

Garware Offshore (GARSHI)

Rs 164

WHAT'S CHANGED...

PRICE TARGET	Changed from Rs 177 to Rs 203
EPS (FY10E)	Changed from Rs 32.2 to Rs 31.2
EPS (FY11E)	Changed from Rs 35.2 to Rs 33.9
RATING.....	Unchanged

Outlook improving...

Garware Offshore delivered a subdued performance in Q2FY10 due to under utilisation and dry docking of its vessels. However, with the rise in crude oil prices and increase in fleet size the outlook has significantly improved.

Performance set to improve significantly in H2FY10

Garware Offshore delivered a subdued performance in Q2FY10 as its sales dropped by 5% QoQ to Rs 54.2 crore. Sales dropped as its two AHTS vessels were idle and one PSV was sent for dry docking for 15 days each during Q2FY10. PAT dropped by 59% QoQ to Rs 6.4 crore. However, we expect the company to show a significant improvement in both sales & PAT in H2FY10. Addition of two more vessels to its fleet in Q2FY10 and no dry docking in H2FY10 will significantly increase revenues in H2FY10.

Strong earnings visibility on improving biz outlook, firm contracts

Crude oil prices have recovered significantly from their low of \$34/bbl in January 2009. With rise in crude oil prices and global economic recovery, oil exploration and drilling activities have once again picked up pace. This has resulted in an improvement in utilisation and also higher day rates for offshore vessels. Garware Offshore has scaled up its operations and in the last quarter added two more vessels (AHTS + barge) to its fleet. This will lead to a rise in revenue. Another positive is that almost 3/4 of its revenue is derived from firm contracts that provide strong earnings visibility.

Valuation

With the ramp up of operations over the last one year, Garware Offshore is in a position to reap the benefits in the coming quarters and would deliver impressive results. We value Garware Offshore at 6x FY11 earnings, with a target price of Rs 203.

Exhibit 1: Performance Highlights

(Rs. Crore)	Q2FY10	Q2FY10E	Q2FY09	Q1FY10	QoQ Gr.(%)	YoY Gr. (%)
Net Sales	54.2	60.5	48.8	57.1	-5.2	11.0
EBITDA Margin (%)	41.9	56.2	55.4	56.0	-25.2	-24.4
Depreciation	8.5	8.0	6.0	7.7	11.4	41.2
Interest	7.9	9.5	6.1	8.9	-11.2	29.7
Other Inc/Ext. item	0.1	0.0	30.3	0.2	-39.4	-99.7
Reported PAT	6.4	16.3	-15.2	15.5	-58.9	-
EPS (Rs)	2.7	6.9	-	6.5	-58.9	-

Source: Company, ICICIdirect.com Research

Rating matrix

Rating	: Outperformer
Target	: Rs 203
Target Period	: 12 months
Potential Upside	: 24 %

Key Financials

(Rs Crore)	FY08	FY09	FY10E	FY11E
Net Sales	113.7	163.2	250.2	276.7
EBITDA	64.5	76.5	118.8	141.0
Net Profit	42.6	41.1	74.2	80.6

Valuation summary

	FY08	FY09	FY10E	FY11E
PE (x)	9.5	9.9	5.5	5.0
Target PE (x)	11.3	11.8	6.5	6.0
EV to EBITDA(x)	10.3	12.1	7.6	7.3
Price to book (x)	2.1	1.8	1.4	1.1
RoNW (%)	22.5	17.2	25.9	22.8
RoCE (%)	14.2	9.9	14.1	14.3

Stock data

Market Capitalisation	Rs 404.6 crore
Debt (FY09)	Rs 654.1 crore
Cash (FY09)	Rs 11.9 crore
EV (FY09)	Rs 1125.8 crore
52 week H/L (Rs)	199/52
Equity capital	Rs 23.8 crore
Face value	Rs. 10
MF Holding (%)	0.1
FII Holding (%)	-

Price movement (stock vs. Nifty)



