

Lower Standalone profitability drags Q2FY12 nos

November 8, 2011

Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs436	Rs522
EPS change FY12E/13E (%)	-5.3 /-7.6
Target Price change (%)	-10
Nifty	5,289
Sensex	17,570

Price Performance

(%)	1M	3M	6M	12M
Absolute	25	3	(28)	(48)
Rel. to Nifty	16	(0)	(25)	(39)

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	868/333
Market Cap (Rs bn/USD mn)	19/384
Daily Avg Volume (No of sh)	933429
Daily Avg Turnover (US\$m)	7.4

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	54.1	53.8	53.8
FII/NRI	7.8	8.6	8.5
Institutions	3.7	3.7	4.3
Private Corp	5.1	5.7	6.7
Public	29.4	28.2	26.7

Source: Capitaline

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- **Q2FY12 EBITDA at Rs4.6bn(-17.5% yoy) below est of Rs4.8bn dragged by lower standalone profitability (standalone EBITDA down 58% qoq) due to lower operating days for Aban IV**
- **Standalone net loss of Rs0.7bn and higher consolidated depreciation & interest charges drag Q2FY12 APAT to Rs0.79bn (-15.5% qoq) -below estimates**
- **Lower revenues from standalone business leads to earnings downgrade for FY12E/13E by -5.3% /-7.6%. We also lower our TP to Rs522 (Rs580 earlier) to factor in earnings downgrade**
- **Only 2 rigs idle-see strong cash flow visibility -USD 400 mn CFO over FY11-13, leading to accelerated de-leveraging- Valuation at 5.9X FY13 EV/E & .6X P/B remain attractive-BUY**

Dismal standalone performance drags Q2FY12 performance

Aban's Q2FY12 EBITDA at Rs4.6bn (-17.5% yoy) came in below estimates (Rs4.8bn) dismal performance of the standalone entity. Standalone revenues at Rs1.33 bn -20% qoq came in below estimates (Rs1.5 bn) on account of lower than expected operating days for the Aban IV. Though consolidated revenues at Rs7.6 bn grew 4.3% qoq (led by higher operating days for Aban Abraham) the same coming in below est of Rs8.0bn due to lower standalone revenues. With lower revenues standalone EBITDA margins decline sharply by 1250 bps to meager 31.8% dragging standalone EBITDA down by 58% qoq. This led to consolidated EBITDA margins contracting by 260bps qoq to 60.2% and hence consolidated EBITDA stood flat at Rs4.6bn (est of Rs4.8bn), even after higher sequential revenue contribution from Aban Abraham. On the cost front other expenses at Rs1.43bn, jumped 25% qoq (vs. est of Rs1.26bn) while the quarter saw a sharp 21% sequential jump in insurance charges at Rs360mn (vs est of Rs300mn). Insurance charges jumped due to higher renewal premium charges for rigs as insurance companies have hiked premium rates.

Losses by standalone entity further impacts consol PAT & lead to earnings downgrade

Lower operating days & more than 50% downward reset in day rates for Aban III&IV Aban's standalone entity saw higher losses with Q2FY12 net loss of Rs0.7bn vs net loss of Rs.22 bn in Q1FY12. This coupled with higher depreciation (Rs1.34bn vs est of Rs1.26) and interest charges (Rs2.3 bn vs est Rs2.16bn) led to lower Q2FY12 APAT at Rs0.79bn (-15.5% qoq). We are downgrading our earnings estimate for FY12 by 5.3 % (EPS of Rs85.5) and FY13 by 7.6% (EPS of Rs106.8) led by lower revenues for standalone business (due to lower operating days for Aban III, IV and V. We also lower our target price to Rs522 (Rs580 earlier) to factor in earnings downgrade.

Key Financials

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
Mar										
FY10	33587	21004	62.5	5518	119.3	54.3	15.0	3.6	7.3	1.0
FY11	33472	21868	65.3	5670	122.8	2.9	24.8	3.5	6.6	1.0
FY12E	33425	20187	60.4	3722	85.5	-30.4	17.2	5.1	6.7	0.9
FY13E	36133	20979	58.1	4649	106.8	48.3	17.8	4.1	6.0	0.7

