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FIRST GLOBAL

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India Research

Sector: Oil & Gas and Petrochemicals

Reinitiating Coverage

Aban Offshore Ltd. *(ABANPP.IN/ABAN.BO)*

Outperform/Trading Buy *(CMP: Rs.958, Mkt. Cap.: Rs.36.2 bn, $0.8bn June 02,'09)*
Relevant Index: S&P CNX Nifty: 4,525.2(June 02,'09)

Rebound in oil prices improve outlook for the offshore sector

Better liquidity conditions mean that refinancing debt through equity, eminently more likely now

Last report's recommendation: Outperform: (MP: Rs 3,653.9, May 09, '08)
Relevant Index: (NIFTY: 4,982.6, May 09, '08)
Relative Performance since Last Rating Change: NIFTY: Down 9.2%, Aban: Down 73.8%

June 03, 2009

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Research Contact: *Associate Director, Research: Hitesh Kuvelkar Mob. +91 9833 732633*
Email: hiteshk@fglobal.com

Sales Offices: *India Sales: Tel. No: +91-22-400 12 440 Email: indiasales@fglobal.com*
fgindiasales@bloomberg.net
US Sales: Tel. No: 1-212-227 6611 Email: us@fglobal.com
Asia & Europe Sales: Tel.: 44-207-959 5300 Email: uk@fglobal.com

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IMPORTANT DISCLOSURES CAN BE FOUND AT THE END OF THIS REPORT

Price and Rating History Chart

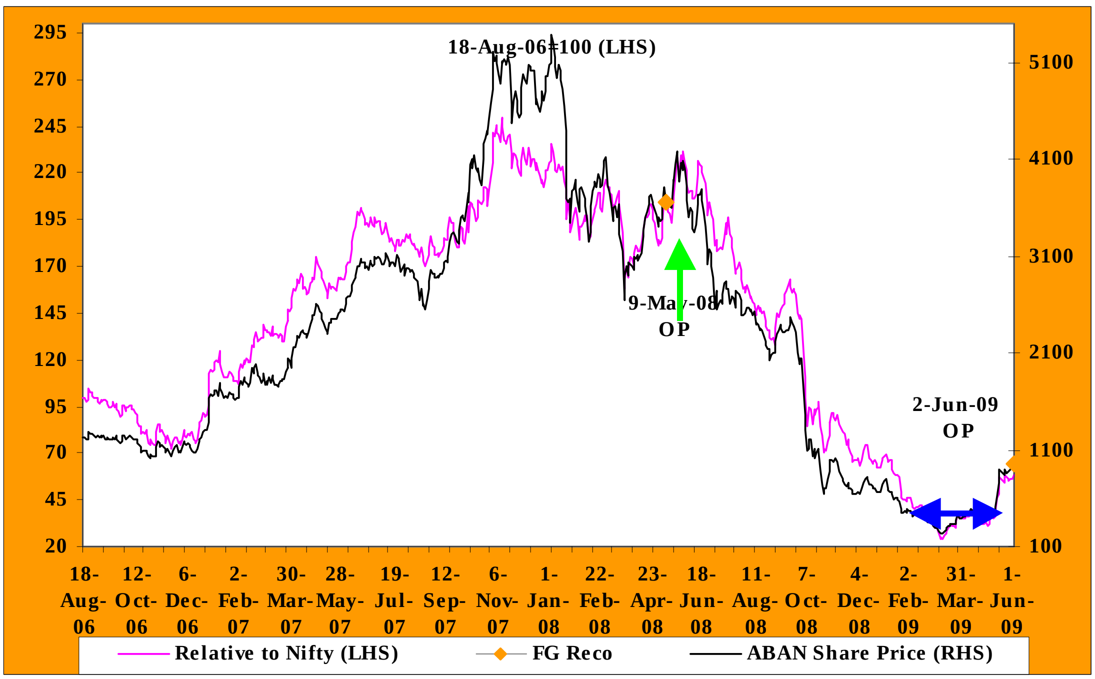
Ratings Key

Positive Ratings	B = Buy	BD = Buy at Declines	OP = Outperform
	S-OP = Sector Outperform	M-OP = Market Outperform	MO-OP= Moderate Outperform
Neutral Ratings	H = Hold	MP = Market Perform	SP = Sector Perform
Negative Ratings	S = Sell	SS = Sell into Strength	UP = Underperform
	A =Avoid	MO-UP = Moderate Underperform	S-UP =Sector Underperform

ST: Short Term **MT: Medium Term** **LT: Long Term**

Aban Offshore Ltd. (ABANPP.IN/ABAN.BO)

This stock was not under active coverage from June 2008 to May 2009



Represents an Upgrade

Represents a Downgrade

Represents Reiteration of Existing Rating

Details of First Global's Rating System given at the end of the report

Financial Snapshot (Consolidated)

Key Financials					
(YE 31st March) (Rs. mn)	**FY07**	**FY08**	**FY09**	**FY10E**	**FY11E**
Revenues	**7,193**	**20,211**	**31,843**	**44,106**	**42,925**
Revenue Growth (Y-o-Y)	*68.6%*	*181.0%*	*57.6%*	*38.5%*	*-2.7%*
EBIDTA	**3,418**	**10,473**	**17,645**	**24,029**	**23,158**
EBIDTA Growth (Y-o-Y)	*88.9%*	*206.4%*	*68.5%*	*36.2%*	*-3.6%*
Net Profit	**-140**	**1,230**	**5,548**	**9,529**	**8,990**
Net Profit Growth (Y-o-Y)	*59%*	*-978%*	*351%*	*72%*	*-6%*
Shareholder Equity	2,248	5,059	10,200	19413	27995
No. of Diluted Shares (mn)	36.8	37.2	38.8	40.0	40.0
Key Operating Ratios					
(YE 31st March)	**FY07**	**FY08**	**FY09E**	**FY10E**	**FY11E**
EPS (Rs.) (Diluted)	**-8**	**25**	**136**	**234.0**	**218.3**
EPS Growth (Y-o-Y)	*38.3%*	*-406.4%*	*NA*	*71.6%*	*-6.7%*
Book Value per share	61	136	263	485	700
CEPS (Rs.)	25	107	293	381	371
EBITDA (%)	**47.5%**	**51.8%**	**55.4%**	**54.5%**	**54.0%**
NPM (%)	**-1.9%**	**6.1%**	**17.4%**	**21.6%**	**20.9%**
Tax/PBT(%)	185.2%	79.2%	37.4%	26.0%	27.7%
RoE (%)	**-11.2%**	**23.8%**	**67.5%**	**62.5%**	**36.5%**
RoCE (%)	**-4.0%**	**1.4%**	**6.3%**	**8.5%**	**7.8%**
Debt/Equity (x)	20.4	16.1	11	6.1	4.1
Dividend Payout (%)	-79.2%	11.1%	2.1%	1.2%	1.3%
Free Cash Flow					
(YE March 31)	**FY07**	**FY08**	**FY09E**	**FY10E**	**FY11E**
Operating Cashflow	-897	2,830	9,378	17,390	18,958
Free Cashflow	-87,377	-30,243	170	14,873	16,091