Analyst's name

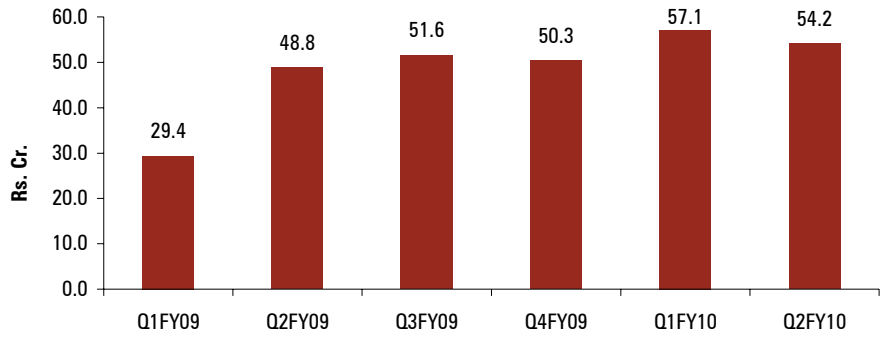
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Sales in Q2FY10 dipped 5% QoQ to Rs 54.2 crore but this was not a cause for concern as the drop was mainly due to the fact that one of its PSV (MV Kailash) was sent for dry docking and two of its AHTS vessels (Meghna & Mahananda) were laid off for 15 days in Q2FY10

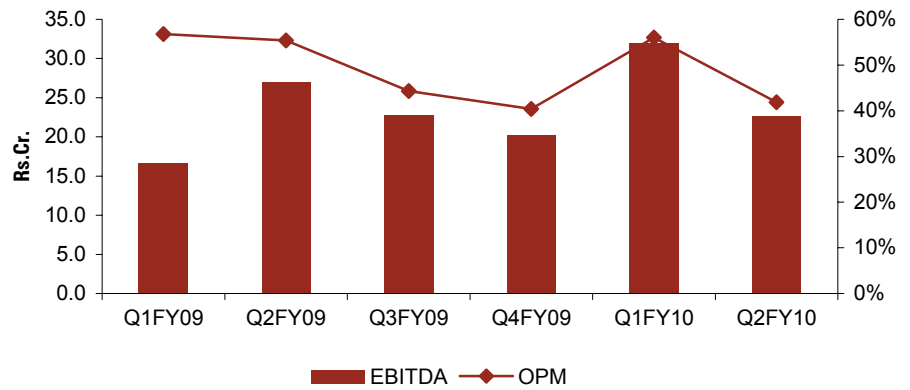
Exhibit 2: Minor dip in sales — not a cause for concern



Source: Company, ICICIdirect.com Research

EBITDA margin declined from 56% to 42% QoQ on account of dry docking expenses incurred on MV Kailash. However, during the next two quarters of FY10, none of Garware’s vessels will be dry docked leading to a drop in other expenditure and a corresponding rise in operating margin in H2FY10

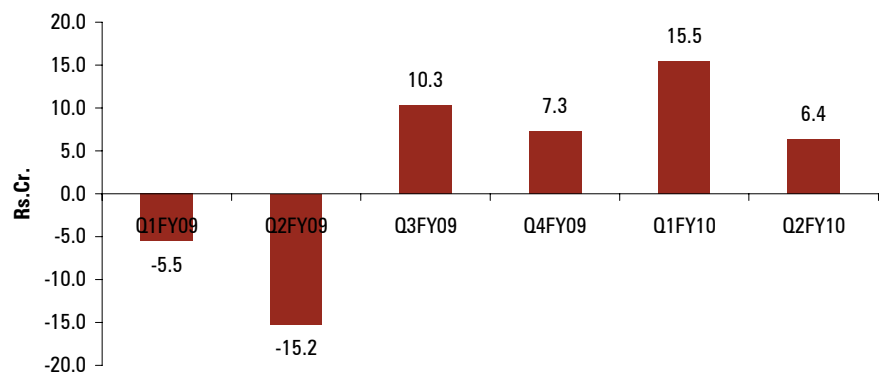
Exhibit 3: EBITDA margin expected to improve, going forward



Source: Company, ICICIdirect.com Research

PAT dropped 59% QoQ but this was again a result of lower EBITDA translating into lower net profit. With no dry docking lined up we expect the PAT to recover sharply in the next quarter

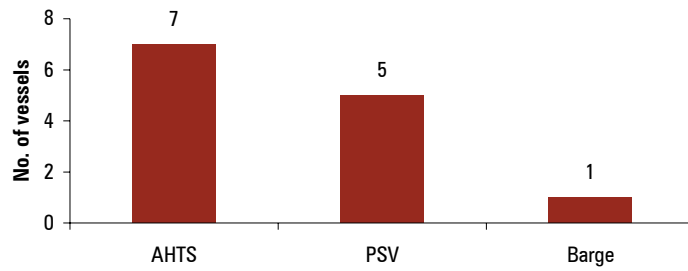
Exhibit 4: PAT expected to improve in H2FY10



