

## Aban Offshore (ABALLO)

₹ 495

### Rating matrix

Rating	: Sell
Target	: ₹ 430
Target Period	: 12 months
Potential Upside	: -13%

### Key Financials

(₹ cr)	FY10	FY11	FY12E	FY13E
Net Sales	3358.7	3347.2	3229.4	3365.6
EBITDA	2100.8	2185.9	1930.4	2037.0
Net Profit	311.0	144.9	323.5	431.9

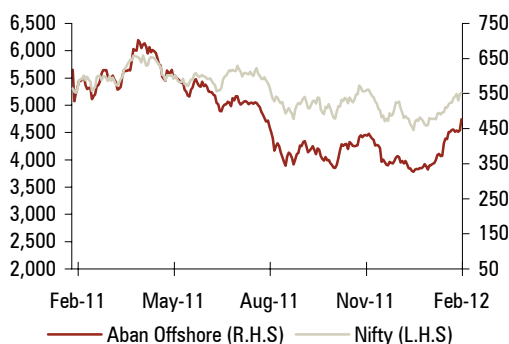
### Valuation summary

	FY10	FY11	FY12E	FY13E
PE (x)	6.9	14.9	6.7	5.0
Target PE (x)	6.0	12.9	5.8	4.3
EV to EBITDA (x)	7.7	6.7	7.1	6.3
Price to book (x)	1.2	1.2	0.9	0.8
RoNW (%)	15.3	6.5	12.9	15.1
RoCE (%)	10.0	11.1	9.0	10.6

### Stock data

Market Cap. (₹ cr)	2153
Debt (FY11) (₹ cr)	13047
Cash (FY11) (₹ cr)	595
EV (₹ cr)	14605
52 week H/L (₹ cr)	719 / 324
Equity capital (₹ cr)	8.7
Face value (₹)	2
DII Holding (%)	3.7
FII Holding (%)	8.1

### Price movement



### Analyst's name

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### WHAT'S CHANGED...

PRICE TARGET	..... Changed from ₹ 456 to ₹ 430
EPS (FY12E)	..... Changed from ₹ 93.8 to ₹ 74.4
EPS (FY13E)	..... Changed from ₹ 116.7 to ₹ 99.3
RATING	..... Changed from HOLD to SELL

### Lower EBITDA margin, higher interest cost dents bottomline...

Aban Offshore (Aban) reported a mixed performance for Q3FY12. Though revenue was higher by 9% than I-direct estimates at ₹ 865.9 crore (QoQ growth of 13.5%), net profit was lower by 19% than I-direct estimate of ₹ 90.6 crore at ₹ 73.1 crore (QoQ decline of 7.7%). Revenues have been higher than our estimates mainly on account of deployment of Aban V and Aban VII during the quarter, which we had factored to be deployed in February, 2012. EBITDA increased by 9% QoQ to ₹ 500.7 crore but the EBITDA margin declined QoQ by 232 bps to 57.8%. The decline in EBITDA margin on a QoQ basis has been due to higher staff costs (up 16% to ₹ 93.1 crore) and increased expense on rental for machinery (up by 142% to ₹ 21.2 crore) and higher expenses on repairs & maintenance (up by 231% to ₹13.3 crore). Interest and depreciation have increased by 12% and 8%, respectively, which has further subdued the net profit. Increasing interest cost as percentage of EBITDA, which has risen from 43.7% in Q1FY11 to 51.3% in Q3FY12 has been denting the profitability of Aban and is a cause for concern.

#### ■ Fleet deployment status

During Q3FY12, Aban V was deployed for three years at ~ US\$120,000 per day while Aban VII secured a contract of eight months at ~ US\$55,000 per day. Aban II is currently under dry docking and is expected to be deployed in Q4FY12. FPU Tahara has yet to secure an order and remains idle. Currently, 16 out of 18 vessels are on contract. The key parameter to watch in FY13 would be the renewal of contracts for eight rigs that are going off-contract. Four of the rigs due for renewal of contracts are currently working in Iran and have day rates at a premium to current day rates in other regions. Relocating these rigs to newer geographies may fetch lower rates leading to a downside risk.

