

November 14, 2011

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Rating	Accumulate
Price	Rs407
Target Price	Rs445
Implied Upside	9.3%
Sensex	17,119

(Prices as on November 14, 2011)

Trading data

Market Cap. (Rs bn)	21.0
Shares o/s (m)	50.9
3M Avg. Daily value (Rs m)	115.1

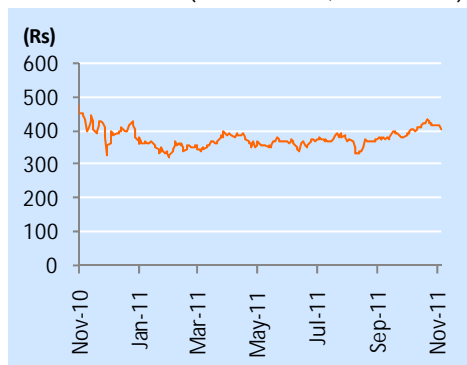
Major shareholders

Promoters	61.67%
Foreign	12.32%
Domestic Inst.	6.53%
Public & Other	19.48%

Stock Performance

(%)	1M	6M	12M
Absolute	0.3	11.6	(10.4)
Relative	0.1	19.2	4.7

Price Performance (RIC: ABGS.BO, BB: ABGS IN)



Source: Bloomberg

■ **Results broadly in line:** ABG Shipyard (ABG) reported revenues slightly ahead of estimates at Rs5,717m, a growth of 3% YoY and 13% QoQ. The sequential improvement was on account of better utilization of expanded capacities as execution for existing orders remained on track. EBITDA margins came in at 22.5%, an improvement of 320bps compared to Q1FY12. Subsidy booking stood at Rs100m for the quarter. Consequently, PAT grew 21% QoQ to Rs484m, although, down 14% on a YoY basis. Excluding subsidy, PAT stood at Rs414m as compared to Rs270m in Q1FY12.

■ **Order book status:** Although no new order was bagged in Q2FY12, the company's order book position continues to remain strong, with the unexecuted order book standing at Rs99.2bn as on September 30, 2011, providing it a visibility of ~5 years (based on FY11 revenues). The company delivered three vessels during the quarter, taking the H1FY12 tally to six vessels. Also, ABG has not received any subsidy payment from the govt during the quarter.

■ **Debt increases on higher working capital requirement:** Net debt at the end of H1FY12 for ABG increased by ~Rs3.3bn compared to the end of FY11. This was mainly on account of increased working capital requirements to the tune of ~Rs3.8bn during H1FY12. Consequently, debt-equity ratio stood at 1.6:1 as compared to 1.5:1 as on FY11; however, still at a comfortable level, taking into account high revenue visibility from the unexecuted order book of the company.

■ **Valuations:** The company currently trades at EV/ EBITDA of 7.4x FY12 and 5.7x FY13. We are valuing the company at an EV/ EBITDA of 6x FY13 to arrive at our target price of Rs445. We maintain '**Accumulate**'.

Key financials (Y/e March)	2010	2011	2012E	2013E
Revenues (Rs m)	16,254	20,518	25,296	34,149
Growth (%)	20.0	26.2	23.3	35.0
EBITDA (Rs m)	2,854	4,120	5,337	7,103
PAT (Rs m)	1,889	1,730	2,604	3,787
EPS (Rs)	37.1	34.0	51.1	74.4
Growth (%)	19.0	(8.4)	50.5	45.4
Net DPS (Rs)	4.0	3.5	4.0	5.0

Source: Company Data; PL Research

Profitability & Valuation	2010	2011	2012E	2013E
EBITDA margin (%)	17.6	20.1	21.1	20.8
RoE (%)	18.6	14.4	18.5	22.3
RoCE (%)	4.8	6.0	8.2	11.1
EV / sales (x)	3.0	1.9	1.5	1.1
EV / EBITDA (x)	17.3	9.6	7.0	5.4
PE (x)	11.0	12.0	8.0	5.5
P / BV (x)	1.9	1.6	1.4	1.1
Net dividend yield (%)	1.0	0.9	1.0	1.2

