

February 25, 2011

<b>Reco</b>	<b>Previous Reco</b>
Accumulate	Accumulate
<b>CMP</b>	<b>Target Price</b>
Rs542	Rs680
EPS change FY11E/12E (%)	NA / -2.6
Target Price change (%)	NA
Nifty	5,304
Sensex	17,701

<b>Price Performance (%)</b>	<b>1M</b>	<b>3M</b>	<b>6M</b>	<b>12M</b>
Absolute	(24)	(25)	(31)	(53)
Rel. to Nifty	(18)	(18)	(29)	(57)

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	Offshore Oil Field Services
Bloomberg	ABAN@IN
Equity Capital (Rs mn)	87
Face Value(Rs)	2
No of shares o/s (mn)	43
52 Week H/L	1,313/515
Market Cap (Rs bn/USD mn)	24/529
Daily Avg Volume (No of sh)	1135038
Daily Avg Turnover (US\$m)	17.0

### Shareholding Pattern (%)

	D'10	S'10	J'10
Promoters	53.0	53.1	53.1
FII/NRI	7.1	4.9	6.4
Institutions	5.3	6.1	6.0
Private Corp	8.0	9.8	9.2
Public	26.5	26.1	25.3

Source: Capitaline

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## 'Deep Venture' litigation finally settled

- **Venture Drilling (Aban's 50% JV through Sinvest) settles litigation issue on drillship Deep Venture – gets USD138 for early re-delivery of the rig to the owners**
- **Aban to get ~USD 65 mn – 50% of cash inflows to VD. Aban management expect minimal losses on BV of USD65 mn**
- **Based on annual cash flow of USD 34.4 mn, we estimate NPV of the entire charter period to be USD192 mn (CoE -15%). Compensation 28% lower than the NPV**
- **We treat compensation to VD as one off -downgrade our FY12E earnings by 2.6%. Sharp correction makes valuation attractive (5.4X PER & 6.0X EV/E). Maintain ACCUMULATE**

### Venture Drilling settles litigation issue on drillship Deep Venture – gets USD138 for early re-delivery of the rig - Aban to 50% of cash inflow

Venture Drilling AS (VD), a JV in which Aban (through 100% sub Sinvest) has a 50% interest has settled the litigation issue on the Drillship Deep Venture (Read "Litigation on rig Deep Venture" for details). Under the settlement VD has re-delivered the drillship to the owner Arktik on February 24, 2011 and in turn will receive an early re-delivery cash compensation of USD 138 mn. With net cash inflow of ~USD 130 mn (Post tax), we estimate cash inflow of USD 65 mn for Aban.

### Litigation on rig Deep Venture:

The drillship Deep Venture is owned by FSUE Arktikmorneftegazrazvedka ("Arktik"), a Russian Federal State Unitary Enterprise and chartered on a bareboat basis by Venture Drilling AS, a joint venture incorporated under the laws of Norway in which Aban (through 100% sub Sinvest) has a 50% interest with the remaining stake held by Petrolia Drilling ASA. In April 2008, the Russian Federal State Property Agency ("SPA") sought to invalidate the charter agreement between Arktik and Venture Drilling AS. The SPA ordered the return of Deep Venture to Arktik on the grounds that the requisite statutory approval was not obtained by Arktik prior to entering into the bareboat charter arrangement. In June 2009, the Commercial Court of Murmansk ruled in favour of the SPA and ordered that the vessel be redelivered according to Russian law.

### Compensation lower than NPV of the entire charter

The initial term of the charter, under which VD use to pay USD21000 as daily hire rate to Arktik, was valid till Nov 2011. Post the expiry of the initial term of the charter, VD had six options of two years each to extend the charter at the same daily hire rate. Hence the total validity of the charter could have been extended to FY24. Based on annual cash flow of USD 34.4 mn we estimate NPV of the cash flow from for the entire charter to be USD192 mn (CoE -15%). Hence the compensation is 28% lower than the NPV.

### Factoring in early re-delivery payment as one-off- lower FY12 earnings by 2.6% - Valuation at 5.4X PER remain attractive

We treat the compensation to VD as one off, factoring in that Aban will use USD 65 mn for debt repayment; we downgrade our FY12E EPS by 2.6%. Post this settlement, Aban still faces issues like idle status of 3 rigs (Aban III,IV,V) in FY12. However we believe that the recent decline in stock price already factors in these concerns, making valuation attractive at 5.4X PER and 6.0X EV/EBIDTA. Maintain ACCUMULATE.

