Offshore Services Industry

June 20, 2008

SECTOR COVERAGE

Industry	Offshore Services
Industry View	ATTRACTIVE (AT)

Aban Offshore Ltd

Rating	BUY
CMP (Rs.)	3567
Market Cap (Rs.Mn.)	137472
Share Cap (Rs.Mn.)	77
52 Wk High/Low	5555/2258
Avg. Vol. (Daily)	61887
Face Value (Rs)	2
Target Price (Rs.)	4888

Great Offshore Ltd

Rating	REDUCE
CMP (Rs.)	581
Market Cap (Rs.Mn.)	22136
Share Cap (Rs.Mn.)	381
52 Wk High/Low	1145/556
Avg. Vol. (Daily)	29629
Face Value (Rs)	10
Target Price(Rs.)	654

Garware Offshore Services Ltd

Rating	BUY
CMP (Rs.)	186
Market Cap (Rs.Mn.)	4430
Share Cap (Rs.Mn.)	238
52 Wk High/Low	361/161
Avg. Vol. (Weekly)	29199
Face Value (Rs)	10
Target Price(Rs.)	257

"Barrels" of Opportunity

Crude oil continues to surge and is consistently breaking its lifetime highs. At USD135/barrel, the price of crude has increased by 29% over the past 3 months and by 95% during the past 1 year. In this scenario high activity is being witnessed worldwide in the search for crude. Oil companies are increasing their budgetary allocation to E&P (Exploration & Production) activities for the coming years. A key beneficiary of this increase in exploratory budgets would be Offshore Services Companies, who provide supporting services such as Drilling assets, Offshore support vessels (OSV's), Seismic data collection, Marine construction etc. During the past 3 years the day rates of drilling assets (Rigs) have already gone up by 200%. The present asset utilization rates of Jack Up Rigs & Semi Submersibles are ~93% & 90% respectively, indicating strong global demand for drilling assets and OSV's. We believe Offshore services companies that have a global presence, modern fleet of assets and planned inflow of new assets during the next 12-18 months would benefit the maximum. We initiate coverage on the industry with Attractive rating and a "Buy" rating on Aban Offshore & Garware Offshore Services and a "Reduce" rating on Great Offshore.

Substantial increase in the day rates of offshore assets

The rally in crude prices witnessed over the past 3 years has led to a substantial increase in the day rates of drilling assets & OSV's. The average day rate for a 350 feet Jack Up Rig has increased from ~USD58,000 during FY05 to USD1,85,000 during FY08. The increase in day rates is also due to the fact that very few offshore assets were added to the global fleet during the last decade, as crude prices were low. Lesser addition of offshore assets to the global fleet combined with the strong rally in crude oil has resulted in increased demand for offshore assets.

Oil exploration likely to shift more towards the Offshore space

Approximately 85% of India's oil reserves lie in the offshore space and only ~20% of the sedimentary basins are explored till date, suggesting increased activity in the offshore space going forward. Also the present scenario of high crude prices has made deep water & ultra-deep water exploration economically viable. More activity is envisaged in the deep-water segment & globally offshore services companies are looking to acquire deep-water capable assets. In India, Great Offshore is planning to acquire a Semi Submersible sixth generation Rig, capable of drilling in the ultra-deep water space.

Indian companies are expanding their offshore fleet

Indian companies have planned for timely addition of new offshore assets during the coming 12 months. Aban Offshore is adding two 350 feet Jack Up Rigs & two 375 feet Jack Up Rigs to its fleet during FY09. Great Offshore is increasing its fleet size by adding 1 Jack Up Rig and 1 MSV and Garware Offshore is adding 5 OSV's and 1 construction barge by July 2009. Indian companies are expanding their fleet size at the right time envisaging the strong demand for offshore assets in the market place. Indian companies have a presence globally and have served reputed clients such as British Gas, Chevron, Petronas, Cairn, Exxon Mobil, Hardy Exploration etc.

Globally asset utilization rates of offshore assets are running high and day rates are expected to remain strong in the coming years. We are positive on offshore services companies that have a diversified customer base & geographical presence, possess a young fleet of offshore assets and have planned addition of new offshore assets during the next 1 year.

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INDUSTRY OVERVIEW

Day rates have increased substantially

During the past 3 years day rates of offshore drilling assets have increased substantially by over 200%. The reason being the rally witnessed in crude prices over the past 2-3 years, which has led to increased exploration activity worldwide and also due to lesser addition of offshore drilling assets over the past decade. The day rates for a 300+ feet Jack Up Rig has increased from ~USD60,000 during 2005 to USD1,85,000 during 2008.

Chart 1: Day rate trends of Jack up rigs

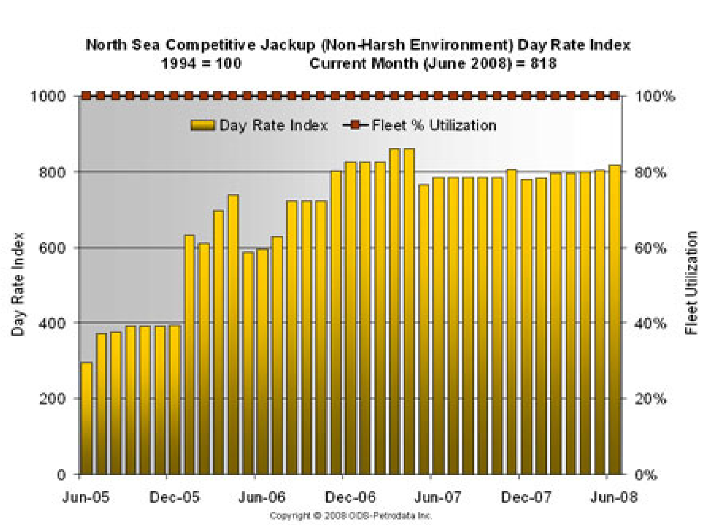
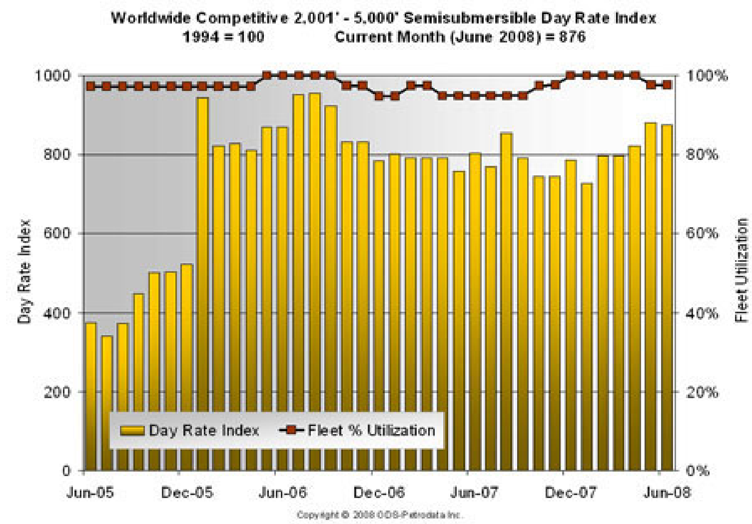


Chart 2: Day rate trends of Semisubmersibles



Source:ODSPetrodata

Rally in crude prices

Global crude prices have rallied for the past 3 years and are close to USD135 per barrel. High crude prices have led to an increase in the budgetary allocation for E&P activities by Oil companies, thereby resulting in increased demand for offshore services. Also the present scenario of high crude prices has made deep water & ultra deep-water exploration economically viable. The coming years would see an increase in exploration activities in the offshore space, resulting in increased demand for Rigs, OSV's, Marine construction & offshore consultancy services.

Chart 3: Price of Brent crude

Source: Capitaline

Global utilization rates of competitive drilling assets are high

Competitive drilling assets are the Rigs owned by the Offshore serviceproviders such as Aban. Globally the utilization rates of competitive drilling assets have been high over the past 1 year, indicating strong demand in the market place. With an increase in the budgets for E&P activities by Oil companies, the demand for drilling assets is expected to be strong going forward, leading to high utilization rates and strong day rates.

Table 1 : Utilization rates of competitive offshore Rig fleet (World wide)

	Drillships			Jackups			Semisubs		
	W	A	Utilization	W	A	Utilization	W	A	Utilization
June -08*	29	36	81%	334	373	89%	136	158	86%
May-08	25	36	69%	332	370	90%	133	157	85%
Mar-08	30	36	83%	344	370	93%	142	158	90%
Feb-08	32	36	89%	338	368	92%	135	158	85%
Jan-08	32	36	89%	335	367	91%	135	157	86%
Dec-07	31	35	89%	334	364	92%	136	156	87%
Nov-07	31	35	89%	333	364	91%	136	156	87%
Oct-07	32	35	91%	335	363	92%	138	156	88%
1-year ago	28	35	80%	304	353	86%	130	156	83%

*A – Available W – Working Source: www.rigzone.com * As on 13/06/2008*

Utilization rates of non-competitive drilling assets are low

Non-competitive drilling assets are the Rigs owned by the Oil E&P companies.

Table 2: Present utilization rates of non-competitive offshore Rig fleet

	W	A	Utilization
Drill Barge	21	37	57%
Drillship	5	33	15%
Jackup	33	126	26%
Semisub	15	55	27%
Submersible	0	1	0%

A – Available W – Working Source: www.rigzone.com

What could be the reasons?

- The assets owned by the Oil E&P companies could be quite old, needing major overhaul to operate in the present scenario
- Unableness to manage the drilling assets in different regions across the globe, due to unavailability of skilled manpower & procedural bottlenecks.
- Deciding to focus on core activities and outsource exploratory drilling to a third party.

Low utilization rates of non-competitive drilling assets indicate opportunity for Offshore drilling providers like Aban, to service the drilling requirements of Oil E&P companies, which are expected to increase in the coming years.

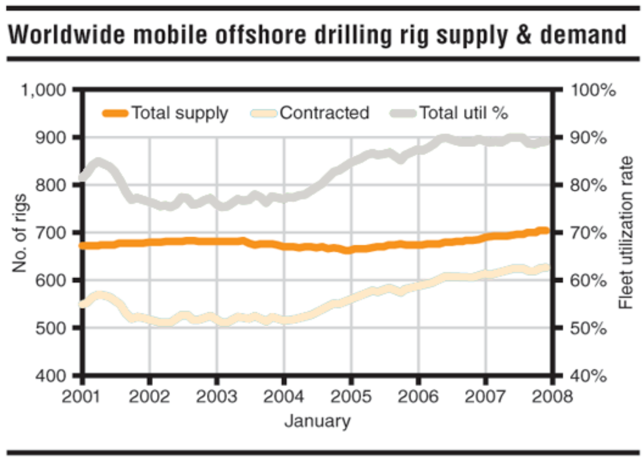
Table3 : Age Analysis of World wide Jack -up Rigs

	60's	70's	80's	90's	00-05	06-10	Total
Cantilever	7	66	212	17	18	46	366
Slot	3	34	18				55
Total	10	100	230	17	18	46	421

Source:Jindal Drilling Corporate Presentation

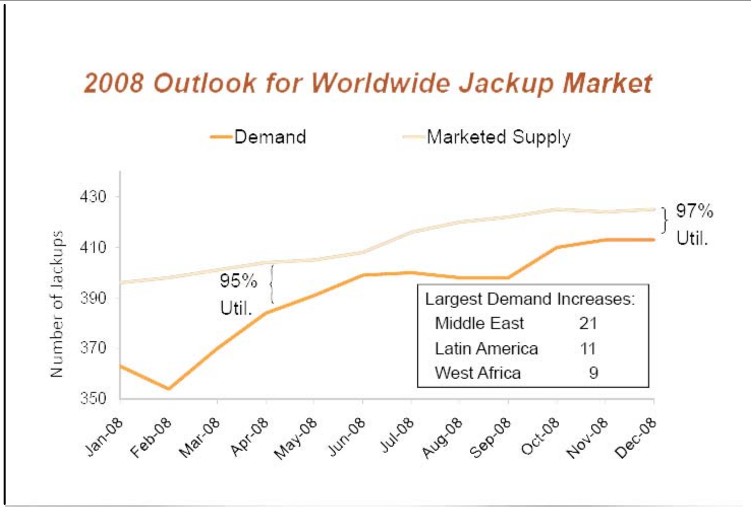
Around 121 Rigs worldwide are under construction – 69 Jack Ups & 52 Floaters (14 Drill Ships & 38 Semi-Submersibles). The estimated life of a Rig is 25 - 30 years. Around 110 Rigs (26%), which are 1960's & 1970's made, are expected to be replaced over the next 2 – 3 years. Average time taken for construction of a Rig is 3 – 4 years. Several existing Rigs of world fleet will retire by 2010, which will offset incremental capacity.

Chart 4: **Worldwide demand-supply scenario of Offshore Rigs**



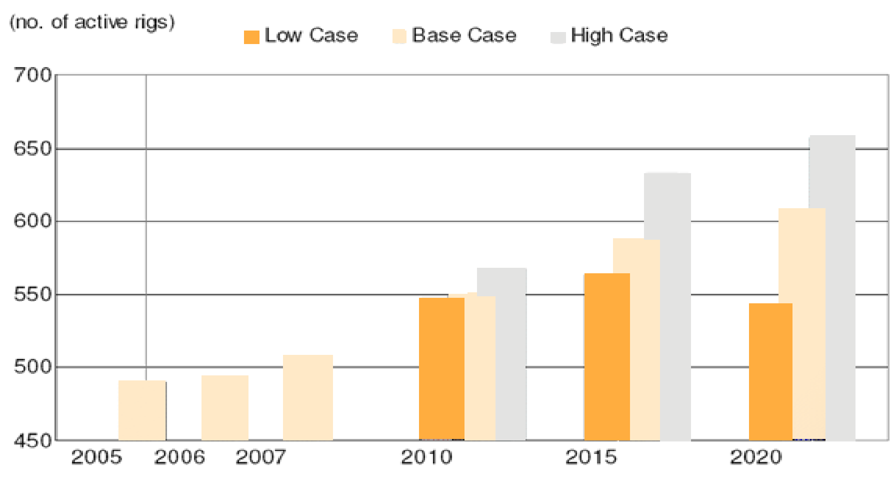
Source:www.offshore-mag.com

Chart 5: Outlook for worldwide JackUps



Source:ENSCO Presentation

Chart 6: Projected world Rig activity by case



Source: Ocean Shipping Consultants

Table 4 : Year 2008 Rotary Jack up Rig Counts

	May-08				Apr-08			May-07		
	Land	Offshore	Total	Var.	Land	Offshore	Total	Land	Offshore	Total
Europe	47	54	101	8	46	47	93	28	60	88
Middle East	247	31	278	-1	244	35	279	237	31	268
Africa	52	14	66	-7	55	18	73	44	16	60
Latin America	282	85	367	-13	294	86	380	277	73	350
Asia Pacific	142	121	263	14	138	111	249	125	116	241
International	**770**	**305**	**1075**	**1**	**777**	**297**	**1074**	**711**	**296**	**1007**
United States	1795	68	1863	34	1765	64	1829	1671	77	1748
Canada	135	0	135	29	105	1	106	105	2	107
North America	**1930**	**68**	**1998**	**63**	**1870**	**65**	**1935**	**1776**	**79**	**1855**
Worldwide	**2700**	**373**	**3073**	**64**	**2647**	**362**	**3009**	**2487**	**375**	**2862**

Rotary Rig Counts are counts of the number of drilling rigs actively exploring for or developing oil or natural gas *Source: Baker Hughes*

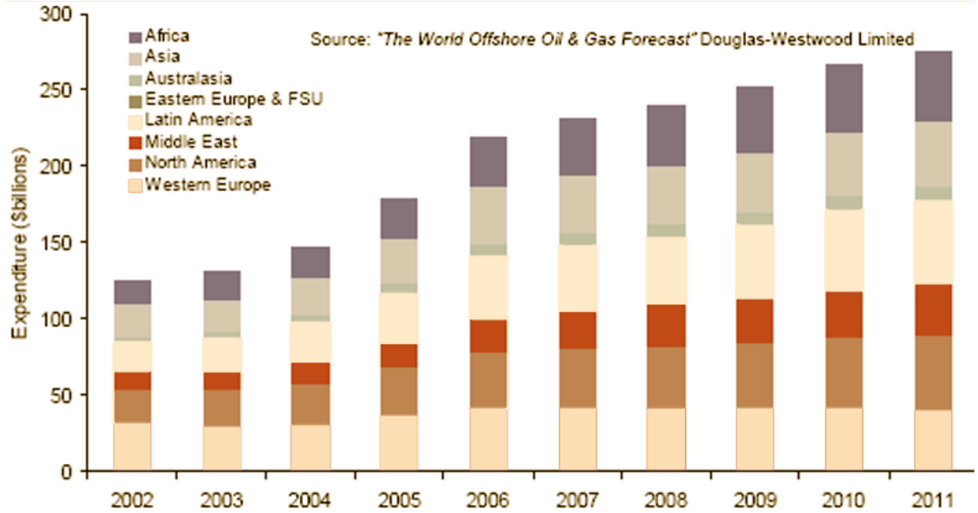
Table5 : Offshore drilling rigs order book versus existing fleet

	Total		Semi		Jackup		Drillship		Tender	
Existing fleet	606		**154**		388		37		27	
Newbuilding	106	17.5 %	**31**	**20.1 %**	62	16.0 %	10	27.0 %	3	11.1 %
NB 2006	5	0.8 %	**1**	**0.6 %**	3	0.8 %	0	0.0 %	1	3.7 %
NB 2007	24	4.0 %	**1**	**0.6 %**	21	5.4 %	1	2.7 %	1	3.7 %
NB 2008	46	7.6 %	**12**	**7.8 %**	28	7.2 %	5	13.5 %	1	3.7 %
NB 2009	28	4.6 %	**14**	**9.1 %**	10	2.6 %	4	10.8 %	0	0.0 %
NB 2010>	3	0.5 %	**3**	**1.9 %**	0	0.0 %	0	0.0 %	0	0.0 %

Source: Frigstad Discoverer Invest Ltd – Listing Prospectus

- ***Options not included***
- ***Existing fleet inculdes competitive fleet only***

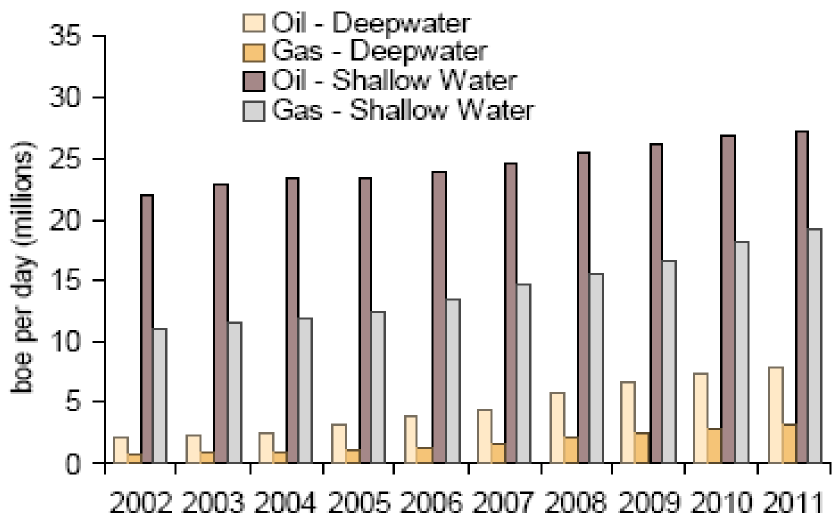
Chart 7: Global Offshore production & spend to grow



Source: Douglas Westwood

European spend is in overall decline due to mature shallow regions and lack of significant deepwater activity. Future growth is expected to be contributed by other regions.

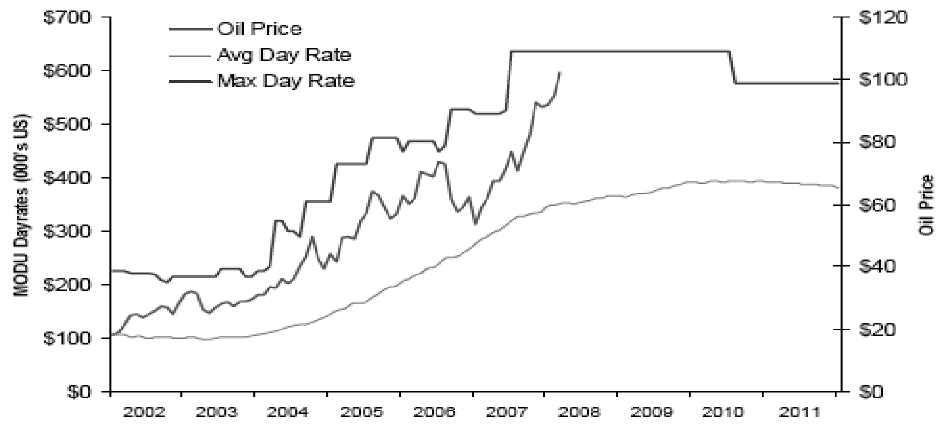
Chart 8: Deep-water oil & gas production to show strong growth



Source: Douglas Westwood

For the period 2007-11, offshore Oil & Gas production in shallow-water is expected to grow by 18% and by 78% in deep-water. Total deep-water production is expected to grow from 6mn boe (barrels of oil equivalent)/day in 2007 to 11mn boe/day in the year 2011.

Chart 9: Offshore day rates vis-à-vis crude prices



Source: Douglas Westwood

The offshore day rates have a strong co-relation with crude prices. The rally in crude has resulted in a substantial increase in offshore day rates. Also the present utilization rates of offshore assets are close to 90%, leading to strong day rates. Even if there is a correction in crude prices, offshore day rates are not expected to correct sharply as crude prices would still be relatively high & profitable for exploration.

Chart 10: Capex details of offshore drilling

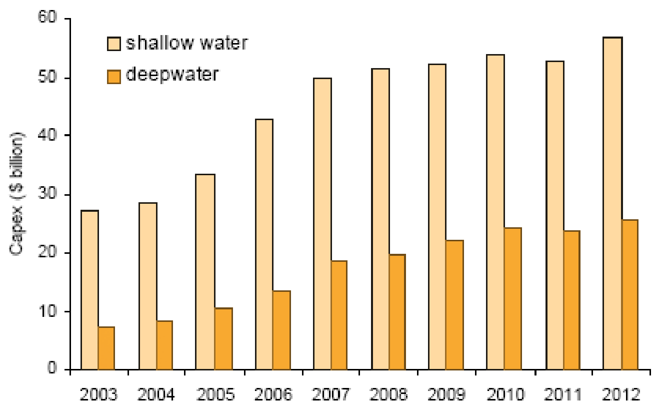
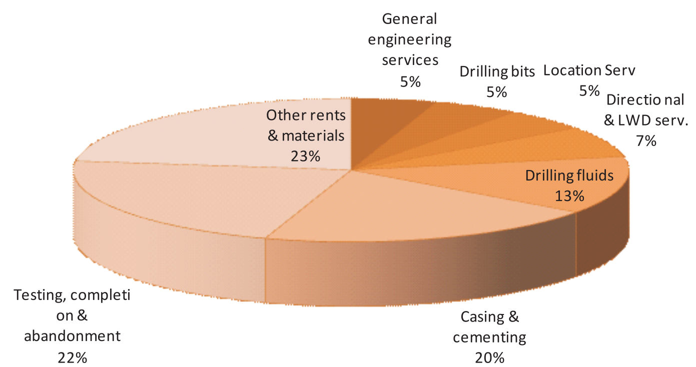


Chart: 11 Breakup of Offshore drilling expenditure



Source: Douglas Westwood

Chart 12: Deep-water Rig shortfall drives rates

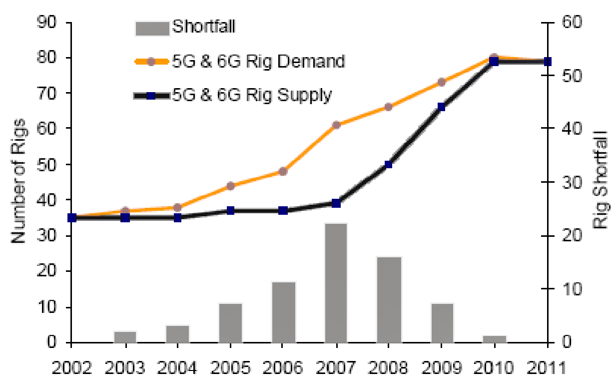
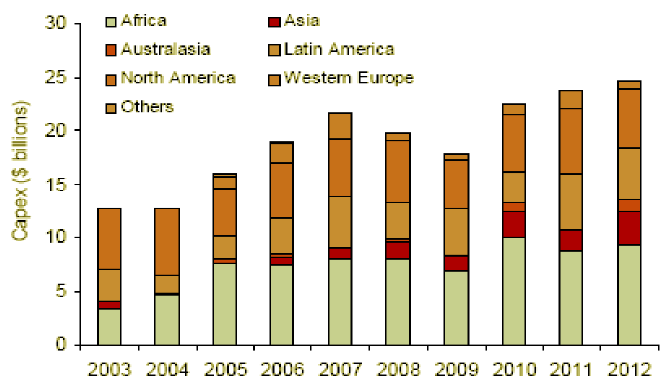


Chart 13: Deep-water capex to double



Source: Douglas Westwood

Global energy investment outlook

As per IEA approximately 38% of the world's total energy investment of USD16trillion is expected to be made in the Oil & Gas sector, thereby envisaging huge investments in allied sectors such as exploration, production, distribution, refining etc.