### Valuation

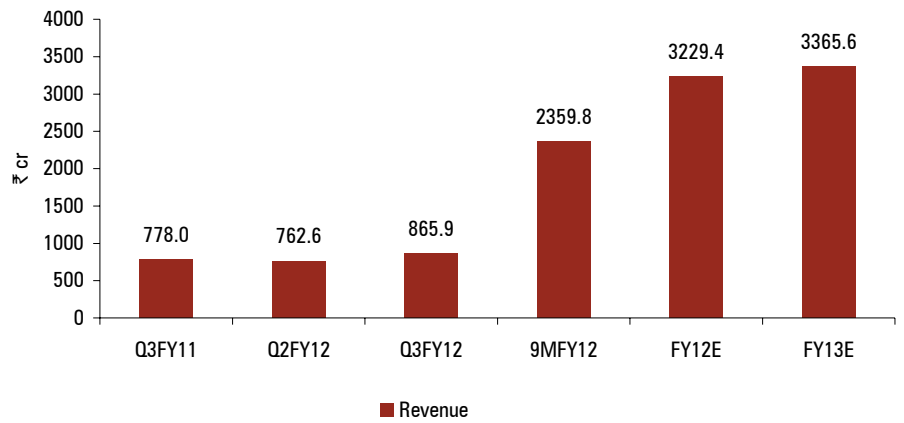
At the CMP of ₹ 495, the stock is trading at 5.0x FY13E EPS of ₹ 99.3 and 0.81x FY13E book value of ₹ 614. We have valued the stock at 0.70x FY13E book value to arrive at a price target of ₹ 430 and recommend a **SELL** rating.

### Exhibit 1: Financial Performance

(₹ cr)	Q3FY12	Q3FY12E	Q3FY11	Q2FY12	YoY Gr. (%)	QoQ Gr.(%)
Net Sales	865.9	793.9	778.0	762.6	11.3	13.5
EBITDA	500.7	488.9	516.8	458.8	-3.1	9.1
EBITDA Margin (%)	57.8	61.6	66.4	60.2	(858 bps)	(232 bps)
Depreciation	144.1	134.0	118.8	133.7	21.2	7.8
Interest	257.0	230.0	232.9	229.9	10.4	11.8
Reported PAT	73.1	90.6	62.0	79.3	17.9	-7.7
EPS (₹)	16.8	20.8	14.3	18.2	17.9	-7.7

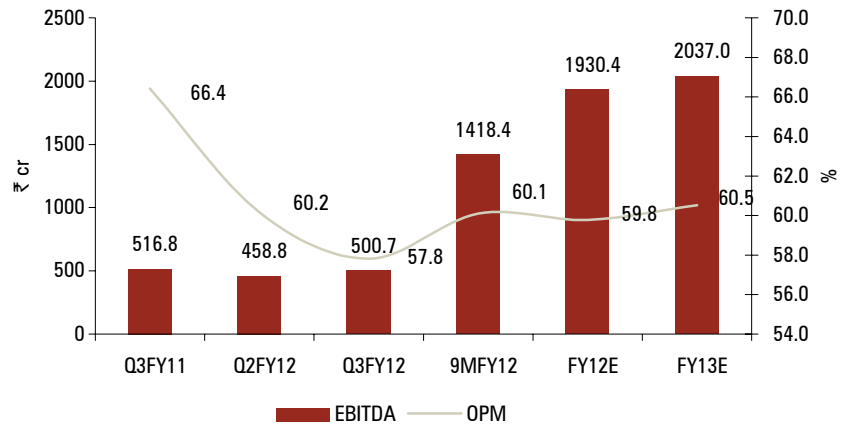
Source: Company, ICICIdirect.com Research