Valuation Ratios

(YE 31st March)	**FY06**	**FY07**	**FY08**	**FY09**	**FY10E**	**FY11E**
P/E (x)				7.0	4.1	4.4
P/BV (x)				3.6	2.0	1.4
P/CEPS (x)				3.3	2.5	2.6
EV/EBITDA (x)				9.4	6.5	6.2
Market Cap. / Sales (x)				1.2	0.9	0.9
Dividend Yield (%)				0.3%	0.3%	0.3%

Market data as on June 02 2009

Current Market price ($.)	958
No. of Basic shares outstanding (mn)	39.53
Market Cap ($. mn)	**813**
Total Debt ($ mn) *	3,200
Cash & Cash Equivalents ($. mn)	423
Enterprise Value ($. mn)	3590

DuPont Model					
(YE 31st March)	**FY07**	**FY08**	**FY09E**	**FY10E**	**FY11E**
EBIDTA/Sales (%)	47.5%	51.8%	55.4%	54.5%	54.0%
Sales/Operating Assets (x)	0.1	0.2	0.2	0.3	0.3
EBIDTA/Operating Assets	**6.0%**	**9.3%**	**13.3%**	**17.6%**	**17.4%**
Operating Assets/ Net Assets (%)	87.3%	89.1%	88.7%	85.3%	83.3%
Net Earnings/ EBIDTA (%)	-8.7%	8.8%	30.0%	39.0%	37.7%
Net Assets/ Net Worth (x)	24.5	32.7	19.1	10.7	6.7
Return on Equity (%)	**-11.2%**	**23.8%**	**67.5%**	**62.5%**	**36.5%**

Commonsized Profit and Loss					
(YE 31st March)	**FY07**	**FY08**	**FY09E**	**FY10E**	**FY11E**
Revenues	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Stores and Spares	12.8%	11.0%	6.1%	6.4%	6.1%
Selling and Distribution expenses	22.6%	21.9%	17.7%	18.5%	18.6%
Personnel Expenses	10.0%	11.1%	10.8%	10.4%	11.5%
Miscellaneous Expenses	7.2%	4.3%	4.0%	4.2%	4.2%
EBIDTA	**47.5%**	**51.8%**	**55.4%**	**54.5%**	**54.0%**
Non Operating Income	9.9%	5.2%	10.8%	0.6%	0.5%
Depreciation and Amortization	16.7%	15.2%	19.1%	13.4%	14.2%
Interest	37.3%	32.9%	24.9%	16.8%	15.2%
PBT	5.6%	8.9%	22.3%	25.0%	25.0%
Tax	10.4%	7.1%	8.3%	6.5%	6.9%
Share in earnings of associates / Joint Ventures	2.8%	4.2%	3.5%	3.2%	2.9%
Minority Interest	0.0%	0.0%	0.0%	0.0%	0.0%
PAT	-1.9%	6.1%	17.4%	21.6%	20.9%

Source: Company Reports, FG estimates

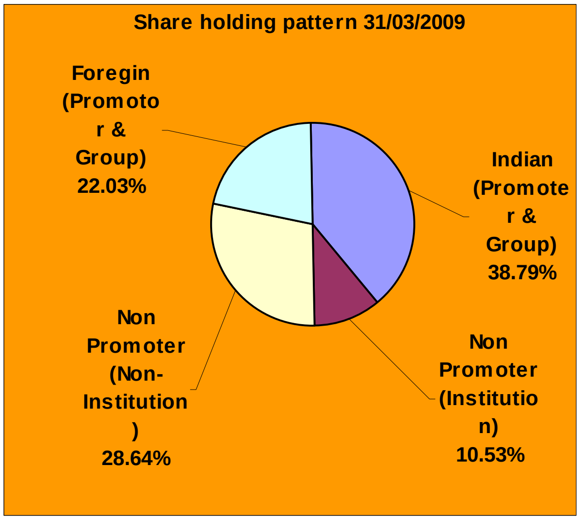
Top Management Team

Designation	Name
Chairman	V S Rao
Managing Director	Reji Abraham
Vice Chairman	P Murari
Deputy Managing Director	P Venkateswaran
Deputy Managing Director	C P Gopalkrishnan
Additional Director	K Bharathan
Nominee (ICICI)	K M Jaya Rao

Capital Issue History

Date	Equity Capital	Reason
31/03/1988	9.4	As Per Annual Report
31/03/1989	39.7	Public Issue
31/03/1993	62.8	Rights Issue
20/05/2002	73.8	Shares Issued On Merger
30/03/2007	73.9	Issued under ESOP Scheme

Key Statistics



Industry:	Oil&Gas
52 Week Hi: Low:	Rs. 4,080 / 221
CMP:	Rs. 958.05
Avg. Daily Vol. (20 days):	3.7 mn
Avg. Daily Val (20 days):	Rs. 2,609.2 mn
Performance over 52 weeks:	
Aban:	Down 75.0 %
Nifty:	Down 4.5%

