

# Garware Offshore Services Ltd (Q4 CY07)

January 25, 2008

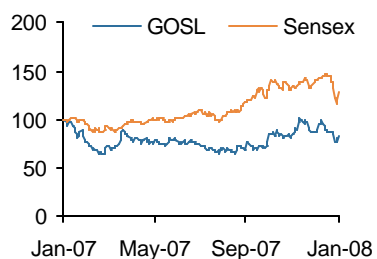
## Stock data

Sensex:	18,361
CMP (Rs):	219
Target price (Rs):	318
Upside (%):	45.2
52 Week h/l (Rs):	310/161
Market cap (Rs cr)	522
6m Avg vol BSE&NSE ('000 nos):	88
No of o/s shares (mn):	24
FV (Rs):	10
Bloomberg code:	GWOS IN
Reuters code:	GRSHBO
BSE code:	501848
NSE code:	GARWOFFS

## Shareholding pattern

<b>December 2007</b>	<b>(%)</b>
Promoters	29.8
FIs & institutions	25.1
Non promoter corp hold	12.4
Public & others	32.7

## Share price trend



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- Increased fleet size drives revenue growth.
- Higher PSV contribution leads to operating margin expansion.
- Further increase in fleet size, firm charter rates and new ventures to drive future growth.
- Maintain BUY with a target price of Rs318.

## Results table

	Q4 CY07	Q4 CY06	Growth (%)	CY07	CY06	Growth (%)
Income from operations	242	140	73.3	878	524	67.7
Total expenditure	(92)	(55)	65.6	(349)	(229)	52.1
Operating profit	151	85	78.3	530	295	79.8
Other income	25	9	185.9	203	14	1,390.5
Interest	(48)	(22)	120.2	(168)	(68)	148.2
Depreciation	(42)	(32)	29.9	(137)	(76)	80.3
PBT	85	39	119.4	428	164	160.2
Tax	(3)	(6)	(59.0)	(6)	(9)	(25.0)
PAT	83	33	153.2	421	156	170.3
Equity	238	238	-	238	238	-
OPM (%)	62.2	60.4	-	60.3	56.2	-
EPS Annualized (Rs)	13.9	5.5	-	17.7	6.5	-

## Increased fleet size drives revenue growth

Garware Offshore Services Ltd (GOSL) reported 73.3% yoy growth in income from operations to Rs242mn for Q4 CY07. For the full year the company registered 67.7% yoy growth to Rs878mn. The increase was primarily driven by addition of a platform supply vessel to the company's fleet in June 2007. However, revenues were impacted to some extent on account of appreciating rupee during the year.

## Higher PSV contribution leads to margin expansion

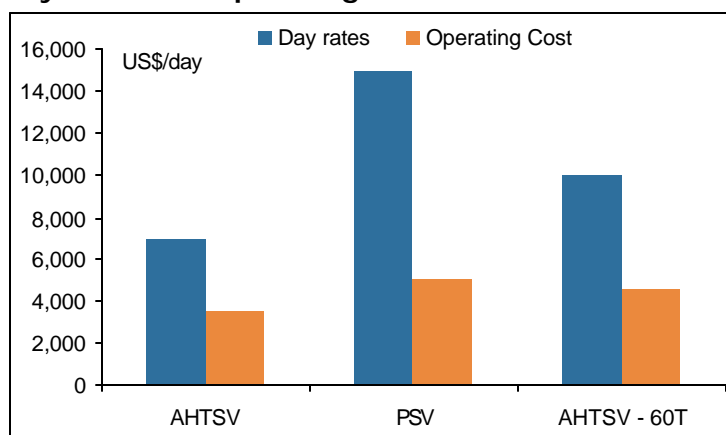
During Q4 CY07, operating profit for the company increased by 78.3% yoy and OPM expanded by 180bps yoy to 62.2%. For FY07, operating profit surged by 79.8% yoy and OPM expanded by 410bps yoy to 60.3%. The expansion in margins was on account of increased contribution from the PSV segment to revenues. PSVs command operating margins of 67% against 50% for an AHTSV. Improved operating performance along with 186% jump in other income (driven by foreign exchange rate fluctuations on outstanding balances of foreign currency loans) led to 153.2% yoy jump in net profit for Q4 CY07 to Rs83mn.