**Exhibit 2: Topline performance trend**



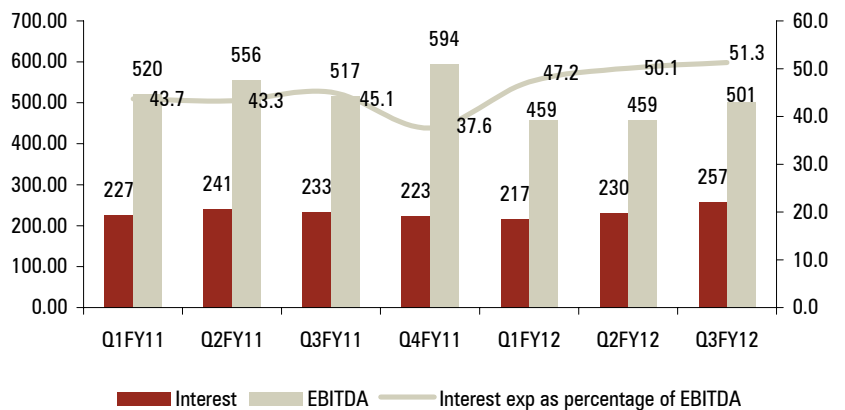
Source: Company, ICICIdirect.com Research

**Exhibit 3: EBITDA performance trend**



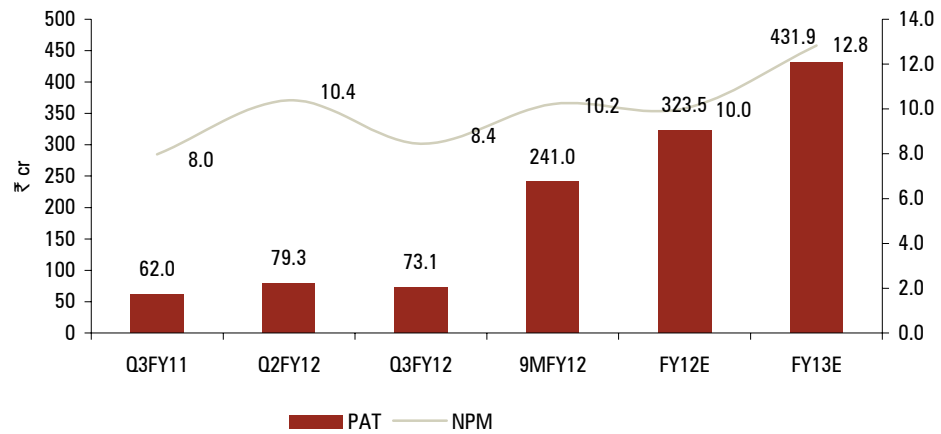
Source: Company, ICICIdirect.com Research

**Exhibit 4: Interest expense as percentage of EBITDA trend**



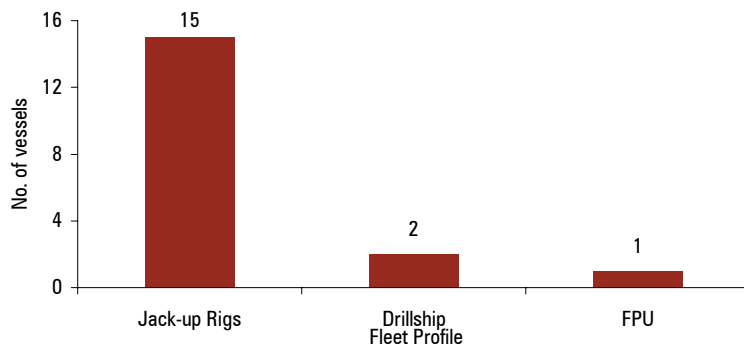
The last two quarters have seen interest cost as a percentage of EBITDA rising significantly, which is expected to pressurise the profitability, going ahead