Key Ratios

(YE March 31)	FY07	FY08E	FY09	FY10E	FY11E
Stores and Spares / Sales (%)	12.8%	11.0%	6.1%	6.4%	6.1%
Other Income/EBT(%)	176.2%	57.7%	48.7%	2.4%	2.0%
EBITDA Margin (%)	47.5%	51.8%	55.4%	54.5%	54.0%
Tax / PBT (%)	185.2%	79.2%	37.4%	26.0%	27.7%
Net Profit Margin (%)	-1.9%	6.1%	17.4%	21.6%	20.9%
RoE (%)	**-11.2%**	**23.8%**	**67.5%**	**62.5%**	**36.5%**
RoCE (%)	**-4.0%**	**1.4%**	**6.3%**	**8.5%**	**7.8%**
Sales/Operating Assets (x)	0.13	0.18	0.24	0.32	0.32
Optg. Assets/Total Assets (x)	0.84	0.91	0.85	0.84	0.81
Return on Optg. Assets (%)	-3.3%	1.4%	5.5%	9.8%	9.3%
Debt/ Equity (X)	**2044.5%**	**1606.5%**	**1096.8%**	**609.3%**	**412.0%**
Interest Coverage (x)	**1.27**	**1.57**	**2.23**	**3.25**	**3.55**
Interest / Debt (%)	4.5%	5.6%	5.7%	5.2%	4.9%
Growth in Gross Block (%)	605.6%	14.0%	48.4%	7.4%	1.3%
Sales Growth (%)	46.6%	181.0%	57.6%	38.5%	-2.7%
Operating (EBITDA) Profit Growth (%)	24.5%	206.4%	68.5%	36.2%	-3.6%
Net Profit Growth (%)	-117.0%	-978.4%	351.1%	71.8%	-5.6%
Debtors (Days of net sales)	103	85	90	85	80
Creditors (Days of Raw Materials)	439	185	175	170	165
Inventory (Days of Optg. Costs)	99	62	60	58	55
Current Ratio (x)	**2.76**	**1.87**	**3.51**	**3.32**	**3.65**
Net Current Assets/Capital Employed (%)	10.7%	4.7%	14.8%	17.3%	19.1%
Number of Diluted Shares (mn)	36.8	37.2	38.8	40.0	40.0
Fully Diluted EPS (Rs.)	-8.1	24.8	136.3	234.0	218.3
Fully Diluted EPS Excl. extraordinaries (Rs.)	**-9.8**	**1.8**	**136.3**	**234.0**	**218.3**
EPS Growth Excl. extra-ordinaries (%)	-152.5%	-118.1%	7555.9%	71.6%	-6.7%
Dividend Payout (%)	-79.2%	11.1%	2.1%	1.2%	1.3%
Fully Diluted CEPS (Rs.)	24.5	107.5	293.2	381.4	371.1
Book Value per share (Rs.)	61.0	135.8	263.0	485.3	699.9

Aban's Business in Pictures…(FY09)(Consolidated)

(All figures are in Rs. Mn except where stated otherwise) All percentages are percent of revenues, unless otherwise stated)

Competition
Domestically, there is no major competitor. ONGC has 10 rigs, which the company uses for its own purpose. Great offshore has 3 rigs. From international players, Transocean has major presence in India.

Operations/ Value added
Total Revenues: Rs. 31,843 mn (100%)

Rig Fleet
Company has a fleet of 21 offshore units, which include 16 Jackup Rigs, 3 drill ships 1 FPU and 1 semisubmersible rig.

Manufacturing Expenses: Rs. 1,943 mn (6.1%)
Personnel Expenses: Rs.3, 433 mn (10.8%)
Selling, Distn & Admn Exps: Rs. 5,648 mn (17.7%)
Miscellaneous Exp.: Rs. 1,280 mn (4.0%)
Others: Rs. 1,894 mn (5.9%)

Clients
ONGC, Hardy Oil, HOEC, Oriental Oil, GSPC, OVL, Exxon Mobil

Company buys rigs from global manufacturers, such as Keppel, Sembcorp etc.

EBIDTA
Rs.17,645 mn (55.4%)

Pricing
Spot dayrates are based on supply-demand dynamics. Term rates are further negotiated with clients. Generally high oil prices drive demand for rigs and hence dayrates and vice versa.

Below Operating Line

Depreciation: Rs.6,083 mn (19.1%)
Interest Charges: Rs.7,919 mn (24.9%)
Non-Operating Income: Rs. 3,451 mn (10.8%)

Profit Before Tax
Rs. 7,094 mn (22.3%)

Taxes: Rs.2,652 mn (8.3%)
Share in earnings of associates / Joint Ventures: Rs. 1,109 mn (3.5%)
Minority Int.: Rs. 4 mn (0.1%)

Profit After Tax
Rs5,548mn (17.4%)

Assets
Rs. 146,728 mn

Balance Sheet

Liabilities
Rs. 146,728 mn

Fixed Assets: Rs. 83,529 mn (56.9%)
Capital WIP: Rs. 42,718 mn (29.1%)
Investments: Rs. 6,391 mn (4.4%)
Inventory: Rs. 1,647 mn (1.1%)
Debtors: Rs. 4,712 mn (3.2%)
Cash & Bank Balance: Rs. 6,453 mn (4.4%)
Loans and advances: Rs.1,278 mn (0.9%)

Long term Debt: Rs. 130,434 mn (88.9%)
Sundry Creditors: Rs. 4,948mn (3.4%)
Provisions: Rs. 949 mn (0.6%)
Reserves: Rs. 4,983 mn (3.4%)
Preference Capital: Rs.3,060 mn (2.1%)
Equity: Rs. 76 mn (0.1%)
Others: Rs. 1,624 mn (1.1%)
Deferred Tax: 654 mn (0.4%)

Note: In Above BIP:P&L is for the year end FY09 whereas Balance Sheet is for the year end FY08

The Story…

What all can change in a month!

Aban, written off for dead, is back. And if you think about it…what really is the problem with company?

Sure, oil prices were down. But that was yesterday. Now oil prices are headed back up to the $80 levels and beyond, given the weakness of the US Dollar.

Aah…yes, the company has a bit of debt.

Excellent! That's precisely what we are looking for these days. We all loooooove companies with loads of debt these days, don't we…Because we wanna give them moneys in QIPs, FCCBs, PE, off balance sheet the way Ramalinga gave to Satyam…whatever…

Short point is: Aban's twin problems are receding fast, and before you know, they'll have disappeared altogether. Let it get some equity, and a whole new company emerges from the chrysalis.

Valuations are totally undemanding at 4-5x earnings. The stock had an all-time high 5.5x higher than its current price.