Source: Company Data; PL Research

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**Exhibit 1: Q2FY12 Result Overview (Rs m)**

Y/e March	Q2FY12	Q2FY11	YoY gr. (%)	Q1FY12	H1FY12	H1FY11	YoY gr. (%)
Net Sales	5,717	5,544	3.1	5,039	10,756	9,828	9.4
Expenses	-	-		-			
Inc/ Dec in stock	675	557	21.2	(328)	347	1,925	(82.0)
Raw materials consumed	2,065	2,725	(24.2)	3,233	5,297	3,867	37.0
Total cost of raw materials	2,740	3,282		2,905	5,644	5,792	
<i>% of NS</i>	<i>47.9</i>	<i>59.2</i>		<i>57.6</i>	<i>52.5</i>	<i>58.9</i>	
Employee cost	172	161	6.7	191	363	292	24.5
<i>% of NS</i>	<i>3.0</i>	<i>2.9</i>		<i>3.8</i>	<i>3.4</i>	<i>3.0</i>	
Other manufacturing expenses	1,520	658	131.0	972	2,491	1,268	96.5
<i>% of NS</i>	<i>26.6</i>	<i>11.9</i>		<i>19.3</i>	<i>23.2</i>	<i>12.9</i>	
Total Expenses	4,432	4,101	8.1	4,067	8,499	7,352	15.6
EBITDA	1,285	1,442	(10.9)	972	2,257	2,476	(8.8)
<i>% of NS</i>	<i>22.5</i>	<i>26.0</i>		<i>19.3</i>	<i>21.0</i>	<i>25.2</i>	
Depreciation	244	141	73.4	230	474	277	70.8
EBIT	1,041	1,302	(20.0)	742	1,784	2,199	(18.9)
Interest	434	401	8.1	364	798	822	(2.9)
Other Income	9	5	76.9	28	37	30	22.5
Subsidy	100	11	780.5	187	286	221	29.4
PBT	716	917	(21.9)	593	1,309	1,629	(19.6)
Tax	232	280	(17.0)	192	425	470	(9.7)
<i>Effective tax rate (%)</i>	<i>32.4</i>	<i>30.5</i>		<i>32.4</i>	<i>32.4</i>	<i>28.9</i>	
PAT	484	637	(24.1)	401	884	1,158	(23.6)
Less: Extra ordinary items	-	(74)		-	-	(212)	
PAT after Ex. Items	484	563	(14.0)	401	884	946	(6.6)
PAT without Subsidy & Extra-ordinary items	414	555	(25.4)	270	684	791	(13.6)

Source: Company Data, PL Research


Income Statement (Rs m)

Y/e March	2010	2011	2012E	2013E
Net Revenue	16,254	20,518	25,296	34,149
Raw Material Expenses	10,163	11,800	15,430	20,934
Gross Profit	6,091	8,718	9,865	13,216
Employee Cost	481	729	759	1,024
Other Expenses	2,756	3,869	3,769	5,088
EBITDA	2,854	4,120	5,337	7,103
Depr. & Amortization	387	685	653	758
Net Interest	1,614	1,458	1,837	1,692
Other Income	2,020	905	1,080	1,085
Profit before Tax	2,873	2,883	3,928	5,738
Total Tax	984	914	1,324	1,951
Profit after Tax	1,889	1,969	2,604	3,787
Ex-Od items / Min. Int.	(2,408)	(612)	(1,050)	(1,050)
Adj. PAT	1,889	1,730	2,604	3,787
Avg. Shares O/S (m)	50.9	50.9	50.9	50.9
EPS (Rs.)	37.1	34.0	51.1	74.4

Cash Flow Abstract (Rs m)

Y/e March	2010	2011	2012E	2013E
C/F from Operations	(105)	11,611	4,725	1,531
C/F from Investing	(10,861)	(2,010)	(500)	(500)
C/F from Financing	10,744	(4,299)	(5,889)	(4,151)
Inc. / Dec. in Cash	(222)	5,302	(1,664)	(3,119)
Opening Cash	506	284	6,649	4,985
Closing Cash	284	6,649	4,985	1,866
FCFF	(3,044)	3,309	(2,112)	(3,161)
FCFE	8,222	(242)	(5,926)	(5,322)