Table 6: World Energy Investment - 2001-2030

Total Investment 16 trillion Dollars		Break up						
Oil	19%	→	E&D	72%	Refining	13%	Other	15%
GAS	19%	→	E&D	55%	LNG chain	8%	T& D & storage	37%
Coal	2%	→	Mining	88%	Shipping & Ports	12%		
Electricity	60%	→	Power & generation	46%	T&D	54%		

Source: IEA

Table 7: World Energy Investment ($ billion in year 2000 dollars)

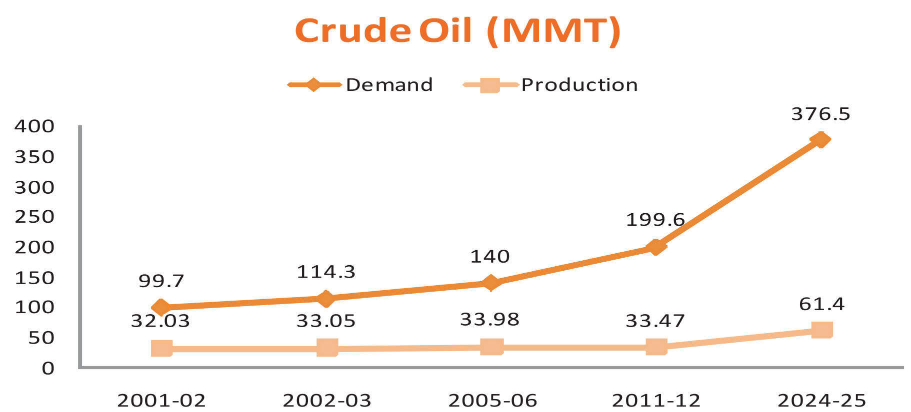
	2000	2001-2010	2011-2020	2021-2030	2001-2030	Share of total 2001-2030
Oil	87	916	1,045	1,136	3,096	19%
yoy change			*14%*	*9%*		
Gas	80	948	1,041	1,157	3,145	19%
			10%	*11%*		
Coal	11	125	129	144	398	2%
			3%	*12%*		
Electricity	235	2,562	3,396	3,883	9,841	60%
			33%	*14%*		
Total	413	4,551	5,610	6,320	16,481	100%
Annual average	413	455	561	632	549	100%

Source: IEA, world energy investment Outlook

Indian Oil & Gas scenario

Oil & Gas provides for 40% of India's primary energy requirements. It is a critical input for downstream industries like petrochemicals, fertilizers and energy. Crude oil demand is currently about 140MMT (Million Metric Ton) while the domestic production of crude is only 34MMT. India's crude oil import dependency is likely to increase to 90% by the year 2025 from the current level of 72%. India's demand of Natural gas is currently about 179MMSCMD (Million Metric Standard Cubic Meter per Day) while the domestic supply is only 80MMSCMD.

Chart 14: India - Crude oil Demand & Production



Source: www.dghindia.org

Indian exploration scenario

Approximately 56% of the India's total exploratory sedimentary basins lie in the offshore sector and only 19% of the total area is well explored, thus enabling huge potential for further exploration.

Chart 15:Exploration Status of Indian Sedimentary Basins

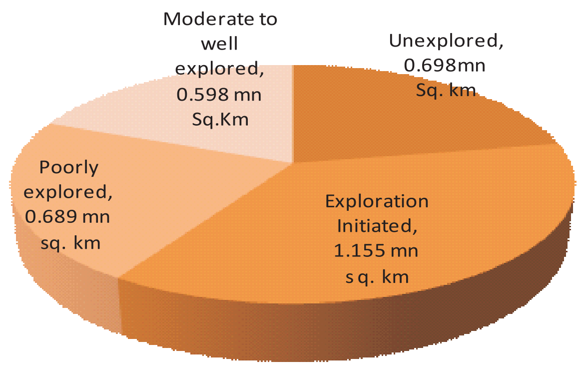
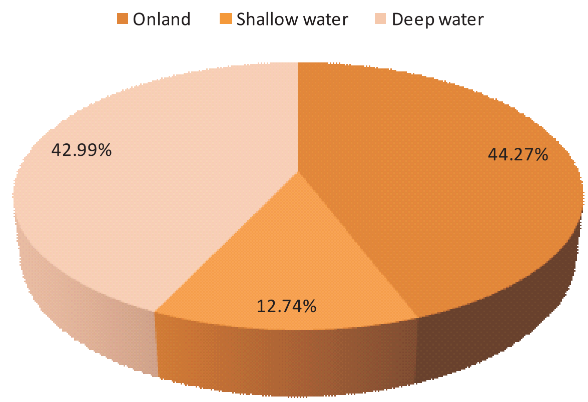


Chart 16:Area wise break up of Indian Sedimentary basins



Source: www.dghindia.org

Table 8: Sedimentary basins

Oil blocks	% of total	Area (mn.sq.km)
Onland	44.27%	1.39
Shallow water	12.74%	0.4
Deep water	42.99%	1.35
Total area		**3.14**

Source:www.dghindia.org

NELP

The main thrust for acceleration of exploration activities had begun with the introduction of New Exploration Licensing Policy (NELP) by the Government of India in 1997. NELP has so far been successful in accelerating the pace of hydrocarbon exploration in the country.

Chart 17: Exploration blocks allotted under NELP

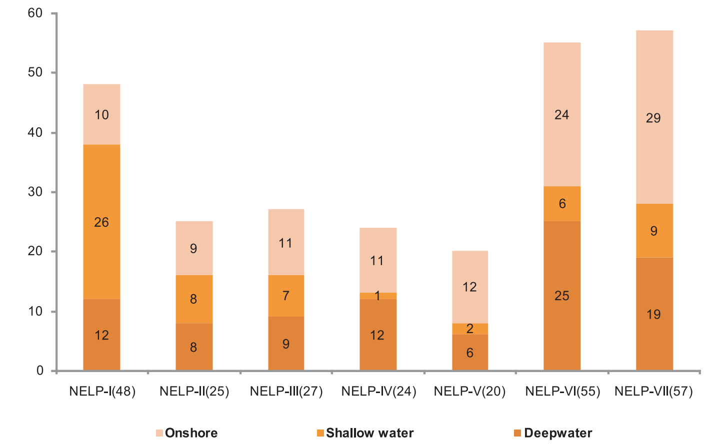
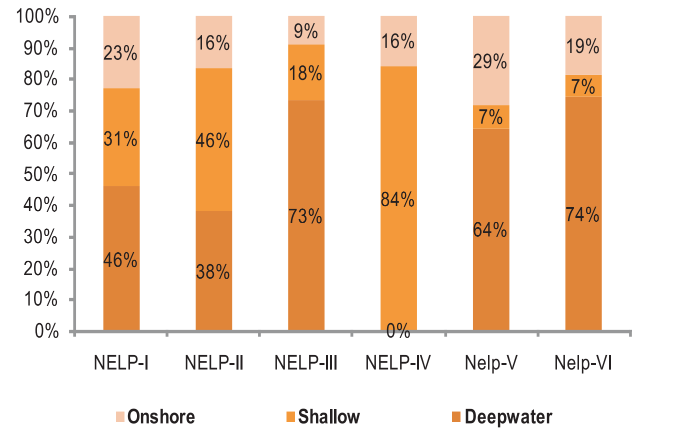


Chart 18:Breakup of exploration area allotted under NELP

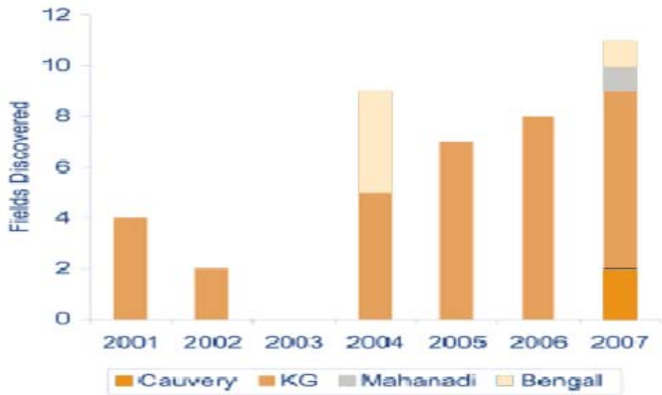


Source: www.dghindia.org

Table 9: Companies who participated in earlier NELP rounds

NELP	Companies To whom Block awarded
NELP-I	RIL,ONGC,CEIL,NIKO,BGEPIL,GAZPROM,IOC,CIL,CEEPC
NELP-II	RIL,HEPI,ONGC,IOC,OIL,NIKO,HEPI
NELP-III	RIL, ONGC, HEPI, ONGC, GSPC, JOGPL, GGR, SUNETRA, CEIL, CED
NELP-IV	ONGC, HPCL, Oil, ENI, HEPI, ONGC, JOGPL, GAIL, CPIL, CESL, GSPC, BPCL
Nelp-V	RIL, HEPI, NIKO, ONGC, ENI, GAIL, JOGPL, JSPL, GPI, NTPC, CRL, GSPC, FEL, CEIL
Nelp-VI	ONGC, GSPC, HPCL, RIL, SANTOs Intl, Petrogas, BGEPI, Sunetra, Shivvani, Adani, Welspun, Prize petroleum, Jaiprakash, Nitinfire,Hallworth,Ensearch

Chart 19:Indian Oil & Gas discoveries



Source: www.dghindia.org

The development of E&P sector in India has been significantly boosted through NELP, which brought major liberalization in the sector and opened up E&P for private and foreign investment (100% FDI allowed). NELP provides a level playing field to the private operators either Indian or foreign, by giving them the same fiscal and contract terms as applicable to National Oil Companies for the offered blocks.

Under NELP, so far, 49 discoveries have been made by private/JV companies in 15 blocks. In the first six rounds of NELP, expected investment is of the order of USD8bn. Oil and Oil-equivalent Gas in place reserve accretion under NELP is ~600MMT.

The other main features of the terms offered by the Government under NELP include - income tax holiday for 7 years from the start of commercial production, no customs duty on imports required to be payable for petroleum operations, royalty to be payable by the contractor on ad-valorem basis, freedom to the contractor for marketing of oil and gas in the domestic market, incentive for deepwater exploration with only half of the royalty payable in the initial seven years from the beginning of commercial production etc.

Why has the NELP-VII bidding date been extended?

During the session, concerns were raised by the exploration companies on the Finance Minister, Mr P. Chidambaram's, Budget proposal to end tax holiday for the sector. The Ministry of Petroleum and Natural Gas has taken up the issue with the Finance Ministry and expects the issue to be resolved at the earliest.

The exploration and production companies hoped that clarity will be in-place before April 25th 2008. The companies said that the proposal would impact investor sentiments as the seven-year tax holiday has been the salient feature of NELP.

Initially NELP was extended to April 25 then to May 16 and then to 30 June 2008

The deadline for submission of bid for oil and gas exploration blocks under the seventh round of the New Exploration and Licensing Policy (Nelp VII) has been extended till June 30 from May 16 as there is still no clarity from the finance ministry on whether gas production is eligible for an income-tax holiday.

In the Budget 2008-09 announced on February 29, the finance ministry proposed to withdraw the tax benefit given to the companies under Section 80 IB (9). The income-tax department's argument is that the tax benefit is meant only for oil production and not for gas.

Oil and gas companies say that due to the lack of clarity on the tax holiday they have not yet been able to firm up their bids. Most companies are preparing two bids — one in a tax holiday scenario and the other in a scenario where the tax holiday is withdrawn.

Industry officials also say that companies are not very confident of the blocks being offered under NELP VII. Of the 57 blocks on offer, 39 have been recycled from previous NELP rounds. These blocks were relinquished by the companies as they did not find any oil or gas or were not able to complete their minimum work programmes on the block.

COMPANIES SECTION

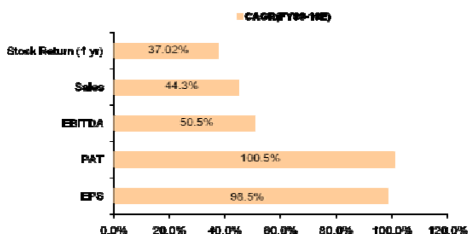
Aban Offshore Ltd

"Emerging Global Player"

COMPANY INDEPTH

Stock Rating	BUY
CMP (Rs.)	3567
Target Price (Rs.)	4888

Investment Profile

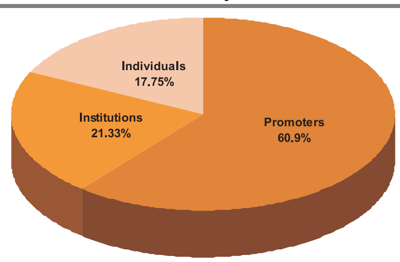


Bloomberg	ABAN IN
Reuters	ABAN.BO
BSE Group	A
BSE Code:	523204
NSE Symbol	ABAN
BSE Sensex	15088
NSE Nifty	4504

Market Data

Market Cap (Rs. Mn)	137472
Equity Share Cap (Rs. Mn)	77
52 wk High/ Low (Rs.)	5555/2258
Avg. Vol(Daily)	61887
Face Value(Rs.)	2

Shareholding Pattern (As on 31st March 2008) (%)



Financials	FY07	FY08E	FY09E	FY10E
Net sales(Rs mn)	7187	25321	43908	52721
Operating Inc.(Rs.mn)	3474	16880	31526	38227
PBT (Rs.mn)	403	6804	19601	25944
PAT (Rs. Mn)	-344	5099	15055	20490
Operating margin	48.3%	66.7%	71.8%	72.5%
PAT margin	-	20.1%	34.3%	38.9%
EPS (Rs.)	-	134.9	390.6	531.6
CEPS(Rs.)	28.8	259.3	572.8	746.0
P/E	-	26.4	9.1	6.7
EV/EBITDA	63.8	13.4	6.9	5.0
ROE	-	57.7%	72.7%	52.5%
ROCE	4.8%	11.3%	21.3%	25.2%

Aban Offshore Limited (AOL) ranks amongst the leading offshore drillers globally with a fleet size of 17 drilling assets. AOL provides drilling services across the globe to renowned clients such as Chevron, Petronas, Cairn, Exxon Mobil, Hardy Exploration, ONGC etc. The rally in crude prices has led to a substantial increase in the day rates of drilling assets. Day rates for 350 feet Jack Up Rig has increased from ~USD58,000 during 2005 to USD1,85,000 during 2008. AOL's contract of Aban Ice (Drill Ship) was renewed with ONGC at USD1,57,000/day from USD43,000/day on January'08. The company is adding two 350 feet Jack Up Rigs & two 375 feet Jack Up Rigs to its fleet during FY09. Debt/Equity is expected to decrease from 20.4 in FY07 to 1.5 in FY10E. Revenues and PAT are expected to increase at a CAGR of 44.3% and 100% respectively over FY08E-10E. The stock trades at P/E of 6.7 and EV/EBITDA of 5 based on FY10. We recommend a BUY with a 12-month price target of Rs4888, an upside of 37% from current levels.

Day rates expected to remain strong

With crude reaching its all time high, Oil companies are increasing their budgetary allocation to E&P activities, thereby resulting in a higher demand for offshore services. Day rates for all categories of offshore drilling assets ranging from Jack Up Rigs, Drill Ship, Semi Submersibles etc have increased by almost 200% over the past 3 years. AOL was able to renew existing contracts at significantly higher rates. The contract of ABAN V (Jack Up Rig) with ONGC was renewed at USD1,56,600 / day from USD 56,000 / day on September'07. With E&P activities picking up globally due to record crude prices, day rates are expected to remain strong in the coming years.

Addition of 4 new Jack Up Rigs during FY09

AOL is adding two 350 feet Jack Up Rigs & two 375 feet Jack Up Rigs to its fleet during FY09. These Rigs are being built at renowned shipyards of Keppel FELS Ltd & PPL Shipyard Pte Ltd based at Singapore. The new Rigs are expected to command strong day rates of ~USD2,00,000 because of technological superiority and better operational efficiencies.

Debt/Equity to decrease from 20.4 during FY07 to 1.5 during FY10E

The total debt of AOL is expected to reduce from Rs102bn as on March'08 to Rs73.4bn as on March'10. The reduction in debt would lower the risk profile of AOL and lead to expansion of PAT margins. PAT margins are expected to increase to 34.3% & 38.9% during FY09 & FY10 respectively from 20.1% expected during FY08E. Strong day rates would lead to robust operating cash flows and lower pay back period for new Rigs of ~5 years. The reduction of debt would lower the debt/equity ratio to 1.5 as on March 10 from 20.4 as on March 08.

"BUY" with a 12 month price target of Rs 4888

AOL's revenues are expected to increase at a CAGR of 44% over FY08E-10E to Rs52721mn during FY10E. Strong day rates would lead to an expansion of EBIDTA margins, which is estimated to be 71.8% & 72.5% during FY09E & FY10E respectively, as compared to 66.7% expected during FY08E. We estimate PAT CAGR of 100% over FY08E-FY10E to Rs20490mn during FY10E. ROE & ROCE is expected to be 52.5% & 25.2% during FY10E. DCF based valuation gives a price target of Rs5501 & P/E based valuation gives a target of Rs4273. We recommend a BUY with a price target of Rs4888 within 12 months.

Investment Case

AOL is amongst the leading offshore drillers globally servicing key customers operating in the Oil E&P space such as Chevron, Petronas, Cairn, Exxon Mobil, Hardy Exploration, ONGC etc. The company has a present operating fleet of 17 drilling assets (12 Jack Up Rigs, 3 Drill Ships, 1 Semi Submersible Rig & 1 FPU (Floating Production Unit)) and 4 additional drilling assets are expected to come in during FY09. Crude prices are touching all time highs, which would lead to huge investments in the E&P sector going forward. Day rates of offshore drilling assets are strong and long-term contracts have been renewed at ~50% higher rates. With Oil E&P firms increasing their budgetary allocation for exploratory activities, the buoyancy is expected to be strong in the offshore drilling sector going forward.

Our "BUY" rating on Aban Offshore is based on the following arguments:

Favourable E&P scenario globally

- With global crude prices reaching their lifetime high, Oil companies are increasing the budgetary allocation for E&P activities, thereby resulting in a significant demand for offshore services.

Day rates of offshore drilling assets expected to be strong

- Day rates of offshore drilling assets have increased significantly over the past 3 years. For example the day rates for a 300 feet Jack Up Rig has increased from ~USD58,000 during FY05 to USD1,68,000 during FY07.
- Approximately 110 Rigs (which amounts to 26% of the present worldwide Rig fleet) are more than 25 years old and are expected to be replaced over the next 2-3 years. The scrapping of Rigs will offset the incremental supply leading to a strong demand for Rigs.
- The present utilization rates for most categories of offshore drilling assets (i.e. Jack Up Rigs, Drill Ship, Semi Submersibles) are high at ~90%, indicating strong demand in the market place. The utilization rates are expected to be high the coming years, leading to strong day rates.

Contract renewal at higher rates

- High crude prices have enabled AOL to renew existing contracts with its clients at significantly higher rates.
- AOL's contract of Aban Ice (Drill Ship) was renewed with ONGC at USD1,57,000 / day from USD43,000 / day on January'08.
- AOL's contract of Aban III, IV & V (Jack Up Rigs) was renewed with ONGC at USD1,56,600 / day from USD56,000 / day on September'07.

Significant change in the liability structure

- Debt/Equity is expected to decrease from 20.4 in FY07 to 1.5 in FY10E.
- Debt/EBIDTA is expected to decrease from 31.2 in FY07 to 1.9 in FY10E.
- Debt is expected to be to Rs73bn in FY10E as compared to Rs102bn in FY08E.

Valuations

Strong revenue growth coupled with margin expansion

AOL's revenue is expected to increase at a CAGR of 44% over FY08E-FY10E, mainly due to strong day rates and addition of 4 new Jack Up Rigs during FY09E. Strong day rates envisaged would enable EBIDTA margin expansion from 48.3% during FY07 to 66.7%, 71.8% and 72.5% during FY08E, FY09E and FY10E respectively. PAT margins are expected to increase mainly due to EBIDTA margin expansion and on account of lesser interest cost. PAT margins are expected to be 20.1%, 34.3% and 38.9% during FY08E, FY09E and FY10E respectively.

Return ratios are excellent and ranks amongst the best across industry standards. ROE and ROCE are expected to be 52.5% and 25.2% respectively for FY10E.

Table 10: Key Ratios

	FY07	FY08E	FY09E	FY10E
Revenue Growth	47%	252%	73%	20%
EPS growth	-	-	190%	36%
EBITDA margin	48%	67%	72%	73%
PAT margin	-	20%	34%	39%
ROE	-	58%	73%	52%
ROCE	5%	11%	21%	25%

Source: Systematix Institutional Research

Valuations are attractive

AOL is expected to post EPS of Rs390 and Rs531 during FY09E and FY10E respectively. The stock is trading at a P/E of 9.1 x FY09E EPS and 6.7x FY10E EPS, which is at a discount in comparison to its global peers. Global offshore drillers trade at a P/E of 11.3 & 9.6 based on FY09E EPS & FY10E EPS respectively. The stock is available at a P/BV of 4.7 and 2.8 based on FY09E and FY10E financials.

Table 11: Valuation Ratios

	FY07	FY08E	FY09E	FY10E
EPS (Rs)	-	135	391	532
Price/Earnings (x)	-	26.4	9.1	5.0
Price / Book Value (x)	24.8	10.9	4.7	2.8
EV/EBITDA (x)	63.9	13.4	6.9	5.0

Source: Systematix Institutional Research

PRICE TARGET DERIVATION

We recommend a **'BUY'** on AOL with a 12 months price target of Rs4888, a upside ~37% from current levels. We base our 12-month price target on P/E, and DCF (Discounted Cash-Flow) based valuation methodologies. At CMP of Rs3567, AOL trades at EV/EBITDA multiples of 6.9x and 5.0x based on our FY09E and FY10E financials respectively. The stock is trading at P/E of 9.1x and 6.7x based on FY09E and FY10E EPS respectively. This provides enough space for upside as the valuations are lower compared to its global peers together with earnings growth on the back of fleet expansion and increase in day rates.