That's good news.

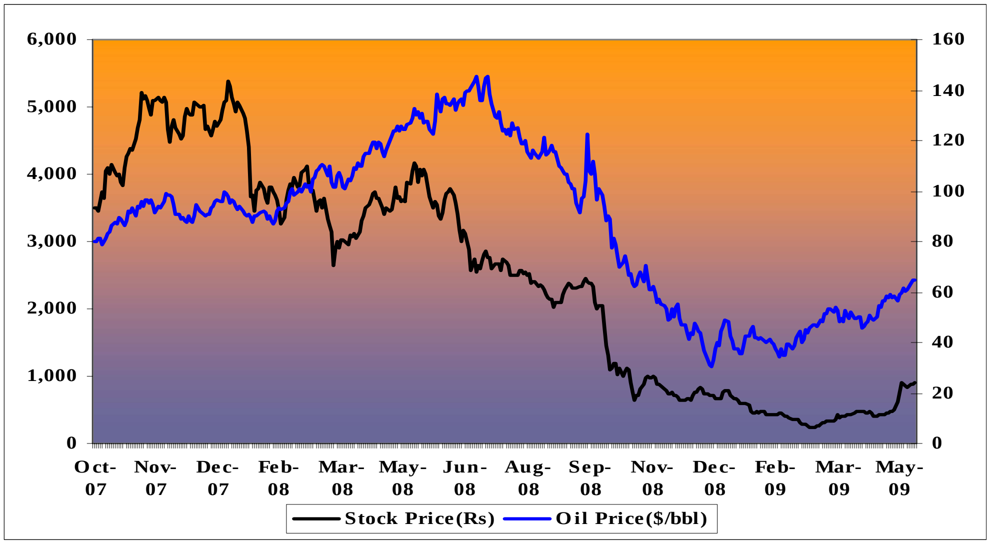
Because there is plenty of room for the stock to run before it hits the wall. Global peers in the form of oil services companies are also seeing their stocks do well. No reason for Aban to sit out the party.

Aban could so easily be a Rs.2000 stock…Buy it.

The Slightly Longer Story

Aban Offshore is a stock which moves in line with oil prices like any other stock in the oil and gas service industry. The reason is high oil prices induce oil companies to spend more on exploration and production and this creates demand for offshore as well as onshore oil services which includes drilling rigs. The supply of offshore drilling rigs is tighter than onshore due to which high oil price induced demand results in high dayrates for offshore rigs. Aban Offshore has a fleet of 21 offshore rigs and is naturally a big beneficiary of the high oil price scenario. The company posted a net profit of Rs.5.5 bn in FY09 which is almost 350% higher than FY08. The company's EBIDTA margins were 55.4% last year indicating the high rates it enjoyed and limited cost. When oil prices started falling from H2 CY08, Aban's stock started falling and lost almost 95% of its value at the lowest market price while crude lost 77% to fall to less than $33 a barrel.

Aban's stock prices viv a vis oil prices



Note: Oil Price imply WTI price. Source: EIA USA

However with the rebound in oil prices, the stock recovered by almost 5 folds and is trading at above Rs.1000 a share. The second concern was Aban's balance sheet which has a debt of more than $3 bn which Aban raised when acquiring Norwegian based offshore rig player Sinvest in FY08. By FY08 end, it had an astoundingly high debt equity of 16 which has come down to 11 in FY09 end. The tight credit conditions back then had raised concerns on its ability to deleverage itself, which put additional pressure on the company's stock.. However considering the present favourable environment, we expect Aban to raise enough funds to refinance the existing debt at better terms and pay back the $150 mn bullet loan that is due on December 2009. We reinitiate Aban with a rating of "Outperform".

Valuation & Outlook

The outlook of the sector is a function of oil prices and especially the jack up market is dependent on the short term movement of oil prices. Aban's stock took a severe beating when oil fell from over $146 to less than $33, losing more than 90% of its value. So a reversal on the basis of higher crude prices is expected. Aban tends to secure term contracts and hence redeploying rigs in a high oil price scenario and at better rates gives visibility to its earnings in the up to the term of the contracts. News flow relating to securing new contracts, redeployment of drilling rigs and realizing would be crucial for the stocks re-rating. Currently the stock is trading at a low PE of 4.1 to FY10 earnings. The EV/EBIDTA is 6.5 FY10 earnings.

Comparative Valuations

Company	P/E (x)		P/S (x)		P/BV (x)		EV/EBITDA (x)		EV/SALES (x)		EBITDA (%)	RoE (%)	RoCE (%)	Annual EPS Growth (%)	Annual Sales Growth (%)
	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E	FY10E	FY10E	10E/11E	10E/11E
Aban Offshore	**4.1**	**4.4**	**0.9**	**1.0**	**2.1**	**1.5**	**6.5**	**6.2**	**3.6**	**3.4**	**54.5%**	**62.5%**	**8.5%**	**71.6**	**NM**
Transocean	6.8	6.5	1.8	1.8	1.1	0.9	5.1	5.0	2.8	2.7	54.2%	17.5%	12.2%	4.6%	3.3%
Pride International Inc	11.7	6.6	1.9	1.4	0.9	0.8	5.0	3.2	1.9	1.4	38.6%	7.6%	5.8%	78.6%	37.3%
Noble Corp	6.8	7.0	2.1	2.0	1.2	1.0	3.5	3.4	2.1	2.1	61.0%	18.8%	15.9%	NM	NM
Diamond Offshore Drilling	9.2	9.1	2.8	2.7	3.0	3.1	4.5	4.5	2.7	2.6	60.1%	35.9%	26.7%	1.7%	4.3%
Rowan Companies Inc	10.7	11.0	1.2	1.1	0.8	0.7	3.9	3.7	1.3	1.2	33.4%	7.5%	5.5%	NM	**9.0%**

