Batlivala & Karani

B&K Securities

INITIATING COVERAGE

Great Offshore Ltd.

Not Listed

Simply Great...

Great Offshore Ltd. is the India's largest integrated provider of offshore services. With the energy security being India's the primary concern and increasing focus of E&P particularly offshore exploration we expect Great Offshore Ltd. to be the key beneficiary of rising E&P spend of state owned ONGC as well as private E&P players in India.

Year to March	FY06	FY07E	FY08E	CAGR (%)
P&L Data (Rs. mn)				**(FY06-08E)**
Total Revenues	3,885	4,986	6,530	29.7
EBITDA	1,618	2,540	3,646	50.1
Net Profits	971	1,435	2,150	48.8
Margins (%)				
EBITDA Margins	41.7	50.9	55.8	–
Net Profit Margins	25.0	28.8	32.9	–
Balance Sheet (Rs. mn)				
Total Asset	9,918	13,930	16,454	28.8
Shareholders' Funds	4,997	6,432	8,582	31.1
Per Share Data (Rs.)				
Reported EPS	25.5	37.8	56.6	48.8
Cash EPS	37.4	54.0	78.7	45.1
Return Ratios (%)				
ROCE	13.6	18.0	20.9	–
RONW	19.4	25.1	28.6	–

Note: FY06 numbers are consolidated FY07 and FY08 numbers include revenues from Badrinath rig.

- Rising E&P spend in India by ONGC and other private players particularly in the offshore segment; tight demand-supply scenario both in rigs and offshore support vessel segment and cabotage laws conducive to the Indian players makes Great Offshore Ltd. an attractive investment proposition in the Indian offshore services industry.
- We have done sensitivity of PE ratio vis-à-vis the global and domestic peers. We do not expect the stock to list below implied value of Rs. 680 based on pre and post listing price of Great Eastern Shipping Co. Ltd. We recommend a BUY at any price below Rs. 738 with a target price of Rs. 849 based on 15x FY08E EPS representing an upside of 15%.

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19th December 2006

Share Data

Market Cap.	Rs. 25.9 bn (US$ 563 mn)
Implied Price	Rs. 680
Target Price	Rs. 849
BSE Sensex	13731
Reuters	NA
Bloomberg	NA
Issued Shares	38.1 mn

Valuation Ratios (Based on implied value of Rs. 680)

Year to 31 March	2007E	2008E
EPS (Rs.)	37.8	56.6
+/- (%)	47.9	49.8
PER (x)	18.0	12.0
PBV (x)	4.0	3.0
EV/Sales (x)	6.2	4.3
EV/EBITDA (x)	12.2	7.7

Shareholding Pattern (%)

Promoters	27
FIs/MFs	33
Public & Others	40

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Investment arguments

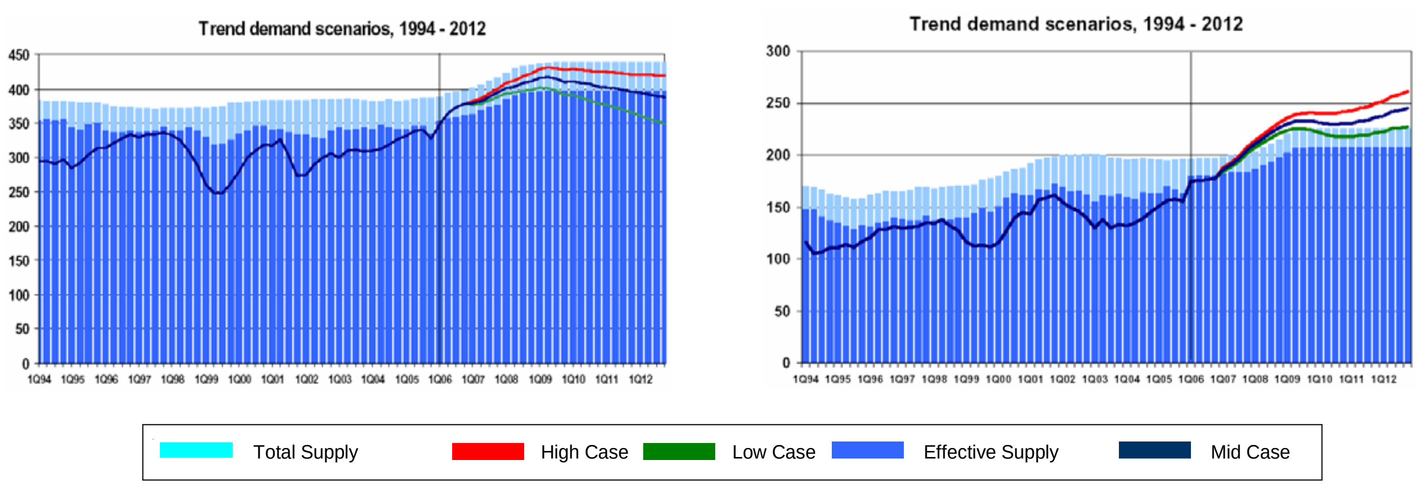
Demand-supply scenario for rigs expected to remain tight

Demand for rigs expected to outstrip supply for foreseeable future

Globally, the demand for rigs floaters (Semis and Drill ships) and Jack up is expected to remain tight .For the Floaters, the outlook remains extremely positive for the contractors, as the demand is expected to outstrip supply for foreseeable future keeping the utilisation levels and day rates high mainly due to technological capability as well as more deep water exploration. The demand for Jack up assuming a mid-case scenario would also remain fairly tight primarily driven by development of marginal fields and replacement of older tonnage. The demand-supply gap for Jack up rigs would narrow post CY09, however, the scenario is not expected to be very grim as in 1998 post which the supply exceeded demand by a fair margin causing the day rates to correct sharply.