**Exhibit 5: PAT performance trend**



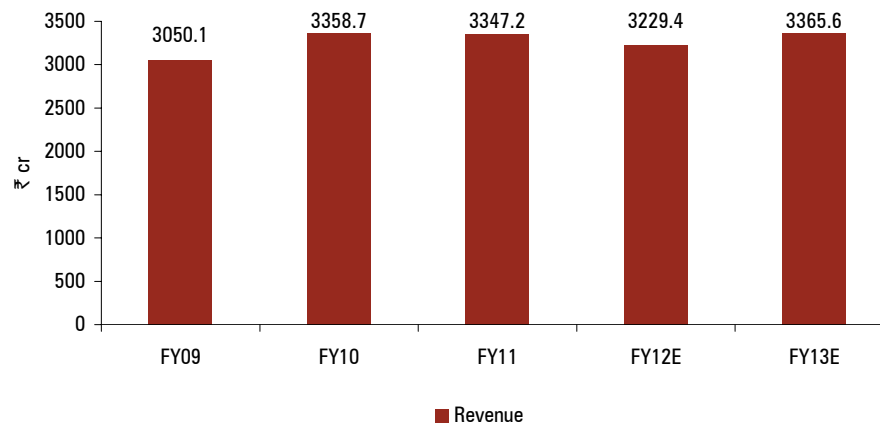
Source: Company, ICICIdirect.com Research

**Exhibit 6: Current fleet profile**



Source: Company, ICICIdirect.com Research

**Exhibit 7: Revenue expected to marginally improve in FY13**

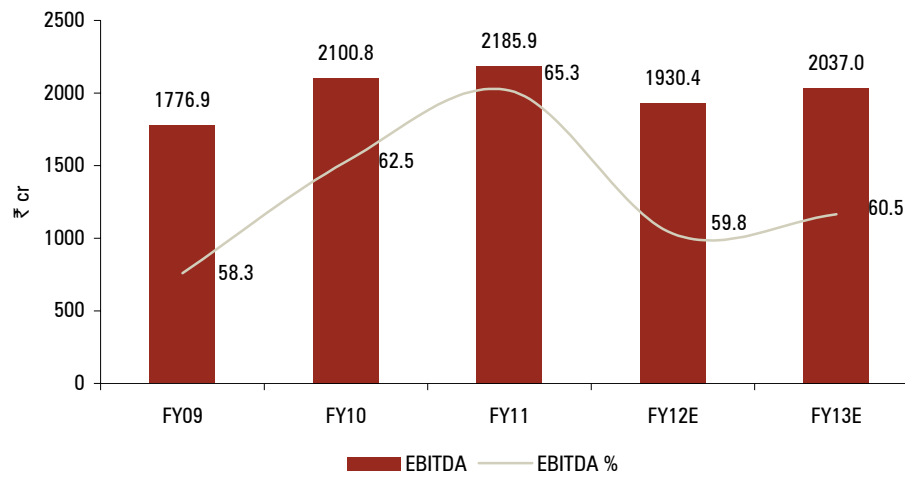


Source: Company, ICICIdirect.com Research

Currently, 16 out of 18 vessels are on contract. Of the remaining two vessels, Aban II, which is under dry docking, is expected to be deployed from Q4FY12 while FPU Tahara is yet to secure a contract

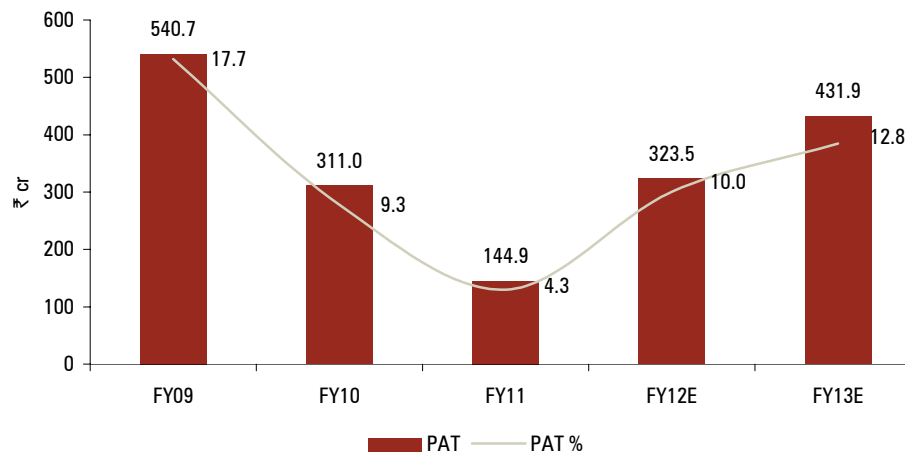
The key parameter to watch in FY13 would be the renewal of contracts for eight rigs that are going off-contract. Four of the rigs due for renewal of contracts are currently working in Iran and have day rates at a premium to the current day rates in other regions. Relocating these rigs to newer geographies may fetch lower rates leading to a downside risk