Source: Bloomberg, FG Research

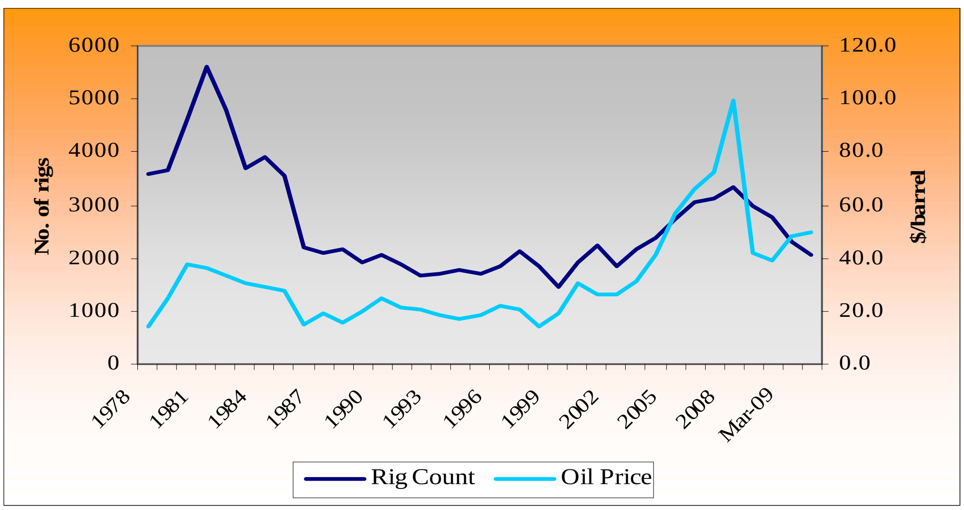
NM implies negative growth

Key Growth Drivers

Rebound in oil prices

The rebound in oil prices from the lows of $30 a barrel to almost $70 has changed the outlook of the offshore oil & gas industry. Historically oil prices and rig accounts (a measure of drilling rig activity) has moved in the same direction. An increase in rig count means that, more rigs are in demand resulting in better day rates and earnings for the rig companies. The offshore space is becoming more and more promsing as most of the onland oil has already been discovered. Offshore jack up rigs have witnessed high rates of $200,000 a day in CY08 with high oil prices. Jack up rigs unlike drillships and semisubs are the most responsive to oil prices and considering Aban has sixteen jack ups, the rise in oil prices would multiply its earnings in FY10. The visibility of earnings for FY11 would depend on prevailing oil prices then.

Oil prices & rig counts



Source: Baker Hughes, EIA

Deployment of rigs

Aban has a fleet of twenty one rigs. Currently, sixteen rigs are deployed, out of which five are under short-term contracts that will expire by August 2009. The Indian parent company (on a standalone basis) is in a comfortable position, with only one rig, the FPU, Tahara nearing expiry in July 2009. The company expects it to be re-deployed at a higher rate as the present rate is low in comparison to the market dayrates of other floating units.

Aban's rig fleet details

Rig Name	Contract Dayrates (USD)	Contract Expiry
Indian Parent		
Aban II (JU, IS)	78,850	May-2010
Aban III (JU)	156,000	Apr-2011
Aban IV (JU)	156,000	Jan-2011
Aban V (JU)	156,000	May-2011
Aban VI (JU)	81,500	Jan-2014
Aban Ice (DS)	43,000	Mar-2011
Tahara (FPU)	88,000	Jul-2009
Singapore Subsidiary		
Aban VII (JU)	-	ND
Aban VIII (JU)	199,500	Jun-2012
Deep Drilller 1 (JU)	194,000	May-2009
Deep Drilller 2 (JU)	-	ND
Deep Drilller 3 (JU)	168,000	Dec-2012
Deep Drilller 4 (JU)	200,000	Jun-2009
Deep Drilller 5 (JU)	190,000	Jun-2009
Deep Drilller 6 (JU)	-	ND
Deep Drilller 7 (JU)	-	ND
Deep Drilller 8 (JU)	200,000	Aug-2009
Murmanskaya (JU, IS)	-	ND
Aban Abraham (DS)	325,000	Jul-2011
Deep Venture (DS)*	450,000/495,000*	Dec-2011
Aban Pearl (SS)	365,000	Dec-2013

Source: Company
Note: ND – Not deployed (idle); JU – Jackup, DS – Drillship, SS – Semisubmersibles, FPU – Floating Production Units, IS implies Independent Leg Slot. All other types of jackups are Independent Leg Cantilever (IC).
** Current dayrates at $450,000, which will be revised to $495,000 from July 2009. Aban holds a 50% stake in Deep Venture.*

We expect the idle rigs to go onstream and expect the short term contracts to be renewed at fair day rates. The company has already impaired the entire amount for jack up rig Murmanskaya which had some difficulty to secure a contract in the recent past.

Favourable environment for fund raising

In FY08, the Sinvest purchase had resulted in a debt burden of $3.1 bn, and a debt-equity of 16, as on FY08 end. Aban's debt equity ratio currently stands at around 11. We expect Aban to raise enough funds to to refinance its debt, at better terms and lower cost. The company has to meet a $150 mn (Norwegian Kroners bond loan) in December 2009.

The company's interest payment was .Rs.7.9 bn in FY09 and we expect it to come down in the future.

Key Risks

The key risk is a fall in oil prices once again which would again dampen the outlook of the sector and result in rigs remaining idle and hence lower earnings. This would also limit Aban's ability to clear its debt. Technical snags is another risk which may result in actual earnings lower than expected as the rigs would remain docked and drilling delayed.

Company Background

Aban Offshore Limited is India's largest offshore oil and gas drilling company and owns twenty one offshore assets. The company has two business segments: offshore oil drilling and production services, and wind energy services and wind power generation. Aban's drilling services include drilling of exploration wells, appraisal wells and production wells. The company has jackup rigs that enable it to achieve a drilling depth of 30,000 feet in a water depth of up to 375 feet, and also owns drillships and semisubmersibles capable of drilling in greater water depths ranging up to 6,000 feet *(please refer to Aban Offshore's rig fleet details on Page 5)*. Aban has an installed capacity of approximately 65 megawatts in Tamil Nadu connected to the grid of the Tamil Nadu Electricity Board. However, the contribution of the wind business to Aban's revenues is negligible. Aban completed the acquisition of Norway based Sinvest in CY08, thereby becoming the world's tenth largest drilling company.