### Key Financials

YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY09	30501	17327	56.8	3240	77.3	-15.6	35.9	7.0	10.1	1.4
FY10	33587	21004	62.5	5518	119.4	54.4	15.0	4.5	7.5	1.3
FY11E	33099	21055	63.6	4491	95.8	-19.8	18.5	5.7	6.6	1.2
FY12E	34699	21324	61.5	4661	99.7	4.1	18.6	5.4	6.0	0.9

## Financials

## Income Statement

Y/E, Dec (Rs. m)	FY09	FY10	FY11E	FY12E
<b>Net Sales</b>	<b>30501</b>	<b>33587</b>	<b>33099</b>	<b>34699</b>
Growth (%)	50.9	10.1	-1.5	4.8
<b>Total Expenditure</b>	<b>13174</b>	<b>12583</b>	<b>12044</b>	<b>13375</b>
Manpower Costs	3442	2884	2761	3065
Consumption of stores	1893	1303	1248	1385
Repairs & Rentals to machinery	1685.5	1087.7	1041.2	1156.2
Other Exps	6153	7307	6995	7767
<b>EBIDTA</b>	<b>17327</b>	<b>21004</b>	<b>21055</b>	<b>21324</b>
Growth (%)	38.8	21.2	0.2	1.3
<b>EBIDTA %</b>	<b>56.8</b>	<b>62.5</b>	<b>63.6</b>	<b>61.5</b>
Depreciation	4501	4616	4861	5327
<b>EBIT</b>	<b>12826</b>	<b>16388</b>	<b>16194</b>	<b>15997</b>
<b>EBIT margin (%)</b>	<b>42.1%</b>	<b>48.8%</b>	<b>48.9%</b>	<b>46.1%</b>
Other income	362	218	381	381
Interest	8553	9768	9390	9276
<b>EBT</b>	<b>4635</b>	<b>6838</b>	<b>7186</b>	<b>7103</b>
Tax	2508	2571	2644	2441
<b>Effective tax rate (%)</b>	<b>54.1</b>	<b>37.6</b>	<b>36.8</b>	<b>34.4</b>
<b>Adjusted PAT</b>	<b>2128</b>	<b>4268</b>	<b>4542</b>	<b>4661</b>
Growth (%)	-26.9	100.6	6.4	2.6
<b>Net Margin (%)</b>	<b>7.0</b>	<b>12.7</b>	<b>13.7</b>	<b>13.4</b>
(Profit)/loss from JVs/Ass/MI	1113	1250	-51	0
<b>Adj. PAT After JVs/Ass/MI</b>	<b>3240</b>	<b>5518</b>	<b>4491</b>	<b>4661</b>
E/O items	2167	-2408	-3350	2538
<b>Reported PAT</b>	<b>5407</b>	<b>3110</b>	<b>1141</b>	<b>7200</b>
Growth (%)	484.5	-42.5	-63.3	531.3

## Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
<b>PBT (Ex-Other income)</b>	<b>6802</b>	<b>4430</b>	<b>6804</b>	<b>6721</b>
Depreciation	6015	4616	4861	5327
Interest Provided	<b>8308</b>	<b>9717</b>	<b>9390</b>	<b>9276</b>
Other Non-Cash items	45	1991	0	0
Chg in working cap	2313	2131	-324	-904
Tax paid	-2406	-2584	-2644	-2441
<b>Operating Cashflow</b>	<b>21077</b>	<b>20301</b>	<b>18087</b>	<b>17979</b>
Capital expenditure	-50742	-3935	10810	0
<b>Free Cash Flow</b>	<b>-29665</b>	<b>16366</b>	<b>28897</b>	<b>17979</b>
Other income	245	48	381	381
Investments	2314	8097	0	2538
<b>Investing Cashflow</b>	<b>-48183</b>	<b>4211</b>	<b>381</b>	<b>2920</b>
Equity Capital Raised	203	6982	0	0
Loans Taken / (Repaid)	35317	-24278	-11984	-11960
Interest Paid	-8457	-10307	-9390	-9276
Dividend paid (incl tax)	-464	-478	-510	-510
Income from investments	0	0	0	0
Others	2	-19	-51	0
<b>Financing Cashflow</b>	<b>26601</b>	<b>-28099</b>	<b>-21934</b>	<b>-21745</b>
<b>Net chg in cash</b>	<b>-505</b>	<b>-3588</b>	<b>7344</b>	<b>-846</b>
Opening cash position	6453	5948	2360	9704
<b>Closing cash position</b>	<b>5948</b>	<b>2360</b>	<b>9704</b>	<b>8858</b>