**Exhibit 8: Operating margin to stabilise after declining in FY12**



Source: Company, ICICIdirect.com Research

**Exhibit 9: PAT expected to recover in FY12 and improve further in FY13**



Source: Company, ICICIdirect.com Research

Aban is expected to report a significantly higher net profit in FY12 in the absence of extraordinary losses (due to sinking of Aban Pearl). Aban recently refinanced bonds worth US\$120 million in January 2012. However, the refinance cost was significantly higher at 12% compared to the earlier coupon rate of 9%. Further, Aban has US\$160 million of bonds outstanding, which are due for redemption in March 2012. We expect the refinancing of these bonds to be on similar terms as done in January, 2012. The increased cost of refinancing the bonds would pressurise the earnings in FY12 and FY13. We have also factored in lower operating margins to adjust for the higher cost structure. Consequently, we have revised downwards our FY12 and FY13 EPS estimate by 20% and 15% to ₹ 74.4 and ₹ 99.3, respectively.

The stock has seen a sharp run up in its price in the last month, which factors the future growth in earning. We have maintained a cautious stance on the stock as eight rigs from its fleet will be going off contract in FY13. Also, there appears to be a downside risk on the day rates at which these vessels would get deployed. At the CMP of ₹ 495, the stock is trading at 5.0x FY13E EPS of ₹ 99.3 and 0.81x FY13E book value of ₹ 614. We have valued the stock at 0.70x FY13E book value to arrive at a price target of ₹ 430 and recommend a **SELL** rating.

#### Exhibit 10: Valuation parameter

Valuation based on	Global average	Target multiple	Target price (₹)
Price to book value (x)	1.1	0.70	430
<b>Average target price (₹)</b>			<b>430</b>
Current market price (₹)			495
Upside (%)			(13)

Source: ICICIdirect.com Research

#### Exhibit 11: Valuation

	Sales (₹ cr)	Sales Growth (%)	EPS (₹)	EPS Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY11	3347.2	10.1	33.3	-53.4	14.9	6.7	6.5	11.1
FY12E	3229.4	-3.5	74.4	123.2	6.7	7.1	12.9	9.0
FY13E	3365.6	4.2	99.3	33.5	5.0	6.3	15.1	10.6

Source: Company, ICICIdirect.com Research

#### Exhibit 12: Revised estimates

(₹ cr)	Old		New	
	FY12E	FY13E	FY12E	FY13E
Sales	3223.9	3296.0	3229.4	3365.6
EBITDA	1958.3	2005.3	1930.4	2037.0
Net Profit	408.0	507.6	323.5	431.9
EPS	93.8	116.7	74.4	99.3