Business Highlights

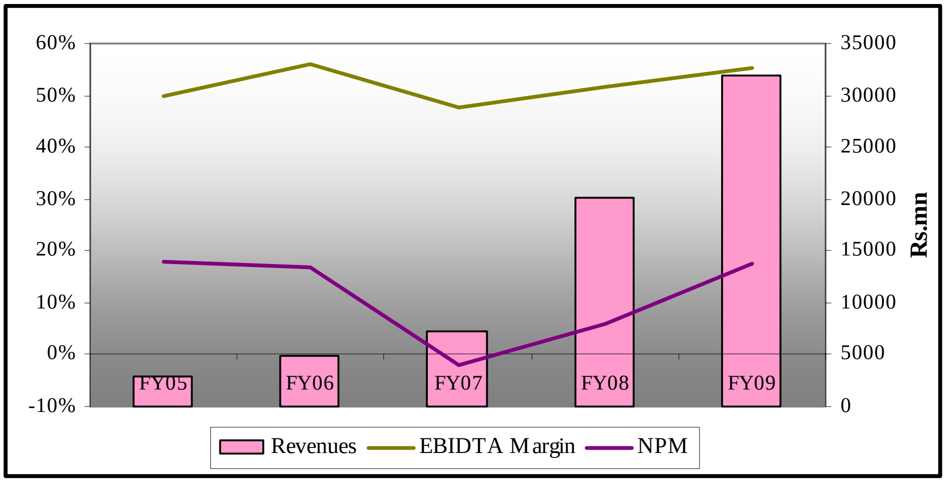
Aban's Singapore subsidiary acquired Sinvest in FY08 and was able to deploy six rigs in H1 FY09 at high day rates. For FY09, Aban recorded a growth of 57.6% in revenues to Rs.31.8 bn, on the back of high rates. The company's net profit rose 351% to Rs.5.5 in FY09. However, the phenomenal growth cooled down towards the end of the financial year and Aban posted a loss of Rs.1.3 bn in Q4 FY09, mainly due to the impairment of its jackup rig, Murmanskaya, which resulted in an increase of 131% in depreciation. The impairment charge was a non-cash expenditure and will not impact Aban's cashflows.

Aban has two bareboat charter agreements with the Russian company, Arktikmorneftegazrazvedka and has a 50% stake in Deep Venture drillship. The bareboat charter for Murmanskaya will expire in November 2009. Aban has also taken delivery of three new rigs and managed to secure contracts for two of the rigs, though these contracts are short term in nature. All the assets of the parent company are also under long-term contracts until beyond FY10, except the Tahara floating unit, for which the contract expires in mid 2009, though the contract rate for Tahara is much low and it is expected to be re-deployed at the existing, if not better rates. Aban II's contract expires in May 2010, which we expect to be renewed, as the client is none other than ONGC.

Financial Highlights

Over the period FY05-09, Aban's revenues grew at a CAGR of 82% to Rs.31.8 bn in FY09. Aban's massive growth came in FY08, when it acquired Sinvest, which led to the company's revenues almost tripling from the 2007 level. In FY09, the company reported a net profit of Rs.5.5 bn, which translated into an EPS of Rs.144, six times higher than the FY08 level. In the last five years, Aban's operating margin has averaged at 52%, but rose to 55% in FY09, on the back of high dayrates and increased deployment of rigs, while the NPM trebled in FY09.

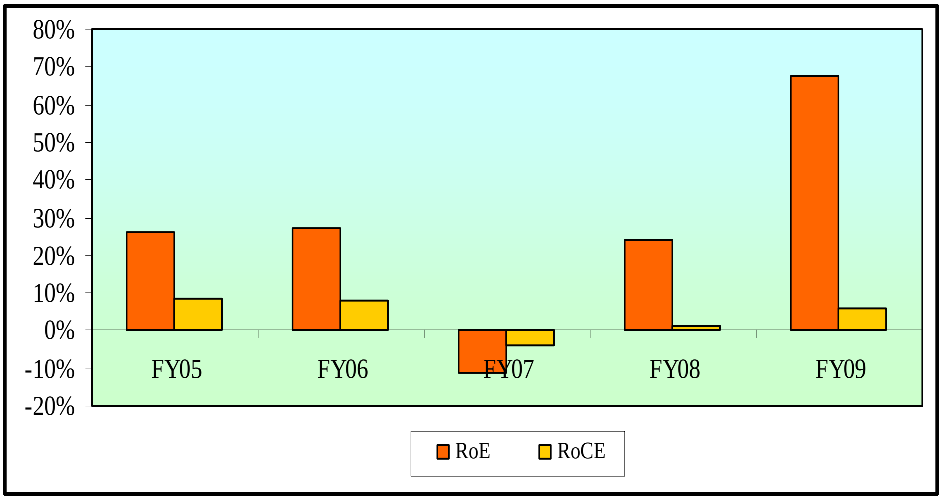
Aban's revenue & margin analysis



Source: Company, FG Research

However, going forward, we expect Aban's EBIDTA margin to remain at the same levels. Aban's NPM however is expected to improve, as the company's interest cost would fall with debt refinancing at better terms and conditions and deployment of additional rigs.

Return on Equity (RoE) & Return on Capital Employed (RoCE)



Source: Company, FG Research

Aban's return ratios witnessed an improvement in FY09. In FY07, the company had incurred a net loss, with its ratios falling into negative territory. Over the period FY05-08, Aban's RoE remained in the range 24-27%, but shot up to 67% in FY09, as the company recorded an increase of around 350% in the net profit. However, the RoCE remained much lower in FY05-08, especially after FY07, when Aban went in for the leveraged acquisition of Sinvest. In FY09, the company's RoCE stood at around 6%, as against 9% and 8% in FY05 and FY06 respectively and merely 1% in FY08. Going forward, we expect RoCE to decrease with debt. However RoE may witness some fall.

