

June 11, 2008

Rating	Outperformer
Price	Rs416
Target Price	Rs554
Implied Upside	33.1%
Sensex	15,185

(Prices as on June 11, 2008)

Trading Data

Market Cap. (Rs bn)	21.2
Shares o/s (m)	50.9
Free Float	43.1%
3M Avg. Daily Vol ('000)	54.7
3M Avg. Daily Value (Rs m)	32.3

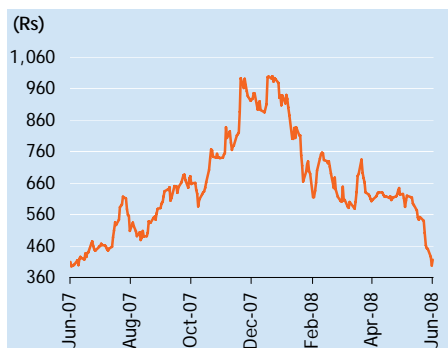
Major Shareholders

Promoters	56.9%
Foreign	13.2%
Domestic Inst.	22.2%
Public & Others	7.7%

Stock Performance

(%)	1M	6M	12M
Absolute	(33.1)	(55.0)	1.8
Relative	(23.8)	(29.8)	(6.1)

Price Performance (RIC: ABGS.BO, BB: ABGS IN)



Source: Bloomberg

■ **Results:** ABG Shipyard reported YoY Q4FY08 topline growth, net of subsidy of Rs2,407m, of 37.9%, 7.8% below our expectations. Subsidy booking stood at Rs360m for the quarter and Rs816m for FY08. Operating margin was broadly in line with expectations at 22.7% for the quarter. For FY08, the company reported topline growth of 41.6% to Rs8,852m and operating margin of 23.7%.

■ **High interest cost:** ABG's reported PAT of Rs461m for Q4FY08 was 10% below our expectation due to prohibitive interest cost of Rs189m as against Rs99m in Q3FY08. The management explains that it has taken debt of Rs3bn for a period of three months in order to stock up inventory for orders in pipeline.

■ **Reducing estimates:** On account of slower order execution, we are reducing our topline estimates by 9.2% and 5.9% for FY09 and FY10 respectively. We are also revising our EBIDTA margin downwards by 30bps and 50bps for FY09 and FY10 respectively on account of increase in steel costs, which has not been hedged fully. Besides, the company's plans to raise further equity has been postponed on account of the sharp fall in stock prices, which may lead to higher borrowings, resulting in higher interest costs. We have thereby revised out PAT estimates downwards by 10.4% and 8.1% for FY09 and FY10 respectively.

■ **Valuation:** The company currently trades at 9.0x FY09 and 5.1x FY10E. We expect the company's earnings to grow at 66.3% CAGR over FY09 and FY10. Based on revised market valuations, we are reducing our price target. We expect the stock to trade at 12x FY09 earnings inclusive of subsidy and 15x FY09 earnings excluding subsidy. Our revised target price stands at Rs554. We maintain Outperformer rating on the stock.

Key financials (Y/e March)	FY07	FY08	FY09E	FY10E
Revenue (Rs m)	6,242	8,852	15,430	28,967
Growth (%)	33.2	41.8	74.3	87.7
EBITDA (Rs m)	1,134	2,101	3,425	6,025
PAT (Rs m)	1,163	1,607	2,534	4,441
EPS (Rs)	22.8	31.6	46.1	80.9
Growth (%)	38.9	38.2	46.2	75.3
Net DPS (Rs)	1.5	2.0	2.5	3.5

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08	FY09E	FY10E
EBITDA margin (%)	18.2	23.7	22.2	20.8
RoE (%)	24.1	26.3	26.5	31.0
RoCE (%)	15.4	14.8	15.2	17.0
EV / sales (x)	4.0	3.1	2.4	1.4
EV / EBITDA (x)	22.0	13.1	10.8	6.6
PE (x)	18.2	13.2	9.0	5.1
P / BV (x)	4.0	3.3	1.9	1.4
Net dividend yield (%)	0.4	0.5	0.6	0.8

Source: Company Data; PL Research

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Q4FY08 result overview

(Rs m)

Y/e March	Q4FY08	Q4FY07	YoY gr. (%)	Q3FY08	FY07	FY08	YoY gr. (%)
Net sales	2,407	1,746	37.9	2,584	6,242	8,852	41.8
Expenditure							
Raw material, mfg. & others	1,723	1,397	23.3	1,867	4,951	6,459	30.4
<i>% of net sales</i>	<i>71.6</i>	<i>80.1</i>		<i>72.3</i>	<i>79.3</i>	<i>73.0</i>	
Personnel cost	137	36	276.9	67	156	293	87.3
<i>% of net sales</i>	<i>5.7</i>	<i>2.1</i>		<i>2.6</i>	<i>2.5</i>	<i>3.3</i>	
Total expenditure	1,860	1,434	29.7	1,934	5,108	6,752	32.2
EBITDA	547	312	75.3	650	1,134	2,101	85.2
<i>Margin (%)</i>	<i>22.7</i>	<i>17.9</i>		<i>25.1</i>	<i>18.2</i>	<i>23.7</i>	
Other income	20	29	(32.0)	20	54	74	36.5
Depreciation	20	17	19.5	20	60	74	24.1
Subsidy	360	185		166	819	816	
EBIT	906	509	78.0	816	1,948	2,917	49.7
Interest	189	93	103.6	99	267	457	71.3
PBT	717	416	72.3	717	1,682	2,460	46.3
Total tax	257	86	197.3	245	518	853	64.5
<i>% PBT</i>	<i>35.8</i>	<i>20.8</i>		<i>34.2</i>	<i>30.8</i>	<i>34.7</i>	
Recurring PAT	461	330	39.6	471	1,163	1,607	38.2



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PL's Recommendation Nomenclature

BUY	: > 15% Outperformance to BSE Sensex	Outperformer (OP)	: 5 to 15% Outperformance to Sensex
Market Performer (MP)	: -5 to 5% of Sensex Movement	Underperformer (UP)	: -5 to -15% of Underperformance to Sensex
Sell	: <-15% Relative to Sensex		
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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