Emkay Research

Garware Offshore

Result Update

Dry dock and mobilisation cost impacts results

21 October 2009

Buy

Price	Target Price
Rs179	Rs210

Sensex – 17,223

Price Performance

(%)	1M	3M	6M	12M
Absolute	5	20	67	57
Rel. to Sensex	2	6	5	(7)

Source: Bloomberg

Stock Details

Sector	Offshore Oil Field Services
Reuters	GRSH.BO
Bloomberg	GWOS@IN
Equity Capital (Rs mn)	238
Face Value (Rs)	10
No of shares o/s (mn)	24
52 Week H/L (Rs)	199/52
Market Cap (Rs bn/USD mn)	4/87
Daily Avg Vol (No of shares)	19136
Daily Avg Turnover (US$ mn)	0.1

Shareholding Pattern (%)

	30-Jun-09	31-Mar-09	31-Dec-08
Promoters	30.8	30.7	30.4
FII/NRI	31.5	31.4	31.4
Institutions	3.4	3.4	3.4
Private Corp	9.0	8.7	9.2
Public	25.4	25.8	25.6

Source: Capitaline

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Garware Offshore Services Ltd (GOSL) Q2FY10 standalone net profit at Rs89.9mn, is below expectation (Rs115.5mn) owing to lower than estimated revenues and one time expenses incurred on dry docking and mobilization. Revenues for the quarter stood at Rs 444.2mn against our estimates of Rs 479.1mn as 2 AHTSVs in the spot market remained idle for 2 weeks. EBIDTA for the quarter at Rs 252.8mn (-5.6% yoy), was below our estimates of (Rs 286.7mn) on account of one time expenses incurred on dry docking and mobilization. Standalone adjusted PAT before at Rs 89.9mn declined by 38.8% yoy. During the quarter GOSL took delivery of Accommodation Work Barge (AWB) viz., Beau Geste and an AHTSV viz., MV Shergar, in its wholly owned subsidiary, on bareboat charter. This is expected to fuel not only GOSL's revenue and earnings growth going forward, but also improve its return ratios. With 11 vessels out of 13 vessels on long term contracts GOSL is sitting on revenue backlog of USD81mn, thereby providing strong earnings visibility. We maintain our earnings estimates for GOSL at Rs30.1/share for FY10 and introduce our FY11 estimates at Rs35.1/share. At current levels, the stock is trading at attractive valuations of 5.2x FY11E earnings. We maintain our BUY recommendation on the stock with a revised price target of Rs210.

Result Highlights

- Standalone revenue for quarter at Rs444 mn remained flat (-0.3% yoy) as higher fleet days were negated by lower day rates for vessels working in spot. Further 2 Ahtvs in the spot did not work for 2 weeks which resulted in lower than expected revenue.
- EBIDTA for the quarter declined by 5.6% yoy to Rs252.8mn (our estimates of Rs286.7mn) mainly due to lower revenues as well as dry docking expenses of Rs5 mn on vessels Kailash and mobilisation expenses of approximately Rs19.2 mn on vessel Everest. Consequently EBIDTA margins for the quarter witnessed a decline of 320bps to 56.9%.
- Other expenditure for the quarter stood at Rs 111.8 (25% of the sales) as against our estimates of Rs 95.9mn (20% of sales) which includes one time expenses like mobilization expenses of USD 40,000 (Rs 19.2mn) incurred on Everest as well as dry docking expenses of Rs 5mn incurred on vessel Kailash.
- On account of capex incurred, Interest cost increased by 29.2%yoy to Rs78.7mn while depreciation charge increased 40.7% to Rs85mn.
- Consequently pre-exceptional net profit declined by 38.8% yoy to Rs89.9mn, which was lower than our estimate of Rs115.5mn.
- Consolidated revenues for the quarter stood at Rs 541.5mn registering a growth 11.04% yoy, as GOSL took delivery of accommodation barge (which worked for 3 weeks) and 1 Anchor handling tug (which worked for 1 week) in its Singapore subsidiary. Consolidated net profit for the quarter stood at Rs635 mn registering a decline of 32.46% on account of one time pre-operative expenses incurred on two new vessels taken in the Singapore sub. We would like to highlight that GOSL has incurred USD 1.5 million on the above two vessels for Mobilisation, Equipment fitting and initial operating expenses. Out of this USD 0.5 million (Rs 24.25mn) of expenses were charged in this quarter. The balance USD 1 mn will be charged in next two quarters.