Worldwide Jack up demand

Worldwide Floater demand



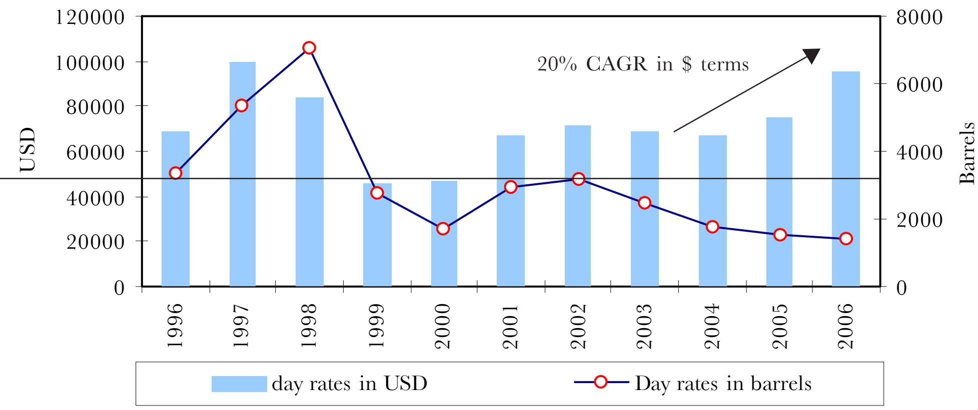
Source: ODS Petrodata

Day rates for rigs below their 10 year average in terms barrels of oil

Although, the day rates for rigs (Jack up, Semis and Drill ships) have shot up by 20% CAGR in the last two years, the increase in day rates still trails behind the increase in oil prices. If one were to use historical days rates earned by rigs over the past 10 years and convert them into barrels per day using the average oil price per barrel in that particular year thus removing the dollar from the equation we find that day rates are amongst the lowest in 10 year history (54% lower than 10 year average). In fact the day rates in 1998 were amongst the highest in barrel terms and anomaly was corrected in following two years when the day rates corrected by 58% in dollar terms and 48% in barrel terms. We find that substantial cushion still exists for the day rates and expect the day rates to remain on a firm footing.

Day rates for rigs in USD and Barrels

The day rates for rigs still below 10 year average



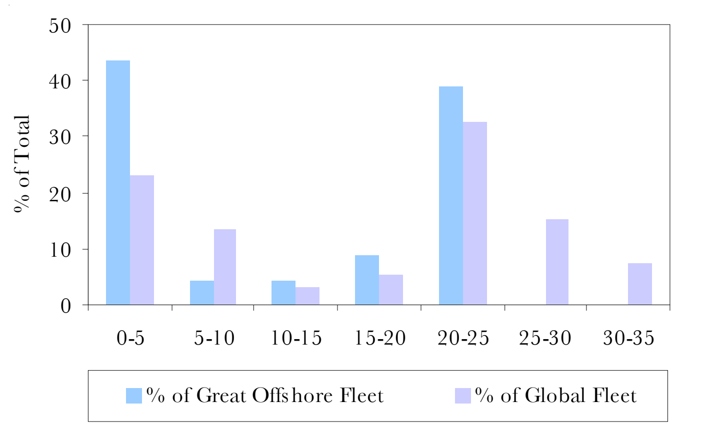
Source: Rigzone, B&K Research

Higher delivery in OSVs unlikely to impact day rates

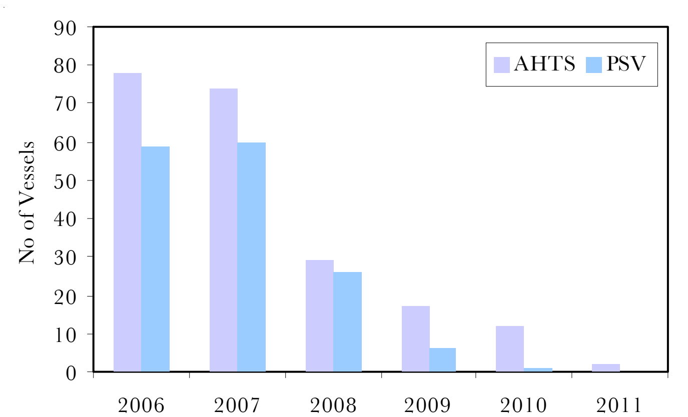
Great Offshore fleet profile compares favourably with world fleet

The demand of supply vessels currently remains high translating into high utilisation and buoyant day rates. The demand for OSVs is derived from the seismic support, constructions production support, drilling and exploration support. As the drilling moves deeper, the demand for larger vessels is expected to be on a rise on the back of stability and safety parameters apart from economic considerations. Thus, the operators are increasingly demanding newer, safer and high spec vessels .Although, about 350 vessels from 68 owners are on order large proportion of which are likely to come on-stream in 2007 and 2008, majority of them are likely to replace the older vessels above 25 years of age and thus unlikely to dampen day rates. The company would also venture into Multipurpose Supply Vessel (MSV) segment through its recently acquired vessel. MSV operates in a niche space commanding day rates as high as ~US$ 50,000. We further are of the view younger vessels would command top dollar rates due increasing concerns of safety. Great Offshore, with a fleet profile which compares favourably with the world fleet distribution would be a key beneficiary of this buoyancy in the charter markets.

Age distribution of Great Offshore and Global fleet



New delieveries of OSV



Source: ODS Petrodata and Company

Energy security – India's concern – Offshore service industry's opportunity

67 blocks out of 108 blocks awarded under NELP I-V were offshore

With India's economy expected to grow at sustainably 5.5-6.5% over the next two decades, energy security for the country would be critical. Indian government is pursuing a multi-pronged strategy for securing India's energy requirements which includes increasing foreign participation in E&P, pursuing internal and external measures to become a regional supplier of refined products, promote oil diplomacy as part of national foreign policy agenda, reconfigure state owned companies to pursue oil diplomacy and secure supply through investments in oil & gas projects around the world. The government initiated New Exploration and Licensing Policy (NELP) as part of its overall strategy. About 108 blocks were awarded under NELP I-V of which about 67 were offshore. In the recently concluded 6th Round government, 55 blocks were on offer of which 25 were on land, 6 shallow waters and 24 were deepwater blocks. Such increased thrust on exploration particularly offshore exploration augurs well for Indian Offshore service industry.