Table 12: Price target derivation

Price Target Evaluation		
Total Market Capitalisation- Industry		119833
PAT- FY10E- Industry		12523
Industry P/E		9.57
EPS-FY10E		531.7
Target Price (15% discount to industry P/E multiple)	**A**	**4273**
DCF Target price	**B**	**5501**
Target price (Equal weights to P/E & DCF) = (A+B)/2		**4888**
CMP		3567
Upside		37%

Source: Systematix Institutional Research

Table 13: Comparison - Financials

		EBIDTA margins %				PAT margins %				CAGR: FY08E-10E			
Comparison - Financials	Sales FY10E	FY07	FY08E	FY09E	FY10E	FY07	FY08E	FY09E	FY10E	Sales	EBIDTA	PAT	EPS
Transocean	14075	44%	57%	57%	58%	27%	42%	37%	39%	49%	51%	44%	40%
Diamond Offshore	4176	58%	57%	63%	65%	35%	35%	40%	43%	27%	35%	40%	39%
Noble Corporation	4219	57%	60%	63%	64%	35%	41%	44%	45%	19%	22%	25%	24%
China Oilfield Services	1812	37%	43%	44%	43%	19%	25%	27%	26%	20%	19%	24%	22%
ENSCO International	2634	66%	65%	66%	64%	41%	45%	47%	45%	11%	10%	11%	13%
Pride International	2621	32%	39%	46%	48%	12%	18%	26%	27%	3%	13%	25%	27%
Rowan Companies	2615	39%	40%	39%	40%	22%	23%	22%	23%	14%	14%	15%	15%
Atwood Oceanics	696	45%	47%	55%	62%	27%	33%	42%	49%	33%	54%	63%	61%
Aban Offshore	1,352	48%	67%	72%	73%	-5%	20%	34%	39%	44%	50%	100%	99%

Source: Bloomberg, Systematix Institutional Research

Table14: Comparison - Valuations

			P/E			P/BV			EV/EBIDTA		
Comparison - Valuations	CMP (USD)	Mcap (USD mn)	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
Transocean	150.0	46206	17.5	10.6	9.0	3.8	2.8	2.1	17.6	8.8	7.7
Diamond Offshore	136.0	18855	20.6	13.0	10.7	6.4	5.1	4.7	12.0	7.9	6.6
Noble Corporation	68.0	18313	15.0	11.4	9.7	4.3	3.1	2.4	8.4	6.6	5.6
China Oilfield Services	1.8	7578	24.4	18.5	16.4	3.3	2.8	2.6	21.4	17.0	15.0
ENSCO International	82.0	12094	12.5	10.2	9.7	3.2	2.5	2.0	6.5	5.7	5.4
Pride International	46.0	8226	18.0	13.0	11.2	2.3	1.9	1.7	7.0	6.1	5.5
Rowan Companies	46.4	5203	11.5	10.0	8.7	2.2	1.9	1.6	5.9	5.2	4.6
Atwood Oceanics	107.0	3358	26.0	15.4	10.1	5.7	4.2	2.9	17.5	11.3	7.4
Aban Offshore	91.5	3525	26.4	9.1	6.7	10.9	4.7	2.8	13.4	6.9	5.0

Source: Bloomberg, Systematix Institutional Research

Table 15: DCF Working

	FY08E	FY09E	FY10E	FY11E	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E
Revenue		43908	52721	55357	58125	61031	64083	67287	69306	71385	73526	75732	78004
% Growth		252.0%	20.1%	5.0%	5.0%	5.0%	5.0%	5.0%	3.0%	3.0%	3.0%	3.0%	3.0%
EBIDTA		31526	38227	39031	40401	41811	43261	44751	45401	46763	48165	49610	51099
Capex		9906	35	6600	6930	7277	7640	8022	8423	8845	9287	9751	10239
yoy increase			-99.6%	18757.1%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Change in Working Capital excluding cash		1615	1385	330	304	320	336	352	222	229	236	243	250
Tax outflows		4546	5454	5799	6155	6515	6878	7244	7418	7582	7747	7915	8085
FCFF		15459	31353	26303	27012	27700	28407	29133	29337	30108	30896	31702	32525
Capitalisation rate	1.00	0.92	0.85	0.78	0.71	0.66	0.60	0.56	0.51	0.47	0.43	0.40	0.36
PV of FCF	0	14213	26504	20443	19302	18199	17160	16180	14980	14135	13336	12581	11868
PV of Projected Years cash flow	132000												
PV of Terminal Value	178962												
Total Debt -FY08E+ Preferred Shares	105137												
Cash Balance-FY08E	6211												
Net Equity Value	212037												
Present Value of AOSL	5501												

Note:For a 3% terminal growth rate DCF value per share comes to Rs 6360/- Source: Systematix Institutional Research

We had recommended a Buy on the stock with a price target of Rs 4352 on 7th May 2008.We have revised our price target to Rs.4888 because of change in DCF assumptions. We have used DCF as one of the valuation methods given the long term nature of the contracts & visibility of future earnings. Our DCF working is based on the following assumptions.

- Day rates to remain at current levels and assets that have crossed their useful life likely to continue operations.
- EBITDA margin to reduce by 100bps on yoy basis on the back of increasing operating cost.
- From FY11E we have assumed that AOL will acquire one rig each year at a incremental cost of 5% on yoy basis.
- WACC of 8.76% (Risk free rate: 8%,Equity risk Premium:7% ,beta :0.94 and Debt –Equity of 3) & Perpetuity growth rate of 2%.

At our price target, the stock would trade at P/E multiple of 12.3x and 9.1x on FY09E and FY10E EPS respectively. On EV/EBITDA multiple AOL will trade at 8.4x and 6.2x on FY09E and FY10E financials. Industry EV/EBITDA on FY10E is 7.0, at our price target AOL will trade at 6.2 EV/EBITDA on FY10E financials which is around 11% discount to industry.

Risks to our Target Price

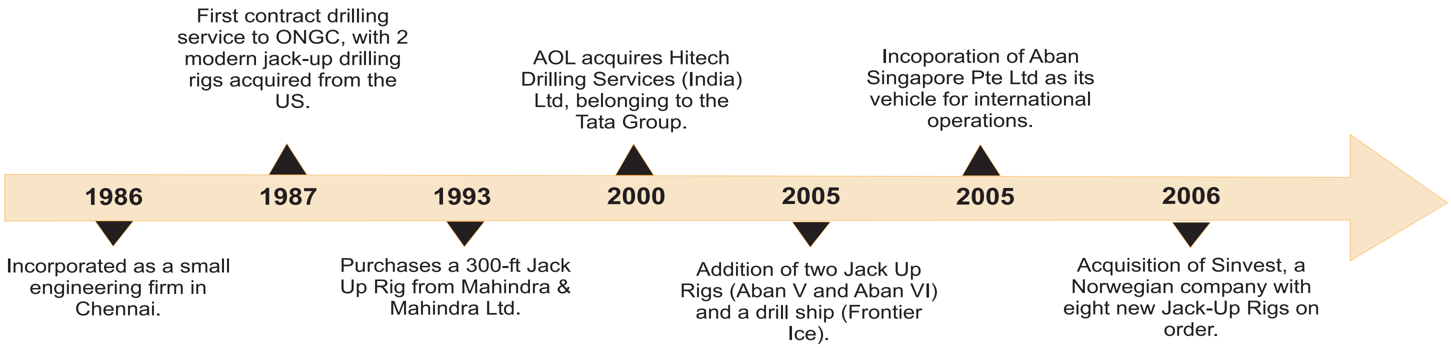
- Substantial decline in global crude prices would lead to lower demand for offshore services which could have a negative impact on day rates.
- Delay in delivery of vessels could result in lower than estimated revenues.
- Aban's cost of debt is linked to LIBOR. Aban has a high debt:equity ratio, hence any significant change in LIBOR will effect the earnings.
- Some of the drilling assets of AOL are very old. Any extraordinarily high refurbishment expenses can adversely impact the earnings.
- We have not factored in any possible losses that could arise on account of forex derivative exposure.

Company In-depth

An Overview

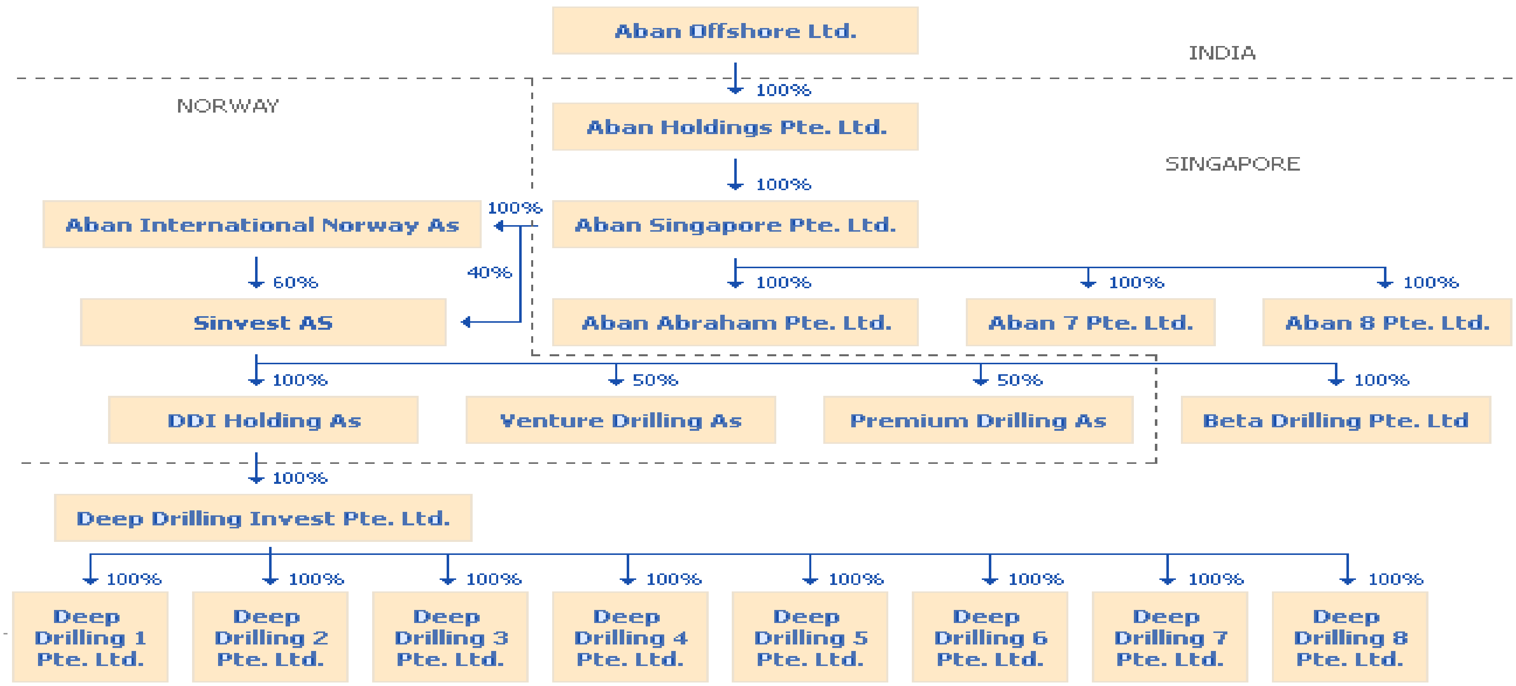
AOL was promoted by Late Mr. M. A. Abraham in 1986 as Aban Constructions. The company was involved in the execution of high-pressure systems & cross-country pipelines for refineries, fertilizer and petrochemical industries. Later AOL ventured into the offshore drilling space. At present the core operations of AOL include chartering of (renting) drilling assets, namely Jack Up Rigs, Drill Ships, Semi Submersible Rigs & FPU (Floating Production Unit) to Oil E&P companies. The company presently owns 12 Jack Up Rigs, 3 Drill Ships, 1 Semi Submersible Rigs & 1 FPU which are operating on contracts with various Oil E&P companies across the globe. With huge investments planned in the E&P sector globally, the demand for drilling assets are quite high & AOL would be a key beneficiary of the high charter rates. During FY09 two 350-feet Jack Up Rigs and two 375-feet Jack Up Rigs are expected to be added to the company's fleet. AOL is headquartered at Chennai.

Chart 20: Historical events chart



Source: Company

Chart 21: Company structure



Source: Company

Drilling asset details

Jack Up Rigs, Drill Ships, Semi-Submersible Rigs & FPU are the various types of drilling assets owned by AOL. These drilling assets offer state-of-the-art drilling services for exploration and production of hydrocarbons to Oil & Natural Gas companies.

Table 16: Present fleet operating details

Asset Name	Asset type	Holding company	Contracted with	Day rate (USD)	Contract expiry	Make	Expected Day rate
ABAN II	250 ft jack up rig	Aban- Parent	ONGC	84500	Mar-10	1981	
ABAN III	300 ft jack up rig	Aban- Parent	ONGC	156600	Jan-11	1974	
ABAN IV	300 ft jack up rig	Aban- Parent	ONGC	156600	Nov-10	1983	
ABAN V	300 ft jack up rig	Aban- Parent	ONGC	156600	Jan-11	1982	
ABAN VI	250 ft jack up rig	Aban- Parent	Oriental Oil	98000	Oct-13	1975	
Frontier Ice	2000 ft drill ship	Aban- Parent	ONGC	157000	Mar-11	1959	
TAHARA	FPU	Aban- Parent	Hardy	88500	Jul-09	1973	88000
ABAN VII	250 ft jack up rig	Aban- Singapore	Under refurbishment			1973	200000
ABAN Abraham	6600 ft drill ship	Aban- Singapore	Addax Petroleum	200000	Jun-08	1976	400000
Aban Pearl	Semi- Submersible Rig	Aban- Singapore	Contract expected to start from July 2008				250000
Deep Driller 1	375 ft jack up	Aban- Singapore (Sinvest)	GSPC	194000	Apr-09	2006	194000
Deep Driller 2	350 ft jack up	Aban- Singapore (Sinvest)	Chevron	185500	Jun-08	2006	185500
Deep Driller 3	350 ft jack up	Aban- Singapore (Sinvest)	Petronas	250000	May-08	2006	250000
Deep Driller 4	375 ft jack up	Aban- Singapore (Sinvest)	RIL	220000	Sep-08	2007	220000
Deep Driller 5	350 ft jack up	Aban- Singapore (Sinvest)	PTTEP	208000	Jun-08	2007	205000
Murmanskya (Bareboat)	331ft jack up	Aban- Singapore (Sinvest)	ROC oil	195000	Jun-08	1991	195000
Deep venture (Bare Boat)	4200 ft drill ship	Aban- Singapore (Sinvest)	Exxon Mobil	410000	Nov-08	1981	410000

Source: Company

Table 17:New drilling assets

Asset Name	Asset type	Holding company	Delivery	Expected day rate (USD)
ABAN VIII	375 ft jack up	Aban- Singapore	2nd Quarter 2008	200000
Deep Driller 6	350 ft jack up	Aban- Singapore (Sinvest)	2nd Quarter 2008	205000
Deep Driller 7	375 ft jack up	Aban- Singapore (Sinvest)	3rd Quarter 2008	220000
Deep Driller 8	350 ft jack up	Aban- Singapore (Sinvest)	3rd Quarter 2008	205000

Source: Company

Fleet expansion plans

Two 350 feet Jack Up Rigs (Deep Driller 6 & Deep Driller 8) and two 375 feet Jack Up Rigs (Aban VIII & Deep Driller 7) are expected to be added to AOL's fleet during FY09 for ~USD140mn each. Aban VIII & Deep Driller 7 are being built at PPL Shipyard Pte Ltd, Singapore, whereas Deep Driller 6 & Deep Driller 8 are being built at Keppel FELS Limited, Singapore. The new Jack Up Rigs are expected to command strong charter rates of ~USD2,00,000 per day. Post addition of the new Rigs, AOL would have a total of 21 drilling assets.

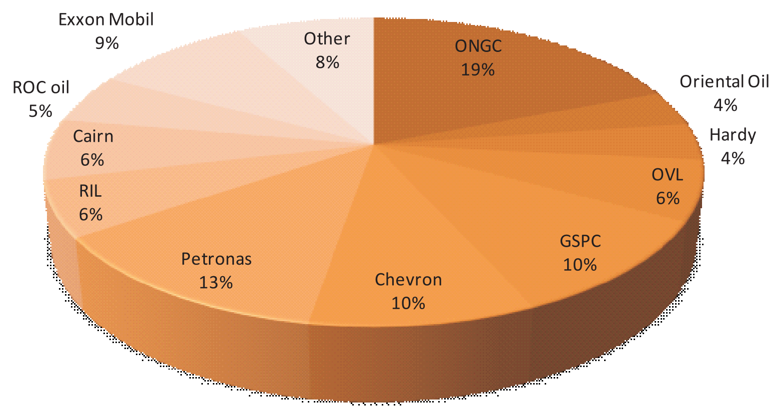
Funding of capex

The capex would be financed by 80% debt and 20% by internal accruals & equity. Majority of the debt would be US dollar denominated, with an average debt cost of LIBOR+3%. The repayment of debt would be over an 8-year period.

Diverse customer profile

AOL provides drilling services across the globe to renowned clients such as Chevron, Petronas, Cairn, Exxon Mobil, Hardy Exploration, ONGC, Shell etc. AOL has well-established relationships with leading E&P firms globally and is ISO 9001:2000 accredited. ONGC is AOL's major client and is expected to contribute ~19% to revenues during FY08E.

Chart 22: Client wise contribution to revenue – FY08E



Source: Company

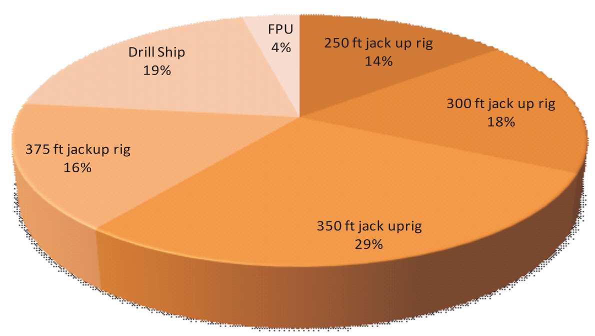
Optimal allocation of drilling assets

AOL follows a strategy of placing older assets on long-term contracts of ~1.5 - 6 years, whereas the new assets are placed on contracts for lesser duration. This strategy enables in locking the day rates for older assets, whereas the newer assets could benefit from the buoyancy in day rates.

Table 18: Allocation of drilling assets

Type of asset	No.of assets	Average Rig age (yrs)	Contract duration
Jack Up Rigs - Old	6	32	3 - 6 yrs
Drill Ship	3	36	1.5 - 3 yrs
Floating Production Unit	1	35	2 yrs
Semi Submersible Rig	1	NA	NA
Jack Up Rigs - New	6	4	6 months - 2 yrs

Chart 23: Asset wise contribution – FY08E



Source: Company, Systematix Institutional research

Amongst drilling assets the '350 feet Jack Up Rig' is expected to contribute maximum to revenue of ~28.5% during FY08E. During FY08E Jack Up Rigs (all categories) are estimated to contribute 76.8% to revenues, 19.3% by Drill Ships and 3.9% by FPU.

Recent contracts have been renewed at higher rates

Recent contracts for AOL's drilling assets have been renewed at strong rates. AOL's contract of Aban Ice (Drill Ship) was renewed with ONGC at USD1,57,000 / day from USD43,000 / day on January'08. With crude touching all time highs, day rates for offshore drilling assets are expected to be strong going forward.

Table 19: Contract renewal at higher rates

Contract bagged	Client	Drilling asset	Contract start	Tenure	Date rate (USD)	Previous rate (USD)
Apr-08	Exxon Neftegas	Murmanskya	Jun-08	160 days	2,10,000	1,95,000
Feb-08	PTTEP	Deep Driller 5	Mar-08	4 months	2,08,000	2,05,000
Jan-08	ONGC	Aban Ice	Apr-08	3 years	1,57,000	43,000
Dec-07	Chevron	Deep Driller 2	Dec-07	7 months	1,85,500	1,70,000
Sep-07	ONGC	Aban III, IV & V	Nov-07 / Jan-08	3 years	1,56,600	56,000

Source: Company, Systematix Institutional research

Acquisition of Sinvest – the key growth trigger

The acquisition of Sinvest during FY07 enabled AOL to own 3 new-built premium Jack Up Rigs and 5 Jack Up Rigs at various stages of construction in Singapore shipyards. At the time of acquisition, Sinvest also owned a 50% stake in Venture Drilling AS, a Norwegian Company that had taken a Drill Ship on long-term bareboat charter. In addition Sinvest also owned the entire equity of Beta Drilling AS, another Norwegian Company that had on bareboat a Jack Up Rig.

Prior to acquiring Sinvest, AOL had a fleet of 10 drilling assets, which increased to 20 (includes Rigs on order) post Sinvest acquisition. The Sinvest acquisition catapulted AOL amongst the leading offshore drilling service providers globally. Of the 4 Jack Up Rigs expected to come in during FY09, 3 were on order by Sinvest (Deep Driller 6, Deep Driller 7 & Deep Driller 8) when the acquisition was made.

Table 20: Status of Sinvest at the time of acquisition

Asset owned	Status	Bareboat Charter	Status
Deep Driller 1 (Jack Up Rig)	Deployed with Hardy Oil	Murmanskya (Jack Up Rig)	Undergoing Refurbishment
Deep Driller 2 (Jack Up Rig)	Deployed with Shell Brunei	Deep venture (Drill Ship)	Set to be deployed with Exxon Mobil
Deep Driller 3 (Jack Up Rig)	Secured deployment with Shell Malaysia		
Deep Driller 4 (Jack Up Rig)	To be delivered during 3Q2007		
Deep Driller 5 (Jack Up Rig)	To be delivered during 2Q2007		
Deep Driller 6 (Jack Up Rig)	To be delivered during 2Q2008		
Deep Driller 7 (Jack Up Rig)	To be delivered during 3Q2008		
Deep Driller 8 (Jack Up Rig)	To be delivered during 3Q2008		

Source: Company

EARNINGS OUTLOOK & FINANCIALS

Revenue to grow at a CAGR of 44% over FY08E-FY10E

Addition of 4 new Jack Up Rigs during FY09 combined with strong day rates would enable revenues to grow at a CAGR of 44% over FY08E-FY10E to Rs52721mn during FY10E. Strong day rates envisaged would also help in expansion of EBIDTA margins for FY09E & FY10E.

Chart 24: Revenue growth trend

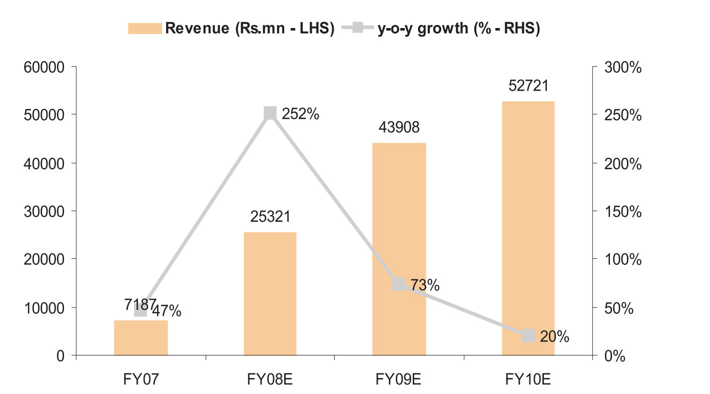
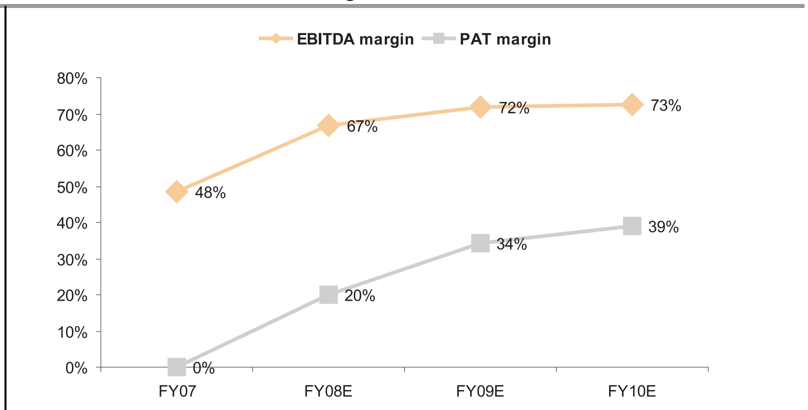


Chart 25:EBIDTA & PAT margins trend



Source: Company, Systematix Institutional research

EBIDTA margins are expected to increase to 66.7%, 71.8% and 72.5% during FY08E, FY09E & FY10E respectively from 48.3% during FY07. The increase in EBIDTA margins is mainly due to strong day rates expected in the coming years combined with increased contribution from new Jack Up Rigs. PAT margins are expected to increase to 20.1%, 34.3% and 38.9% during FY08E, FY09E & FY10E respectively (during FY07 AOL made loss at the PAT level).

The gap between EBIDTA margins & PAT margins is expected to decrease going forward, which is a positive trend. This gap is expected to be 46.5%, 37.5% and 33.6% during FY08E, FY09E and FY10E respectively. The decrease is mainly due to lesser interest cost as it is assumed that no additional debt would be taken, apart from the debt taken for acquiring 4 new Jack Up Rigs.

Debt/Equity and Debt/EBIDTA to reduce significantly

Total debt is expected to reduce from Rs108.5bn during FY07 to Rs73.4bn during FY10E. The reduction in debt is due to the normal schedule of debt repayment and the assumption that no additional debt would be taken, apart from the debt taken for acquiring 4 new Jack Up Rigs. Debt/equity is expected to reduce from 20.4 during FY07 to 1.5 during FY10E. Debt/EBIDTA is expected to reduce from 31.2 during FY07 to 1.9 during FY10E.