## Balance Sheet

Y/E, Dec (Rs. m)	FY09	FY10	FY11E	FY12E
Equity share capital	76	87	87	87
Preference Capital	3260	3260	3260	3260
Reserves & surplus	14105	18459	19090	25781
<b>Networth</b>	<b>17440</b>	<b>21806</b>	<b>22437</b>	<b>29128</b>
<b>Minority Interest</b>	<b>8</b>	<b>0</b>	<b>0</b>	<b>0</b>
Secured Loans	156082	138622	0	0
Unsecured Loans	10273	3018	0	0
<b>Loan Funds</b>	<b>166355</b>	<b>141641</b>	<b>129657</b>	<b>117697</b>
<b>Net deferred tax</b>	<b>516</b>	<b>436</b>	<b>436</b>	<b>436</b>
<b>Total Liabilities</b>	<b>184318</b>	<b>163883</b>	<b>152530</b>	<b>147261</b>
Gross Block	144113	173147	159127	159127
Less: Depreciation	15513	19634	24495	29821
<b>Net block</b>	<b>128601</b>	<b>153513</b>	<b>134632</b>	<b>129305</b>
<b>CWIP (incl cap adv)</b>	<b>47003</b>	<b>131</b>	<b>-8</b>	<b>-8</b>
<b>Investment</b>	<b>5751</b>	<b>4951</b>	<b>4951</b>	<b>4951</b>
<b>Current Assets</b>	<b>17054</b>	<b>14629</b>	<b>21655</b>	<b>21916</b>
Inventories	2275	2478	2273	2529
Sundry debtors	5766	7691	7577	8429
Cash & bank balance	5948	2360	9704	8858
Loans & advances	3065	2100	2100	2100
<b>Current Liab &amp; Prov</b>	<b>14090</b>	<b>9341</b>	<b>8699</b>	<b>8903</b>
Current liabilities	12742	7891	7249	7453
Provisions	1348	1450	1450	1450
<b>Net current assets</b>	<b>2964</b>	<b>5288</b>	<b>12956</b>	<b>13013</b>
Misc. exp				
<b>Total Assets</b>	<b>184318</b>	<b>163883</b>	<b>152530</b>	<b>147261</b>

## Key Ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
<b>Profitability (%)</b>				
EBITDA Margin	56.8	62.5	63.6	61.5
Net Margin	7.0	12.7	13.7	13.4
ROCE	8.2	9.6	10.5	11.0
ROE	35.9	15.0	18.5	18.6
RoIC	12.3	11.7	11.0	11.8
<b>Per Share Data (Rs)</b>				
EPS	77.3	119.4	95.8	99.7
CEPS	293.8	170.2	130.5	280.6
BVPS	375.2	426.5	441.0	594.8
DPS	3.6	3.6	3.6	3.6
<b>Valuations (x)</b>				
PER	7.0	4.5	5.7	5.4
P/CEPS	1.8	3.2	4.2	1.9
P/BV	1.4	1.3	1.2	0.9
EV / Sales	5.7	4.7	4.2	3.7
EV / EBITDA	10.1	7.5	6.6	6.0
Dividend Yield (%)	0.7	0.7	0.7	0.7
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	11.1	7.4	6.2	4.1
Net Debt/EBITDA	9.1	6.6	5.6	5.0
Working Cap Cycle (days)	-56.2	24.8	28.7	36.9

**Recommendation History: Aban Offshore – ABAN IN**

Date	Reports	Reco	CMP	Target
11/02/2011	<a href="#">Aban Offshore Q3FY11 Result Update</a>	Accumulate	570	680
08/11/2010	<a href="#">Aban Offshore Q2FY11 Result Update</a>	Hold	841	875
29/07/2010	<a href="#">Aban Offshore Q1FY11 Result Update</a>	Hold	878	875
26/05/2010	<a href="#">Aban Offshore Q4FY10 Result Update</a>	Hold	688	800

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
15/02/2011	<a href="#">Garware Offshore Q3FY11 Result Update</a>	Accumulate	113	130
15/02/2011	<a href="#">IVRCL Infrastructure Q3FY11 Result Update</a>	Buy	72	101
04/02/2011	<a href="#">Great Offshore Q3FY11 Result Update</a>	Buy	286	425
28/01/2011	<a href="#">IRB Infrastructure Q3FY11 Result Update</a>	Accumulate	214	304

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