Source: Company, ICICIdirect.com Research

During the quarter, Garware added one work barge (Beau Geste) and one AHTS vessel (MV Sherghar) to its fleet increasing its fleet size to 13 vessels

Exhibit 5: Vessel addition to scale up revenues

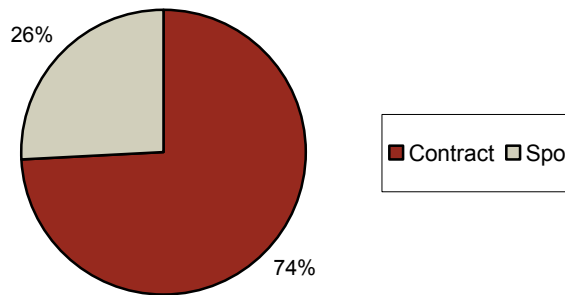


Source: Company, ICICIdirect.com Research

With the scaling up of its vessel fleet, revenues are expected to increase, going forward. Although there has been a small drop in revenues QoQ, there has been a significant rise in revenues on a YoY basis. H2FY10 is expected to be even better with the addition of two vessels and an improving business outlook.

Long-term charter contracts provide strong earnings visibility

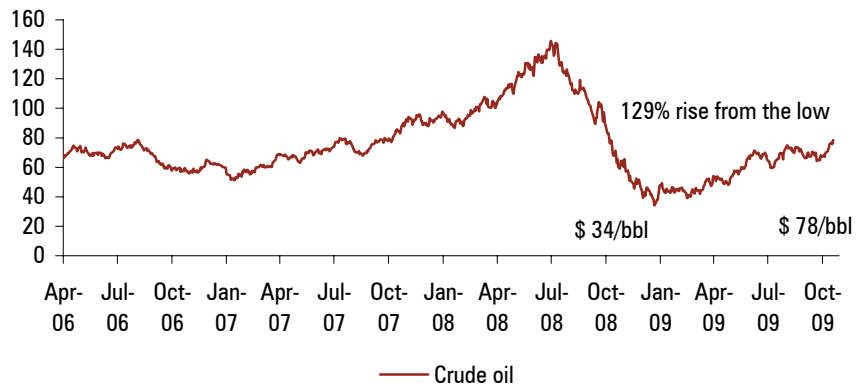
Exhibit 6: Almost 3/4 revenue derived from charter contracts



Source: Company, ICICIdirect.com Research

Crude oil prices have risen by 129% to \$78/bbl from the low of \$34/bbl in January 2009. The strength in crude oil prices will lead to an increase in deployment of offshore vessels resulting in better revenues for Garware Offshore

Exhibit 7: Rise in crude oil prices a positive development for Garware Offshore



Source: Company, ICICIdirect.com Research

Better performance expected over the next two quarters

Detailed valuation

Garware Offshore delivered a subdued performance in Q2FY10 as it witnessed a drop in sales and PAT QoQ. However, we expect the company to show a significant improvement in both sales & PAT in the remaining two quarters of FY10. Addition of two vessels to its fleet in Q2FY10 will provide incremental revenues. There is also no dry docking scheduled in H2FY10 unlike Q2FY10 when one of its vessels was dry docked leading to a loss of revenue days. Crude oil prices have revived substantially over the last nine months showing significant strength. This will lead to a rise in oil exploration and drilling activities in the coming months resulting in a rise in deployment of offshore vessels and higher day rates for offshore vessels.

Exhibit 8: Valuations

	Sales (Rs. cr)	Sales Growth (%)	EPS (Rs.)	EPS Growth (%)	PE (x)	EV/EBITDA (X)	RoNW (%)	RoCE (%)
FY09	163.2	43.6	17.3	-3.6	9.5	12.1	17.2	9.9
FY10E	250.2	53.3	31.2	80.8	5.3	7.6	25.9	14.1
FY11E	276.7	10.6	33.9	8.6	4.8	7.3	22.8	14.3

Source: Company, ICICIdirect.com Research

Exhibit 9: Revision of estimates

	Old		New	
	FY10E	FY11E	FY10E	FY11E
Sales	249.6	290.4	250.2	276.7
EBITDA	136.6	156.3	118.8	141.0
Net Profit	76.6	83.8	74.2	80.6
EPS	32.2	35.2	31.2	33.9

Source: Company, ICICIdirect.com Research

With the ramping up of operations over the last one year, Garware Offshore is in a position to reap the benefits in the coming quarters and would deliver impressive results. We value Garware Offshore at 6x FY11 earnings, with a target price of Rs 203.