Financial Snapshot

Y/E, Dec (Rs. m)	Net sales	EBIDTA	EBIDTA (%)	PAT	EPS (Rs.)	EPS growth (%)	ROCE (%)	PE (x)
FY08(15m)	1136.7	645.1	56.8	264.5	11.1	57.5	13.0	16.2
FY09	1632.2	873.4	53.5	411.5	17.3	55.6	10.0	10.4
FY10E	2738.0	1567.5	57.3	716.0	30.1	74.0	14.6	6.0
FY11E	3179.9	1707.7	53.7	829.1	34.8	15.8	14.0	5.2

Result Table

(Y/E Mar, Rs mn)	Q2FY09	Q2FY10A	Var (%)	H1FY2009	H1FY2010	Var (%)
Net Sales	**446**	**444**	**-0.3**	**723**	**956**	**32.3**
Total Expenditure	**178**	**191**	**7.6**	**288**	**387**	**34.6**
Stock Adjustment	20	-11	-158.8	-39	-8	-79.4
Employee Expenses	66	91	38.5	116	183	58.4
Other Expenses	93	112	20.7	211	212	0.4
Operating Profit	**268**	**253**	**-5.6**	**435**	**569**	**30.7**
Other Income	2	2	9.5	5	3	-28.5
Interest	61	79	29.2	101	168	65.6
PBDT	**208**	**176**	**-15.6**	**338**	**404**	**19.5**
Depreciation	60	85	40.7	100	162	62.2
PBT	**148**	**91**	**-38.7**	**239**	**243**	**1.7**
Tax	1	1	-12.1	3	2	-42.5
APAT	**147**	**90**	**-38.8**	**236**	**241**	**2.2**
Extraord item	-302	0	-100.0	-291	1	-100.3
RPAT	**-155**	**90**	**-158.1**	**-55**	**242**	**-537.3**
AEPS	**6.17**	**3.77**	**-38.9**	**9.9**	**10.12**	**2.2**
Margin Ratios						
OPM(%)	60.1	56.9		60.2	59.5	
PBDTM(%)	46.7	39.6		46.8	42.3	
PATM(%)	33.0	20.2		32.6	25.2	

GOSL takes delivery of two vessels on bareboat charter - earning to get traction - Return ratios to improve

During Q2FY10, company took delivery of Accommodation Work Barge (AWB) viz., Beau Geste and an AHTSV viz., MV Shergar, in its wholly owned subsidiary Garware Offshore International, on bareboat charter. Consequently wee see GOSL consolidated revenue and earnings getting traction from Q3FY2010 onward. During FY2008 and FY2009 GOSL's RoCE stood at unimpressive levels of 13% and 10% respectively. However with EBIDTA margins of close to 40% on the above mentioned bareboat charters and no significant capital employed on these vessels we expect GOSL' return ratios to improve going forward.

Strong earnings visibility

At the end of Q2FY2010, debt on GOSL balance sheet stands at Rs5.84 bn and its networth stands at Rs2.5 bn, translating into D/E ratio of 2.23 X. Though the leverage is high, we believe the same is reasonable considering that 11 out of its 13 vessels are already on long term contract ranging from 18-24 months. Further, company has revenue backlog of USD 81 mn on its orderbook.

Outlook & Valuation

Following the recent upsurge in price of crude oil, fundamentals for oil services companies have improved and we expect the global E&P capex to gather some momentum going forward. Given this encouraging outlook we expect day rate for OSV to stabilize in FY2010. We believe GOSL strategy of locking in significant proportion of its fleet on long term has paid rich dividend and has insulated the company from sharp downturn in oil field services demand. With 11 vessels out of 13 vessels on long term contracts GOSL is sitting on revenue backlog of USD81mn, thereby providing strong earnings visibility. Further the recent acquisition of value accretive bareboat charter vessels puts GOSL on strong footing. We maintain our earnings estimates for GOSL at Rs30.1/share for FY10 and introduce our FY11 estimates at Rs35.1/share. At current levels, the stock is trading at attractive valuations of 5.2x FY11E earnings. We maintain our BUY recommendation on the stock with a revised price target of Rs210.

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