



## Great Offshore

STOCK INFO.	BLOOMBERG
BSE SENSEX: 9,101	GOFF IN
	REUTERS CODE
S&P CNX: 2,797	GOFS.BO

20 January 2009

Buy

Previous Recommendation: Buy

Rs241

		YEAR	NET SALES	EBITDA	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
		END	(RS M)	MARGIN (%)	(RS M)	(RS)	YoY (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	37.1	03/07A	5,901	45.9	1,452	38.1	49.5			23.5	14.7		
52-Week Range	995/200	03/08A	7,959	45.5	1,694	44.4	16.7	5.4	1.3	27.6	14.5	2.1	4.7
1, 6 Rel. Perf. (%)	15/-8/-22	03/09E	11,307	43.3	2,144	57.7	29.9	4.2	1.3	33.8	12.6	2.5	5.7
M. Cap. (Rs b)	9.0	03/10E	14,191	44.5	1,854	49.9	-13.5	4.8	1.3	30.3	15.7	1.9	4.2
M. Cap. (US\$ b)	0.2												

- Consolidated revenue and PAT sharply higher than expected:** Great Offshore standalone 3QFY09 revenue is up 42% YoY at Rs2.8b. Consolidated revenue at Rs3.5b is significantly higher than our expected Rs2.8b. Standalone PAT is flat at Rs577m. However, consolidated PAT is at Rs781m is sharply higher than our expected Rs572m. The major reasons for higher than expected revenue and PAT are: (1) higher than expected utilization levels of assets, (2) in-chartering of vessels; and (3) higher than expected revenue (Rs290m vs Rs185m) in its international subsidiary Great Offshore (International), which operates a high-end AHTSV.
- Operating highlights for the quarter:** During the quarter, drilling rigs and harbor tugs were fully utilized. Utilization level for OSVs was also high at 94% (91% in 3QFY08). Towards end of November 2008, Great Offshore commenced operations for its heavy lift vessel, Malaviya Thirty-Three, at Khafji Oilfields for Saudi Aramco. The value of the one-year firm charter is US\$22 million, with option for two more extensions. Great Offshore commenced billing on its Rs2.34b lump-sum turnkey engineering contract with ONGC.
- Raising FY09E EPS by 8%:** Based on the 9mFY09 performance, we have raised our FY09 revenue estimate by 6%. We have lowered our FY09 EBITDA margin estimate from 44.5% to 43.3%. FY09 PAT and EPS estimates are revised up 8%. FY10 EPS estimate is down 1% mainly due to higher depreciation.
- Stock at 4x FY09E, DCF-based target of Rs660, Buy:** Great Offshore stock is currently trading at an undemanding P/E of 4x FY09E and 5x FY10E. Our DCF valuation suggests a target price of Rs660, 173.5% upside from current levels. We maintain **Buy**.

QUARTERLY PERFORMANCE										(RS MILLION)	
Y/E MARCH	FY08 (Standalone)				FY09 (Consolidated)				FY08	FY09E	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE	Cons.	Cons.	
<b>Total Income</b>	1,740	1,697	2,017	1,870	2,577	2,205	3,502	3,023	7,573	11,307	
Change (%)	50.2	32.6	35.4	23.1	N.A.	N.A.	N.A.	N.A.	34.9	49.3	
Total Expenses	810	801	928	1,120	1,288	1,378	2,005	1,735	4,449	6,407	
<b>EBITDA</b>	930	896	1,088	750	1,288	827	1,497	1,288	3,124	4,900	
Change (%)	51.1	41.4	49.5	6.1	N.A.	N.A.	N.A.	N.A.	33.9	56.8	
EBITDA Margin (%)	53.4	52.8	54.0	40.1	50.0	37.5	42.8	42.6	41.3	43.3	
Depreciation	236	231	263	255	280	320	380	426	986	1,406	
Interest	136	145	211	163	179	177	240	296	684	892	
Extraordinary Inc/ (Exp)	207	83	18	180	0	0	0	0	235	0	
<b>PBT</b>	557	519	615	512	829	330	877	566	1,690	2,602	
Tax	-4	23	65	88	106	36	95	45	173	283	
Tax/Adj. PBT (%)	-0.8	4.4	10.5	17.2	12.8	10.9	10.9	8.0	10.3	10.9	
Reported PAT	562	496	550	424	723	294	782	521	1,516	2,319	
<b>Adjusted PAT *</b>	562	496	550	156	723	294	782	345	1,194	2,144	
Change (%)	60.0	27.9	46.6	-47.8	N.A.	N.A.	N.A.	N.A.	16.7	79.6	
PAT Margin (%)	32.3	29.2	27.3	8.4	28.1	13.3	22.3	11.4	15.8	19.0	