Quarterly Result Analysis (Consolidated)

YE: March 31st (Rs. Mn)	Q4 FY09	Q4 FY08	*Change Y-o-Y %*	Q3 FY09	*Change Q-o-Q %*	12M FY09	12M FY08	*Change Y-o-Y %*
Income from Operation								
Total Revenue	**7741**	**6618**	***17.0%***	**8371**	***-7.5%***	**31843**	**20211**	***57.6%***
Expenditure:								
Consumption Stores & Spares	517	468	*10.5%*	464	*11.4%*	1943	1197	*62.3%*
Personnel	832	528	*57.4%*	1005	*-17.3%*	3433	2003	*71.4%*
Rental Charges for Machinery & Maintenance	467	305	*52.9%*	522	*-10.5%*	1788	1090	*64.1%*
Other Expenditure	1612	1962	*-17.8%*	1662	*-3.0%*	7034	5448	*29.1%*
Total Expenditure	**3428**	**3264**	***5.0%***	**3654**	***-6.2%***	**14198**	**9738**	***45.8%***
EBIDTA	**4313**	**3355**	***28.6%***	**4718**	***-8.6%***	**17645**	**10473**	***68.5%***
Less: Depreciation	2741	1477	*85.7%*	1277	*114.7%*	6083	3077	*97.7%*
EBIT	**1572**	**1878**	***-16.3%***	**3441**	***-54.3%***	**11562**	**7395**	***56.3%***
Other Income	16	19	*-20.0%*	1624	*-99.0%*	3451	1070	*222.6%*
Less: Interest	2258	1464	*54.2%*	2044	*10.5%*	7919	6658	*18.9%*
PBT	**-671**	**434**	***NM***	**3021**	***NM***	**7094**	**1807**	***292.6%***
Less: Total Tax	605	483	*25.2%*	769	*-21.4%*	2652	1430	*85.4%*
Profit After Tax before Extraordinary Items	**-1275**	**-49**	***NM***	**2252**	***NM***	**4442**	**377**	***1079.2%***
Minority Interest	0	0	*NM*	2	*NM*	4	0	*NM*
Share of profit in joint venture	344	388	*-11.2%*	314	*9.8%*	1109	853	*30.1%*
Profit After Tax	**-930**	**339**	***NM%***	**2564**	***NM***	**5548**	**1230**	***351.1%***
Earnings Per Share (In Rs.)								
Diluted EPS before Extraordinary Items	-24.1	9.0	*NM*	66.5	*NM*	143.1	31.9	*348.2%*
Diluted EPS after Extraordinary Items	-24.1	9.0	*NM*	66.5	*NM*	143.1	31.9	*348.2%*
Weighted average Shares Outstanding (mn)	39	38		39		39	39	
Margins								
EBIDTA Margin (%)	55.7%	50.7%		56.4%		55.4%	51.8%	
EBIT (%)	20.3%	28.4%		41.1%		36.3%	36.6%	
PBT Margin (%)	-8.7%	6.6%		36.1%		22.3%	8.9%	
NPM (%)	-12.0%	5.1%		30.6%		17.4%	6.1%	
Effective Tax Rate (%)	-90.1%	111.3%		25.5%		37.4%	79.2%	

Source: Company Reports

Note: Quarterly numbers may not exactly match with the annual numbers due to differences in classification of income and expenses in the company's quarterly and annual reporting.

- In Q4 FY09, Aban's net sales rose 17% Y-o-Y, but declined 7.5% sequentially to Rs.7,741 mn, while for the full year FY09, the company's revenues increased by 57.6% to Rs.31,843 mn. In Q4 FY09, the EBIDTA grew 28.6% Y-o-Y, but declined 8.6% sequentially to Rs.4,313 mn, and came in at Rs.17,645 mn in FY09.

- Depreciation rose 85.7% Y-o-Y and 114.7% sequentially to Rs.2,741 mn in Q4 FY09 and included an impairment charge of Rs.1,514 mn (*in the carrying value of the capital expenditure incurred on the bareboat chartered jack-up rig, Murmanskaya in view of the proposed early termination of bare-boat agreement with the rig's owners*). For FY09, depreciation increased by 97.7% to Rs.6,083 mn. Interest costs were up 54.2% Y-o-Y and 10.5% sequentially to Rs.2,258 mn in Q4 FY09 and rose 18.9% to Rs.7,919 mn in FY09.

- Other Income declined 20.8% Y-o-Y and 99% sequentially to merely Rs.16 mn in Q4 FY09 and was up 223% to Rs.3,451 mn in FY09. The company's effective tax rate in Q4 FY09 was high at 90.1% of the PBT, resulting in a tax amount of Rs.605 mn for the quarter. For FY09, the company's tax was up 85.4% to Rs.2,652 mn.

- Aban incurred a loss of Rs.930 mn in Q4 FY09, as against a profit of Rs.2,564 mn in Q3 FY09 and Rs.339 mn in Q4 FY08. For FY09, the company's net profit rose 351% to Rs.5,548 mn. Aban reported an EPS of Rs.143.1 for the full year FY09.

- The EBIDTA margin improved by 500 bps Y-o-Y but declined 70 bps sequentially to 55.7% in Q4 FY09, but improved by 360 bps to 55.4% in FY09. The NPM was negative in Q4 FY09 and improved by 1130 bps to 17.4% in FY09.

Earning Model – Aban (Consolidated)