Cabotage laws – Advantage Indian companies

Cabotage laws prevalent globally give preference to domestic companies

The offshore services industry globally is a very domesticated business and every country wants to build its own tonnage and be self sufficient. We are of the view that a similar scenario is prevalent in India within offshore services industry .The cabotage laws prevalent for operating in Indian waters place Indian companies in an advantageous position vis-à-vis foreign players. The cabotage laws gives preference to the Indian companies which qualify for technical bids. A price preference is given to Indian companies with Indian flag followed by Indian companies with foreign flag over foreign companies with foreign flag provided that the Indian company is within 10% of foreign bid. If the Indian company is not within 10% of the lowest bid by foreign player a choice to match the lowest bid is given to the Indian company.

This places the Indian companies with a clear advantage, as we are of the view that foreign companies are unlikely to register themselves as Indian companies, as tonnage tax provisions places several restriction on the operations of the company including mandatory requirement of using profits to acquire Indian flag vessels, committed manpower training costs, restriction on in-chartering of vessels, appointment Indian personnel on board. These provisions inhibit the operational flexibility of the foreign players and thus curtail their participation in the Indian waters. Although, only 30% of the domestic vessel requirements are met by Indian companies this is primarily due to lack of adequate tonnage with Indian companies. We expect the situation to become more favourable, as Indian owners equip their fleet with modern vessels.

Great Offshore Ltd. – Only Indian integrated player in the domestic offshore segment

Great Offshore Ltd. the only integrated offshore player in India, with largest fleet of OSVs amongst domestic offshore players. The company currently has a fleet of 37 vessels including 2 rigs, 23 OSVs and 11 harbour tugs and 1 construction barge. With presence in entire value chain of offshore support services except the geophysical services, we perceive Great Offshore Ltd. as ideal way to play the current offshore services boom.

Key concerns

Dependence on ONGC – Common case for all players

Great Offshore Ltd. is highly dependent on ONGC with as much as 50% of the revenues coming directly or indirectly from ONGC. This however would be case for all domestic offshore services players. With its dominance in the Indian E&P scenario, ONGC is source of revenue for most players in India. The risk is mitigated to some extent due to Great Offshore's assets operating in North Sea, Middle East and South Africa. North Sea market is particularly demanding requiring newer high spec vessels. As the company adds newer vessels the concentration risk would be further diluted. Apart from this a wide asset spectrum within the OSV category also attracts private E&P operators.

Age of rigs – Cause of concern

The company operates two rig one jack rig Kedarnath which was built in 1975 and Badrinath a drill barge which was built in 1973. The ageing rigs which contribute about 22% of the revenues of the company remain a cause of concern. Regular maintenance and dry docking of the rigs however mitigates this risk to some extent. Badrinath is expected to go on an extensive refurbishment at cost of about US$ 8-10 mn in the next financial year. The company would also be adding one new build jack rig in the third quarter of FY09.

Valuations

Implied value of Great Offshore Ltd. based on pre and post listing price of GE Shipping Rs. 680

Great Offshore Ltd. is an integrated offshore services player with a presence in three segments of the offshore services industry i.e. Offshore Drilling, Offshore Support and Offshore construction. There is no Indian peer which has a presence across these three segments in the offshore value chain therefore rendering any direct comparison with these peers non-meaningful. Based on the pre and post listing price of GE Shipping which was Rs. 336 and Rs. 250, respectively, implied value of Great Offshore would be Rs. 680.

For arriving at fair value for Great Offshore, we have done sensitivity with global as well as domestic peers. Based on that universe of peers, we arrived at the price sensitivity based on average, high and low PE for CY07 of Large diversified, Wt average of PE's of the company's in construction, transport and drilling segment and Indian peers. We have used the projected EPS of Rs. 57 for FY08 for our price estimates.

Price sensitivity

Expected listing price	Low		High		Mean	
sensitivity (Rs.)	PE (x)	Price	PE (x)	Price	PE (x)	Price
Large diversified	12.9	730	18	1,019	15.0	849
Indian peers	12.2	691	15.1	855	15.1	855
Wt average of companies in transport, drilling and construction	8.0	453	12.0	679	9.9	560

Indicative price band based on above sensitivity Rs. 453/1,019.

We are of the view of Great Offshore Ltd. is unlikely to list below implied value of Rs. 680 which we have arrived based on the pre and post listing price differential of Great Eastern Shipping Co. Ltd. We recommend a BUY at any price below Rs. 738 with a target price of Rs. 849 based on 15x FY08E EPS of Rs. 57, a potential upside of 15%.

Our valuations only actor in the committed capex

Our valuations only factor in the committed capex as of date. The company's net debt-equity ratio in FY08 would be 0.24x, we are therefore of the view that financials of the company provide enough flexibility to the company for further acquisitions. We are of the view that any vessel that the company might acquire during the period over and above the committed capex can bring further upsides to our estimates. Although, any order for new vessel is unlikely to add the revenues since the lead time for a new vessel is one-two years any second vessel that is acquired can certainly bring further upsides.

Company overview

Great Offshore Ltd. was a division of the erstwhile Great Eastern Shipping Co. Ltd. which commenced operations in 1983. Under the scheme of de-merger which became effective on October 16, 2006 the division was hived off as a separate company w.e.f. April 1, 2005. The company's domain of activities encompass exploratory drilling, marine construction and offshore support services to upstream oil & gas produces to carry out offshore exploration and production activities. The company also provides towing services to the various ports and terminals in the country through a fleet of tugs which it owns and operates.

