

July 30, 2009

Rating	Accumulate
Price	Rs458
Target Price	Rs525
Implied Upside	14.7%
Sensex	15,173

(Prices as on July 29, 2009)

#### Trading Data

Market Cap. (Rs bn)	17.0
Shares o/s (m)	37.1
Free Float	100%
3M Avg. Daily Vol ('000)	296.2
3M Avg. Daily Value (Rs m)	111.0

#### Major Shareholders

Promoters	NA
Foreign	9.3%
Domestic Inst.	18.3%
Public & Others	72.4%

#### Stock Performance

(%)	1M	6M	12M
Absolute	8.7	90.8	11.8
Relative	6.1	26.5	1.8

Price Performance (RIC: GOFS.BO, BB: GOFF IN)



Source: Bloomberg

## Great Offshore

### Disappointing results

- **Weak revenue due to high dry-docking:** Great Offshore's (GOFF's) topline was weak at Rs2,293m. Also, a growth of 13% YoY and QoQ decline of 15% on account of higher-than-expected dry-docking that took place during the quarter, resulted in lower utilizations for the offshore vessels. The company incurred major dry-docking for some of its vessels as a part of a five-yearly special survey.

Further, GOFF has changed its accounting policy with respect to the expenses incurred at the time of the five-yearly special surveys and/or life enhancement programmes for the vessels. Hence, it has capitalized dry-docking expenditure to the tune of Rs195.4m which would have otherwise been reflected in the profits of the company.

- **PAT declines YoY:** On account of weaker-than-expected operating margins of 43%, coupled with a one-time charge of Rs190.5m (which relates to invocation of performance bank guarantee for non-delivery of jackup rig to ONGC), GOFF's PAT declined by 66% YoY to Rs222m.

- **Vessel utilizations:** GOFF's drilling rigs operated at 100% utilization during the quarter. However, OSV utilization declined to 72% compared to 88% in Q1FY09 and 94% in Q4FY09 led by increased quantum of dry-docking during the quarter.

- **Valuations:** On the basis of PER, the stock currently trades at 6.4x FY10 and 5.4x FY11E. However, our price target of Rs525 on the stock is based purely on the on-going bidding war between ABG and Bharati Shipyard. We expect the bidding to continue up to a price of Rs500-550, which is a 15-20% discount to GOFF's estimated NAV. We maintain 'Accumulate' on the stock.

Key financials (Y/e March)	FY08	FY09	FY10E	FY11E
Revenues (Rs m)	13,009	11,393	13,009	14,294
Growth (%)	123.5	(12.4)	14.2	9.9
EBITDA (Rs m)	5,860	5,412	5,860	6,054
PAT (Rs m)	2,839	2,751	2,649	3,033
EPS (Rs)	70.9	74.1	71.3	81.7
Growth (%)	86.2	4.5	(3.7)	14.5
Net DPS (Rs)	16.0	2.5	18.0	18.0

Source: Company Data; PL Research

Profitability & valuation	FY08	FY09	FY10E	FY11E
EBITDA margin (%)	45.0	47.5	45.0	42.4
RoE (%)	42.0	33.2	28.0	25.2
RoCE (%)	28.9	18.2	15.2	14.5
EV / sales (x)	2.0	2.6	1.9	1.7
EV / EBITDA (x)	4.5	5.4	4.3	4.0
PE (x)	6.5	6.2	6.4	5.6
P / BV (x)	2.5	1.8	1.5	1.3
Net dividend yield (%)	3.5	0.5	3.9	3.9

Source: Company Data; PL Research

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Q1FY10 Result Overview

(Rs m)

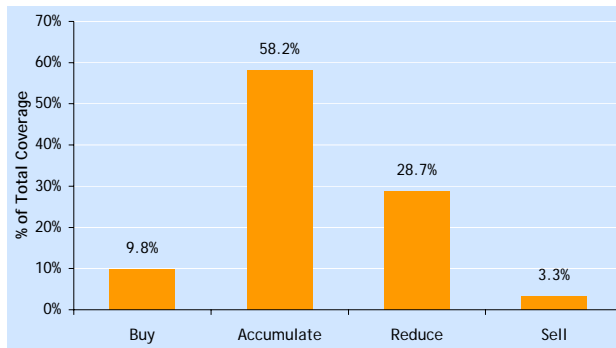
Y/e March	Q1FY10	Q1FY09	YoY gr. (%)	Q4FY09	FY10E	FY09	YoY gr. (%)
Sales	2,293	2,027	13.1	2,697	13,009	11,393	14.2
<b>Expenditure</b>							
Other expenditure	415	386	7.6	447	2,781	2,159	28.8
<i>% of Net Sales</i>	<i>18.1</i>	<i>19.0</i>		<i>16.6</i>	<i>21.4</i>	<i>19.0</i>	
Direct operating exp	324	176	83.9	174	1,469	652	125.3
<i>% of Net Sales</i>	<i>14.1</i>	<i>8.7</i>		<i>6.4</i>	<i>11.3</i>	<i>5.7</i>	
Employee cost / exp	415	421	(1.3)	488	1,900	1,890	0.5
<i>% of Net Sales</i>	<i>18.1</i>	<i>20.8</i>		<i>18.1</i>	<i>14.6</i>	<i>16.6</i>	
Repair & Maintenance	152	201	(24.6)	270	1,000	1,280	(21.8)
<i>% of Net Sales</i>	<i>6.6</i>	<i>9.9</i>		<i>10.0</i>	<i>7.7</i>	<i>11.2</i>	
Total Expenses	1,307	1,184	10.4	1,379	7,149	5,981	19.5
EBITDA	986	843	17.0	1,318	5,860	5,412	8.3
<i>EBITDA Margin (%)</i>	<i>43.0</i>	<i>41.6</i>		<i>48.9</i>	<i>45.0</i>	<i>47.5</i>	
Depreciation	298	258	15.7	247	1,279	1,148	11.4
Other Income	4	304	(98.7)	3	25	22	15.7
EBIT	691	889	(22.2)	1,073	4,606	4,286	7.5
Less: Interest	251	174	44.3	244	1,448	1,065	36.0
PBT	440	715	(38.4)	830	3,158	3,221	(1.9)
Tax	28	63	(55.9)	116	319	470	(32.1)
<i>Effective Tax Rate (%)</i>	<i>9.0</i>	<i>8.8</i>		<i>14.0</i>	<i>10.1</i>	<i>14.6</i>	
PAT	413	652	(36.7)	714	2,839	2,751	3.2
Extra-ordinary items	(191)	-		-	-	-	
Prior Period items	-	-		-	-	-	
Net Profit	222	652	(65.9)	714	2,839	2,751	3.2

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### Rating Distribution of Research Coverage



### PL's Recommendation Nomenclature

<b>BUY</b>	: Over 15% Outperformance to Sensex over 12-months	<b>Accumulate</b>	: Outperformance to Sensex over 12-months
<b>Reduce</b>	: Underperformance to Sensex over 12-months	<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month	<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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