Key Financial Metrics

Y/e March	2010	2011	2012E	2013E
Growth				
Revenue (%)	20.0	26.2	23.3	35.0
EBITDA (%)	4.7	44.4	29.5	33.1
PAT (%)	10.3	(8.4)	50.5	45.4
EPS (%)	19.0	(8.4)	50.5	45.4
Profitability				
EBITDA Margin (%)	17.6	20.1	21.1	20.8
PAT Margin (%)	11.6	8.4	10.3	11.1
RoCE (%)	4.8	6.0	8.2	11.1
RoE (%)	18.6	14.4	18.5	22.3
Balance Sheet				
Net Debt : Equity	2.6	1.5	1.1	0.9
Net Wrkng Cap. (days)	51	447	238	272
Valuation				
PER (x)	11.0	12.0	8.0	5.5
P / B (x)	1.9	1.6	1.4	1.1
EV / EBITDA (x)	17.3	9.6	7.0	5.4
EV / Sales (x)	3.0	1.9	1.5	1.1
Earnings Quality				
Eff. Tax Rate	34.2	31.7	33.7	34.0
Other Inc / PBT	6.8	1.9	0.8	0.6
Eff. Depr. Rate (%)	5.2	5.0	3.5	3.5
FCFE / PAT	435.3	(14.0)	(227.6)	(140.5)

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2010	2011	2012E	2013E
Shareholder's Funds	11,113	12,907	15,273	18,762
Total Debt	28,974	25,424	21,610	19,449
Other Liabilities	3,158	4,076	4,076	4,076
Total Liabilities	43,245	42,407	40,959	42,288
Net Fixed Assets	19,752	23,808	23,655	23,397
Goodwill	—	—	—	—
Investments	6,093	2,006	2,006	2,006
Net Current Assets	17,400	16,594	15,299	16,885
<i>Cash & Equivalents</i>	<i>284</i>	<i>6,649</i>	<i>4,985</i>	<i>1,866</i>
<i>Other Current Assets</i>	<i>27,589</i>	<i>44,715</i>	<i>44,244</i>	<i>54,729</i>
<i>Current Liabilities</i>	<i>10,472</i>	<i>34,770</i>	<i>33,930</i>	<i>39,709</i>
Other Assets	—	—	—	—
Total Assets	43,245	42,407	40,959	42,288

Quarterly Financials (Rs m)

Y/e March	Q3FY11	Q4FY11	Q1FY12	Q2FY12
Net Revenue	4,822	5,280	5,039	5,717
EBITDA	813	868	972	1,285
<i>% of revenue</i>	<i>16.9</i>	<i>16.4</i>	<i>19.3</i>	<i>22.5</i>
Depr. & Amortization	174	179	230	244
Net Interest	402	170	364	434
Other Income	—	9	28	9
Profit before Tax	817	567	593	716
Total Tax	282	162	192	232
Profit after Tax	535	403	401	484
Adj. PAT	535	405	401	484

Key Operating Metrics

Y/e March	2010	2011	2012E	2013E
Order Book	123,000	136,720	126,404	92,255
Unexecuted Orderbook	80,181	97,898	82,303	48,153
Subsidy Booked	1,823	841	1,050	1,050

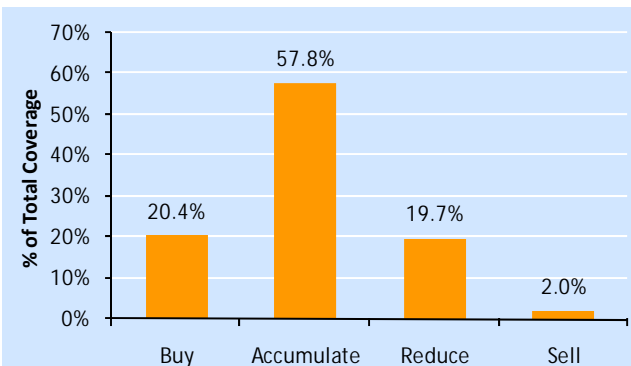
Source: Company Data, PL Research.

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BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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