Business overview

The company currently has a fleet of 37 vessels

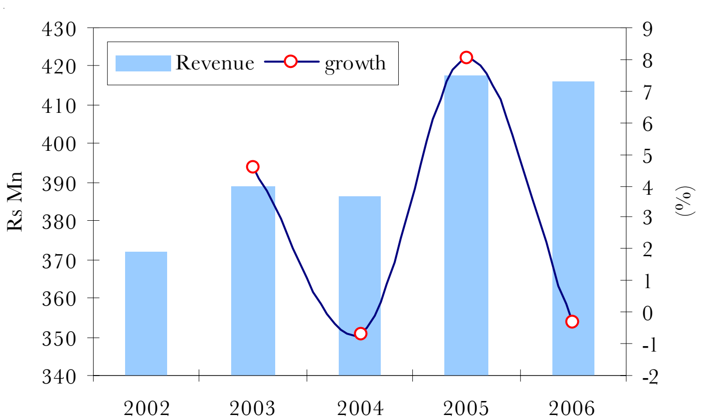
The company operates in two broad segments. The Port and Terminal Services and the oil & gas offshore services which provides exploratory drilling, offshore support and construction services to the oil & gas producers for Exploration and Production (E&P) activities. The company currently has a fleet of 37 vessels which includes 23 offshore support vessels (OSVs), 2 exploratory drilling rigs and one construction barge and 11 harbour tugs. The details of each division are highlighted below:

Business segments

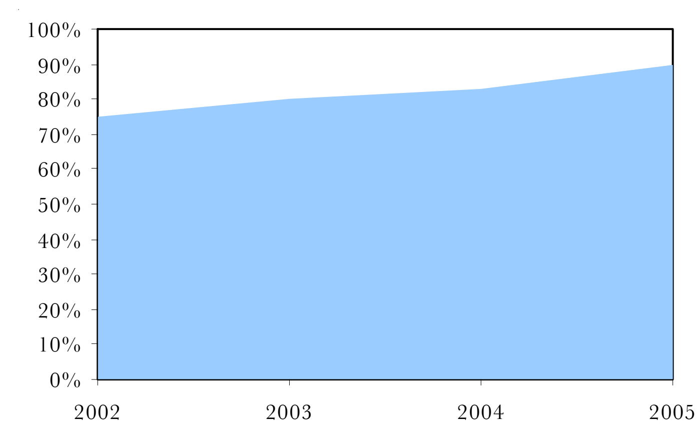
[1] Port and Terminal Services

Great Offshore provides services such as berthing and unberthing, towing of vessels, other harbour services to various ports in the country. The company has operated its tugs in various major ports including JNPT, Mumbai Port Trust, Kolkata Port Trust, Tuticorin Port Trust and New Mangalore Port Trust. The company has also provided its services to various private ports including Gujarat Pipavav Port Ltd., Gujarat Adani Port Ltd. amongst others. Since the company had been providing services of towing rigs through its offshore support division it had the experience in providing towing services. The segment has a steady steam of cash flows where the company charters out its vessels to various ports. In this business, the company competes with its own customers i.e. the port authorities since these authorities could have their own tugs for the port operations but are plagued with inefficient and unproductive labour and legal compulsions.