E: MOSL Estimates; \* Adjusted PAT is net of extraordinary items and preference dividend (including dividend tax)

### Consolidated revenue and PAT sharply higher than expected

Great Offshore standalone 3QFY09 revenue is up 42% YoY at Rs2.8b. EBITDA margin is down 13.4% YoY at 40.6%; EBITDA is flat YoY at Rs1.1b. The main reason for flat EBITDA is 135% higher repairs and maintenance cost, including dry-docking cost of Rs110m. Standalone PAT is flat at Rs577m.

#### GREAT OFFSHORE STANDALONE (RS M)

	3Q			9M	
	FY08	FY09	YOY (%)	FY09	YOY (%)
<b>Operating Income</b>	<b>2,017</b>	<b>2,696</b>	<b>33.7</b>	<b>6,829</b>	<b>25.2</b>
<b>EBITDA</b>	<b>1,088</b>	<b>1,095</b>	<b>0.6</b>	<b>2,927</b>	<b>0.4</b>
EBITDA Margin (%)	54.0	40.6	-13.4	42.9	-10.6
Depreciation	263	238	-9.4	756	3.4
Interest	211	230	9.1	642	30.5
<b>PBT</b>	<b>615</b>	<b>627</b>	<b>2.0</b>	<b>1,529</b>	<b>-9.6</b>
Tax	65	50	-22.3	132	58.2
Tax / PBT (%)	10.5	8.0	-2.5	8.6	3.7
<b>Reported PAT</b>	<b>550</b>	<b>577</b>	<b>4.9</b>	<b>1,398</b>	<b>-13.1</b>
<b>Adj. PAT</b>	<b>550</b>	<b>577</b>	<b>4.9</b>	<b>1,398</b>	<b>-13.1</b>
Equity Shares (m)	38.1	37.1	-2.6	37.1	-2.6
EPS (Rs)	14.4	15.5	7.6	37.6	-10.8

Source: Company/MOSL

Consolidated revenue at Rs3.5b is significantly higher than our expected Rs2.8b. Likewise, consolidated PAT is at Rs781m is sharply higher than our expected Rs572m. The major reasons for higher than expected revenue and PAT are:

1. higher than expected utilization levels of assets
2. revenue from in-chartering of vessels, and
3. higher than expected revenue (Rs290m vs Rs185m) in its international subsidiary Great Offshore (International), which operates a high-end AHTSV.

#### GREAT OFFSHORE: BREAKDOWN OF CONSOLIDATED SALES (RS M)

<b>Great Offshore Standalone</b>	<b>2,696</b>
Deep Water Services	336
KEI-RSOS	180
Great Offshore (International)	290
<b>Great Offshore Consolidated</b>	<b>3,502</b>

Source: Company/MOSL

### Operating highlights for the quarter

- During the quarter, drilling rigs and harbor tugs were fully utilized. Utilization level for OSVs was also high at 94% (91% in 3QFY08).
- Towards end of November 2008, Great Offshore commenced operations for its heavy lift vessel, Malaviya Thirty-Three, at Khafji Oilfields for Saudi Aramco. The value of the one-year firm charter is US\$22 million, with option for two more extensions.
- Great Offshore commenced billing on its lump-sum turnkey engineering contract with ONGC for barge bumpers and riser protectors on 80 offshore platforms. The Rs2.34b

contract is expected to be completed by mid-2010. The revenue in 3QFY09 is Rs360m with a PBT margin of about 13.5%.