Source: Company, ICICIdirect.com Research

## Financial summary

### Profit and loss statement (Consolidated)

	(₹ Crore)			
(Year-end March)	FY10	FY11	FY12E	FY13E
Total operating Income	3,358.7	3,347.2	3,229.4	3,365.6
Growth (%)	10.1	-0.3	-3.5	4.2
Vessel Operating Expenses	549.8	572.5	595.0	611.7
Rental charges for machinery	46.3	43.9	58.1	67.3
Marketing Expenses	0.0	0.0	0.0	0.0
Administrative Expenses	0.0	0.0	0.0	0.0
Other Expenditure	661.8	544.9	645.9	649.6
Total Operating Expenditure	1,257.8	1,161.3	1,299.0	1,328.6
EBITDA	2,100.8	2,185.9	1,930.4	2,037.0
Growth (%)	18.2	4.0	-11.7	5.5
Depreciation	461.6	490.7	540.3	527.3
Interest	976.8	923.8	962.7	929.4
Other Income	21.8	27.0	35.0	30.0
PBT	684.3	798.4	462.4	610.3
Others	-116.2	-400.4	0.0	0.0
Total Tax	257.1	253.1	138.9	178.4
PAT	311.0	144.9	323.5	431.9
Growth (%)	-42.5	-53.4	123.2	33.5
EPS (₹)	71.5	33.3	74.4	99.3

Source: Company, ICICIdirect.com Research

### Cash flow statement (Consolidated)

	(₹ Crore)			
(Year-end March)	FY10	FY11	FY12E	FY13E
Profit after Tax	311.0	144.9	323.5	431.9
Add: Depreciation	461.6	490.7	540.3	527.3
(Inc)/dec in Current Assets	430.4	-124.5	129.7	73.1
Inc/(dec) in CL and Provisions	217.3	346.5	-99.4	-69.0
Others	-51.0	-279.3	-53.0	-53.0
CF from operating activities	1,369.3	578.4	841.2	910.3
(Inc)/dec in Investments	809.7	435.5	0.0	0.0
(Inc)/dec in Fixed Assets	-393.5	502.6	17.1	-1.0
Others	0.0	0.0	0.0	0.0
CF from investing activities	416.2	938.1	17.1	-1.0
Issue/(Buy back) of Equity	698.3	0.8	-201.0	-45.0
Inc/(dec) in loan funds	-2,427.8	-1,162.9	-111.8	-1,415.1
Dividend paid & dividend tax	0.0	0.0	0.0	0.0
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	-1,729.5	-1,162.1	-312.8	-1,460.1
Net Cash flow	-358.6	359.0	760.6	-550.8
Opening Cash	594.7	236.0	595.1	1,355.7
Closing Cash	236.0	595.1	1,355.7	804.9

Source: Company, ICICIdirect.com Research

### Balance sheet (Consolidated)

	(₹ Crore)			
(Year-end March)	FY10	FY11	FY12E	FY13E
<b>Liabilities</b>				
Equity Capital	8.7	8.7	8.7	8.7
Reserve and Surplus	1,845.9	1,799.1	2,284.8	2,663.8
Total Shareholders funds	1,854.6	1,807.8	2,293.5	2,672.5
Total Debt	14,164.1	13,047.8	12,936.0	11,520.9
Deferred Tax Liability	43.6	29.2	29.2	29.2
Minority Interest / Others	326.0	326.0	125.0	80.0
Total Liabilities	16,388.3	15,210.8	15,383.7	14,302.5
<b>Assets</b>				
Gross Block	17,314.7	16,304.7	16,305.1	16,306.1
Less: Acc Depreciation	1,963.4	2,398.8	2,939.1	3,466.3
Net Block	15,351.3	13,905.9	13,366.1	12,839.8
Capital WIP	13.1	17.5	0.0	0.0
Total Fixed Assets	15,364.4	13,923.4	13,366.1	12,839.8
Investments	495.1	15.4	15.4	15.4
Inventory	247.8	261.6	309.7	322.7
Debtors	769.1	969.2	973.3	1,014.3
Loans and Advances	210.0	306.7	353.9	368.8
Other Current Assets	0.0	0.0	0.0	0.0
Cash	236.0	595.1	1,355.7	804.9
Total Current Assets	1,462.9	2,132.5	2,992.5	2,510.7
Creditors	655.6	563.6	575.1	553.2
Provisions	278.5	296.9	415.2	510.1
Total Current Liabilities	934.1	860.6	990.3	1,063.3
Net Current Assets	528.8	1,272.0	2,002.2	1,447.4
Others Assets	0.0	0.0	0.0	0.0
Application of Funds	16,388.3	15,210.8	15,383.7	14,302.5