Chart 26: Reduction in debt levels

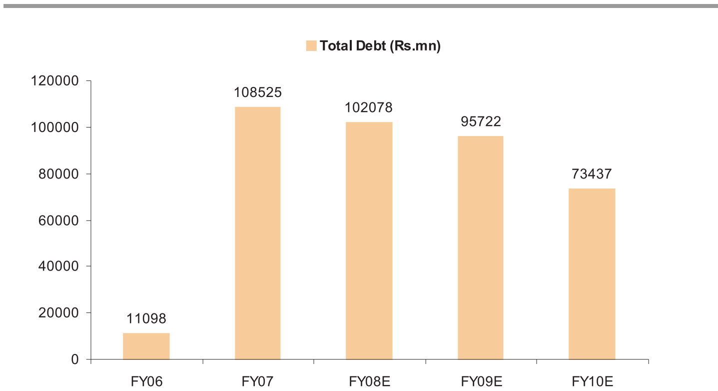
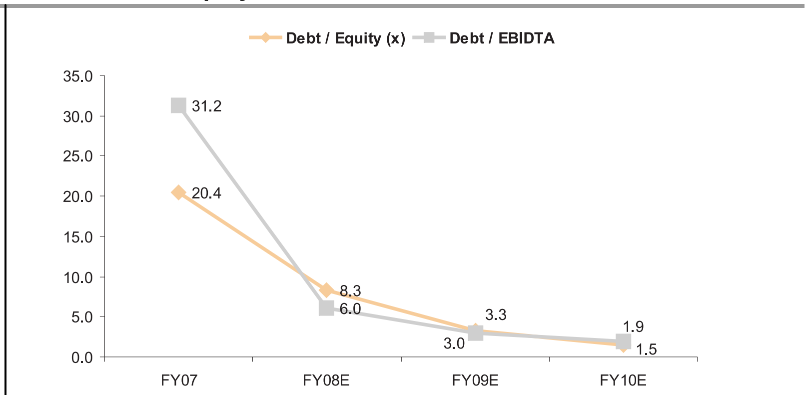


Chart 27: Debt/Equity & Debt/EBIDTA trends



Source: Company, Systematix Institutional research

Return ratios to be strong & asset turnover ratios to improve significantly

ROE & ROCE is expected to be 52.5% & 25.2% respectively during FY10E. Turnover ratios are expected to improve significantly, as all the drilling assets presently on order become operational during FY09. Asset turnover ratio is expected to increase from 0.06 during FY07 to 0.43 during FY10E. Fixed asset turnover ratio is expected to increase from 0.07 during FY07 to 0.55 during FY10E.

Chart 28: ROE & ROCE trend

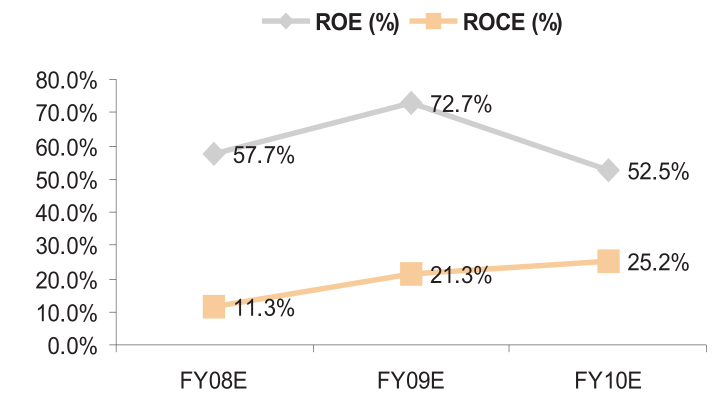
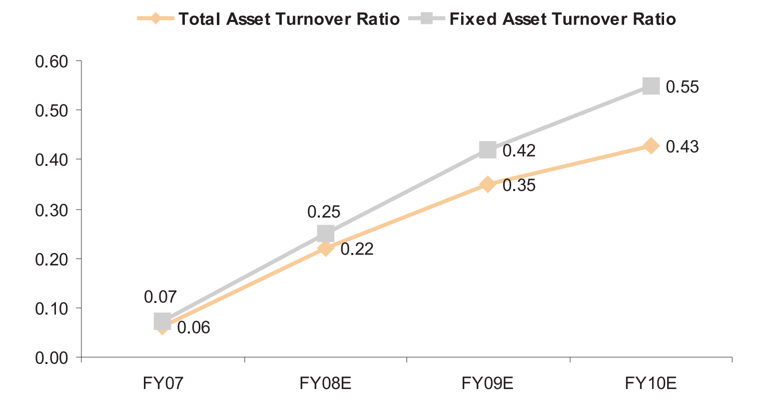


Chart 29: Asset turnover ratios to improve significantly



Source: Company, Systematix Institutional research

Low payback period for drilling assets

Strong day rates have resulted in lower payback period for drilling assets. For AOL the payback period for the new Jack Up Rig expected to come in during FY09 is 4.3 years and for the recently acquired Semi Submersible Rig is 5.8 years. The payback period indicates the time taken to recover the cost of investment. With the average life of a Rig being ~25 years & the payback period ~5 years, the Rig would be able to earn free cash flows for ~20 years without having to service any debt.

Table 21: Payback period analysis

Pay back period	Jack Up Rig	Semi-Submersible
No.. Of days Operating	350	350
Day rate($/day)- Approx.	200000	250000
Operating Expenses per day	44000	70000
EBITDA ($) per day	156000	180000
Interest per day($)	18411	27616
Tax ($) (@33%	45404	50287
Cash Profits	92185	102097
Yearly	32.26	35.73
Cost of the Vessel	140	210
Pay back period(yrs)	4.34	5.88

Source: Company, Systematix Institutional research

PROFIT & LOSS A/C

Table 22: Profit and Loss Account (Consolidated) (Rs.mn)

	FY06	FY07	FY08E	FY09E	FY10E
Operating Income	**4,901.6**	**7,186.8**	**25,320.8**	**43,908.0**	**52,721.1**
Operating Expenses	1,326.9	1,781.7	5,874.0	8,592.4	9,769.7
Administrative Expenses	721.7	1,478.7	2,060.3	2,911.8	3,670.0
Other Expenses	49.4	452.2	506.4	878.2	1,054.4
Total Expenditure	2,097.9	3,712.6	8,440.7	12,382.3	14,494.2
EBITDA/ Operating Profit	**2,803.7**	**3,474.1**	**16,880.1**	**31,525.7**	**38,226.9**
Other Income	147.8	880.9	815.1	968.6	1,158.2
Interest & Financial Charges	436.3	2,686.4	6,124.6	5,869.1	5,179.4
Depreciation	951.1	1,202.6	4,703.7	7,023.8	8,262.0
Goodwill Amortized	62.9	62.9	63.0	-	-
PBT	1,501.1	403.1	6,803.8	19,601.4	25,943.7
Extraordinary items - Income (Net)	-	-	-	-	-
Profit / (Loss) for the year carried down	1,501.1	403.1	6,803.8	19,601.4	25,943.7
Provision for taxation	678.4	746.6	1,705.0	4,546.1	5,453.8
Fringe Benefits tax	6.6	9.1	91.4	134.9	168.2
Current Tax	580.4	656.2	1,613.7	4,411.2	5,285.6
Deferred Tax	91.4	81.3	-	-	-
Profit / (Loss) after tax but before share in Earnings from JV	822.7	(343.5)	5,098.8	15,055.3	20,490.0
Share in Earning of JV after Providing Depreciation	-	203.6	-	-	-
Profit/(Loss) after Share of JV	**822.7**	**(140.0)**	**5,098.8**	**15,055.3**	**20,490.0**

A **EBIDTA margin:** EBIDTA margins are expected to increase from 48.3% during FY07 to 66.7%, 71.8% & 72.5% during FY08E, FY09E & FY10E respectively mainly due to the addition of 4 new Jack Up Rigs during FY09 (which are expected to command premium rates) & on account of strong day rates anticipated for other offshore drilling assets.

B **Interest charges:** Interest charges are expected to decline as no additional debt would be taken, apart from the debt taken for acquiring 4 new Jack Up Rigs & due to the normal schedule of debt repayment.

C **PAT margin:** PAT margins are expected to increase on account of higher EBIDTA margins and lesser interest outgo during the coming years. PAT margins are expected to increase to 20.1%, 34.3% & 38.9% during FY08E, FY09E & FY10E respectively (during FY07 the company made a loss).

Balance Sheet

Table 23: Balance Sheet (Consolidated) (Rs.mn)

	FY06	FY07	FY08E	FY09E	FY10E
SOURCES OF FUNDS					
Share Capital	1574	3134	3136	3137	3137
Reserves and Surplus	2730	2174	9216	25902	45952
Total	**4304**	**5308**	**12352**	**29039**	**49089**
Loan Funds					
Secured Loans	11098	97265	92938	88746	73437
Unsecured Loans	0	11261	9140	6976	0
Total	**11098**	**108525**	**102078**	**95722**	**73437**
Deferred Tax (Net)	656	737	774	813	854
TOTAL	**16058**	**114571**	**115204**	**125573**	**123380**
APPLICATION OF FUNDS					
Fixed Assets					
Gross Block	11479	80994	100080	121945	121980
Less:Depreciation	4321	5791	10495	17518	25780
Net Block	**7158**	**75203**	**89586**	**104427**	**96200**
Add: Capital WIP	8308	22444	11959	0	0
Investments	192	4683	4688	4688	4688
Current assets, Loans & advances					
Inventories (at cost)	489	1022	2926	4060	4874
Sundry Debtors	699	2033	4856	8421	10111
Cash and Bank balance	135	13264	6212	12084	16732
Loans and Advances	181	2871	3437	4115	4930
Total	**1505**	**19190**	**17430**	**28680**	**36647**
Less: Current liabilities & provisions					
Current liabilities	832	6624	7860	11340	13187
Provisions	273	325	599	881	968
Total	**1105**	**6949**	**8458**	**12221**	**14155**
Net current assets	400	12241	8972	16459	22492
TOTAL	**16058**	**114571**	**115204**	**125573**	**123380**

A **Loan funds:** Total debt is expected to reduce from Rs108.5bn during FY07 to Rs73.4bn during FY10E. The reduction in debt is due to the normal schedule of debt repayment and the assumption that no additional debt would be taken, apart from the debt taken for acquiring 4 new Jack Up Rigs.

B **Gross Block:** It is assumed that during FY10E no drilling assets would be added to the company's fleet, hence there is hardly any increase in the gross block.

C **Capital WIP:** Capital WIP indicates the advances paid for acquiring drilling assets. Capital WIP for FY09E & FY10E is nil as the entire batch of 4 drilling assets is expected to be delivered during FY09 and it is assumed that no additional orders would be placed for new drilling assets.

D **Cash & Bank balance:** The cash & bank balance position is strong going forward, on account of robust cash flow generated from operations.

Cash Flow Statement

Table 24: Cash Flow Statement (Consolidated) (Rs.mn)

Year end 31 Mar (Rsmn)	FY07	FY08E	FY09E	FY10E
PBT	403	6804	19601	25944
Add:Depreciation	1203	4704	7024	8262
Add: Interest	2686	6125	5869	5179
Add: Goodwill amortized	63	63	-	-
Add:(Profit) / Loss on sale of fixed assets	0	0	0	0
Less:Interest Income	-56	-34	-41	-49
Less:Dividend Income	-68	-68	-68	-68
Less:Foreign Exchange Difference	-163	0	0	0
Operating Profit Before Working Capital Changes	4068	17593	32385	39268
Working Capital Changes				
Increase in Inventories	-533	-1903	-1134	-814
Increase in Sundry Debtors	-1334	-2823	-3565	-1690
Increase in Loans and Advances	-2689	-566	-679	-815
Increase in current liabilities	5793	1235	3481	1846
Working capital changes	1236	-4057	-1897	-1473
Operating Cash Flow after W.Capital Changes	5304	13536	30488	37795
Direct Taxes Paid	-713	-1579	-4291	-5389
Net Cash flow from Operating Activities	**4590**	**11956**	**26197**	**32406**
Sale of Fixed Assets	48			
(Increase)/Dec of Fixed assets	-83652	-8601	-9906	-35
(Increase)/Dec of Investments	-4249	-5	0	0
Dividend received	68	68	68	68
Interest received	56	34	41	49
Net Cash flow from Investing Activities	**-87,728**	**-8,503**	**-9,796**	**82**
Increase in Share Capital	1560	1.8	1.5	0
Increase in Premium on Issue of share capital	24	2380	2070	0
Increase / (Decrease) in Term Loans	97584	-6448	-6356	-22284
Interest paid	-2686	-6125	-5869	-5179
Dividend Paid	-190	-246	-373	-376
Others	-25	-68		
Net Cash flow from Investing Activities	**96266**	**-10504**	**-10527**	**-27839**
Cash Generated during the year	13,128	(7,052)	5,872	4,648
Add:Opening Balance of cash	135	13,264	6,212	12,084
Closing Balance of cash	13,264	6,212	12,084	16,732

A — **Cash flow from operating activities:** Cash flow from operating activities are expected to be robust due to addition of 4 premium Jack Up Rigs during FY09 and on account of strong day rates anticipated going forward.

B — **Capex:** Four new Jack Up Rigs are expected to come in during FY09. It is assumed that no drilling assets would be added to the company's fleet during FY10.

RATIOS:

Table 25: Ratios (Consolidated)

Growth Ratio	FY06	FY07	FY08E	FY09E	FY10E
Revenues	-	46.6%	252.3%	73.4%	20.1%
EBIDTA	-	23.9%	385.9%	86.8%	21.3%
Net Profit	-	-	1584.3%	195.3%	36.1%
Valuation Matrix	**FY06**	**FY07**	**FY08E**	**FY09E**	**FY10E**
Price / Earnings (x)	159.9	-	26.4	9.1	6.7
Price / CEPS (x)	74.2	123.8	13.8	6.2	4.8
Price / BV (x)	30.6	24.8	10.9	4.7	2.8
EV / EBIDTA (x)	50.8	63.9	13.4	6.9	5.0
EV / Sales (x)	29.0	30.9	8.9	4.9	3.6
EPS (Rs)	22.3	-	134.9	390.6	531.7
CEPS (Rs)	48.1	28.8	259.3	572.9	746.0
Book Value	116.7	143.9	326.8	753.5	1273.7
ROE(%)	19.1	-	57.7	72.7	52.5
ROCE(%)	5.3	4.8	11.3	21.3	25.2
Solvency Ratio (x)	**FY06**	**FY07**	**FY08E**	**FY09E**	**FY10E**
Debt / Equity (x)	2.6	20.4	8.3	3.3	1.5
Debt / EBIDTA	4.0	31.2	6.0	3.0	1.9
Debt / Capital Emp.	0.7	1.0	0.9	0.8	0.6
Capital Emp / Net Worth	3.6	21.4	9.3	4.3	2.5
Interest Coverage Ratio	4.4	1.2	2.1	4.3	6.0
Turnover Ratio (x)	**FY06**	**FY07**	**FY08E**	**FY09E**	**FY10E**
Asset Turnover Ratio	0.3	0.1	0.2	0.3	0.4
Fixed Asset Turnover Ratio	0.3	0.1	0.2	0.4	0.5
Working Capital Ratio (x)	**FY06**	**FY07**	**FY08E**	**FY09E**	**FY10E**
Current Ratio	1.4	2.8	2.1	2.3	2.6
Working Capital to Sales	0.1	1.7	0.4	0.4	0.4
Margin Ratio	**FY06**	**FY07**	**FY08E**	**FY09E**	**FY10E**
EBIDTA Margin	57.2%	48.3%	66.7%	71.8%	72.5%
EBIT Margin	37.8%	31.6%	48.1%	55.8%	56.8%
PBT Margin	30.6%	5.6%	26.9%	44.6%	49.2%
PAT Margin	16.8%	-	20.1%	34.3%	38.9%

A **Growth ratio:** The growth ratios for EBIDTA and PAT are higher than Revenues for FY08E, FY09E & FY10E indicating expansion in EBIDTA & PAT margins going forward.

B **Debt/Equity:** Debt/equity is expected to reduce from 20.4 during FY07 to 1.5 during FY10E. The reduction in debt is due to the normal schedule of debt repayment and the assumption that no additional debt would be taken, apart from the debt taken for acquiring 4 new Jack Up Rigs.

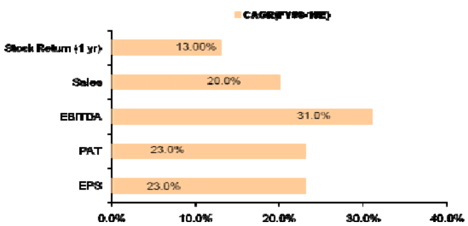
C **Debt/EBIDTA:** Debt/EBIDTA is expected to decrease from 31.2 during FY07 to 1.9 during FY10E, indicating strong operational income generated vis-à-vis outstanding debt.

D **Asset turnover ratio:** To increase from 0.1 during FY07 to 0.4 during FY10E, as all the drilling assets for which advances were paid during FY07 & FY08E are expected to be operational during FY10 for the entire year.

INITIATING COVERAGE

Stock Rating	REDUCE
CMP (Rs.)	581
Target Price (Rs.)	654

Investment Profile

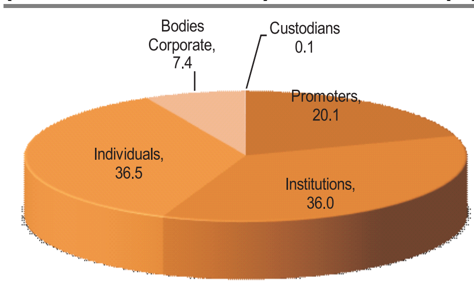


Bloomberg	GOFFIN
Reuters	GOFS.BO
BSE Group	A
BSE Code	532786
NSE Symbol	GTOFFSHORE
BSE Sensex	15088
NSE Nifty	4504

Market Data

Market Cap (Rs.mn)	22136
Share Cap (Rs.mn)	381
52 wk High/Low (Rs.)	1145/556
Avg.Vol (daily)	29629
Face value(Rs.)	Rs.10

Shareholding Pattern (As on 31st March 2008) (%)



Financials	FY07	FY08	FY09E	FY10E
Net sales (Rs mn)	5,822	7,459	8,189	10,790
EBITDA (Rs.mn)	2,628	3,131	3,939	5,402
PBT (Rs.mn)	1,638	2,196	2,501	3,588
PAT (Rs. Mn)	1,452	2,023	2,202	3,079
EBITDA margin	45.1%	42.0%	48.1%	50.1%
PAT margin	24.9%	27.1%	26.9%	28.5%
EPS Diluted (Rs.)	38.1	49.3	53.7	75.1
CEPS(Rs.)	56.7	73.4	77.1	105.8
P/E	15.3	11.8	10.8	7.7
EV/EBITDA	11.0	8.7	7.6	5.2
ROE	26.0%	26.9%	23.1%	27.3%
ROCE	17.8%	18.1%	16.5%	19.4%

Great Offshore Ltd

"Modest growth ahead"

Great Offshore Limited (GOL), is the only integrated offshore services provider in India, offering wide range of services that include offshore drilling, offshore logistics support, marine construction and port & terminal support. Our key concerns include the modest revenue CAGR of 20% over FY08-FY10E and over dependence on ONGC, which contributed ~55% to revenues during FY08. Nevertheless an overseas acquisition of ultra-deep water semi-submersible Rigs would re-rate the stock. The stock trades at a P/E & EV/EBIDTA of 7.7x and 5.2x based on FY10E. We recommend a "REDUCE" on the stock, with a 12-month price target of Rs654, an upside of 13% from the current levels.

Fleet expansion by adding a Jack Up Rig and a MSV

GOL is increasing its fleet size by adding 1 Jack Up Rig and 1 MSV, scheduled to be delivered during January 2009 & June 2009, at an estimated cost of USD165mn & USD65mn respectively. GOL has already entered into a contract with ONGC for its new Jack Up Rig 'Samed Shikar' for a period of 5 years for USD255mn starting May 2009. The new vessels are expected to command higher charter rates and would help in earning higher EBIDTA margins of 50.1% during FY10 as compared to 48.1% during FY09E.

An overseas acquisition would re-rate the stock

During January 2008 GOL made an offer for purchasing a controlling stake in an overseas company. GOL recently (June 6, 2008) decided to propose to the stakeholders of the same overseas company to acquire one of the two Rigs. This overseas company shall own, upon delivery, two harsh environment, semi-submersible, sixth generation drilling rigs, which are currently under construction, at an estimated cost of ~USD1.40bn. News reports indicate that the overseas company's name is SeaDragon Offshore. Our forward estimates do not consider the impact of this acquisition, but we believe if an acquisition of such a large magnitude goes through would lead to a re-rating of the stock.

Revenue growth modest, at a CAGR of 20% over FY08-10E

Revenues are expected to increase at CAGR of 20% over FY08-FY10E to Rs10.79bn during FY10E. Revenue growth is modest as only 2 new vessels (1 Jack Up Rig & 1 MSV) are expected to be added to GOL's fleet during FY09 & FY10 respectively. Also GOL derives ~76% revenues from long-term contracts & the remaining by operating the vessels on the spot market, due to which it would not be able to reap the full benefits of any significant appreciation in the day rates of drilling assets & OSV's.

We recommend a REDUCE with a 12 month price target of Rs654.

GOL's revenues are expected to be Rs8189mn & Rs10790mn during FY09E & FY10E respectively. EBIDTA margins are expected to increase from 42% during FY08 to 48.1% & 50.1% during FY09E & FY10E respectively. GOL is expected to post EPS of Rs53.7 and Rs75.1 during FY09E and FY10E respectively. The stock is trading at a P/E of 10.8 X FY09E EPS and 7.7 X FY10E EPS. We have valued the stock based on P/E and NAV valuation methodology to arrive at the price target. We recommend a REDUCE with a price target of Rs654, a 13% upside from current levels.

INVESTMENT CASE

GOL is the only integrated offshore services provider in India, offering services ranging from offshore drilling, offshore logistics support, marine construction and port & terminal support. The company owns 40 vessels, which includes drillings rigs, OSV's, harbour tugs & a construction barge. GOL charters its drilling units and OSV's to Oil E&P companies such as ONGC, Cairn Energy, Saudi Aramco, Shell etc. The company has served renowned customers across the globe in the regions of Middle East, North Sea, Far East, South Africa etc. GOL has placed orders for 1 Jack Up Rig and 1 MSV, scheduled to be delivered during January 2009 & June 2009 respectively. To have a global presence & to enter the ultra-deep water drilling business, GOL is considering an overseas acquisition of an offshore services company.

Our "Reduce" rating on Great Offshore is based on the following arguments:

Modest revenue growth of 20% over FY08-FY10E

- GOL's revenues are expected to increase at a modest CAGR of 20% over FY08E-FY10E.
- Revenue growth is modest as only 2 vessels (1 Jack Up Rig & 1 MSV) are expected to be added to GOL's fleet during FY09 & FY10 respectively.

Drilling assets are quite old

- Both the existing drilling assets i.e. Kedarnath and Badrinath, which contributed 16% to revenues during FY08 are 33 & 35 years old respectively, as compared to the useful life of a Rig, which is 30 years.
- Being very old assets refurbishment expenses are high. On an average these assets have to be refurbished once in 3 years. During FY08 refurbishment expenses of Badrinath were USD10mn.

High dependence on a single customer

- The main customer of GOL is ONGC, which contributes ~55% to revenues. Being such a large customer GOL would have less pricing power for its vessels.
- Any reduction in the exploration budget of ONGC would have an adverse impact on GOL.

VALUATIONS

Modest revenue growth coupled with margin expansion

GOL's revenues are expected to increase at a CAGR of 20% over FY08-FY10E. Revenue growth is modest as only 2 new vessels (1 Jack Up Rig & 1 MSV) are expected to be added to GOL's fleet during FY09 & FY10 respectively.

EBIDTA margins are expected to increase from 42% during FY08 to 48.1% & 50.1% during FY09E & FY10E respectively. The increase in EBIDTA margins is on account of no dry docking expenses of drilling assets during FY09 & FY10, whereas USD10mn was spent on dry-docking of Badrinath during FY08. PAT margins are expected to be 26.9% & 28.5% during FY09E & FY10E as compared to 27.1% during FY08.

Table 26 : Key ratios

	FY07	FY08	FY09E	FY10E
Revenue Growth	50%	28%	10%	32%
EPS growth	49%	30%	9%	40%
EBITDA margin	45%	42%	48%	50%
PAT margin	25%	27%	27%	29%
ROE	26%	27%	23%	27%
ROCE	18%	18%	17%	19%

Source: Company, Systematix institutional research

The stock appears to be fully valued

GOL is expected to post EPS of Rs.53.7 and Rs.75.1 during FY09E and FY10E respectively. The stock is trading at a P/E of 10.8 X FY09E EPS and 7.7 X FY10E EPS. The stock is available at a P/BV of 2.2 and 1.8 based on FY09E and FY10E financials. The stock appears to be fully valued based on P/E & NAV valuation methodology, as discussed in the Price Target Derivation section.

Table 27 : Valuation Ratios

	FY07	FY08	FY09E	FY10E
EPS - diluted (Rs)	38.1	49.3	53.7	75.1
Price/Earnings (x)	15.3	11.8	10.8	7.7
Price / Book Value (x)	3.6	2.5	2.2	1.8
EV/EBITDA (x)	11.0	8.7	7.6	5.2

Source: Company, Systematix institutional research

PRICE TARGET DERIVATION

We recommend a 'REDUCE' on GOL with a 12 month price target of Rs654, a upside of 13% from the current levels. The price target derivation is based on Net Asset Valuation & P/E valuation.