Port and Terminal Services



Port and Terminals: Utilisation ratio

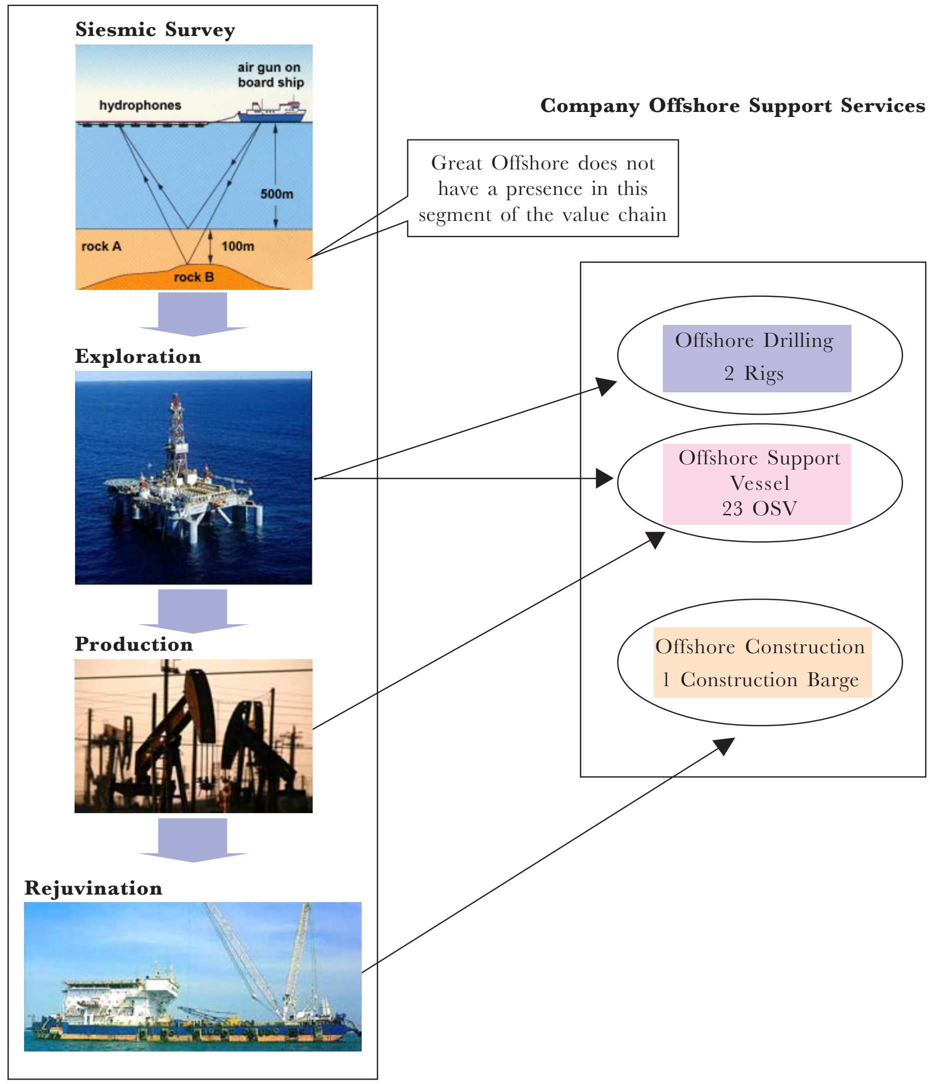


Source: GE Shipping Annual Report, B&K Research

[2] Oil & gas offshore services

Company's Offshore Services Verticals

Snap Shot of Offshore ValueChain

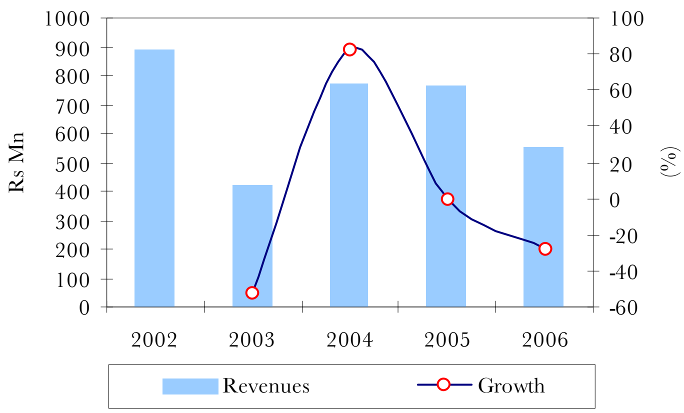


Source: B&K Research

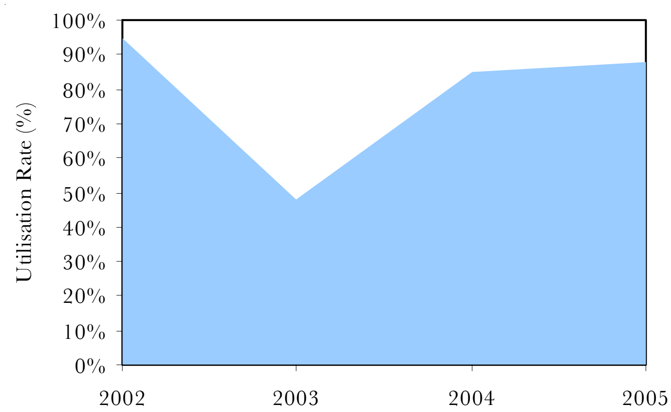
[2A] Offshore drilling services

The company operates through two exploratory rigs in this division, one is independent Jack up rig which can operate up to 300 ft. and has a drilling depth of 20,000 ft. and the other is a drill barge which can operate up to a depth of 600 ft. the Jack up rig which has drilling depth of 20,000 ft. These rigs are used for offshore oil exploration by upstream companies. The company has in the past served the likes of ONGC, Hardy Exploration and Production, Mosbacher, Crain ONGC Videsh, etc. The company typically enters into two-three years contract for the charter hire of these vessels giving high degree of visibility to the company's earnings.

Drilling Services



Drilling Services: Utilisation Ratio

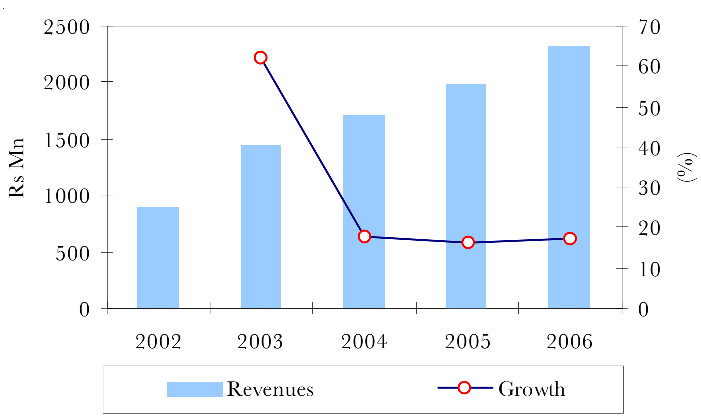


Source: GE Shipping Annual Report, B&K Research

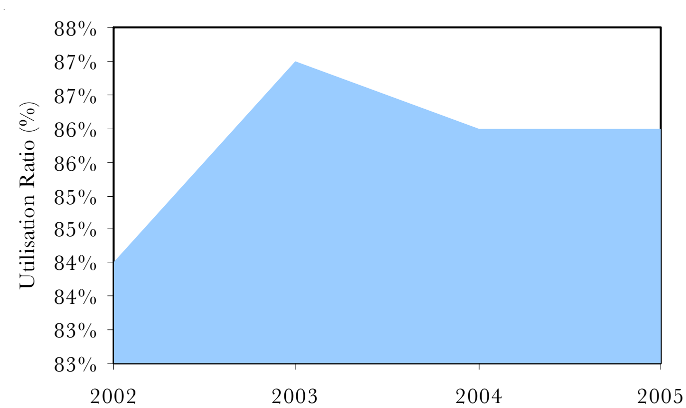
[2B] Offshore support services

This business activity provides production support, diving support, supply of personnel and materials, anchor handling, towing mooring, rig moving, emergency response and firefighting operations. The company operates through a fleet of 23 OSVs which includes 8 Platform Supply Vessels (PSVs), two Fire Fighting Support Vessels (FFSVs), one diving support vessel (DSV), 9 Anchor handling tug supply vessels (AHTSV) and 3 anchor handling tugs. The company has provided services in the past to ONGC, Crain Energy, B G Exploration and Production, Gujarat State Petroleum Corporation, Hardy Exploration, etc. The company charters out the vessel for period of one-two years. Unlike the foreign market, the spot markets in India are almost non-existent so while bidding for the contracts the idle time is generally factored in.

