650	65.6	2,560	1,472	73.9	2,100
Other Income	170	186	(8)	378	510	(26)	891
PBIDT	1,247	836	49.2	2,938	1,983	48.2	2,991
Interest	513	99	417.2	1,029	268	283.2	457
Depreciation	31	20	55.5	80	54	48.5	74
PBT & extra-ordinary items	703	717	(1.9)	1,829	1,660	10.2	2,460
Etx. Ord. Expenses	-	-		-	-		(30)
Provision for current tax	74	81		201	197		279
Provision for deferred tax	166	162		430	395		595
FBT	3	2		6	4		9
Net Profits	460	471	(2.3)	1,191	1,064	11.9	1,607
Equity Capital (F.V Rs 10)	509	509		509	509		509
Reserves (excl. reval. reserves)	-	-		-	-		6,341
EPS for the period (Rs)	9.0	9.3		23.4	20.9		31.6
Book Value (Rs)	-	-		-	-		144
OPM (%)	22.6	25.1		25.2	22.8		23.7
NPM (%)	9.7	18.2		11.7	16.5		18.2
Expenditure (% of Net Sales)							
Raw materials (incl. stock adj.)	63.3	60.0		59.8	64.0		60.5
Staff Cost	1.7	2.6		2.2	2.4		2.9
Other expenses	12.5	12.2		12.8	10.7		12.8

Income Statement	2006	2007	2008	2009E	2010E	2011E
Revenues	4,687	6,242	8,851	13,783	20,157	23,718
<i>Growth (%)</i>	<i>44.0</i>	<i>33.2</i>	<i>41.8</i>	<i>55.7</i>	<i>46.3</i>	<i>17.7</i>
Total Expenditure	4,023	5,108	6,751	10,351	15,486	18,649
Operating Profit	664	1,134	2,100	3,432	4,672	5,069
<i>Growth (%)</i>	<i>61.8</i>	<i>70.8</i>	<i>85.1</i>	<i>63.4</i>	<i>36.1</i>	<i>8.5</i>
Interest & dividend income	61	54	74	203	114	85
Subsidy	745	819	817	265	310	345
EBIDT	1,471	2,008	2,991	3,900	5,096	5,499
(-) Interest	167	267	457	1,550	1,900	1,950
(-) Depreciation	36	60	74	117	225	325
PBT & extraordinary items	1,267	1,682	2,460	2,233	2,971	3,224
(-) Tax provision	505	618	883	740	947	1065
(-) Extra Ordinary items	(75)	(100)	(30)	-	-	-
Net Profits	837	1,163	1,607	1,493	2,024	2,159
<i>Growth (%)</i>	<i>87.1</i>	<i>38.9</i>	<i>38.2</i>	<i>(7.1)</i>	<i>35.6</i>	<i>6.7</i>
Fully diluted Eq. sh. O/s (mn no)	50.9	50.9	50.9	54.9	54.9	54.9
Book Value (Rs)	95	115	144	165	251	288
Basic EPS (Rs)	16.4	22.8	31.6	27.2	36.8	39.3
Diluted EPS (Rs)	15.2	21.2	29.3	27.2	36.8	39.3

Balance Sheet	2006	2007	2008	2009E	2010E	2011E
<i>Equity Share Capital</i>	509	509	509	549	549	549
<i>Reserves & Surplus</i>	4,315	5,369	6,835	8,525	13,262	15,279
Net worth	4,824	5,878	7,345	9,075	13,811	15,828
Total Debt	997	4,096	5,541	15,415	18,365	17,659
Deferred Tax liability	667	1,080	1,675	2,125	2,600	3,015
Capital Employed	6,489	11,055	14,561	26,614	34,776	36,503
Fixed Assets	1,560	2,963	5,856	8,693	14,643	14,711
Net current assets	4,928	8,092	8,647	17,921	20,133	21,791
Investments	-	-	58	-	-	-
Total Assets	6,489	11,055	14,561	26,615	34,776	36,503

Cash Flow Statement	2006	2007	2008	2009E	2010E	2011E
PBT & extra-ordinary items	1,267	1,682	2,460	2,233	2,971	3,224
Depreciation	36	60	74	117	225	325
Interest & dividend inc.	(5)	-	-	(203)	(114)	(85)
Interest paid	167	250	415	1,550	1,900	1,950
Misc Exp W/off	-	-	39	(17)	(15)	550
Tax paid	(75)	(120)	(125)	(290)	(472)	(650)
(Inc/Dec in working capital	1	(5,845)	(1,227)	(9,169)	(2,617)	(1,586)
Profit/Loss on sale of FA	-	(2)	-	-	-	-
Exchange differences	2	17	-	-	-	-
Cash from operations	1,392	(3,958)	1,636	(5,779)	1,877	3,727
Net capital expenditure	(618)	(1,480)	(2,991)	(2,954)	(6,175)	(935)
Net investments	-	-	(48)	58	-	-
Interest recd	5	-	-	203	114	85
Cash from investing activities	(613)	(1,480)	(3,039)	(2,693)	(6,061)	(850)
Issue of eq. shares	2,534	-	319	354	2,828	-
Change in debt	420	3,096	1,049	9,874	2,950	(705)
Dividend paid	-	(70)	(89)	(100)	(100)	(150)
Interest paid	(167)	(240)	(410)	(1,550)	(1,900)	(1,950)
Cash from financing activities	2,787	2,787	869	8,578	3,778	(2,805)
Inc/Dec. in cash	3,566	(2,651)	(534)	106	(406)	72

Key Ratios	2006	2007	2008	2009E	2010E	2011E
OPM (%)	14.2	18.2	23.7	24.9	23.2	21.4
ROACE (%)	23.3	25.3	29.0	23.3	18.0	15.1
ROANW (%)	17.5	21.7	24.3	18.2	17.7	14.6
Sales/Total Assets (x)	0.7	0.6	0.6	0.5	0.6	0.6
Debt:Equity (x)	0.2	0.7	0.8	1.7	1.3	1.1
Current Ratio (x)	2.3	2.5	1.5	1.9	1.7	1.6
Debtors (days)	4.7	4.7	3.4	3.4	3.8	5.8
Inventory (days)	201.4	375.0	662.7	861.4	747.2	748.3
Net working capital (days)	378.5	466.7	351.7	468.1	359.6	330.8
EV/Sales (x)	0.2	0.7	0.9	1.3	1.1	0.9
EV/EBIDT (x)	0.7	2.1	2.8	4.7	4.3	3.8
P/E (x)	4.4	3.2	2.3	2.7	2.0	1.9
P/BV (x)	0.8	0.6	0.5	0.4	0.3	0.3

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