Table 28: Price target derivation

P/E Valuation	
Total Market Cap – Peers (USD mn)	13916
PAT - Peers (USD mn)	1353
Industry P/E	10.3
Target P/E (15% discount to industry)	8.74
EPS (FY10E)	75.1
Value Per Share (Rs.) (A)	**657**
NAV Valuation	
Total market Value of Assets	31232
Less :Debt	12127
Add: Net Working Capital	7580
Total	26685
No. of Shares	41
Value Per Share(Rs.) (B)	**651**
Fair value Per Share - (A+B)/2	**654**
CMP	581
Upside	**13%**

Source: Bloomberg, Systematix institutional research

Table 29 : Peer Set Comparison - Financials

		EBIDTA margins %				PAT margins %				CAGR: FY07-10E			
Comparison - Financials	Sales FY10E	FY07	FY08E	FY09E	FY10E	FY07	FY08E	FY09E	FY10E	Sales	EBIDTA	PAT	EPS
Bourbon SA	1597	34%	37%	36%	37%	18%	19%	17%	16%	19%	22%	16%	18%
Tidewater Inc	1482	45%	43%	40%	40%	30%	28%	26%	25%	10%	6%	3%	11%
Hornbeck Offshore Services	563	50%	52%	52%	53%	28%	27%	24%	25%	27%	29%	22%	24%
GulfMark Offshore Inc	410	50%	51%	52%	53%	28%	36%	39%	39%	20%	22%	33%	25%
Solstad Offshore ASA	483	64%	62%	58%	58%	36%	44%	28%	27%	19%	15%	9%	18%
Ezra Holdings	407	43%	49%	41%	39%	36%	73%	32%	31%	47%	42%	40%	44%
Farstad Shipping ASA	602	50%	50%	51%	50%	27%	28%	31%	28%	25%	25%	27%	26%
Great Offshore Ltd	270	45%	42%	48%	50%	25%	27%	27%	29%	23%	27%	28%	25%

Source:Bloomberg, Systematix institutional research

Table 30: Peer Set Comparison - Valuations

			P/E			P/BV			EV/EBIDTA		
Comparison - Valuations	CMP (USD)	Mcap USD mn)	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
Bourbon SA	62.0	3441	15.5	15.3	12.9	2.1	1.9	1.7	11.6	10.5	8.8
Tidewater Inc	67.0	3670	10.3	9.1	8.3	1.7	1.6	1.4	6.3	6.2	5.8
Hornbeck Offshore Services	57.0	1526	16.8	14.6	11.4	NA	NA	NA	10.6	8.1	6.2
GulfMark Offshore Inc	66.0	1530	15.0	11.2	10.0	2.3	1.9	1.6	11.1	8.7	7.5
Solstad Offshore ASA	26.0	1277	7.6	8.7	6.8	1.4	1.2	1.1	7.8	7.7	6.9
Ezra Holdings	21.9	1406	9.5	13.6	9.0	2.4	2.1	1.7	12.7	11.3	8.0
Farstad Shipping ASA	26.0	1067	9.0	7.4	6.2	1.5	1.2	1.0	7.4	6.0	5.4
Great Offshore Ltd	14.5	553	11.8	10.8	7.7	2.5	2.2	1.8	8.7	7.6	5.2

Source:Bloomberg, Systematix institutional research

By giving equal weightage to P/E & NAV valuation methodologies the price target works out to Rs654. At the price target, the stock would trade at 8.7x FY10E EPS and EV/EBITDA of 5.7.

Industry is trading at EV/EBITDA of 6.9 on FY10E basis. Giving a 15% discount to industry EV/EBITDA we feel that GOL is fairly valued at our target price.

Risks to our Target Price

1. Any delay in the delivery of vessels (1 Jack Up Rig & 1 MSV from Bharati Shipyard Ltd) could result in lower than estimated revenues, thereby lowering our earnings estimates and thus our price target.
2. A substantial decline in global crude prices could result in reduced E&P spending by Oil companies, thereby dampening the demand for offshore services and leading to lower charter rates of OSV's.
3. Some of the drilling assets of GOL are quite old. Any extraordinarily high refurbishment expenses can adversely impact the earnings.

COMPANY IN-DEPTH

An Overview

GOL was incorporated in July 2005, by demerging the offshore services business of The Great Eastern Shipping Co Ltd. GOL is headquartered at Mumbai and Mr.K.M.Sheth is the Chairman of the company. GOL is the only integrated offshore services provider in India, offering services ranging from offshore drilling, offshore logistics support, marine construction and port & terminal support. The company owns 40 vessels, which includes 2 drillings rigs, 26 OSV's, 11 harbour tugs & 1 construction barge. The main operations of GOL involve chartering of its drilling units and OSV's to Oil E&P companies such as ONGC, Cairn Energy, Saudi Aramco, Shell etc. The company has served reputed customers across the globe in the regions of Middle East, North Sea, Far East, South Africa etc. GOL has placed orders for a Jack Up Rig and a MSV, which are scheduled to be delivered during January 2009 & June 2009 respectively.

Business segments

Offshore drilling (contributed 16% to revenues during FY08)
This business division provides charter hire of drilling services with 2 offshore drilling units, Kedarnath and Badrinath. Kedarnath is an independent leg Jack Up Rig, built by Marathon LeTourneau in Brownsville – Texas and is capable of operating in 300 feet of water with a drilling depth of up to 20,000 feet. Kedarnath has drilled several exploratory wells, the deepest of which was 4,234 meters in the Mumbai High oil field. Badrinath is a drilling barge built by FELS in Singapore and can operate in up to 600 feet of water with a drilling depth of up to 20,000 feet. Badrinath has drilled several exploratory wells on both the East and West coasts of India, with the deepest well drilled being 4,991 meters. Both the drilling units are on long-term contracts with ONGC.

Customers served: Major national and international oil companies like ONGC, Hardy Exploration, Mosbacher and Cairn Energy.

Offshore logistics support (contributed 73% to revenues during FY08)
The business division owns and operates a fleet of 26 Offshore Support Vessels, which includes PSV, Fire Fighting Support Vessels, Offshore supply vessel, Anchor Handling Tug Supply vessels, Multipurpose Supply Vessels & Anchor Handling Tugs. The activities undertaken include production support, diving support, supply duties for personnel and materials, anchor handling, towing, mooring, rig moving, emergency response/rescue and fire fighting operations. The vessels operate in Indian as well as international waters.

Customers served: The OSV fleet has worked in India for ONGC, Cairn Energy, BG Exploration and Production, GSPC, Hardy Exploration and many others.
International customers served in the past include Saudi Aramco, Hadi Group, IOEC, Doha Marine Services, Lamnalco, NPCC, Valentine Maritime etc.

Marine Construction (contributed 4% to revenues during FY08)
The business division owns and operates a construction barge named Gal Constructor with a complementing anchor handling tug and provides service to the offshore construction industry. The division also undertakes lump sum turnkey / EPC projects for the offshore oil & gas industry. These activities include project management, pre-engineering surveys, design & detailed engineering, procurement, fabrication, transportation, offshore installation and hook-up & commissioning.

Customers served: Gal Constructor has undertaken various types of projects both in India and internationally with customers such as L&T, ONGC, SMOE, Iranian Offshore Engineering Construction Co., Mubarak Marine LLC and Hyundai Engineering.

Port and Terminal Support (contributed 5% to revenues during FY08)
This business division operates 11 harbour tugs in India with a presence in almost all major ports. The tugs provide round-the-clock service at ports for berthing/unberthing, towing of vessels, emergency fire fighting and all other harbour operations.

Customers served: The harbour tugs operate in major ports such as Jawaharlal Nehru Port Trust, Mumbai Port Trust, Kolkata Port Trust, Tuticorin Port Trust, New Mangalore Port Trust as well as in private ports like Gujarat Pipavav Port Limited, Gujarat Adani Port Limited, Hazira Port Pvt. Ltd and Mundra Port.

Joint Venture (contributed 2% to revenues during FY08)
The Joint Venture, United Helicharters Pvt Ltd provides air logistics services for the offshore industry. GOL has a 26% holding in the JV.

Fleet details

Table 31: Business wise fleet details

Business division	Asset name	Asset type	Nos
Offshore drilling	Kedarnath (Can operate in water depth upto 300 feet)	Jack Up Rig	1
	Badrinath (Can operate in water depth upto 600 feet)	Drill barge	1
Offshore logistics support	Malviya-16, Malviya-18, Malviya-19, Malviya-20 Malviya-24, Malviya-29, Malviya-30	PSV	7
	Malviya-1, Malviya-2, Malviya-3, Malviya-4, Malviya-5, Malviya-6, Malviya-10, Malviya-21, Malviya-28, Malviya-34, Malviya-23	AHTS	11
	Malviya-25, Malviya-27	Fire Fighting Supply Vessels	2
	Malviya-36	MSV	1
	Gal Beufort Sea, Gal Ross Sea, Sangita	AHT	3
	Malviya-12	Supply Vessel	1
	Flat Cargo Carrier	Flat Cargo Carrier	1
Port and Terminal Support	Anasuya, Rishabh, Malini, Jyotsana, Kanti, Kumari Tarini, Sudheer mulji, Vahbiz, Ananya, Poornima, Birsingha	Harbour tugs	11
Marine Construction	Gal Constructor	Construction barge	1
Fleet size - total number of vessels			**40**

Source: Company

GOL is the only company in India that has vessels operating across all segments of offshore services ranging from offshore drilling to offshore logistics support to marine construction to port support.

Fleet expansion plans

Table 32: Addition of New offshore Assets

Asset Type	Asset name	Cost (USDmn)	Delivery	Specifications	Contract
Jack Up Rig	Samed Shikar	165	January-09	350 feet Jack Up Rig, Design: Le Tourneau	5 year contract from ONGC from May 2009 for USD255mn.
MSV	Malaviya 32	65	June-09	ROV/Diving/Sub sea installation enabled FiFi II, DP 2, 150T - Crane	-

Source: Company

GOL has placed orders for a Jack Up Rig & a MSV from Bharati Shipyard Ltd. Debt is expected to finance 54% of the capex and the remaining being funded by internal accruals. The cost of debt is ~8.3% and the repayment period for new debt taken is likely to be 12 years.

Contribution of drilling assets to increase going forward

During FY08 the drilling business contributed 16% to revenues. Going forward we expect this contribution to increase as during FY08 the Drill Barge Badrinath was on dry docking for 6 months and due to contribution from the new Jack Up Rig 'Samed Shikar' during FY10. The contribution from drilling business is expected to increase to 22% & 31% during FY09E & FY10E respectively. The contribution of OSV's to revenues is expected to decrease from 73% during FY08 to 68% & 60% during FY09E & FY10E respectively. The decrease is because over the coming 2 years only 1 MSV is expected to be added to the company's fleet during FY10.

Chart 30: Contribution of drilling assets to increase …

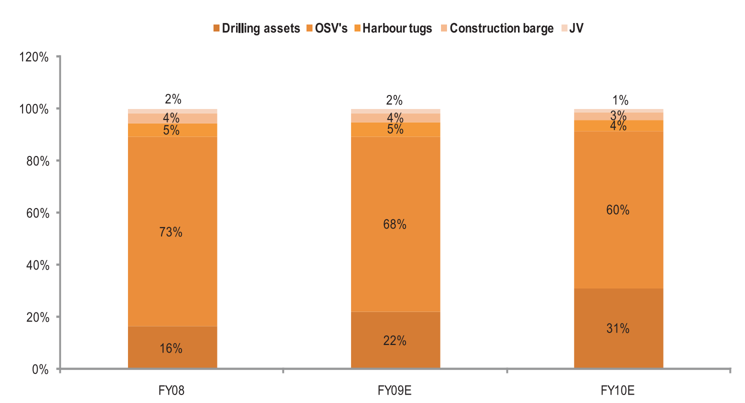
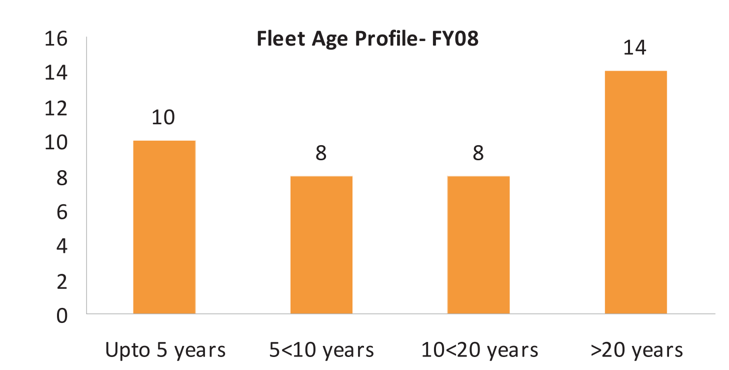


Chart 31:Fleet age profile



Source: Company, Systematix institutional research

Of a fleet size of 40 vessels only 14 are above 20 years old. Also with the addition of 2 new vessels during FY10 (1 Jack Up Rig and 1 MSV) the average of GOL's fleet would reduce.

Planning an international acquisition

During January 2008 GOL made an offer for purchasing a controlling stake in an overseas company. Later on June 6, 2008 GOL decided to propose to the stakeholders of the overseas company to acquire one of the two rigs under construction. The Overseas Company shall own, upon delivery, two harsh environment, semi-submersible, sixth generation drilling rigs, which are currently under construction, at an estimated cost of about USD1.40bn. News reports indicate that the overseas company's name is SeaDragon. Our forward estimates for FY09 & FY10 have not factored in the acquisition, as the acquisition process is still in progress & financial details of the same are not available.

A brief on SeaDragon

SeaDragon Offshore Limited (SDOL), a Cayman Islands based company has place on order two 6th Generation semi-submersibles both currently under construction. The vessels are two of the largest semi-submersible in the world and have global deepwater and harsh environment capability.

The first vessel is due for delivery in Q42009 and will begin a long-term contract with PEMEX Exploration and Production for a total value of up to USD958mn over a 5 year term. The semi sub is capable of drilling in up to 10000ft of water and is expected to be on site in field 'NEN-1' situated in the Gulf of Mexico by January 2010 to start drilling in a depth of 5000 feet of water.

The second vessel is due for delivery in September 2010 and is currently available for charter.

EQUITY DILUTION OUTLOOK

FCCB's

GOL has issued FCCB's (due 2012) of USD42mn during October 2007, which are listed at Singapore Exchange Securities Trading Ltd (SGX-ST) and which are convertible into equity shares at a price of Rs875 per share and YTM of 7.25%.

Optionally Convertible Redeemable Preference Shares

The company has allotted 1500000 Optionally Convertible Redeemable Preference Shares (OCRPS) of Rs1000/- each fully paid up aggregating to Rs1500mn during September 2007, carrying a dividend rate of 10% p.a. to Export-Import Bank of India. Conversion price per equity share is Rs875.

Buyback of equity shares

During April 2008 the company decided to go for a buyback of equity shares. The minimum number of equity shares that will be bought back by the company is 736546 shares representing approximately 1.97% of the paid up equity capital, assuming that all the equity shares are bought back at a maximum price of Rs750 per equity share and the aggregate consideration is Rs552.4mn. The buyback offer is valid till March 2009.

Table 33:Additional No. of Shares on Conversion & Buyback

	FCCB	Preference shares
Issue size (Rs mn)	1680	1500
Conversion price (Rs)	875	875
Additional no.of equity shares (mn)	1.92	1.71
Increase in equity shares (mn) **(A)** (FCCB + Preference shares)	3.63	
No.of equity shares - existing (mn) **(B)**	38.1	
Buy back effect - no.of shares (mn) **(C)**	0.74	
Fully diluted no.of equity shares (mn) = **(A)+(B)-(C)**	41.00	

Source: Company, Systematix institutional research

No further Equity Dilution for the next 16 months

The buy back offer is valid upto March 2009. As per section 77A of Companies Act, 1956 there should not be any further equity dilution for a period of 6 months from the date the buy back offer is closed. This gives us reason to believe that the overseas acquisition and funding of new the Rig 'Samed Shekhar' & MSV will be through debt. GOL's debt/equity position is at a very comfortable level of 1.2 on FY08 basis.

EARNINGS OUTLOOK & FINANCIALS

Revenue growth to be modest over FY08-FY10E

Revenues are expected to increase at CAGR of 20% over FY08-FY10E to Rs10790mn during FY10E. Revenue growth is modest as only 2 vessels (1 Jack Up Rig & 1 MSV) are expected to be added to GOL's fleet during FY09 & FY10 respectively. During FY09 we do not expect any vessels to be added to GOL's fleet. GOL derives ~76% revenues from long-term contracts & the remaining by operating vessels on the spot market. As a result GOL would not be able to reap the full benefits of any significant appreciation in the market day rates of drilling assets & OSV's.

Chart 32: Revenue growth trend

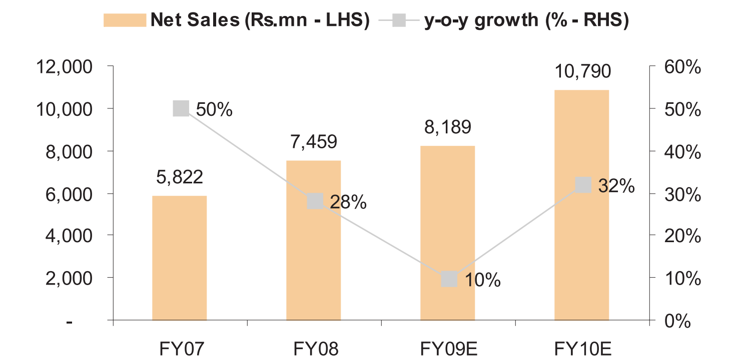
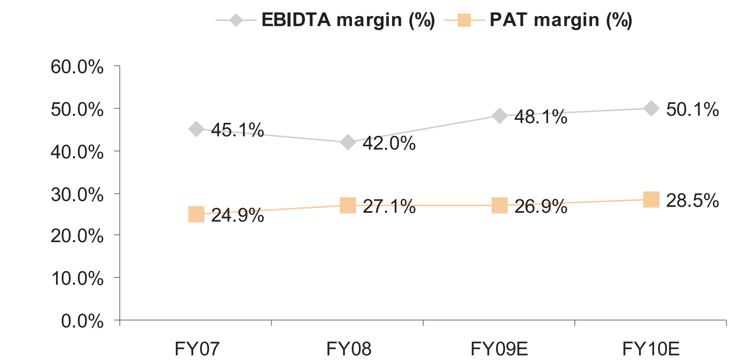


Chart 33: EBIDTA & PAT margins trend



Source: Company, Systematix institutional research

EBIDTA margins are expected to increase from 42% during FY08 to 48.1% & 50.1% during FY09E & FY10E respectively. The increase in EBIDTA margins during FY09E & FY10E is due to no dry docking expenses of drilling assets, whereas USD10mn was spent on dry docking of Badrinath during FY08. Also the EBIDTA margins during FY10E is higher than FY09E as 2 new vessels (Jack Up Rig & a MSV) are expected to be operational during FY10E and would command higher day rates as compared to existing vessels. PAT margins are expected to be 26.9% & 28.5% during FY09E & FY10E as compared to 27.1% during FY08.

Offshore logistics support business contributed the maximum to revenues

The offshore logistics support business (OSV's) contributed ~73% to revenues during FY08. In India GOL has the maximum number of offshore vessels at 26. The company derived major portion of ~76% revenues from long-term contracts & the remaining by operating the vessels on the spot market. Few OSV's, all the harbour tugs and the construction barge are working on the spot market. The main customer of GOL is ONGC, which contributes ~55% to revenues.

Chart 34: Asset wise contribution to revenue - FY08

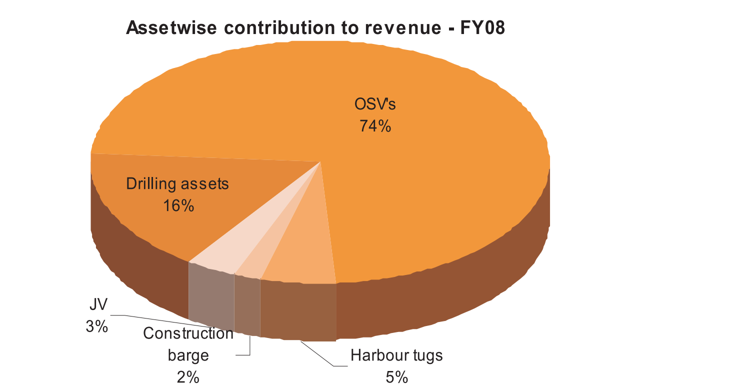
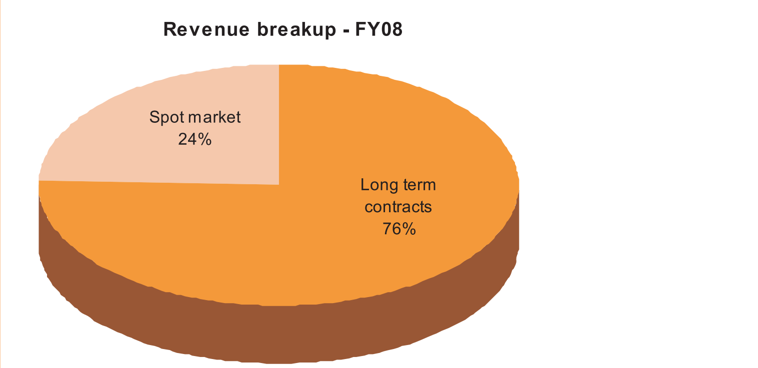


Chart 35: Revenue breakup - FY08



Source: Company, Systematix institutional research

Debt to finance majority of the capex

Chart 36: Gross block + CWI

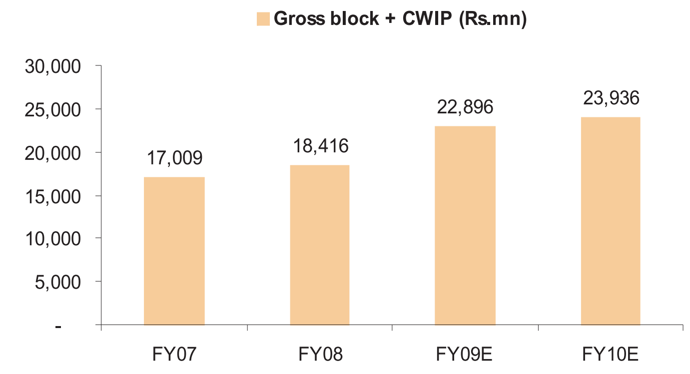
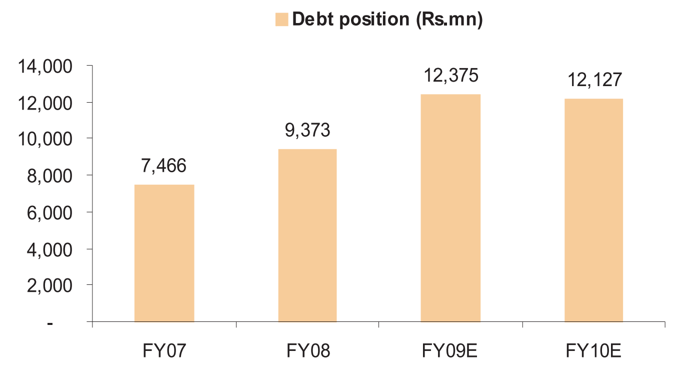


Chart 37: Debt position



Source: Company, Systematix institutional research

The increase in gross block during FY09E & FY10E is due to addition of 1 Jack Up Rig & 1 MSV costing USD225mn. Internal accruals are expected to finance 46% of the capex and the remaining potion being funded by debt.

Debt/Equity to be below 1.2. Return ratios expected to be strong

We expect the Debt/Equity to be at 1.2 & 1.0 during FY09E & FY10E respectively as compared to 1.1 during FY08. GOL can raise additional debt for vessel acquisitions or company takeovers, as the debt/equity ratio is low.

Chart38: Debt/Equity trend

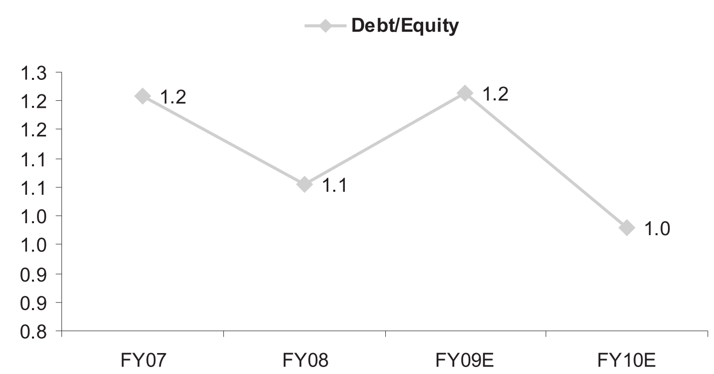
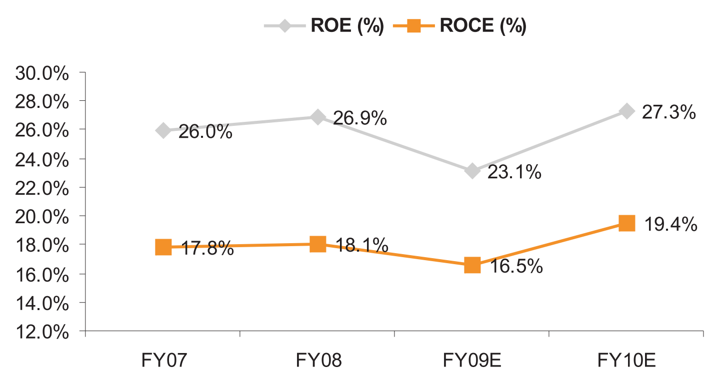


Chart 39: ROE & ROCE trend



Source: Company, Systematix institutional research

Return ratios are expected to be strong going forward. ROE is expected to be 23.1% & 27.3% during FY09E & FY10E respectively. ROCE is expected to be 16.5% & 19.4% during FY09E & FY10E respectively.