### **Raising FY09 EPS estimate by 8%**

Based on the 9mFY09 performance, we have raised our FY09 revenue estimate by 6%. We have lowered our FY09 EBITDA margin estimate from 44.5% to 43.3%. As a result, FY09 PAT and EPS estimates are revised up 8%. FY10 EPS estimate is lowered by 1% due to marginally higher depreciation.

### **Stock at 4x FY09E, dividend yield of 6%, target of Rs660; Buy**

Great Offshore stock is currently trading at an undemanding PE of 4x FY09E and 5x FY10E. (FY10 PAT is expected to be lower than FY09 mainly due to dry-docking of Kedarnath.)

Great Offshore paid out Rs16 per share as dividend in FY08. Even if it maintains the same for FY09, the dividend yield works out to 6%.

Great Offshore's revenues are somewhat of an annuity. Visibility and longevity is reasonably high considering significant E&P capex planned by ONGC and Reliance. Our DCF valuation suggests a target price of Rs660, 173.5% upside from current levels. We maintain **Buy**.

## Great Offshore: an investment profile

### Company description

Great Offshore has a strong fleet of 27 OSVs (offshore support vessels), two drill rigs, one construction barge, and 11 harbour tugs. It provides services across the oil E&P value chain, including drilling, marine construction and offshore logistics.

### Key investment arguments

- ✍ Great Offshore has aggressively added 11 new assets in the last two years in a rising day-rate scenario.
- ✍ It has placed orders for its third rig which is due for delivery in early 2009. The rig is already contracted for five years with ONGC, implying visibility of cash flows till 2014.
- ✍ High cash flow visibility coupled with comfortable debt-equity makes it well-placed to tap inorganic growth opportunities.

### Key investment risks

- ✍ Day rates could plateau, depending on the supply of vessels.
- ✍ Great Offshore's fleet includes assets over 30 years, which increase the risk of frequent dry-docking leading to loss of revenue and higher expenditure.
- ✍ Any sharp appreciation in the rupee is a potential dampener to Great Offshore's earnings.

#### COMPARATIVE VALUATIONS

		GREAT OFFSHORE	ABAN OFFSHORE
P/E (x)	FY09E	4.3	2.5
	FY10E	4.8	1.6
P/BV (x)	FY09E	1.3	1.5
	FY10E	1.3	0.8
EV/Sales (x)	FY09E	2.5	3.8
	FY10E	1.9	2.9
EV/EBITDA (x)	FY09E	5.7	6.0
	FY10E	4.2	4.5

#### SHAREHOLDING PATTERN (%)

	DEC-08	SEP-08	DEC-07
Promoter	15.7	20.5	20.6
Domestic Inst	19.6	22.4	21.4
Foreign	9.4	9.4	13.7
Others	55.4	47.7	44.3

### Recent developments

- ✍ **September 2008:** Acquired KEI-RSOS, a port management company along the east coast of India for Rs1.6b (PE of 5.3x FY09E)
- ✍ **August 2008:** Great Offshore (International), a wholly owned subsidiary of Great Offshore took delivery of a high-end AHTSV (acquisition cost undisclosed).

### Valuation and view

- ✍ Valuation is non-demanding at 4x FY09E and 5x FY10E earnings. FY09 dividend yield works out to 6%.
- ✍ DCF-based target price is Rs660, 173.5% upside from current levels.
- ✍ We recommend Great Offshore as a Value **Buy** with a growth option.

### Sector view

- ✍ The oil drilling and related services sector is currently enjoying peak revenue and profitability due to high oil E&P activity globally.
- ✍ Though shipyards are overflowing with orders for new builds, the demand-supply situation is likely to remain favorable for asset owners, at least in India.

