



Between the Lines

Daily Corporate News Analysis

April 17th 2008

Bharat Shipyard Ltd Q3FY08 Result Update

Key Data

CMP	Rs 510
Date	April 17 th 2008
Sector	Ship building/ Breaking
Face Value	Rs.10
BSE Code	532609
52 Week H/L	Rs 865/ 349
Market Cap	Rs 1406 Cr

Investment Rationale

The current order book of Bharati Shipyard (BSL) is Rs 4,639 crore to be executable by FY2010. The order book to sales ratio stands at 10.9x FY07 revenues and 9.4x TTM revenues giving a clear visibility of revenues in the years to come. 67% of the order book of BSL comprises of exports and the balance 33% is domestic. More than 70% of the orders are for offshore support vessels, multipurpose vessels, platform supply vessels etc. BSL's Mangalore yard will have a capacity to build vessels up to 60,000 DWT (Dead Weight Tonnage). The yard will focus more on specialized ships like tankers, bulk carriers, container ships, chemical carriers, product carriers etc. The machinery from the acquired Swan Hunter Shipyard would be transferred to Mangalore. The Mangalore yard is expected to commence shipbuilding operations by Dec 2008. With the initial focus on building rigs and dry bulk carriers, BSL can achieve faster capacity utilization and enhance the profitability in the upward shipbuilding boom. The company's operating margins range from 19 to 21% (excluding subsidy) on a yearly basis. Going forward, we expect BSL to sustain the margins. This is due to the company's policy of covering raw material purchases on a back to back basis (so as to hedge against any volatility in the prices of raw materials like steel).

Key Developments

BSL's first rig to be built at Dabhol Rigyard

BSL is the only rig manufacturer in the country. The construction of various parts of rig is already in progress at the company's Dabhol Shipyard and the other yards. This fabrication is being carried out at various yards and the fabricated parts will be transported to Dabhol where the Rig will be erected. Dabhol has a very good natural draft of water which makes rig construction easier and more efficient compared to the other yards. The rig will be delivered to Great Offshore in Dec-08.



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Financial Performance

Revenue up by 81 percent to Rs 159 crore

BSL's order book stands at Rs 4639 crore. The company has booked a subsidy of Rs 15.58 crore in Q3FY08, which resulted in an increase in revenue by 81 percent to Rs 159 crore. The company had bagged 2 orders from Opielok Bereederungs GMBH & Co. KG., Hamburg, Germany. The total price of each vessel is USD 26.50 million.

Valuations

At current market price of Rs 510, Bharati Shipyard is quoting at a PER of 14x. On EV/Sales and on EV/EBIDTA basis it is quoting at 4.31x and 14.85x of its TTM earnings respectively.



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