Low pay back period for new vessels

The payback period for the new vessels, i.e. the Jack Up Rig & MSV that GOL plans to acquire is 7.7 years & 5.7 years respectively.

Table 34: Payback period analysis

Pay back period	Jack Up Rig	MSV
No.. Of days Operating	360	360
Day rate (USD/day)- Approx.	145000	45000
Operating Expenses per day (USD)	35000	7500
EBITDA per day (USD)	110000	37500
Interest per day(USD)	21699	5699
Tax (USD) (@33%	29139	20
Cash Profits per day (USD)	59162	31781
Yearly Profits (USD mn)	21	11
Cost of the Vessel (USD mn)	165	65
Pay back period (yrs)	7.7	5.7

Source: Company, Systematix institutional research

PROFIT & LOSS A/C

Table 35: Profit and Loss Account (Consolidated)

Revenues (Rs.mn)	FY06	FY07	FY08	FY09E	FY10E
Operating Income	**3,884.50**	**5,821.90**	**7,459.00**	**8,188.83**	**10,789.90**
Operating Expenses	1,939.20	2,771.80	3,650.44	3,433.96	4,406.15
Administration & Other Expenses	327.40	421.70	677.52	815.62	982.20
Expenditure	2,266.60	3,193.50	4,327.96	4,249.57	5,388.35
EBITDA	**1,617.90**	**2,628.40**	**3,131.04**	**3,939.26**	**5,401.55**
EBIDTA Margin	41.7%	45.1%	42.0%	48.1%	50.1%
Other Income	30.90	78.80	554.80	394.00	433.40
Interest & Financial Charges	173.40	360.60	683.90	874.56	989.06
Depreciation	448.9	709.00	985.52	957.93	1,257.64
PBT	1,026.50	1,637.60	2,016.42	2,500.77	3,588.25
Extraordinary items - Income (Net)	-	-	179.90	-	-
Profit / (Loss) for the year carried down	1,026.50	1,637.60	2,196.32	2,500.77	3,588.25
Provision for taxation	55.80	185.80	173.40	299.11	509.25
Fringe Benefits tax	36.70	6.30	5.30	5.83	6.41
Current Tax	8.2	240.90	200.90	293.28	502.84
Deferred Tax	10.9	(61.4)	(32.8)	-	-
Profit / (Loss) after tax	**970.70**	**1,451.80**	**2,022.92**	**2,201.67**	**3,079.00**
PAT Margin	25.0%	24.9%	27.1%	26.9%	28.5%

A **Operating Income:** Revenues are expected to increase at CAGR of 20% over FY08-FY10E. The growth is modest as only 2 vessels (1 Jack Up Rig & 1 MSV) are expected to be added to GOL's fleet during the coming 2 years.

B **EBIDTA margins:** EBIDTA margins are expected to increase from 42% during FY08 to 48.1% & 50.1% during FY09E & FY10E respectively. The increase in EBIDTA margins is due to no dry docking expenses of drilling assets during FY09E & FY10E, whereas USD10mn was spent on dry docking of Badrinath (Drill barge) during FY08.

C **Current Tax:** All vessels would come under the tonnage tax regime expect for the drilling assets & the construction barge, which would be taxed at the full tax rate.

Balance Sheet

Table 36: Balance Sheet (Consolidated) (Rs.mn)

	FY06	FY07	FY08E	FY09E	FY10E
Shareholders' Funds					
Share capital	1	381	381	381	381
Share capital suspense A/C	381	0	0	0	0
Preference Share capital			1500	1500	1500
Reserves & Surplus	4618	5795	7000	8313	10503
Total	**4999**	**6176**	**8881**	**10194**	**12384**
Loan Funds					
Secured loans	3812	7441	7677	10687	10447
Unsecured loans	0	24	1696	1688	1680
Total	**3812**	**7466**	**9373**	**12375**	**12127**
Deferred tax liability (net)	28.6	0	0	0	0
TOTAL	**8839**	**13641**	**18254**	**22569**	**24511**
APPLICATION OF FUNDS					
Fixed assets					
Gross block	9402	13789	14736	21336	23936
Less: Accum depreciation	3414	4120	4855	5813	7071
Net block	**5988**	**9669**	**9880**	**15523**	**16865**
Ships under construction	1829	3221	3680	1560	0
Total	**7817**	**12890**	**13560**	**17083**	**16865**
Goodwill (on consolidation)	0.5	0.5	0.5	0.5	0.5
Deferred tax assets (net)	0	33	66	66	66
Current assets, loans & advances					
Inventories	73	63	82	97	128
Sundry debtors	764	1240	1430	1570	2069
Cash & bank balances	1024	576	4324	4675	6422
Other current assets	0	5.5	5.5	5.5	5.5
Loans & advances	240	406	417	501	601
Total	**2100**	**2291**	**6260**	**6849**	**9226**
Less: Current liabilities & prov					
Current liabilities	1046	1546	1597	1387	1595
Provisions	35	27	35	42	50
Total	**1081**	**1573**	**1632**	**1429**	**1646**
Net current assets	**1019**	**718**	**4627**	**5420**	**7580**
Miscellaneous expenditure	3	0.4	0	0	0
TOTAL	**8839**	**13641**	**18254**	**22569**	**24511**

A **Preference Share capital:** Allotment of 1500000 Optionally Convertible Redeemable Preference Shares of Rs1000 each fully paid up aggregating to Rs1500mn carrying a dividend rate of 10% p.a. to Export-Import Bank of India.

B **Unsecured loans:** FCCB's of USD42mn issued during October 07, which are listed at Singapore Exchange Securities Trading Ltd.

C **Gross block:** The increase in gross block during FY09E & FY10E is due to addition of 1 Jack Up Rig & 1 MSV costing USD165mn & USD65mn respectively.

D **Ships under construction:** Indicates the advance amount paid towards construction of vessels.

Cash Flow Statement

Table 37: Cash Flow Statement (Consolidated) (Rs.mn)

	FY07	FY08E	FY09E	FY10E
PBT	1638	2016	2501	3588
Add:Depreciation	709	986	958	1258
Add: Interest	361	684	875	989
Add: Miscl. Exp. Written off	2	0	0	0
Add:(Profit) / Loss on sale of fixed assets	0	-180	0	0
Less:Interest Income	-36	-270	-369	-406
Less:Dividend Income	-22	0	-25	-28
Less:Foreign Exchage Difference	0	-285	0	0
Add:Provisioin for Doubtful debts	13			
Add:Foreign Exchange	0			
Add:deffered revenue expendutre written off	72			
Operating Profit Before Working Capital Changes	2737	2952	3939	5402
Working Capital Changes				
Increase in Inventories	10	-19	-15	-31
Increase in Sundry Debtors	-476	-191	-140	-499
Increase in Loans and Advances	-172	-11	-83	-100
Increase in current liabilities	492	59	-203	217
Working capital changes	-146	-162	-441	-413
Operating Cash Flow after W.Capital Changes	2591	2790	3548	5044
Direct Taxes Paid	-186	-173	-299	-509
Others	-140	177	0	0
Net Cash flow from Operating Activities	**2,265**	**2,793**	**3,199**	**4,479** A
Sale of Fixed Assets	26	180	0	0
(Increase)/Dec of Fixed assets	-5778	-1406	-4480	-1040 B
(Increase)/Dec of Investments				
Dividend received	22	0	25	28
Interest received	36	270	369	406
Sale of Investments	0	0	0	0
Net Cash flow from Investing Activities	**-5694.4**	**-956.4**	**-4086**	**-606.6**
Increase in Share Capital	0	1500	0	0 C
Increase in Premium on Issue of share capital	0	0	0	0
Increase / (Decrease) in Term Loans	3654	1908	3002	-248 D
Interest paid	-325	-684	-875	-989
Dividend Paid	-348	-813	-889	-889
Net Cash flow from Financing Activities	**2982**	**1911**	**1239**	**-2126**
Cash Generated during the year	-448	3748	351	1747
Add:Opening Balance of cash	1024	576	4324	4675
Closing Balance of cash	576	4324	4675	6422

A. **Cash flow from operating activities:** Expected to grow at a CAGR of 31% over FY08-FY10E.

B. **Fixed assets:** Addition of 1 Jack Up Rig & 1 MSV during FY09E & FY10E respectively at a total cost of USD225mn.

C. **Preference shares:** Issue of Rs1500mn at a dividend rate of 10% p.a. to Export-Import Bank of India during FY08.

D. **Term loans:** Term loan of Rs3960mn to fund acquisition of Jack Up Rig, expected to be delivered during Jan-2009.

RATIOS:

Table 38: Ratios (Consolidated)

	FY06	FY07	FY08E	FY09E	FY10E
Valuation Matrix					
Price / Earnings (x)	22.8	15.3	11.8	10.8	7.7
Price / CEPS (x)	15.6	10.2	7.9	7.5	5.5
Price / BV (x)	4.4	3.6	2.5	2.2	1.8
EV / EBIDTA (x)	15.4	11.0	8.7	7.6	5.2
EV / Sales (x)	6.4	5.0	3.6	3.6	2.6
EPS (Rs)-Basic	25.5	38.1	53.1	57.8	80.8
EPS(Rs)-Diluted	25.5	38.1	49.3	53.7	75.1
CEPS (Rs)	37.3	56.7	73.4	77.1	105.8
Book Value	131.1	162.0	233.1	267.5	325.0
ROE (%)	19%	26%	27%	23%	27%
ROCE (%)	11%	18%	18%	16.5%	19.4%
Solvency Ratio (x)	**FY06**	**FY07**	**FY08E**	**FY09E**	**FY10E**
Debt / Equity (x)	0.8	1.2	1.1	1.2	1.0
Debt / EBIDTA	2.4	2.8	3.0	3.1	2.2
Debt / Capital Emp.	0.4	0.5	0.5	0.5	0.5
Capital Emp / Net Worth	1.8	2.2	2.1	2.2	2.0
Interest Coverage Ratio	6.9	5.5	3.9	3.9	4.6
Turnover Ratio (x)	**FY06**	**FY07**	**FY08E**	**FY09E**	**FY10E**
Asset Turnover Ratio	0.4	0.4	0.4	0.4	0.4
Fixed Asset Turnover Ratio	0.6	0.6	0.8	0.5	0.6
Working Capital Ratio (x)	**FY06**	**FY07**	**FY08E**	**FY09E**	**FY10E**
Current Ratio	1.9	1.5	3.8	4.8	5.6
Working Capital to Sales	0.3	0.1	0.6	0.7	0.7
Margin Ratio	**FY06**	**FY07**	**FY08E**	**FY09E**	**FY10E**
EBIDTA Margin	41.7%	45.1%	42.0%	48.1%	50.1%
EBIT Margin	30.1%	33.0%	28.8%	36.4%	38.4%
PBT Margin	26.4%	28.1%	29.4%	30.5%	33.3%
PAT Margin	25.0%	24.9%	27.1%	26.9%	28.5%
Growth Ratio	**FY06**	**FY07**	**FY08E**	**FY09E**	**FY10E**
Revenues		49.9%	28.1%	9.8%	31.8%
EBIDTA		62.5%	19.1%	25.8%	37.1%
Net Profit		49.6%	39.3%	8.8%	39.8%

A

B

A **Debt / Equity:** Debt/Equity is expected to be1.5 & 1.3 during FY09E & FY10E respectively as compared to 1.2 during FY08. GOL can raise additional debt for vessel acquisitions or company takeovers, as the debt/equity ratio is modest.

B **PAT Margin:** PAT margins during FY10E is higher than FY09E as 2 new vessels (Jack Up Rig & a MSV) is expected to be operational during FY10E and would command higher day rates as compared to existing vessels.

Garware Offshore Services Ltd

Growth A"head"

Garware Offshore Services Limited (GOSL) is an emerging player in the Indian offshore services sector with a present market share of ~ 6%. GOSL has a present fleet size of 6 vessels, comprising of 3 AHTSV's and 3 PSV's chartered to ONGC, British gas and Transocean on long-term contracts. The contract renewal rates for AHTSV's has increased from USD4500 during December 2006 to USD8000 at present, whereas for PSV's from USD15500 during January 2008 to USD17200 at present. GOSL is adding 3 AHTSV's, 2 PSV'S and 1 construction barge by July 2009 at an estimated cost of Rs4.85bn. With its timely addition of fleet by July 2009 and increasing day rates we expect GOSL to post top line & PAT CAGR of 50% & 43% respectively over FY08-10E. We recommend a "BUY" on the stock, with a 12-month price target of Rs257, an upside of 38% from current levels.

Contract renewals at significantly higher rates

With crude reaching its all time high, Oil companies are increasing allocation to E&P activities, thereby resulting in a higher demand for offshore services. In this scenario GOSL was able to renew existing long-term contracts at significantly higher rates – Garware I (AHTS vessel) which was contracted to ONGC for USD4500/day was renewed on January 2007 at USD8000/day & M.V.Everest (PSV vessel) contacted to British Gas at USD14500/day was renewed on February 2008 at USD17200/day. With E&P activities picking up in India due to increased private participation & new discoveries, charter rates are expected to move northwards in the coming years.

Aggressive fleet expansion from 6 to 12 vessels by July 2009

GOSL is increasing its fleet size at the right time to benefit from the increased demand for offshore services. From the present fleet of 6 vessels, GOSL is adding 3 AHTS's, 2 PSV's and 1 construction barge by July 2009. The new vessels are expected to command higher charter rates as compared to the existing vessels. The addition of new vessels will also help in reducing the average fleet age from 15 years as on March 2008 to 9 years as on March 2010.

Addition of new revenue streams

GOSL has the exclusive rights in India for selling ship designs of Havyard Leirvik, a renowned shipbuilder based at Norway from whom it purchases ships. GOSL has sold 4 designs to ABG Shipyard & 4 designs to Bharti Shipyard and has earned a commission of Rs18mn from the same. In collaboration with Havyard, GOSL is also planning to set up a design KPO (Knowledge Process outsourcing) center to outsource ship-design drawings. Initially the revenues expected from these ventures are low but the margins earned are significantly high.

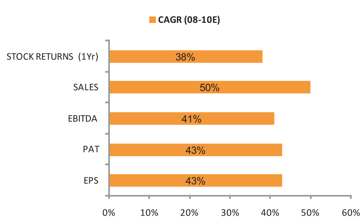
BUY with a 12 month price target of Rs257

GOSL's revenues are expected to increase at a CAGR of 50% over FY08-10E to Rs2152mn during FY10E. EBIDTA margins are estimated to be 62% & 64% during FY09E & FY10E respectively, as compared to 58% during FY08. Renewal of contracts at higher rates, aggressive fleet expansion and a young fleet are key investment arguments. We estimate strong earnings CAGR of 43% over FY08-FY10E to Rs814mn during FY10E. We have valued the stock based on P/E and NAV valuation methodology and recommend a BUY with a price target of Rs257.

COMPANY INDEPTH

Stock Rating	BUY
CMP (Rs.)	186
Target Price (Rs.)	257

Investment Profile

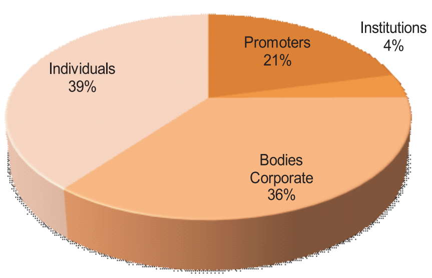


Bloomberg	GWOS IN
Reuters	GRSH.BO
BSE Group	S
BSE Code	501848
NSE Symbol	GARWOFFS
BSE Sensex	15088
NSE Nifty	4504

Market Data

Market Cap (Rs.mn)	4430
Share Cap (Rs.mn)	238
52 wk High/Low (Rs.)	361/161
Avg.Vol(weekly)	29199
Face value(Rs.)	Rs.10

Shareholding Pattern (As on 31st March 2008) (%)



Financials	FY08 (12m An.)	FY09E	FY10E
Net sales(Rs mn)	956	1409	2152
EBITDA (Rs mn)	552	879	1375
PBT (Rs mn)	403	493	846
PAT (Rs mn)	397	472	814
EBITDA margin	58%	62%	64%
PAT margin	42%	34%	38%
EPS (Rs.)	16.66	19.84	34.16
CEPS (Rs.)	22.72	28.20	44.85
P/E(x)	11.2	9.4	5.4
EV/EBITDA(x)	12.3	10.4	6.1
ROE	25%	21%	29%
ROCE	15%	13%	16%

INVESTMENT CASE

GOSL is a medium sized player in the offshore services sector and has serviced key customers in the Oil E&P space such as ONGC, Cairn Energy, British Gas, Transocean etc. GOSL has a present operating fleet of 6 vessels (3 AHTS & 3 PSV), chartered to these companies on long-term contracts. High crude prices, favourable Government policies and India's vast unexplored offshore-basins would lead to huge investments in the E&P sector going forward. Spot charter rates are strong and long-term contracts have been renewed at ~30-40% higher rates. To capture the increased demand for offshore vessels in the coming years GOSL is undertaking an aggressive fleet addition program and has planned to increase the total fleet size to 12 by July 2009. With Oil E&P firms committing to a Minimum Work Program of exploration based NELP allotments, the activity & buoyancy is expected to be strong in the offshore sector, which is a positive for the stock.

Our "BUY" rating on Garware Offshore is based on the following arguments:

Favourable E&P scenario in India

- Approximately 85% of India's oil reserves lie in the offshore sector and only 26% of the sedimentary basins are explored, which suggests a huge opportunity in the Indian E&P sector.
- Presently exploration activity is in progress on NELP IV awarded blocks, after which NELP V & NELP VI work would commence. Work till NELP VI is expected to complete only 9 years from now, indicating the huge exploration activity in the Indian E&P in the coming years.
- With global crude prices reaching their lifetime high, Oil companies are increasing the budgetary allocation for E&P activities worldwide, thereby resulting in a significant demand for offshore services.

Contract renewal at higher rates

- The up trend currently witnessed in the offshore sector has enabled GOSL to renew existing contracts with its clients at significantly higher rates.
- Contract with British Gas for the vessel M.V.Everest (PSV) was renewed at USD17200/day on January 2008 from the previous rate of USD14500/day.
- The present demand for offshore vessels is more than the supply in the market place. This demand-supply gap is expected continue in the coming years, leading to strong charter rates.

New fleet addition

- GOSL has planned to increase its fleet size envisaging the strong demand for offshore vessels in the market place. 3 AHTS, 2 PSV and a Construction Barge are expected to be added to GOSL's fleet by July 2009.
- Addition of new offshore vessels would result in a younger fleet which will bring down the average age of vessels to 9 years.

VALUATIONS

Strong topline growth combined with margin expansion

We expect GOSL's top line to grow at CAGR of 50% over FY08-10E, mainly due to the addition of new vessels in future. Net profit is expected to increase at a CAGR of 43% over FY08-FY10E to Rs814mn by FY10E. We expect EBITDA margins to improve due to addition of new vessels, which are expected to command strong day rates. EBIDTA margins are expected to be higher at 62% & 64% during FY09E & FY10E respectively as compared to 58% in FY08.

Table 39: Key Ratios

	CY06	FY08(12m Ann.)	FY09E	FY10E
Revenue Growth	70%	83%	47%	53%
EPS growth	13%	101%	19%	72%
EBITDA margin	56%	58%	62%	64%
PAT margin	30%	42%	34%	38%
ROE	17%	25%	21%	29%
ROCE	10%	15%	13%	16%

Source: Systematix Institutional Research

ROE is expected to increase from 16.6% in CY06 to 29% in FY10E while ROCE will increase from 10.2% in CY06 to 16.6% in FY10E.

Valuations are attractive

GOSL is presently trading at P/E of 9.3 & 5.4 based on FY09E & FY10E EPS respectively, whereas its peers are trading on an average of 6.9x of their FY10E EPS.

Table 40: Valuation Ratios

	CY06	FY08(12m)	FY09E	FY10E
EPS (Rs)	8.3	16.7	19.8	34.2
Price/Earnings (x)	22.3	11.2	9.4	5.4
Price / Book Value (x)	3.1	2.1	1.8	1.4
EV/EBITDA (x)	17.7	12.3	10.4	6.1

Source: Systematix Institutional Research

PRICE TARGET DERIVATION

We recommend a 'BUY' on GOSL with a 12 month price target of Rs.257, which provides an upside 38% from the current levels. We base our 12-month price target on Net Asset Valuation & P/E valuation methodologies.

At CMP of Rs186, GOSL trades at P/E multiples of 9.4x and 5.4x based on FY09E and FY10E EPS respectively. On EV/EBITDA basis the stock trades at 10.4x and 6.1x on FY09E and FY10E financials respectively. At our price target, the stock would trade at a P/E of 7.5x and EV/EBITDA of 7.3 based on FY10E financials.

Table 41: Price target derivation

P/E Valuation	
Total Market Cap - Industry (Rs.mn)	188,676
Total Net profit FY10E - Industry (Rs.mn)	26,838
Industry P/E - FY10E	7.0
Discount - 15% to Industry	6.0
EPS - FY10E	34.2
Price per share (Rs) (A)	**204**
NAV	
Market value of Assets - FY10E (Rs mn)	10670
Add:Cash in hand (Rs mn)	180
Less:Debt (Rs mn)	4138
Add:Net Working Capital (excluding cash) (Rs mn)	662
Total value (Rs mn)	7374
No.of shares (mn)	24
Per share value (Rs) (B)	**310**
Target Price (Rs) = (A+B)/2	**257**
Current share price (Rs)	186
Upside	**38%**

Source: Systematix Institutional Research

Table 42: Peer Set Comparison (financials)

Financials	Sales	OP margins(%)			PAT margins (%)			CAGR FY08-10E			
	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	Sales	EBITDA	PAT	EPS
Aban Offshore	52,721	67%	72%	73%	20%	34%	39%	44%	50%	100%	199%
Great Offshore	10,790	42%	48%	50%	27%	27%	29%	20%	31%	23%	23%
Garware Offshore	2,152	58%	62%	64%	42%	34%	38%	50%	41%	43%	43%
Shiv-vani Oil	12,590	38%	41%	43%	19%	19%	19%	78%	90%	80%	80%

Source: Bloomberg Consensus, Systematix Institutional Research

Table 43: Peer Set Comparison (valuation)

	CMP	Mkt.cap	P/E			P/BV			EV/EBITDA		
		(Rs.mn)	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E
Aban Offshore	3567	137,472	26.4	9.1	6.7	10.9	4.7	2.8	13.4	6.9	5.0
Great Offshore	581	22,136	11.8	10.8	7.7	2.5	2.2	1.8	8.7	7.6	5.2
Garware Offshore	186	4,430	11.2	9.4	5.4	2.1	1.8	1.4	0.0	10.4	6.1
Shiv-vani Oil	561	24,638	32.6	17.6	10.0	0	3.1	2.4	18.4	9.1	5.1

Source: Bloomberg Consensus, Systematix Institutional Research

We had recommended a Buy on the stock with a price target of Rs 294 on 28th April 2008.We have revised our price target to Rs.257 mainly because of the valuation scenario across the sector has been trimmed with the market turning southwards.

Risks to our Target Price

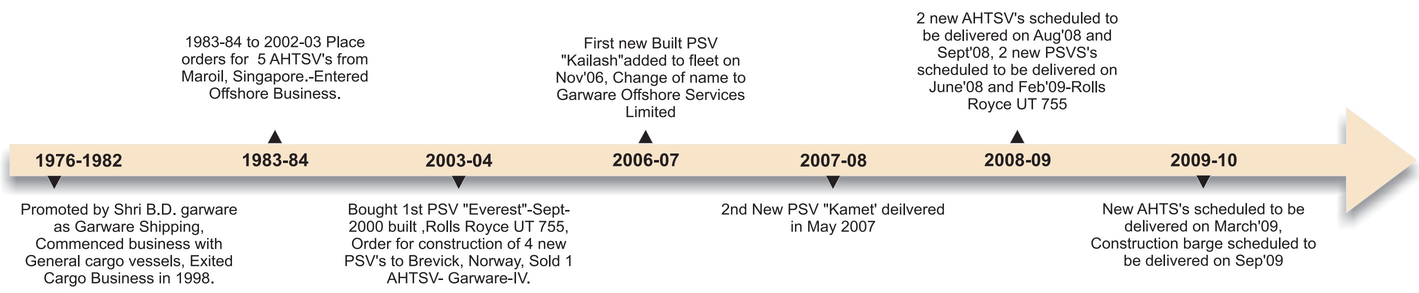
1. A substantial decline in global crude prices could result in reduced E&P spending by Oil companies, thereby dampening the demand for offshore services and leading to lower charter rates.
2. Any delay in the delivery of vessels could result in lower than estimated revenues, thereby lowering our earnings estimates and thus our price target.
3. Unableness to contract the new vessels on long term charter contracts post their delivery could have a negative impact on our revenue estimates.
4. Offshore services being a specialized sector, retaining & recruiting skilled manpower is a challenge. Also the exit of any key technical personnel would have a negative impact on the company.
5. ONGC is one of the major client to GOSL contributing 47% to its total revenues in FY08.Any downturn or changes in the ONGC E&P plans will adversely effect GOSL.