Source: Company, ICICIdirect.com Research

### Key ratios (Consolidated)

(Year-end March)	FY10	FY11	FY12E	FY13E
<b>Per share data (₹)</b>				
EPS	71.5	33.3	74.4	99.3
Cash EPS	148.9	130.8	198.5	220.5
BV	426.3	415.5	527.1	614.2
DPS	3.6	3.6	4.0	4.0
Cash Per Share	118.0	297.5	677.8	402.4
<b>Operating Ratios (%)</b>				
EBITDA Margin	62.5	65.3	59.8	60.5
PBT / Total Operating income	20.4	23.9	14.3	18.1
PAT Margin	6.0	17.7	9.3	4.3
Inventory days	26.9	28.5	35.0	35.0
Debtor days	83.6	105.7	110.0	110.0
Creditor days	71.2	61.5	65.0	60.0
<b>Return Ratios (%)</b>				
RoE	15.3	6.5	12.9	15.1
RoCE	10.0	11.1	9.0	10.6
RoIC	2.0	1.0	2.3	3.2
<b>Valuation Ratios (x)</b>				
P/E	6.6	14.2	6.4	4.8
EV / EBITDA	7.6	6.6	7.1	6.3
EV / Net Sales	4.8	4.3	4.2	3.8
Market Cap / Sales	0.6	0.6	0.6	0.6
Price to Book Value	1.1	1.1	0.9	0.8
<b>Solvency Ratios</b>				
Debt/EBITDA	6.7	6.0	6.7	5.7
Debt / Equity	6.5	6.1	5.3	4.2
Current Ratio	2.2	3.8	5.2	4.5
Quick Ratio	1.5	2.8	3.4	2.6

Source: Company, ICICIdirect.com Research

## ICICIdirect.com coverage universe (Shipping)

<b>Essar Ports</b>					Sales (₹ Crore)	EPS (₹)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	ESSSHI	CMP (₹)	65	FY12E	1103.7	2.9	20.3	8.1	6.5	9.9
		Target (₹)	107	FY13E	1392.6	5.8	10.2	6.2	11.7	12.0
MCap	2707	% Upside	65							
<b>G.E Shipping</b>										
Idirect Code	GESHIP	CMP (₹)	236	FY11	2432.9	30.8	7.3	8.4	7.8	4.4
		Target (₹)	247	FY12E	2889.6	32.3	6.9	7.5	7.7	4.4
MCap	3587	% Upside	5	FY13E	3248.7	36.9	6.1	6.0	8.2	5.8
<b>Mercator Lines</b>										
Idirect Code	MERLIN	CMP (₹)	25	FY11	2828.9	1.9	11.5	4.8	2.0	5.7
		Target (₹)	34	FY12E	3408.3	2.7	8.1	5.2	2.9	5.1
MCap	590	% Upside	36	FY13E	4376.9	5.5	4.0	3.7	5.6	7.8
<b>SCI</b>										
Idirect Code	SCI	CMP (₹)	68	FY10	3543.4	12.2	4.5	7.2	7.9	2.1
		Target (₹)	59	FY11E	3946.4	-1.4	-	13.9	-1.0	-0.9
MCap	3167	% Upside	-13	FY12E	4254.8	0.9	63.3	9.0	0.6	0.4
<b>Aban Offshore</b>										
Idirect Code	ABALLO	CMP (₹)	495	FY11	3347.2	33.3	14.9	6.7	6.5	11.1
		Target (₹)	430	FY12E	3229.4	74.4	6.7	7.1	12.9	9.0
MCap	2153	% Upside	-13	FY13E	3365.6	99.3	5.0	6.3	15.1	10.6
<b>Global Offshore</b>										
Idirect Code	GARSHI	CMP (₹)	72	FY11	200.5	9.3	7.8	8.8	7.9	5.5
		Target (₹)	101	FY12E	198.1	6.7	10.9	8.3	5.5	5.3
MCap	171	% Upside	40	FY13E	197.1	7.0	10.4	7.4	5.5	5.6
<b>Great Offshore</b>										
Idirect Code	GREOFF	CMP (₹)	104	FY11	946.8	7.1	14.6	9.2	2.2	3.9
		Target (₹)	122	FY12E	983.4	21.9	4.7	7.3	6.7	5.8
MCap	386	% Upside	17	FY13E	1065.3	22.4	4.6	6.2	6.5	6.9
<b>ABG Shipyard</b>										
Idirect Code	ABGSHI	CMP (₹)	414	FY11	2136.9	38.1	10.3	7.2	15.3	12.7
		Target (₹)	373	FY12E	2420.4	43.6	9.0	6.5	15.2	13.9
MCap	2107	% Upside	-10	FY13E	2698.2	51.6	7.6	5.2	15.5	16.0
<b>Bharati Shipyard</b>										
Idirect Code	BHASHI	CMP (₹)	93	FY11	1609.0	34.5	2.6	7.9	9.3	9.3
		Target (₹)	75	FY12E	1296.0	19.2	4.7	6.9	6.9	10.0
MCap	272	% Upside	-19	FY13E	1329.0	5.1	17.7	9.8	0.5	7.6
<b>Pipavav Shipyard</b>										
Idirect Code	PIPSHI	CMP (₹)	73	FY10	859.9	0.7	-	43.6	2.5	4.3
		Target (₹)	91	FY11E	1802.8	1.1	73.6	20.9	4.1	8.0
MCap	4860	% Upside	25	FY12E	2350.2	2.9	28.1	13.8	9.6	12.9