Offshore Support Services



OSV : Utilisation ratio

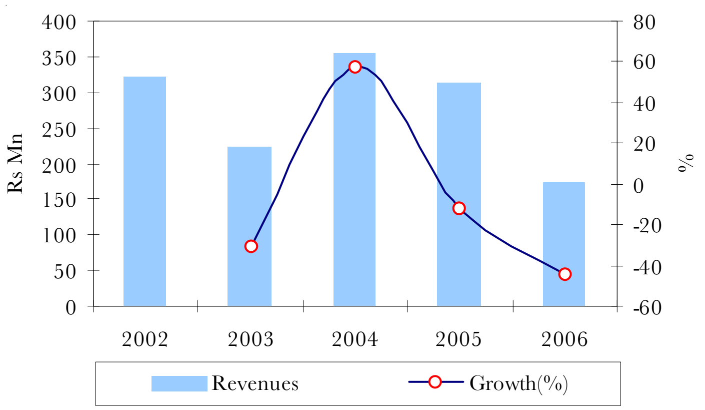


Source: GE Shipping Annual Report, B&K Research

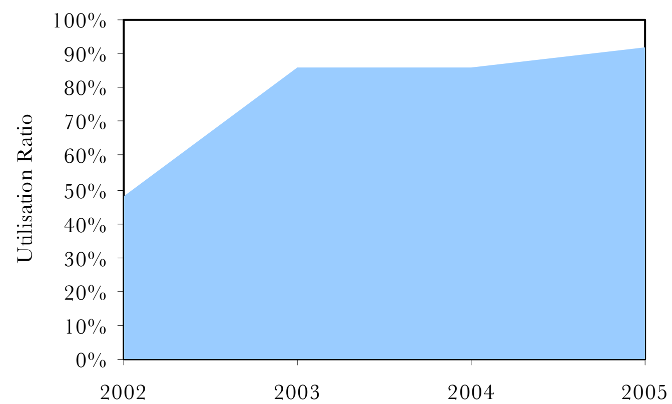
[2C] Marine construction services

The construction barge provides services modification work, installation, maintenance and repairs to offshore structures, platform marine growth removal and inspection, riser installation, inspection and repairs, harbour construction support services, SBM installation and clamp on projects. The company charters out the barge and also takes up contracts on a turnkey basis which includes project management, pre-engineering, procurement, fabrication, transportation, offshore installation and hook up and commissioning. The company typically charters for the period of three months, as for chartering out beyond three months, the company has to take discounts to the expected charter rates this however also enables the company to take advantage of any upside in the spot markets.

Marine Construction



Marine Construction: Utilisation Ratio



Source: GE Shipping Annual Report, B&K Research

Capex plan

The company has a committed capex plan of about ~US$ 220 mn majority of which is for the acquisition of the Jack up rig. The company has taken the delivery of one vessel in the last month; two vessels would be delivered in December 2006 and February 2007. One vessel and a Jack up rig would be delivered post FY07.

Committed capex plan as on December 2006

Vessel type	Shipyard	Expected delivery	Approx. cost (US$ mn)
AHT	Bharati Shipyard	Nov. 2006	18
AHT	Bharati Shipyard	Feb. 2007	18
AHT	Bharati Shipyard	Sept. 2008	18
Jack up rig	Bharati Shipyard	Dec. 2008	165

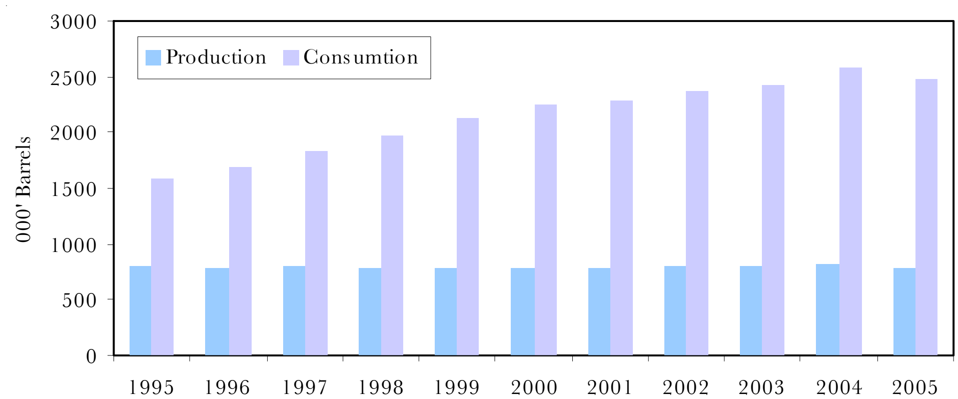
Source: Company Annual Report, B&K Research

Indian E&P overview

India imports 70% of its oil requirements which is expected to increase to 80% by 2025

India which accounts for ~15% of the world population, it consumes only about 2.3 mn barrels of oil or 3% of the world consumption. China and US which have a population of 1.2x and 0.7x that of India consume about 7.6% and 20% of world oil consumption, respectively. With the Indian economy slated to grow 5.5-6.5% over the next two decades, India's oil consumption is expected to track the growth in economy. At this pace, the India oil consumption which is expected to grow at 5-7% and would be 4x the growth of world oil consumption. Rising level of consumption and stagnant production have increased India dependence on oil imports. Currently, India's imports about 70% of its oil requirements which is expected to increase to 80% by 2025.

India Oil Production and Consumption



Source: BP Energy review

The growing oil and energy requirements have led to India adopting a multi-pronged strategy to address its energy security concerns including attracting foreign investment to increase domestic production, pursuing internal and external measures to become a regional supplier of refined products, promote oil diplomacy as part of national foreign policy agenda reconfigure state owned companies to pursue oil diplomacy and secure supply through investments in oil & gas projects around the world.