COMPANY IN-DEPTH

An Overview

GOSL was promoted by Late Mr.B.D.Garware in1976 as Garware Shipping and was initially involved in the traditional shipping business of General Cargo Vessels. The company later diversified into the offshore business to provide offshore services to companies operating in the Crude oil E&P (Exploration & Production) sector. The core operations of GOSL include chartering of (renting) offshore vessels, namely AHTS (Anchor Handling Tug cum Supply vessel) & PSV (Platform Supply Vessel) to Oil E&P companies. The company presently owns 3 AHTS & 3 PSV's, which are operating on long term charter contracts with various Oil E&P companies. With huge investments planned in the Indian E&P sector, GOSL has lined up an aggressive fleet expansion strategy. The company has placed orders for 3 AHTS, 2 PSV and a construction barge, which are expected to be delivered in the coming 18 months. GOSL is headquartered at Mumbai.

Chart 40: Historical events chart



Source: Company

Fleet details

AHTS & PSV are 2 categories of offshore vessels presently owned by GOSL. These vessels are used to support Oil E&P activities and perform critical functions such as transportation of manpower, equipment, firefighting, towing of Rig, servicing of Oil platforms etc.

Table44 : Present Fleet details

Name	Type of vessel	Built by	Details of vessel	Vessel age
Garware I	AHTS	Maroil,Singapore	Coana Wu design	24
Garware III	AHTS	Maroil,Singapore	Coana Wu design	24
Garware V	AHTS	Maroil,Singapore	Coana Wu design	24
Everest	PSV	Brevik,Norway	Rolls Royce UT755	7
Kailash	PSV	Havyard Leirvik, Norway	Rolls Royce UT755 L	2
Kamet	PSV	Havyard Leirvik, Norway	Rolls Royce UT755 L	1

Source: Company

Customer profile

The customers of GOSL are companies involved in Oil E&P and allied service providers to the E&P companies. The customers include Public & Private sector firms, domestic & foreign Oil E&P players operating in Indian subcontinent, such as ONGC, British Gas, Transocean, Cairn Energy etc. Majority of the vessels are given on long-term charter contracts to the customers.

Table 45: Fleet operating details

Name	Chartered to	Rate/day (USD)	Contract Expiry	Next contract with	Rate/day (USD)
Garware I	ONGC	8000	31-Dec-08	ONGC	9000
Garware III	ONGC	8500	N.A		
Garware V	ONGC	4500	31-Mar-08		
Everest	British Gas	17200	31-Jan-10		
Kailash	Transocean	15500	31-Jan-10		
Kamet	ONGC	15500	30-Jun-12		

Source: Company

At present all the 6 vessels are under long term contacts, the details of which are mentioned in the table above. The contract renewal rates are significantly higher, suggesting the strong demand for offshore vessels in the market place.

Fleet expansion plans

High crude prices have led to increased E&P activity worldwide, thereby resulting in a strong demand for offshore services. GOSL is undertaking a fleet expansion plan at the right time to benefit from the surge in global charter rates, which is expected to remain strong in the coming years. The new vessels are expected to command higher rates because of technological superiority and higher operational efficiencies. ONGC (90% market share in the Indian E&P sector) has already shown interest in higher technology vessels. GOSL has ordered 3 AHTSV's, 2 PSV's and one construction barge(under bareboat charter)

Table 46: Fleet expansion details

Vessel type	Details of vessel	Built by	Cost (USD mn)	Expected Delivery date	Exp.Rate/day (USD)
AHTSV I	60T		550	July-08	10500
AHTSV 2	60T		550	Aug-08	10500
AHTSV 3	60T	Pacific Radiance, China	550	Feb-09	10500
PSV 1	Rolls Royce UT755 L	Havyard Leirvik,Norway	1100	June-08	18000
PSV 2	Rolls Royce UT755 L	Havyard Leirvik,Norway	1100	Dec-08	18000
Construction barge		Pacific Radiance, China	1000	Jul-09	20000

Source: Company

A construction barge is a vessel supporting marine civil engineering works and carries construction equipment, material & people onboard. The construction barge being acquire by GOSL has the capacity to accommodate ~250 people. The barge would be rented out to marine construction companies such as L&T, Punj Lloyd on a contractual basis. Presently there are only about 4 – 5 construction barges operating in India. The construction barge is being acquired by GOSL's Singapore subsidiary i.e. Garware Offshore International Services under a Bareboat Charter scheme.

Bareboat Charter

Under this scheme the construction barge would be completely financed by a Bank in Singapore, who would also have ownership of the asset. GOSL would have the rights to use the asset for a period of 10 years and has to pay a daily fee of USD9000 for the same. Under this scheme GOSL would have the option to buy back the asset anytime between year 2 to year 10. Thus the bareboat charter scheme facilitates in acquiring more vessels without having to raise additional capital.

The daily operating cost of the construction barge is estimated at USD6000 leading to a net daily profit of USD5000 earned by GOSL (Daily profit = Daily charter rentals earned by GOSL less Fee payable to Bank & Daily operating charges).

Funding of capex

The acquisition cost of the 5 vessels (3 AHTS's and 2 PSV's) is estimated to be Rs3850mn. The capex would be financed by 70% debt and 30% by internal accruals & equity. The payment schedule to the ship builder involves 5% advance payment, 15-20% payment during the construction period and the balance on delivery of vessel. The entire debt would be US dollar denominated, with an average debt cost of LIBOR+4%. The repayment of debt would be over a 10-year period in equal monthly installments.

Average fleet age to reduce

The contribution of new vessels to total revenues is expected to increase in the coming years and is expected to contribute 20% & 39% to the top line by FY09E & FY10E respectively. Addition of new vessels will help in reducing the average fleet age from 15 years during March 2008 to 9 years as on March 2010. The new vessels are expected to command a pricing premium in the market, entail lower maintenance cost and find greater acceptability with its customers.

Chart 41: Contribution of new vessels

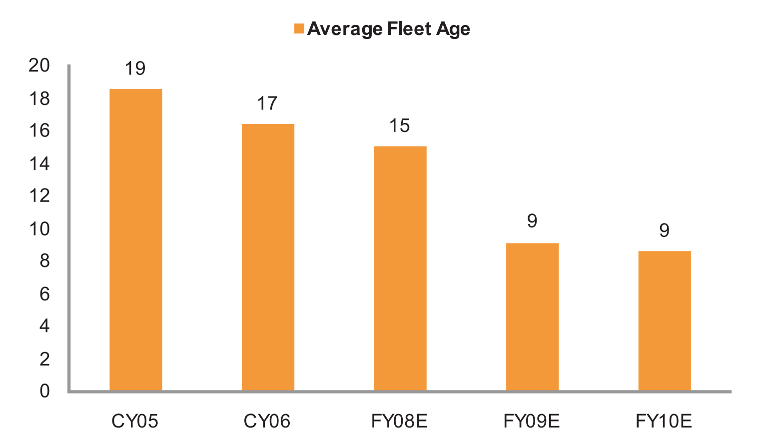
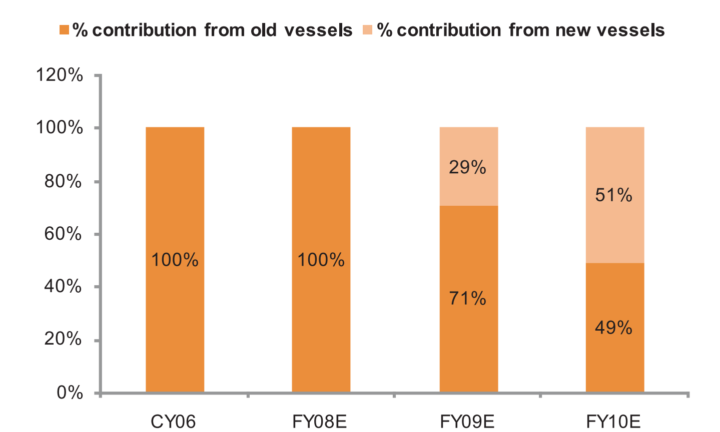


Chart 42: Average fleet age



Source: Company

Addition of new revenue streams:-

Exclusive rights for selling ship designs

GOSL has the exclusive rights in India for selling ship designs of Havyard Leirvik, a renowned shipbuilder based at Norway. The commission ranges from 5-6% of the design cost. GOSL has sold 4 designs to ABG Shipyard & 4 designs to Bharati Shipyard and has earned a commission of Rs18mn from the same. With the emergence of India as a ship building destination, revenues from this business is expected to grow at 100% CAGR over FY08E-10E.

Setting up a KPO for design services

In collaboration with Havyard Leirvik, GOSL is planning to set up a design KPO (Knowledge Process outsourcing) centre in India. Havyard's ship-design drawings would be outsourced to the GOSL's KPO center and would provide significant cost savings in terms of lower manpower cost for skilled labour. The contribution of this business to total revenues is estimated to be quite modest.

Singapore subsidiary

GOSL's wholly owned Singapore based subsidiary, Garware Offshore International Services held 1 AHTS (Garware-II), which was recently sold for consideration for USD 3mn. The construction barge, which is expected to be delivered by September 2009, would also be operated by the subsidiary.

Planning to acquire one more AHTS for USD15.5 mn

Source: Business standard,May,14,2008

As reported by President Finance to media that GOSL is on the verge of finalizing a deal to buy one more AHTSV from Singapore at an estimated cost of USD15.5mn over and above order of 5 ships-3 AHTSV's and 2 PSV which are expected to be delivered between June-08 and February -2009.However, this deal is still not finalized and we haven't included it in our projections.

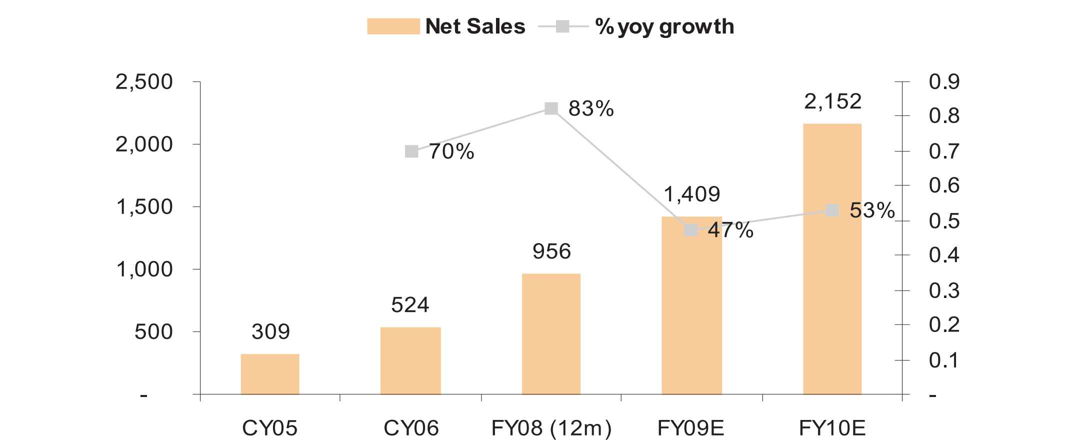
EARNINGS OUTLOOK & FINANCIALS

Steady Performance to continue

We expect GOSL's revenues to grow by 47% and 53% respectively for FY09E and FY10E respectively on the back of addition of 6 new vessels (60T AHTSV's,2 PSV's and 1 Construction Barge) by July 2009 from present 6 vessels and increase in realization rates expected for next 3 years. GOSL has also entered into new segments such as setting up of KPO for ship designs and holder of exclusive right to sell Havyard ship designs in India which will directly add to the bottom-line.

We expect GOSL to report Fleet operating Income to grow at 50% CAGR over FY08E-10E registering a growth of 47% ad 53% in FY09E and FY10E respectively.

Chart 43: GOSL expected Fleet operating Income and growth

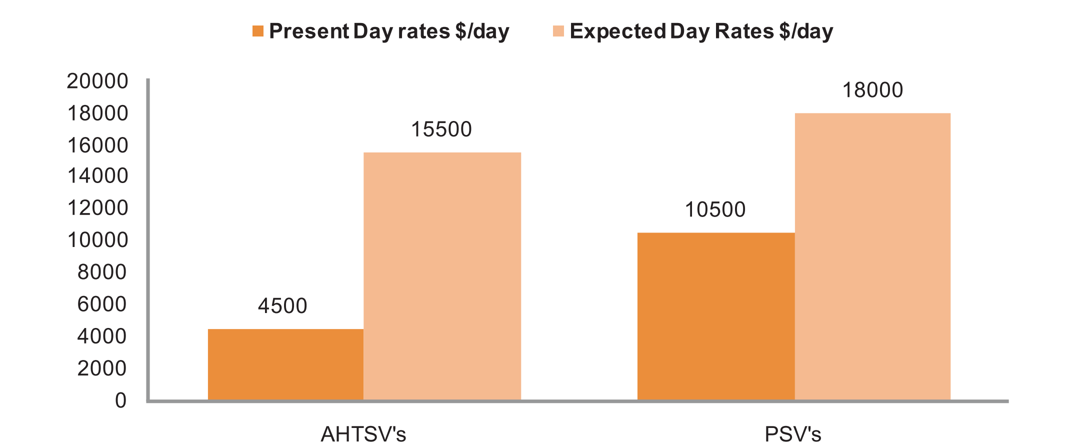


Source: Systematix Institutional Research

Day rates had shown phenomenal increase during last year

The day rates have shown a ~100% increase over previous contracts due to increase in E&P activities and shortage of vessels. We expect Garware's new vessels will command a higher premium in the market as compared to vessels of same capacity because of latest technology and up gradation .Ex:Garware II, a AHTSV vessel which was contracted with ONGC at a day rate of 4500$ was renewed with Cairn Energy at day rate of $8800 .

Chart 44 : Comparison of present day rate and expected future dayrate vessel wise



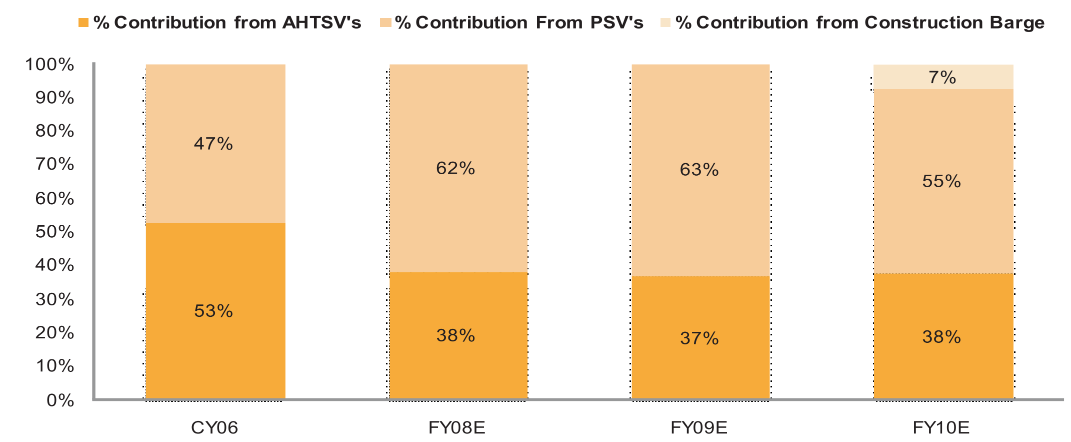
Source: Company

The Kamet, a PSV vessel delivered in May'o7 and presently with ONGC under 5 years long term contract is at rate of approx. $15500/- per day while the same capacity vessel is at present day rate of $18000 per day hence showing an increaseof~17% yoy.

Addition of PSV's will help to increase revenues at faster speed.

GOSL has at present 3 PSV's M.V. Everest, Kailash and Kamet delivered on Dec'2005,November 2006 and May'07 respectively. The present PSV's are in contract with British gas, Transocean ad ONGC at day rates of approx~15500$.PSV's contributed 20% & 30% as a percentage of total fleet income during CY06 and FY08E respectively. With 2 new additional PSV's expected to be delivered inMay'08 and Dec'08 respectively and with sale of 1AHTSV we expect PSV's to contribute 20% & 30% as a percentage of sales during FY09E and FY10E respectively. PSV's command higher revenue , every new PSV will generate approx 18000$ per day as compared to 10500 $per day by AHTSV's.

Chart 45: PSV contribution(%),AHTSv(%),Construction barge(%)

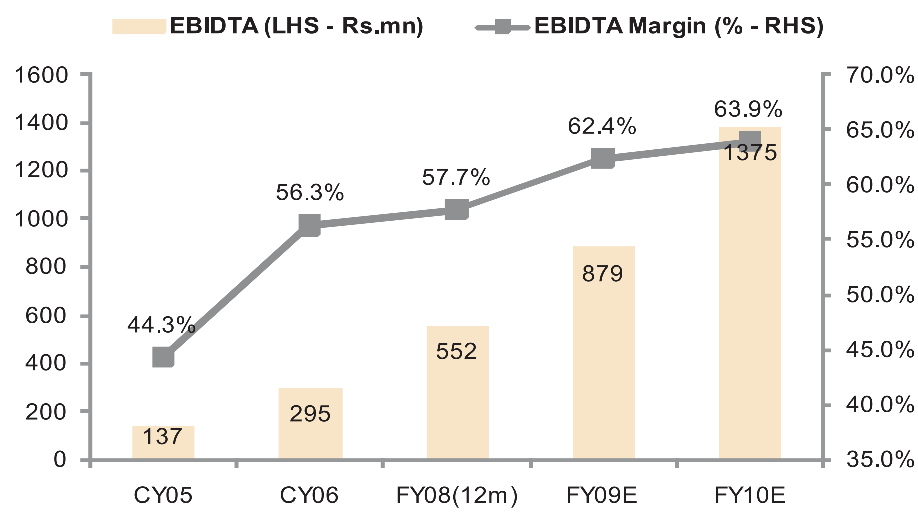


Source: Systematix Institutional Research

EBITDA Margins to increase from 58% in FY08E(annualized 12m). to 64% in FY10E

We expect GOSL to report EBITDA of Rs879mn during FY09E and expected to increase to Rs1375mn during FY10E respectively. GOSL has reported 56% EBITDA margin during CY06 which increased to 58% during FY08 which we expect to increase to 62% in FY09E and to 64% in FY10E .The expansion of 600bps is due to addition of 5 fleets(3 AHTSV's & 2 PSV's) during FY09E and 1 construction barge in FY10E which will be on Bareboat charter. These new vessels will be able to command higher day rate as compared to present fleet.The new vessels will also help to bring down dry docking expenses substantially as these vessel will not be requiring any drydocking

Chart 46: EBITDA and EBITDA margin trend



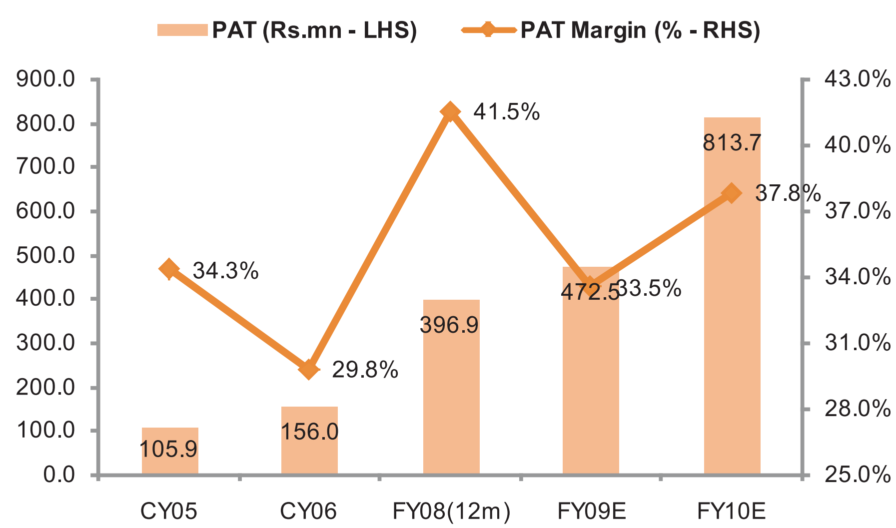
Source: Systematix Institutional Research

Higher Interest & depreciation cost affecting PAT margins

GOSL has a present debt of ~2200mn which we expect to increase to Rs4715mn and Rs4138 mn inFY09E and FY10E thereby showing an increase of Rs.1938 mn in next 2 years. The vessels are financed by ~70% debt component. GOSL is acquiring vessels worth Rs2695mn in next 2 years. As per the terms of acquisition the company has to pay 5% of cost in advance, 15-20% during construction period and balance on delivery.

The interest cost is at floating rate of LIBOR+4%.We have assumed 6 month moratorium period for each new loan from the date of delivery of vessel.

Chart 47: PAT trend



Source: Systematix Institutional Research

Depreciation on fleets

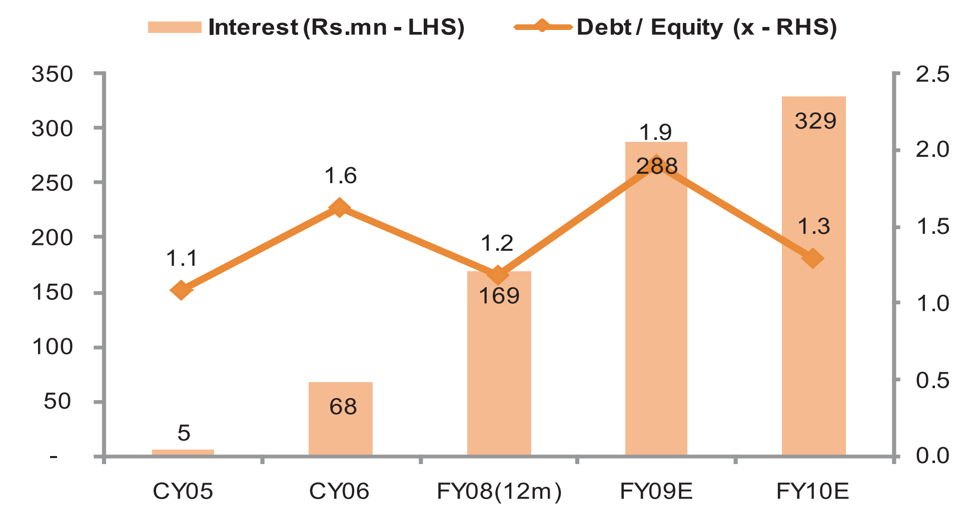
GOSL has a policy of charging 95%of the cost of vessel over its estimated life(30 years) on SLM basis.

Profit on sale of vessel: GOSL has sold I AHTSV (Garware-II) for USD 3mn in March-08. The vessel was contracted with Cairn Energy .The book value of vessel was RS56 mn hence profit on sale reported was Rs 61 mn.

Debt Equity

We expect debt-equity ratio of GOSL to increase to 1.9 in Fy09E from present 1.2 and then to again reducing to 1.3 in FY10E.GOSL is expected to raise debt of ~2695mn during FY09E to fund its fleet acquisition (70% of the cost of fleet is funded through debt).

Chart 48: Debt-Equity ratio



Source: Systematix Institutional Research

Profit & Loss A/C

Table47 : Profit and Loss Account (Consolidated) (Rs.mn)

	CY05 12m	CY06 12m	FY08 15m	FY09E 12m	FY10E 12m
Operating Income	**308.63**	**523.77**	**1,194.89**	**1,408.99**	**2,152.25**
Fleet Operating Expenses	105.40	137.95	353.86	349.48	559.16
Establisment & Other Expenses	66.58	91.19	151.65	180.32	218.34
Expenditure	171.97	229.14	505.51	529.80	777.51
EBITDA	136.66	294.63	689.38	879.19	1,374.75
EBIDTA margin %	**44%**	**56%**	**58%**	**62%**	**64%**
Other Income	18.57	13.71	205.37	100.76	54.75
Interest & Financial Charges	5.36	67.62	211.17	288.00	329.32
Depreciation	35.75	76.21	180.20	199.29	254.58
PBT	114.13	164.51	503.38	492.66	845.59
Provision for taxation	8.22	8.51	7.24	20.19	31.92
Fringe Benefits tax	0.7	2.69	2.69	5.41	6.55
Current Tax	7.6	1.42	3.55	14.78	25.37
Deferred Tax		-	-	-	-
(Excess)/Short Provision of tax of earlier years	-	4.40	1.00	-	-
Profit / (Loss) after tax	**105.91**	**156.00**	**496.14**	**472.47**	**813.67**

A **Operating Income:** Revenues are expected to increase at CAGR of 50% over FY08-FY10E. The high growth is on account of addition of 6 new vessels (3 AHTSV's, 2 PSV's and 1 Construction Barge) by July 2009. This would result in doubling of GOSL's fleet size from the present 6 to 12 by July 2009.