## Global Valuation (Shipping)

Company	Country	P/BV (x)			P/E (x)			EV/EBITDA (x)			ROE (%)		
		CY10E	CY11E	CY12E	CY10E	CY11E	CY12E	CY10E	CY11E	CY12E	CY10E	CY11E	CY12E
<b>Offshore</b>													
Diamond Offshore*	USA	2.9	2.0	2.0	11.9	9.6	13.4	6.3	5.5	6.8	24.5	22.1	14.4
ENSCO*	USA	1.4	1.0	1.0	16.2	17.1	9.0	9.1	13.7	7.2	9.0	6.8	11.7
Hercules Offshore*	USA	0.7	0.7	0.7	-	-	-	8.7	9.6	7.8	-	-	-
Transocean*	USA	1.2	0.7	0.7	13.3	33.3	15.8	7.2	8.5	6.5	8.7	1.9	4.7
Aban Offshore#	India	1.2	0.9	0.8	14.9	6.7	5.0	6.7	7.1	6.3	6.5	12.9	15.1
Global Offshore#	India	0.6	0.6	0.6	7.8	10.9	10.4	8.8	8.3	7.4	7.9	5.5	5.5
Great Offshore#	India	0.3	0.3	0.3	14.6	4.7	4.6	9.2	7.3	6.2	2.2	6.7	6.5
SEAMEC#	India	0.8	0.7	0.7	-	21.6	22.2	-	2.7	1.6	-	3.4	3.2

\*consensus

# With regards to Indian companies, three year data represents FY11, FY12 and FY13 (financial year ending in March)

### Exhibit 13: Recommendation History



### Exhibit 14: Recent Releases

Date	Event	CMP	Target Price	Rating
3-Feb-11	Q3FY11 Result Update	588	539	HOLD
8-Apr-11	Q4FY11 Preview	588	539	HOLD
6-May-11	Q4FY11 Result Update	561	511	HOLD
10-Aug-11	Q1FY12 Result Update	400	446	BUY
9-Nov-11	Q2FY12 Result Update	428	456	HOLD
6-Jan-12	Q3FY12 Preview	352	456	BUY



## **RATING RATIONALE**

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

**Strong Buy:** > 15%/20% for large caps/midcaps, respectively, with high conviction;

**Buy:** > 10%/15% for large caps/midcaps, respectively;

**Hold:** Up to +/-10%;

**Sell:** -10% or more;

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## **ANALYST CERTIFICATION**

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