YE: March 31st (Rs. Mn)	FY 08	Q1FY09	Q2FY09	Q3FY09	Q4FY09	FY 09	Q1FY10	Q2FY10	Q3FY10	Q4FY10	FY 10E	FY11E
Total Revenue	**20,211**	**7,488**	**8,243**	**8,371**	**7,741**	**31,843**	**10,957**	**12,424**	**10,783**	**9,941**	**44,106**	**42,925**
Expenditure:												
Consumption of Stores & Spares	1,197	436	526	464	517	1,943	657	783	701	666	2,807	2,597
Personnel Expenses	2,003	757	838	1,005	832	3,433	1,118	1,292	1,132	1,054	4,596	4,936
Rental Charges	638	153	462	338	307	1,259	438	497	431	398	1,764	1,545
Insurance	557	134	169	155	176	634	186	248	194	249	877	901
Repairs of Machinery	452	135	50	184	160	529	186	124	237	209	757	773
Other Expenditure	4,892	1,864	1,592	1,507	1,437	6,399	2,630	2,609	2,049	1,988	9,276	9,014
Total Expenditure	**9,738**	**3,479**	**3,638**	**3,654**	**3,428**	**14,198**	**5,216**	**5,554**	**4,744**	**4,563**	20,077	**19,767**
EBIDTA	**10,473**	**4,009**	**4,605**	**4,718**	**4,313**	**17,645**	**5,742**	**6,871**	**6,038**	**5,378**	**24,029**	**23,158**
Less: Depreciation	3,077	932	1,133	1,277	2,741	6,083	1,472	1,487	1,480	1,458	5,897	6,115
EBIT	**7,395**	**3,077**	**3,472**	**3,441**	**1,572**	**11,562**	**4,269**	**5,384**	**4,559**	**3,921**	**18,132**	**17,043**
Other Income	1,070	213	1,599	1,624	16	3,451	110	75	43	40	267	215
Extra Ordinary Items	0	0	0	0	0	0	0	0	0	0	0	0
Less: Interest	6,658	1,590	2,027	2,044	2,258	7,919	2,054	1,917	1,780	1,643	7,394	6,525
PBT Before Extra ordinary items(Excluding)	**1,807**	**1,700**	**3,043**	**3,021**	**-671**	**7,094**	**2,325**	**3,541**	**2,822**	**2,317**	**11,005**	**10,733**
PBT After Extra ordinary items	**1,807**	**1,700**	**3,043**	**3,021**	**-671**	**7,094**	**2,325**	**3,541**	**2,822**	**2,317**	**11,005**	**10,733**
Less: Total Tax	1,430	608	671	769	605	2,652	590	772	723	777	2,862	2,976
PAT before Extraord. Items	**377**	**1,092**	**2,373**	**2,252**	**-1,275**	**4,442**	**1,735**	**2,769**	**2,099**	**1,540**	**8,143**	**7,757**
Share in earnings of associates / Joint Ventures	853	144	307	314	344	1,109	361	359	320	349	1,390	1,237
Minority Interest	0	1	2	2	0	4	1	1	1	1	4	4
Profit Before Tax (Excluding)	**1,230**	**1,236**	**2,678**	**2,564**	**-930**	**5,548**	**2,095**	**3,128**	**2,417**	**1,888**	**9,529**	**8,990**
PAT After Extra ordinary items	**1,230**	**1,236**	**2,678**	**2,564**	**-930**	**5,548**	**2,095**	**3,128**	**2,417**	**1,888**	**9,529**	**8,990**
Earnings Per Share (In Rs.)												
Diluted EPS before Extraord. Items	24	32	70	67	-24	144	52	78	60	47	238	225
Diluted EPS after Extraord. Items	24	32	70	67	-24	144	52	78	60	47	238	225
Wgtd. Avg. Shares Outstanding (mn)	39	39	39	39	40	39	40	40	40	40	40	40
Margin Analysis												
EBIDTA Margin (%)	52%	53.54%	55.87%	56.4%	55.7%	55%	52.4%	55.3%	56.0%	54.1%	54.5%	54.0%
EBIT Margin (%)	37%	41.09%	42.13%	41.1%	20.3%	36%	39.0%	43.3%	42.3%	39.4%	41.1%	39.7%
PBT Margin (%)	9%	22.71%	36.92%	36.1%	-8.7%	22%	21.2%	28.5%	26.2%	23.3%	25.0%	25.0%
NPM (%)	2%	14.59%	28.79%	26.9%	-16.5%	14%	15.8%	22.3%	19.5%	15.5%	18.5%	18.1%
Effective Tax Rate (%)	79%	35.75%	22.03%	25.5%	-90.1%	37%	25.4%	21.8%	25.6%	33.5%	26.0%	27.7%

Source: Company Reports, FG Estimates
Note – Due to difference in classification of income and expenses in quarterly and annual results some of the items in the earnings model may not match with the annual no.s

IMPORTANT DISCLOSURES

Price Target

Price targets (if any) are derived from a subjective and/or quantitative analysis of financial and non financial data of the concerned company using a combination of P/E, P/Sales, earnings growth, discounted cash flow (DCF) and its stock price history.

The Risks that may hinder the achievement of our price target/investment thesis are:

- ***Adverse movement in oil prices***
- ***Contracts are renewed at lower day rates.***
- ***Inability to deploy rigs.***
- ***Changes in regulatory environment***

First Global's Rating System

Our rating system consists of three categories of ratings: Positive, Neutral and Negative. Within each of these categories, the rating may be absolute or relative. When assigning an absolute rating, the price target, if any, and the time period for the achievement of this price target, are given in the report. Similarly when assigning a relative rating, it will be with respect to certain market/sector index and for a certain period of time, both of which are specified in the report.

Rating in this report is relative to: CNX Nifty 50 Index

Positive Ratings

(i) Buy (B) – *This rating means that we expect the stock price to move up and achieve our specified price target, if any, over the specified time period.*

(ii) Buy at Declines (BD) – *This rating means that we expect the stock to provide a better (lower) entry price and then move up and achieve our specified price target, if any, over the specified time period.*

(iii) Outperform (OP) – *This is a relative rating, which means that we expect the stock price to outperform the specified market/sector index over the specified time period.*

Neutral Ratings

(i) Hold (H) – *This rating means that we expect no substantial move in the stock price over the specified time period.*

(ii) Marketperform (MP) – *This is a relative rating, which means that we expect the stock price to perform in line with the performance of the specified market/sector index over the specified time period.*

Negative Ratings

(i) Sell (S) – *This rating means that we expect the stock price to go down and achieve our specified price target, if any, over the specified time period.*

(ii) Sell into Strength (SS) – *This rating means that we expect the stock to provide a better (higher) exit price in the short term, by going up. Thereafter, we expect it to move down and achieve our specified price target, if any, over the specified time period.*

(iii) Underperform (UP) – *This is a relative rating, which means that we expect the stock price to underperform the specified market/sector index over the specified time period.*

(iv) Avoid (A) – *This rating means that the valuation concerns and/or the risks and uncertainties related to the stock are such that we do not recommend considering the stock for investment purposes.*

FG Markets, Inc.
90 John Street, Suite 703,
New York, NY 10038
Dealing Desk (US):
Tel. No.: +1-212-227 6611
Email: us@fglobal.com

FIRST GLOBAL
Nirmal, 6th Floor, Nariman Point,
Mumbai - 400 021, India.
Dealing Desk (India):
Tel. No.: +91-22-400 12 400
Email: fgindiasales@bloomberg.net

FIRST GLOBAL (UK) Ltd.
The Cobalt Building, 19-20, Noel Street,
London W1F 8GW, United Kingdom
Dealing Desk (UK & Europe):
Tel. No.: +44-207-959 5300
Email: uk@fglobal.com