B **EBIDTA margins:** EBIDTA margins are expected to increase from 58% during FY08 (12m An.) to 62% & 64% during FY09E & FY10E respectively. The increase in EBIDTA margins is due to addition of 5 new vessels during FY09E which are expected to earn higher charter rates as compared to current fleet. Also there will be very less dry docking & refurbishment expenses.

C **Current Tax:** All vessels would come under the tonnage tax regime expect for the construction barge, which is under Singapore Subsidiary.

BALANCE SHEET

Table 48: Balance Sheet (Consolidated) (Rs.mn)

	CY05	CY06	FY08E	FY09E	FY10E
SOURCES OF FUNDS :					
Share Capital	157.9	220.9	238.2	238.2	238.2
Reserves	587.9	918.4	1,831.7	2,234.5	2,978.5
Total Shareholders Funds	**745.7**	**1,139.3**	**2,069.9**	**2,472.7**	**3,216.7**
Secured Loans	798.3	1,597.2	2,449.3	4,714.9	4,137.8
Unsecured Loans	12.5	250.0	-	-	-
Total Debt	**810.8**	**1,847.2**	**2,449.3**	**4,714.9**	**4,137.8**
Deferred tax liability	-	-	-	-	-
Total Liabilities	**1,556.5**	**2,986.5**	**4,519.2**	**7,187.6**	**7,354.5**
APPLICATION OF FUNDS :					
Gross Block	1,613.6	2,778.1	3,780.8	7,470.5	7,471.2
Less : Accumulated Depreciation	389.8	462.2	617.7	712.0	966.6
Net Block	**1,223.8**	**2,315.9**	**3,163.1**	**6,758.5**	**6,504.6**
Capital Work in Progress	59.8	350.7	852.5	-	-
Investments	4.6	5.6	6.6	7.6	8.6
Current Assets, Loans & Advances					
Inventories	31.1	60.1	122.7	137.3	203.6
Sundry Debtors	146.0	112.1	255.6	301.5	460.5
Cash and Bank	29.2	108.6	117.4	8.4	179.6
Loans and Advances	130.0	124.8	157.4	201.6	258.9
Total Current Assets	**336.3**	**405.5**	**653.2**	**648.7**	**1,102.5**
Less : Current Liabilities and Provisions					
Current Liabilities	34.0	52.4	71.5	107.5	108.4
Provisions	33.8	38.6	84.7	119.8	152.9
Total Current Liabilities	**67.8**	**91.0**	**156.2**	**227.3**	**261.3**
Net Working Capital	268.4	314.5	497.0	421.5	841.2
Total Assets	**1,556.7**	**2,986.6**	**4,519.2**	**7,187.6**	**7,354.5**

A B C D

A **Networth:** Net worth is expected to grow at 25% CAGR over FY08-FY10E from Rs2069mn in FY08 to Rs3216mn in FY10E

B **Secured loans:** Out of total capex of Rs3850mn, ~70% will be finances through debt.

C **Unsecured Loans:** Convertible debentures **(**2.27mn shares have been allotted to India Star Mauritius at a price of Rs110/- per share).

D **Capex:** Rs.3850mn worth of fleets are adding in FY09E & FY10E. GOSL has sold Garware-II in March-08 for `USD3mn

CASH FLOW STATEMENT

Table 49: Cash Flow Statement (Consolidated) (Rs.mn)

	CY05	CY06	FY08E	FY09E	FY10E
Net Profit before Tax & Extraordinary Items	114	165	503	493	846
Adjustment For:					
Depreciation	36	76	180	199	255
Interest (Net)	4	68	211	288	329
Dividend Received	(2)	(4)	(4)	(4)	(4)
P/L on Sale of Assets	(15)	(3)	0	(61)	0
Total Adjustments (PBT & Extraordinary Items)	23	137	387	422	580
Op. Profit before Working Capital Changes(a)	137	302	891	915	1425
Adjustment For					
Debtors	(11)	34	(144)	(46)	(159)
Inventories	0	(29)	(63)	(15)	(66)
Loans & Advances	0	20	(19)	(17)	(19)
Current Liabilities	(12)	18	19	36	1
Change in Working capital (b)	(24)	43	(206)	(41)	(244)
Cash Generated from/(used in) Operations (a+b)	113	345	685	873	1181
Direct Taxes Paid	(12)	(20)	(16)	(35)	(48)
Cash Flow from Operating Activities	**101**	**325**	**669**	**838**	**1133**
Net Cash Used in Investing Activities					
Cash Flow from Investing Activities					
Purchased of Fixed Assets	(1034)	(1164)	(1003)	(3851)	(1)
(Increase)/Decrease in Capital WIP	0	(291)	(502)	853	0
Sale of Fixed Assets	86	3	0	117	6
(Purchase)/Sale of Investments	0	(1)	(1)	(1)	(1)
Interest Paid	(1)	(68)	(211)	(288)	(329)
Dividend Received	2	4	4	4	4
Others		(42)	(39)	(47)	(64)
Net cash from Investing Activities	**(947)**	**(1559)**	**(1752)**	**(3213)**	**(385)**
Net Cash from Financing Activities					
Increase in Share capital	86	63	17	0	0
Increase in Security Premium		214	473	0	0
Increase /(Decrease) in Debt	778	1036	602	2266	(577)
Increase in Shares & Warrants					
Net cash from Financing Activities	**864**	**1313**	**1092**	**2266**	**(577)**
Cash generated during the year	17	79	9	(109)	171
Cash at the beginning of the year	19	29	109	117	8
Cash at the closing of the year	29	109	117	8	180

A
B
C

A Cash Flow from Operating Activites is expected to grow at CAGR of 30% over FY08-FY10E.

B **Capex** of Rs 3850mn over FY09 to FY10E for 3 AHTSV's and 2 PSV's which will be delivered upto Feb-09 .GOSL is also on verge of acquiring one more AHTSV for USD15.5mn which is expected to be delivered in Feb-09. But as the deal is not finalized we have not included in our projections.

C **Security Premium:**Rs.687mn during CY06 and FY08 due to conversion of debentures and Share warrants thereby increasing the total share capital by Rs50mn

RATIOS:

Table 50: Ratios (Consolidated)

Table A;	CY05	CY06	FY08E	FY09E	FY10E
Valuation Matrix					
Price / Earnings (x)	25.3	22.4	11.2	9.4	5.4
Price / CEPS (x)	18.9	15.1	8.2	6.6	4.1
Price / BV (x)	3.6	3.1	2.1	1.8	1.4
EV / EBIDTA (x)	25.3	17.8	12.3	10.4	6.1
EV / Sales (x)	11.2	10.0	7.1	6.5	3.9
EPS (Rs)	7.3	8.3	16.7	19.8	34.2
CEPS (Rs)	9.8	12.3	22.7	28.2	44.8
Book Value	51.7	60.5	86.9	103.8	135.0
ROE (%)	14%	17%	25%	21%	29%
ROCE (%)	8%	10%	15%	13%	16%
Solvency Ratio (x)	**CY05**	**CY06**	**FY08E**	**FY09E**	**FY10E**
Debt / Equity (x)	1.1	1.6	1.2	1.9	1.3
Debt / EBIDTA	5.9	6.3	4.4	5.4	3.0
Debt / Capital Emp.	0.5	0.6	0.5	0.7	0.6
Capital Emp / Net Worth	2.1	2.6	2.2	2.9	2.3
Interest Coverage Ratio	22.3	3.4	3.4	2.7	3.6
Turnover Ratio (x)	**CY05**	**CY06**	**FY08E**	**FY09E**	**FY10E**
Asset Turnover Ratio	0.20	0.18	0.21	0.20	0.29
Fixed Asset Turnover Ratio	0.25	0.23	0.30	0.21	0.33
Working Capital Ratio (x)	**CY05**	**CY06**	**FY08E**	**FY09E**	**FY10E**
Current Ratio	5.0	4.5	4.2	2.9	4.2
Working Capital to Sales	0.9	0.6	0.5	0.3	0.4
Margin Ratio	**CY05**	**CY06**	**FY08**	**FY09E**	**FY10E**
EBIDTA Margin	44.3%	56.3%	57.7%	62.4%	63.9%
EBIT Margin	38.7%	44.3%	59.8%	55.4%	54.6%
PBT Margin	37.0%	31.4%	42.1%	35.0%	39.3%
PAT Margin	34.3%	29.8%	41.5%	33.5%	37.8%
Growth Ratio	**CY05**	**CY06**	**FY08**	**FY09E**	**FY10E**
Revenues		69.7%	82.5%	47.4%	52.8%
EBIDTA		115.6%	87.2%	59.4%	56.4%
Net Profit		47.3%	154.4%	19.0%	72.2%

A **Asset turnover ratios:** Asset turnover ratios are expected to be higher during FY10E as all the newly acquired vessels would be fully functional throughout FY10E.

B **EBIDTA margins:** The increase in EBIDTA margins during FY09E & FY10E is due to addition of 5 new vessels during FY09E, which are expected to earn higher charter rates as compared to its existing fleet.

APPENDIX:

Offshore Asset Details

Jack-Up Rig

A self-contained combination drilling rig and floating barge, fitted with long support legs that can be raised or lowered independently of each other. The jackup, as it is known informally, is towed onto location with its legs up and the barge section floating on the water. Upon arrival at the drilling location, the legs are jacked down onto the seafloor, preloaded to securely drive them into the seabottom, and then all three legs are jacked further down. Since the legs have been preloaded and will not penetrate the seafloor further, this jacking down of the legs has the effect of raising the jacking mechanism, which is attached to the barge and drilling package. In this manner, the entire barge and drilling structure are slowly raised above the water to a predetermined height above the water, so that wave, tidal and current loading acts only on the relatively small legs and not the bulky barge and drilling package.

Drilling Barges

Drilling barges are used mostly for inland, shallow water drilling. This typically takes place in lakes, swamps, rivers, and canals. Drilling barges are large, floating platforms, which must be towed by tugboat from location to location. Suitable for still, shallow waters, drilling barges are not able to withstand the water movement experienced in large open water situations.

Submersible Rigs

Submersible rigs are like jack-up rigs in that they come in contact with the ocean or lake floor. These rigs consist of platforms with two hulls positioned on top of one another. The upper hull contains the living quarters for the crew, as well as the actual drilling platform. The lower hull works much like the outer hull in a submarine - when the platform is being moved from one place to another, the lower hull is filled with air - making the entire rig buoyant. When the rig is positioned over the drill site, the air is let out of the lower hull, and the rig submerses to the sea or lake floor. This type of rig has the advantage of mobility in the water, however once again its use is limited to shallow water areas.

Semisubmersible Rigs

Semisubmersible rigs are the most common type of offshore drilling rigs, combining the advantages of submersible rigs with the ability to drill in deep water. Semisubmersible rigs work on the same principle as submersible rigs; through the 'inflating' and 'deflating' of its lower hull. The main difference with a semisubmersible rig, however, is that when the air is let out of the lower hull, the rig does not submerge to the sea floor. Instead, the rig is partially submerged, but still floats above the drill site. When drilling, the lower hull, filled with water, provides stability to the rig. Semisubmersible rigs are held in place by huge anchors, each weighing upwards of ten tons. These anchors, combined with the submerged portion of the rig, ensure that the platform is stable and safe enough to be used in turbulent offshore waters. Semisubmersible rigs can be used to drill in deep-water & ultra-deep water.

Drillships

Drillships are ships designed to carry out drilling operations. These boats are specially designed to carry drilling platforms out to deep-sea locations. A typical drillship will have, in addition to all of the equipment normally found on a large ocean ship, a drilling platform and derrick located on the middle of its deck. In addition, drillships contain a hole (or 'moonpool'), extending right through the ship down through the hull, which allow for the drill string to extend through the boat, down into the water. Drillships are often used to drill in very deep water, which can often be quite turbulent. Drillships use what is known as 'dynamic positioning' systems. Drillships are equipped with electric motors on the underside of the ships hull, capable of propelling the ship in any direction. These motors are integrated into the ships computer system, which uses satellite positioning technology, in conjunction with sensors located on the drilling template, to ensure that the ship is directly above the drill site at all times. Drillships can be used to drill in deep-water.

Floating Production Systems

Floating production systems are essentially semisubmersible drilling rigs, except that they contain petroleum production equipment, as well as drilling equipment. Ships can also be used as floating production systems. The platforms can be kept in place through large, heavy anchors, or through the dynamic positioning system used by drillships. With a floating production system, once the drilling has been completed, the wellhead is actually attached to the seafloor, instead of up on the platform. The extracted petroleum is transported via risers from this wellhead to the production facilities on the semisubmersible platform. These production systems can operate in water depths of up to 6,000 feet.

Offshore Drilling and Production Platforms

When exploratory wells find commercially viable natural gas or petroleum deposits, it is economical to build a permanent platform from which well completion, extraction, and production can occur. These large, permanent platforms are extremely expensive, however, and generally require large expected hydrocarbon deposits to be economical to construct. Some of the largest offshore platforms are located in the North Sea, where because of almost constant inclement weather, structures able to withstand high winds and large waves are necessary. A typical permanent platform in the North Sea must be able to withstand wind speeds of over 90 knots, and waves over 60 feet high. Correspondingly, these platforms are among the largest structures built by man. There are a number of different types of permanent offshore platforms, each useful for a particular depth range.

South Asia Rig breakup

South Asia rig breakdown by company (Rig count: 45)

Rig Manager	Rig Name	Rig Type	Max WD	Status	Operator	Contract Notes
Aban Offshore	Aban Ice	Drillship	2,000 ft	Drilling	ONGC (NOC)	For ONGC (NOC) 02/29/2008 to 03/01/2011 at $157,000.00/day - LOI for Term Contract
Aban Offshore	Aban II	Jackup	270 ft	Drilling	ONGC (NOC)	For ONGC (NOC) 04/01/2007 to 10/01/2009 at $82,000.00/day - Term Contract
Aban Offshore	Aban III	Jackup	300 ft	Drilling	ONGC (NOC)	For ONGC (NOC) 01/01/2008 to 01/01/2011 at $156,600.00/day - Term Contract
Aban Offshore	Aban IV	Jackup	300 ft	Drilling	ONGC (NOC)	For ONGC (NOC) 12/08/2007 to 01/01/2011 at $156,600.00/day - Term Contract
Aban Offshore	Aban Pearl	Semisub	1,250 ft	Enroute		
Aban Offshore	Aban V	Jackup	300 ft	Drilling	ONGC (NOC)	For ONGC (NOC) 01/01/2008 to 01/01/2011 at $156,600.00/day - Term Contract
Atwood Oceanics	Atwood Beacon	Jackup	400 ft	Drilling	Gujarat State Petroleum	For Gujarat State Petroleum 01/26/2008 to 01/26/2009 at $133,500.00/day - Term Contract; For Gujarat State Petroleum 01/27/2009 to 01/27/2010 - Option for Term Contract - Dayrate TBD
ENSCO	ENSCO 50	Jackup	300 ft	Drilling	BG	For BG 01/01/2007 to 01/01/2009 at $170,000.00/day - Term Contract; For BG 01/02/2009 to 01/01/2010 - Option for Term Contract - Unpriced option
ENSCO	ENSCO 53	Jackup	300 ft	Drilling	BG	For BG 01/01/2007 to 10/01/2008 at $175,000.00/day - Term Contract - contract has unpriced option
Essar Oilfields Services Ltd.	Essar Jackup TBN 1	Jackup	450 ft	Under Construction		
Essar Oilfields Services Ltd.	Essar Jackup TBN 2	Jackup	450 ft	Under Construction		
Essar Oilfields Services Ltd.	Essar Wildcat	Semisub	1,300 ft	Drilling	Gujarat State Petroleum	For Gujarat State Petroleum 03/18/2008 to 03/18/2010 at $342,000.00/day - Term Contract; For Gujarat State Petroleum 03/19/2010 to 03/18/2011 - Option for Term Contract; For Gujarat State Petroleum 03/19/2011 to 03/17/2012 - Option for Term Contract
Great Offshore	Badrinath	Drill Barge	600 ft	Drilling	ONGC (NOC)	For ONGC (NOC) 09/16/2006 to 09/15/2009 at $77,000.00/day - Term Contract
Great Offshore	Kedarnath	Jackup	300 ft	Drilling	ONGC (NOC)	For ONGC (NOC) 05/01/2007 to 12/31/2008 at $44,000.00/day
Great Offshore	Samed Shikhar	Jackup	350 ft	Under Construction		For ONGC (NOC) 05/01/2009 to 05/01/2014 at $140,000.00/day - Term Contract
Hercules Offshore	Hercules 258	Jackup	250 ft	Modification		For ONGC (NOC) 05/11/2008 to 05/13/2011 at $110,000.00/day - Term Contract
Hercules Offshore	Hercules 260	Jackup	250 ft	Modification		For ONGC (NOC) 04/01/2008 to 03/31/2011 at $143,000.00/day - Term Contract
Jagson	Deepsea Matdrill	Jackup	200 ft	Drilling	ONGC (NOC)	For ONGC (NOC) 06/01/2006 to 06/01/2009 at $41,440.00/day;
Noble Drilling	Noble Charlie Yester	Jackup	300 ft	Drilling	ONGC (NOC)	For ONGC (NOC) 01/30/2007 to 01/29/2010 at $130,500.00/day - Term Contract - Rig barboat chartered to Jindal which contracted with ONGC
Noble Drilling	Noble Ed Holt	Jackup	300 ft	Drilling	ONGC (NOC)	For ONGC (NOC) 01/16/2007 to 07/29/2009 at $82,500.00/day - Term Contract - Rig barboat chartered to Jindal which contracted with ONGC
ONGC (NOC)	Sagar Bhushan	Drillship	1,000 ft	Drilling	ONGC (NOC)	For ONGC (NOC) 01/01/1999 to 12/31/2010
ONGC (NOC)	Sagar Gaurav	Jackup	300 ft	Drilling	ONGC (NOC)	For ONGC (NOC) 01/01/1999 to 12/31/2010
ONGC (NOC)	Sagar Jyoti	Jackup	300 ft	Drilling	ONGC (NOC)	For ONGC (NOC) 01/01/1999 to 12/31/2010
ONGC (NOC)	Sagar Kiran	Jackup	300 ft	Drilling	ONGC (NOC)	For ONGC (NOC) 01/01/1999 to 12/31/2010
ONGC (NOC)	Sagar Pragati	Jackup	300 ft	Drilling	ONGC (NOC)	For ONGC (NOC) 01/01/1999 to 12/31/2010
ONGC (NOC)	Sagar Ratna	Jackup	300 ft	Drilling	ONGC (NOC)	For ONGC (NOC) 01/01/1999 to 12/31/2010
ONGC (NOC)	Sagar Samrat	Jackup	250 ft	Drilling	ONGC (NOC)	For ONGC (NOC) 01/01/1999 to 12/31/2010
ONGC (NOC)	Sagar Shakti	Jackup	350 ft	Drilling	ONGC (NOC)	For ONGC (NOC) 01/01/1999 to 12/31/2010
ONGC (NOC)	Sagar Uday	Jackup	300 ft	Drilling	ONGC (NOC)	For ONGC (NOC) 01/01/1999 to 12/31/2010
ONGC (NOC)	Sagar Vijay	Drillship	2,950 ft	Drilling	ONGC (NOC)	For ONGC (NOC) 11/03/2001 to 12/31/2010
Premium Drilling	Deep Driller 1	Jackup	375 ft	Drilling	Gujarat State Petroleum	For Gujarat State Petroleum 04/28/2007 to 05/12/2009 at $194,000.00/day - Term Contract; For Gujarat State Petroleum 05/13/2009 to 11/11/2009 - Option for Term Contract - Dayrate TBD; For Gujarat State Petroleum 11/12/2009 to 05/12/2010 - Option for Term Contract - Dayrate TBD
Premium Drilling	Deep Driller 4	Jackup	375 ft	Drilling	Reliance Industries	For Reliance Industries 10/01/2007 to 10/01/2008 at $195,000.00/day; For Reliance Industries 10/02/2008 to 03/31/2009 - Option - Dayrate to be mutally agreed; For Reliance Industries 04/01/2009 to 09/30/2009 - Option - Dayrate to be mutally agreed
Pride International	Pride Hawaii	Jackup	300 ft	Drilling	ONGC (NOC)	For ONGC (NOC) 05/02/2007 to 05/01/2010 at $144,500.00/day - Term Contract
Pride International	Pride Pennsylvania	Jackup	300 ft	Drilling	ONGC (NOC)	For ONGC (NOC) 08/05/2006 to 10/30/2009 at $115,000.00/day - Term Contract
Saipem	Perro Negro 3	Jackup	300 ft	Inspection	Gujarat State Petroleum	For Gujarat State Petroleum 02/15/2008 to 04/30/2009
Transocean Inc.	Actinia	Semisub	1,500 ft	Modification	Reliance Industries	For Reliance Industries 09/07/2006 to 09/01/2009 at $190,000.00/day - Term Contract
Transocean Inc.	C Kirk Rhein Jr	Semisub	3,300 ft	Drilling	Reliance Industries	For Reliance Industries 03/01/2007 to 05/01/2009 at $340,000.00/day - Term Contract
Transocean Inc.	Deepwater Frontier	Drillship	10,000 ft	Drilling	Reliance Industries	For Reliance Industries 08/06/2006 to 08/15/2008 at $320,000.00/day - Term Contract; For Reliance Industries 08/16/2008 to 10/01/2011 at $477,000.00/day - Term Contract
Transocean Inc.	Discoverer 534	Drillship	7,000 ft	Drilling	Reliance Industries	For Reliance Industries 12/25/2007 to 07/16/2010 at $250,000.00/day - Term Contract; For Reliance Industries 07/17/2010 to 01/16/2011 at $250,000.00/day - Option for Term Contract;
Transocean Inc.	F G McClintock	Jackup	300 ft	Drilling	ONGC (NOC)	For ONGC (NOC) 12/01/2004 to 03/31/2008 at $50,000.00/day - Term Contract; For ONGC (NOC) 10/01/2008 to 11/30/2011 at $145,000.00/day - Term Contract
Transocean Inc.	J T Angel	Jackup	300 ft	Drilling	ONGC (NOC)	For ONGC (NOC) 03/31/2007 to 05/02/2010 at $148,000.00/day - Term Contract
Transocean Inc.	Randolph Yost	Jackup	300 ft	Drilling	ONGC (NOC)	For ONGC (NOC) 03/01/2007 to 03/01/2010 at $148,000.00/day - Term Contract
Transocean Inc.	Ron Tappmeyer	Jackup	300 ft	Drilling	ONGC (NOC)	For ONGC (NOC) 02/01/2007 to 02/01/2010 at $148,000.00/day - Term Contract
Transocean Inc.	Trident II	Jackup	300 ft	Drilling	ONGC (NOC)	For ONGC (NOC) 04/28/2007 to 06/01/2010 at $148,000.00/day - Term Contract
Transocean Inc.	Trident XII	Jackup	300 ft	Drilling	ONGC (NOC)	For ONGC (NOC) 01/01/2007 to 02/01/2010 at $148,000.00/day - Term Contract

Source: Rigzone.com

Source: Rigzone

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Stock Ratings

BUY (B)	The stock's total return is expected to exceed 25% over the next 12 months.
ACCUMULATE (A)	The stock's total return is expected to exceed 15% over the next 12 months.
REDUCE (R)	The stock's total return is expected to be below 15% over the next 12 months.
SELL (S)	The stock's is expected to give negative returns over the next 12 months.
NOT RATED (NR)	The analyst has no recommendation on the stock under review.

Industry Views

ATTRACTIVE (AT)	Fundamentals /Valuations of the sector is expected to be attractive over the next 12-18 months.
NEUTRAL (NL)	Fundamentals /Valuations of the sector are expected to neither improve nor deteriorate over the next 12-18 months.
CAUTIOUS (CS)	Fundamentals /Valuations of the sector is expected to deteriorate over the next 12-18 months.

Disclosure of Interest

1. The analysts who have prepared the report have in no way received or are expected to receive any compensation from the subject company.
2. The analysts do not hold any position in the subject company's stock, as on the date of release.
3. Neither the company nor an affiliate company of Systematix Shares & Stocks (I) Ltd. has received a mandate from the subject company.
4. Systematix Shares & Stocks (I) Ltd., or its affiliates do not hold any paid up capital in the company

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