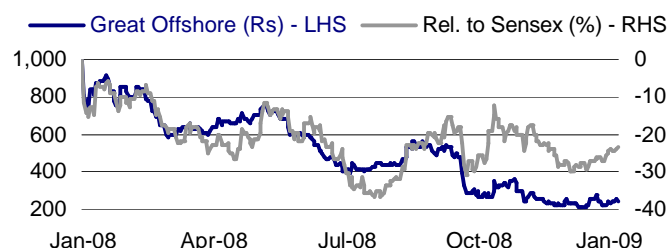
#### EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY09	57.7	45.2	27.7
FY10	49.9	64.8	-23.0

#### TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
241	660	173.5	Buy

#### STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT		(Rs Million)				
Y/E MARCH	2006	2007	2008	2009E	2010E	
<b>Net Sales</b>	<b>3,916</b>	<b>5,901</b>	<b>7,959</b>	<b>11,307</b>	<b>14,191</b>	
Change (%)		50.7	34.9	42.1	25.5	
<b>EBITDA</b>	<b>1,649</b>	<b>2,707</b>	<b>3,624</b>	<b>4,900</b>	<b>6,310</b>	
Change (%)		64.1	33.9	35.2	28.8	
Depreciation	449	709	986	1,406	2,356	
<b>EBIT</b>	<b>1,200</b>	<b>1,998</b>	<b>2,639</b>	<b>3,494</b>	<b>3,954</b>	
Interest	173	361	684	892	1,473	
Other Income	0	0	0	0	0	
<b>PBT</b>	<b>1,027</b>	<b>1,638</b>	<b>1,955</b>	<b>2,602</b>	<b>2,481</b>	
Tax (incl FBT, def. tax)	56	186	173	283	451	
Tax/PBT (%)	5.4	11.3	8.9	10.9	18.2	
<b>Reported PAT</b>	<b>971</b>	<b>1,452</b>	<b>1,782</b>	<b>2,319</b>	<b>2,030</b>	
<b>PAT after Pref. Div.</b>	<b>971</b>	<b>1,452</b>	<b>1,694</b>	<b>2,144</b>	<b>1,854</b>	
Change (%)		49.5	16.7	26.6	-13.5	
EBITDA Margin (%)	42.1	45.9	45.5	43.3	44.5	
PAT Margin (%)	24.8	24.6	21.3	19.0	13.1	

BALANCE SHEET		(Rs Million)				
Y/E MARCH	2006	2007	2008	2009E	2010E	
Share Capital	381	381	381	371	371	
Reserves	4,618	5,795	6,934	6,496	6,321	
<b>Net Worth</b>	<b>4,999</b>	<b>6,176</b>	<b>7,315</b>	<b>6,867</b>	<b>6,692</b>	
Preference capital	0	0	1,500	1,500	1,500	
Total debt	3,812	7,466	9,461	19,362	17,060	
Net Deferred Tax	29	-33	-66	-66	-66	
<b>Capital Employed</b>	<b>8,839</b>	<b>13,609</b>	<b>18,211</b>	<b>27,664</b>	<b>25,186</b>	
Gross Fixed Assets	9,403	13,789	14,973	28,341	31,186	
Less: Acc. Depreciation	3,414	4,120	4,974	6,805	9,677	
<b>Net Fixed Assets</b>	<b>5,988</b>	<b>9,669</b>	<b>9,999</b>	<b>21,536</b>	<b>21,509</b>	
Capital WIP	1,829	3,221	3,906	2,579	0	
Investments	0	0	182	0	0	
<b>Curr. Assets</b>	<b>2,100</b>	<b>2,291</b>	<b>6,583</b>	<b>6,715</b>	<b>7,346</b>	
Inventory	73	63	78	80	90	
Debtors	764	1,240	1,748	2,678	3,350	
Cash & Bank	1,024	576	3,194	1,736	1,119	
Loans, Adv. & Others	240	412	1,563	2,220	2,787	
<b>Curr. Liabilities</b>	<b>1,081</b>	<b>1,573</b>	<b>2,460</b>	<b>3,166</b>	<b>3,669</b>	
Creditors	608	896	1,478	2,184	2,687	
Other Liabilities	438	650	493	493	493	
Provisions	35	27	489	489	489	
<b>Net Curr. Assets</b>	<b>1,020</b>	<b>718</b>	<b>4,123</b>	<b>3,549</b>	<b>3,677</b>	
<b>Total Assets</b>	<b>8,839</b>	<b>13,609</b>	<b>18,211</b>	<b>27,664</b>	<b>25,186</b>	