As part of its strategy to address the energy issues and attracting foreign participation, New Exploration and Licensing Policy was formulated by the government in 1999 awarding block to technically capable companies that offer best production sharing agreements. These initiatives have led to increased participation of private players such as Cairn Energy, Hardy E&P, Birckbeck, ENI SPA, ENPRO Finance Reliance, etc. in the domestic E&P scenario. ONGC is largest E&P player has E&P budget of ~Rs. 143 bn for FY07.

67 blocks out of 108 blocks awarded under NELP I-V were offshore

Out of the total 108 blocks awarded under NELP I-V, 67 blocks were offshore (Including shallow and deep-water). In the recently concluded NELP VI, 55 blocks were on offer of which 25 were on land, 6 shallow waters and 24 were deep-water blocks. The increasing magnitude of exploration happening offshore augurs well for the domestic offshore services industry. Currently, about 42 rigs including ONGC owned are operating in Indian waters. This number is only expected to go up as increasing exploration would happen offshore and this would also generate demand for support vessels to serve these rigs. The demand for supply vessel would also be boosted for supporting production platforms, construction and repairs. We expect Great Offshore with largest fleet of offshore vessels to be key beneficiary of this activity surge.

Financial overview

Great Offshore Ltd. was earlier a part of Great Eastern Shipping Company Ltd. and was reported as the division of the company. The company was de-merged w.e.f. 1 April 2005 after which it has started report as a separate company. The share exchange ratio for purposes of de-merger was fixed as follows:

For every 5 shares of Great Eastern Shipping Co. Ltd. the shareholders would get 4 shares of Great Eastern Shipping Company Ltd. and 1 share of Great Offshore Ltd.

Following is an abstract of the financials offshore division (now de-merged as Great Offshore)

Finacials for offshore division (2002-05) are standalone numbers

Financials

(Rs. mn)	2002	2003	2004	2005
Revenue	2,479	2,447	3,220	3,480
PBIT	912.8	715.7	1,320	1,303
PBIT Margins (%)	36.8	27.9	41.0	37.4
Asset	3,807	4,124	5,670	6,742
Liability	1,844	1,991	2,379	2,747
Capex	808	627	1,237	1,668
Depreciation	233	247	262	286

Note: The company has reported the revenues of Badrinath through Deep Water Services (India) Ltd. a 100% subsidiary of the company for which the parent company receives charter hire charges. We are not certain of allocation of revenues and expenses between the two companies. FY06 numbers are consolidated numbers for FY07 and FY08 we have included the estimated income and expenses of Badrinath rig.

For 2006, the company has on a consolidated basis clocked revenues and operating profit of Rs. 3,885 mn and Rs. 1,618 mn, respectively (standalone figures are Rs. 3,468 mn and Rs. 1,531 mn, respectively), translating into operating margins of 42%. At the net level, the profits for the company stood at Rs. 971 mn (standalone Rs. 918 mn). The EPS of the consolidated entity for FY06 stood at Rs. 26 (Standalone the company reported a PAT of Rs. 24).

The company's return ratios on equity and capital employed based on the year end 2006 position stood 13.6% and 19.4%, respectively.

For 1HFY07, the standalone (the company does not report earnings on a consolidated basis for half year) company has reported revenues of Rs. 2,392 mn and operating profits of Rs. 1,203 mn. The operating margins of the company were 50.2% and net margins were 30.8%. The profit after tax stood at Rs. 739 translating into an EPS of Rs. 19.4.

Going forward, we expect the revenues to post a growth of 28.4% in FY07 and 31% in FY08. The margins are expected to improve by 57% in FY07 and further to 43.5%. The improvement in margins is on the back of improving day rates for the drilling division and offshore support division which are expected to increase by 50% and 20%, respectively, in FY08 coupled with increase in revenue days in the offshore support division by ~13%. The PAT is expected to post growth of 47.9% in FY07 and 49.8% in FY08 translating into an EPS of Rs. 37.8 and Rs. 56.6 for FY07 and FY08 including the revenues of Badrinath.

Assumptions

	2007E	2008E
Average Day Rates (US$)		
Offshore Drilling	39,500	59,344
Offshore Support	9,311	11,145
Offshore Construction	25,000	25,000
Port and Terminal	3,000	3,000
Average Utilisation (%)		
Offshore Drilling	95.9	83.6
Offshore Support	85.2	93.3
Offshore Construction	95.6	63.9
Port and Terminal	84.0	84.0
Contribution of Segments (%)		
Drilling	24.0	24.9
Support	59.6	64.1
Construction	7.6	4.0
Ports	8.8	7.0
Total	**100**	**100**

Note: For 2007E the assumptions are for 2HFY07.

Detailed financials

Profit & Loss Account

Year end March (Rs. mn)	2006	2007E	2008E
Income from operations	**3,885**	**4,986**	**6,530**
Growth (%)	–	28.4	31.0
Expenditure			
Operating expenses	**1,939**	**2,115**	**2,506**
Hire of chartered ships	320	323	370
Wages and contribution to floating staff	563	569	650
Repairs and maintenance	369	528	692
Insurance and indemnity expenses	149	150	172
Other miscellaneous expenses	539	545	623
Administration and other expenses	**327**	**331**	**378**
Salaries and contribution to PF	190	187	229
Other miscellaneous administration expenses	137	144	149
Total operating expenses	**2,267**	**2,446**	**2,884**
EBITDA	**1,618**	**2,540**	**3,646**
% of income from operations	41.7	50.9	55.8
Other income	31	20	75
Depreciation	449	617	841
Interest and finance charges	173	340	474
PBT	**1,027**	**1,604**	**2,406**
Current tax	37	147	234
Deferred tax	8	10	10
Fringe benefit tax	11	12	12
Tax expenses	**56**	169	256
% of PBT	5.4	10.5	10.7
PAT	**971**	**1,435**	**2,150**
EPS (Rs.)	**25.5**	**37.8**	**56.6**