## Cost analysis

As % of income from operations	Q4 CY07	Q4 CY06	Growth (%)	CY07	CY06	Growth (%)
Inc/Dec in Stock	(5.6)	(12.8)	7.2	(25.9)	(22.2)	(3.6)
Staff Expenditure	25.3	24.5	0.8	85.6	85.2	0.4
Other Expenditure	27.5	30.7	(3.1)	119.9	112.6	7.3
Total Expenditure	47.2	42.4	4.8	179.6	175.6	4.0

Source: Company, India Infoline Research

**Day rates and operating costs for GOSL vessels**



Source: Company

**GOSL, with its expanded fleet base, is well poised for robust growth**

GOSL, currently, has four Anchor Handling Tugs – cum- Supply Vessels (AHTSV) and three PSVs. Further, it has embarked upon an aggressive capex plan to acquire two PSVs, two 60-T AHTSVs and one construction barge (on lease). It also has an option to place orders for two more 60-T AHTSVs. With a diversified and young fleet base, GOSL is well poised to garner the huge demand for offshore services to arise from robust growth in offshore E&P spend.

**New initiatives to add to revenue growth**

GOSL has entered into a tie-up with Havyard, a Norwegian shipyard, to sell its ship designs and ships in India. The commission for the sale of a ship or a ship design ranges from 3-4%. GOSL is also setting up a KPO for designing ships for Havyard in India. With an advantage of lower staff costs, GOSL believes that Havyard would be able to source the designs cheaper from India. These two initiatives would add to revenue growth in near term.

**Attractive valuations at P/E of 6.9x on CY09 earnings**

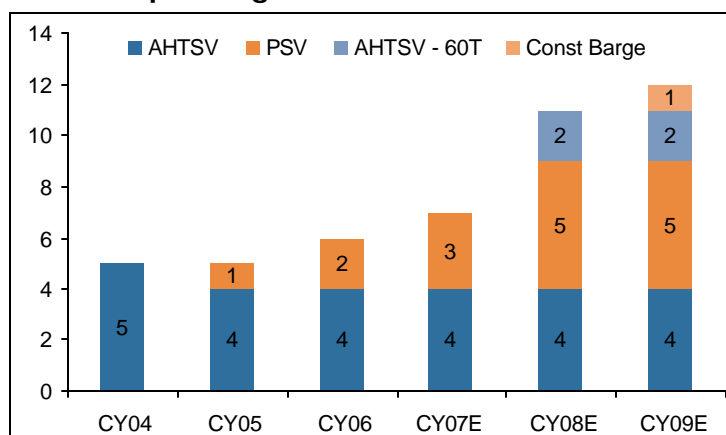
GOSL is adding four vessels to its fleet in CY08 and one in CY09. The full year benefit of the vessels to be delivered in 2008, would reflect in CY09 financials. We expect GOSL to register a CAGR of 58% in revenues and 70% in PAT during CY06-CY09. The stock at CMP of Rs219 is available at 6.9x CY09 earnings. With long term contracts tied up for most of the vessels, there exists high degree of visibility for future revenue growth. We maintain our BUY recommendation with a target price of Rs318.

**Asset based valuation**

Asset	US mn \$	Rs mn @ Rs40
4 Current AHTSVs	15	600
PSV-I	27	1,080
PSV - II & III	70	2,800
PSV IV & V	70	2,800
2 60-T AHTSV	27	1,080
Value for construction barge on lease	12	460
<b>Total Value</b>	<b>221</b>	<b>8,820</b>
Equity	-	235
<b>Value per share (Rs)</b>	<b>-</b>	<b>375</b>

Source: Company, India Infoline Research

**GOSL's expanding fleet base**



Source: Company

**Financials**

Period to	CY06	CY07E	CY08E	CY09E
<b>Rs mn</b>	<b>(12)</b>	<b>(12)</b>	<b>(12)</b>	<b>(12)</b>
Revenues	524	878	1,428	2,065
yoy growth (%)	-	67.7	62.6	44.6
EBITDA	292	530	986	1,369
EBITDA margin (%)	55.7	60.3	69.0	66.3
PAT	153	421	572	758
yoy growth (%)	-	175.0	35.6	32.5
EPS (Rs)	6.9	17.7	24.0	31.8
P/E (x)	31.6	12.4	9.1	6.9
P/BV (x)	4.2	3.4	2.5	1.9
EV/EBITDA (x)	22.5	13.9	9.2	7.5
ROE (%)	13.5	27.4	27.8	27.6
ROCE (%)	8.0	14.7	14.1	13.9

Source: Company, India Infoline Research

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