E: MOSL Estimates

RATIOS						
Y/E MARCH	2006	2007	2008	2009E	2010E	
<b>Basic (Rs)</b>						
<b>EPS</b>	<b>25.5</b>	<b>38.1</b>	<b>44.4</b>	<b>57.7</b>	<b>49.9</b>	
Cash EPS	37.3	56.7	76.4	95.6	113.4	
Book Value	131.1	162.0	191.9	184.9	180.2	
Dividend per share	5.1	8.0	16.0	16.0	16.0	
Payout incl. Div. Tax. (%)	22.6	23.9	35.4	30.0	34.3	
<b>Valuation (x)</b>						
P/E			5.4	4.2	4.8	
Cash P/E			3.2	2.5	2.1	
Price/Book Value			1.3	1.3	1.3	
EV/Sales			2.1	2.5	1.9	
EV/EBITDA			4.7	5.7	4.2	
Dividend Yield (%)			6.6	6.6	6.6	
<b>Profitability (%)</b>						
RoE	19.4	23.5	27.6	33.8	30.3	
RoCE	13.6	14.7	14.5	12.6	15.7	
<b>Turnover Ratios</b>						
Debtors (days of sales)	71	77	80	86	86	
Inventory (days of sales)	7	4	4	3	2	
Creditors (days of exp.)	98	102	124	124	124	
Asset Turnover (x)	0.4	0.4	0.4	0.4	0.6	
<b>Leverage Ratio</b>						
Debt/Equity (x)	0.8	1.2	1.5	3.0	2.8	
Net debt-equity	0.6	1.1	1.1	2.8	2.6	

CASH FLOW STATEMENT		(Rs Million)				
Y/E MARCH	2007	2008	2009E	2010E		
PBT excl. Extraordinary items	1,638	1,955	2,602	2,481		
Add: Depn & Amortization	711	986	1,406	2,356		
Interest paid	361	684	892	1,473		
Less: Direct Taxes Paid	-247	-206	-283	-451		
(Incr)/Decr in WC	-146	-788	-883	-746		
<b>CF from Operations</b>	<b>2,316</b>	<b>2,630</b>	<b>3,734</b>	<b>5,113</b>		
<b>CF including EO items</b>	<b>2,316</b>	<b>2,630</b>	<b>3,734</b>	<b>5,113</b>		
(Incr)/Decr in FA	-5,781	-2,001	-11,615	249		
<b>CF from Investing Activity</b>	<b>-5,781</b>	<b>-2,183</b>	<b>-11,433</b>	<b>249</b>		
Incr/(Decr) in Net worth	72	159	-1,896	-1,334		
Incr/(Decr) in Debt	3,654	1,996	9,901	-2,302		
Interest Paid	-361	-684	-892	-1,473		
Dividend Paid (incl. div. tax)	-348	-714	-695	-695		
<b>CF from Financing Activity</b>	<b>3,018</b>	<b>2,170</b>	<b>6,242</b>	<b>-5,980</b>		
<b>Incr/(Decr) of Cash</b>	<b>-448</b>	<b>2,617</b>	<b>-1,457</b>	<b>-618</b>		
Add: Opening Balance	1,024	576	3,194	1,736		
<b>Closing Balance</b>	<b>576</b>	<b>3,194</b>	<b>1,736</b>	<b>1,119</b>		



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**Great Offshore**

1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	Yes

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