Balance Sheet

Year end March (Rs. mn)	2006	2007E	2008E
Shareholders' funds			
Share capital	381	381	381
Reserves and surplus	4,618	6,053	8,203
Networth	**4,999**	**6,434**	**8,584**
Loan funds	**3,812**	**6,232**	**6,232**
Secured loans	3,812	6,232	6,232
Capital employed	**8,811**	**12,666**	**14,816**
DTL	29	39	49
Total	**8,839**	**12,705**	**14,864**
Application of funds			
Gross block	9,402	15,162	15,162
Less: Depreciation	3,414	4,031	4,871
Net block	**5,988**	**11,131**	**10,290**
Cap. WIP	1,829	–	–
Total	**7,817**	**11,131**	**10,290**
Investment	1	1	1
Current assets			
Inventory	73	67	67
Sundry debtors	764	1,229	1,700
Cash and bank	1,024	1,252	4,146
Loans and advances	240	250	250
Total current asset	**2,100**	**2,798**	**6,163**
Current liabilities	**1,046**	**1,188**	**1,552**
Sundry creditors	608	888	1,252
Others	438	300	300
Provision	**35**	40	40
Current liabilities and provision	**1,081**	**1,228**	**1,592**
Net current asset	**1,019**	**1,570**	**4,571**
Miscellaneous expenses	3	3	3
Total	**8,839**	**12,705**	**14,864**

Cash Flow Statement

Year end March (Rs. mn)	2006	2007E	2008E
PBT	**1,027**	**1,604**	**2,406**
Depreciation	449	617	841
Change in debtors	(122)	(466)	(470)
Change in inventories	(24)	6	0
Change in loans and advances	–	(10)	0
Change in current liabilities	237	142	364
Change in provisions	–	5	0
Total tax paid	(35)	(159)	(246)
Other operating activities	105	–	–
Cash flow from operations	**1,635**	**1,738**	**2,895**
Capital expenditure	(2,195)	(3,931)	0
Cash flow from investing	**(2,195)**	**(3,931)**	**0**
Free cash flow	**(560)**	**(2,192)**	**2,895**
Equity raised	1	0	0
Debt	1,257	2,420	0
Dividend	(222)	–	–
Other financing activities	(18)	–	–
Cash flow from financing	**1,017**	**2,420**	**0**
Net change in cash	457	228	2,895
Opening cash	563	1,024	1,252
Closing cash	1,024	1,252	4,147

Income Statement

Year ended 31 Mar. (Rs. mn)	FY06	FY07E	FY08E
Net sales	3,885	4,986	6,530
Growth (%)	–	28.4	31.0
Operating expenses	(2,267)	(2,446)	(2,884)
Operating profit	1,618	2,540	3,646
EBITDA	**1,618**	**2,540**	**3,646**
Growth (%)	–	57.0	43.5
Depreciation	(449)	(617)	(841)
Other income	31	20	75
EBIT	**1,200**	**1,944**	**2,880**
Interest paid	(173)	(340)	(474)
Pre-tax profit	1,027	1,604	2,406
(before non-recurring items)			
Pre-tax profit	1,027	1,604	2,406
(after non-recurring items)			
Tax (current + deferred)	(56)	(169)	(256)
Net profit	**971**	**1,435**	**2,150**
Adjusted net profit	971	1,435	2,150
Growth (%)	–	47.9	49.8
Net income	**971**	**1,435**	**2,150**

Balance Sheet

Year ended 31 Mar. (Rs. mn)	FY06	FY07E	FY08E
Current assets	2,100	2,798	6,163
Net fixed assets	7,818	11,132	10,291
Total assets	**9,918**	**13,930**	**16,454**
Current liabilities	1,081	1,228	1,592
Total Debt	3,812	6,232	6,232
Other non-current liabilities	29	39	49
Total liabilities	**4,921**	**7,498**	**7,873**
Share capital	381	381	381
Reserves & surplus	4,618	6,053	8,203
Less: Misc. expenditure	(3)	(3)	(3)
Shareholders' funds	**4,997**	**6,432**	**8,582**
Total equity & liabilities	**9,918**	**13,930**	**16,454**

Cash Flow Statement

Year ended 31 March (Rs. mn)	FY06	FY07E	FY08E
Pre-tax profit	1,027	1,604	2,406
Depreciation	3,414	617	841
Chg in working capital	5	(324)	(106)
Total tax paid	(27)	(159)	(246)
Other operating activities	(2,783)	0	0
Cash flow from oper. (a)	**1,635**	**1,738**	**2,895**
Capital expenditure	(11,232)	(3,931)	0
Other investing activities	9,038	0	0
Cash flow from inv. (b)	**(2,194)**	**(3,931)**	**0**
Free cash flow (a+b)	**(559)**	**(2,192)**	**2,895**
Equity raised/(repaid)	379	0	0
Debt raised/(repaid)	3,812	2,420	0
Other financing activities	(3,173)	0	0
Cash flow from fin. (c)	**1,017**	**2,420**	**0**
Net chg in cash (a+b+c)	**459**	**228**	**2,895**

Key Ratios

Year ended 31 March (%)	FY06	FY07E	FY08E
EPS (Rs.)	25.5	37.8	56.6
EPS growth	–	47.9	49.8
EBITDA margin	41.7	50.9	55.8
EBIT margin	30.9	39.0	44.1
ROCE	13.6	18.0	20.9
Net debt/Equity	55.8	77.4	24.3

Valuations

Year ended 31 March (x)	FY06	FY07E	FY08E
PER	26.6	18.0	12.0
PCE	18.2	12.6	8.6
Price/Book	5.2	4.0	3.0
EV/Net sales	7.4	6.2	4.3
EV/EBITDA	17.7	12.2	7.7

Du Pont Analysis – RoE

Year ended 31 March (x)	FY06	FY07E	FY08E
Net margin (%)	25.0	28.8	32.9
Asset turnover	0.4	0.4	0.4
Leverage factor	2.0	2.1	2.0
Return on equity (%)	19.4	25.1	28.6

Note FY06 numbers are consolidated and FY07 and08 includes earnings from Badrinanth rig

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