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Aban Offshore			Sales (Rs. Crore)	EPS (Rs.)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	ABALLO CMP (Rs.)	1576 FY09	3183.6	138.7	11.4	10.7	36.7	10.5
	Target (Rs.)	1309 FY10E	3802.7	169.7	9.3	8.3	31.3	12.8
MCap	5957.3 % Upside	-17 FY11E	4051.1	188.5	8.4	7.6	28.1	14.3
Mercator Lines			Sales (Rs. Crore)	EPS (Rs.)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	MERLIN CMP (Rs.)	64 FY09	2210.9	16.0	4.0	4.6	16.7	16.3
	Target (Rs.)	65 FY10E	2019.4	8.5	7.5	6.4	9.4	12.0
MCap	1510.4 % Upside	2 FY11E	2149.1	10.4	6.1	5.8	10.4	13.2
G.E Shipping			Sales (Rs. Crore)	EPS (Rs.)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	GESHIP CMP (Rs.)	301 FY09	3791.6	93.1	3.2	3.9	27.1	16.2
	Target (Rs.)	276 FY10E	2891.9	41.2	7.3	6.5	10.2	9.7
MCap	4605.3 % Upside	-8 FY11E	3527.5	64.2	4.7	4.7	14.1	12.2
Varun Shipping			Sales (Rs. Crore)	EPS (Rs.)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	VARSHI CMP (Rs.)	58 FY09	914.7	8.2	7.1	7.8	13.5	12.7
	Target (Rs.)	59 FY10E	932.9	9.6	6.1	7.2	14.2	13.0
MCap	870.0 % Upside	2 FY11E	968.5	11.0	5.3	7.5	14.7	12.5
Great Offshore			Sales (Rs. Crore)	EPS (Rs.)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	GREOFF CMP (Rs.)	527 FY09	1139.3	74.1	7.1	5.4	29.3	18.1
	Target (Rs.)	431 FY10E	1151.8	51.0	10.3	5.9	17.3	15.6
MCap	1955.2 % Upside	-18 FY11E	1402.4	75.2	7.0	4.2	21.0	17.5
Garware Offshore			Sales (Rs. Crore)	EPS (Rs.)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	GARSHI CMP (Rs.)	164 FY09	163.2	17.3	9.5	11.9	17.2	9.9
	Target (Rs.)	203 FY10E	250.2	31.2	5.3	7.5	25.9	14.1
MCap	390.3 % Upside	24 FY11E	276.7	33.9	4.8	7.2	22.8	14.3

Source: Company, ICICIdirect.com Research

Global Peers

Company	Country	EPS (USD)			P/E (x)			EV/EBITDA (x)			ROE (%)		
		CY08	CY09E	CY10E	CY08	CY09E	CY10E	CY08	CY09E	CY10E	CY08	CY09E	CY10E
Offshore													
Tidewater*#	USA	7.4	7.4	5.8	5.8	6.3	8.1	4.3	4.5	5.3	15.3	15.3	11.4
Gulfmark*	USA	6.1	4.5	3.7	4.8	7.3	8.9	5.0	5.9	6.8	18.5	13.7	11.0
SIEM Offshore*	Norway	0.2	0.1	0.2	6.4	12.1	8.6	9.0	10.3	5.9	10.7	13.1	11.7
Diamond Offshore*	USA	9.9	10.0	9.6	9.7	9.3	9.7	4.7	6.0	6.0	44.0	39.3	35.0
Aban Offshore#	India	2.8	3.5	2.6	8.5	6.9	6.2	9.7	7.5	6.8	36.7	31.3	28.1
Great Offshore#	India	1.5	1.0	1.5	7.3	8.3	5.6	5.4	5.9	4.2	29.3	18.3	21.1
Garware Offshore#	India	0.4	0.6	0.6	9.2	9.5	5.3	10.0	11.9	7.5	22.4	17.2	25.9

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