Results table

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD FY12E	YTD FY11	YoY (%)
Revenue	8,281	7,780	8,987	7,313	7,627	-7.9	4.3	14,940	16,705	-10.6
Expenditure	2,718	2,614	3,050	2,725	3,038	11.8	11.5	5,763	5,940	-3.0
as % of sales	32.8	33.6	33.9	37.3	39.8			38.6	35.6	8.5
Consumption of RM	276	319	436	279	251	-9.1	-9.9	530	609	-13.0
As % of Sales	3.3	4.1	4.9	3.8	3.3			3.5	3.6	-2.7
Employee Cost	870	850	692	759	863	-0.8	13.7	1,622	1,754	-7.5
As % of Sales	10.5	10.9	7.7	10.4	11.3			10.9	10.5	3.4
Other expenditure	1,572	1,445	1,922	1,687	1,924	22.4	14.1	3,611	3,577	0.9
As % of Sales	19.0	18.6	21.4	23.1	25.2			24.2	21.4	12.9
EBITDA	5,563	5,166	5,937	4,589	4,588	-17.5	0.0	9,177	10,765	-14.8
Depreciation	1,230	1,186	1,200	1,231	1,337	8.6	8.5	2,568	2,521	1.9
EBIT	4,333	3,980	4,737	3,357	3,252	-24.9	-3.1	6,609	8,244	-19.8
Other Income	24	94	-	58	126	426.5	119.5	184	167	10.3
Interest	2406	2329	2231	2166	2299	-4.4	6.1	4466	4678	-4.5
PBT	1,950	1,745	2,506	1,249	1,079	-44.7	-13.6	2,328	3,733	-37.7
Total Tax	757	557	538	307	286	-62.2	-6.8	594	1,435	-58.6
Adjusted PAT	1,193	1,187	1,968	941	793	-33.6	-15.8	1,734	2,298	-24.5
(Profit)/loss from JV's/Ass/MI	-302	-433	0	0	0	-100.0		0	650	-100.0
APAT after MI	891	755	1,968	941	793	-11.1	-15.8	1,734	2,948	-41.2
Extra ordinary items	-139	-135	-451	-55	0	-100.0	-100.0	-55	-3635	-98.5
Reported PAT	752	620	1,517	886	793	5.4	-10.6	1,678	(687)	-344.2
Reported EPS	20.5	17.4	45.2	21.6	18.9	-7.6	-12.5	40.6	67.8	-40.1

Margins (%)					(bps)	(bps)					(bps)
EBIDTA	67.2	66.4	66.1	62.7	60.2	-702	-258	61.4	64.4	-302	
EBIT	52.3	51.2	52.7	45.9	42.6	-969	-327	44.2	49.4	-511	
EBT	23.6	22.4	27.9	17.1	14.1	-941	-293	15.6	22.3	-677	
PAT	14.4	15.3	21.9	12.9	10.4	-402	-248	11.6	13.8	-215	
Effective Tax rate	38.8	31.9	21.5	24.6	26.5	-1229	192	25.5	38.4	-1293	

Downgrade FY12E/13E earnings by 5.3%/7.6%

	FY12E			FY13E		
	Earlier	Revised	Change	Earlier	Revised	Change
Revenues	32393	33425	3.2%	35079	36133	3.0%
EBITDA	19651	20187	2.7%	20542	20979	2.1%
Margin (%)	60.7%	60.4%	-27.0	58.6%	58.1%	-50.2
PAT	3929	3722	-5.3%	5029	4649	-7.6%
EPS	90.3	85.5	-5.3%	115.6	106.8	-7.6%

Cash generation of ~ USD 400 over FY11-13 to accelerate de-leveraging

During the quarter Aban Abraham was fully operational in Brazil. Further With Aban III & V ready to commence operation from 3QFY12, Aban now is left with only 2 rigs idle. Such healthy deployment status arms Aban with contracted revenue backlog of ~USD1.9 bn and revenue visibility of 95% for FY12E. We estimate Aban to generate CFO of ~ USD400mn over FY11-13E, leading to accelerated de-leveraging of its stretched balance sheet (FY11 D: E of 7X). We see Aban D: E reducing sharply from current levels of to 4.2 for FY13. Valuation at 5.9X FY13 EV/EBIDTA & .6X P/B remain attractive BUY.

Financials

Income Statement

Y/E, Dec (Rs. m)	FY10	FY11	FY12E	FY13E
Net Sales	33587	33472	33425	36133
Growth (%)	10.1	-0.3	-0.1	8.1
Total Expenditure	12583	11604	13238	15155
Manpower Costs	2884	3295	3759	4910
Consumption of stores	1303	1364	1556	2032
Repairs & Rentals to machinery	1087.7	901.0	1027.8	1342.3
Other Exps	7307	6044	6895	9005
EBIDTA	21004	21868	20187	20979
Growth (%)	21.2	4.1	-7.7	3.9
EBIDTA %	62.5	65.3	60.4	58.1
Depreciation	4616	4907	5219	5359
EBIT	16388	16961	14968	15620
EBIT margin (%)	48.8%	50.7%	44.8%	43.2%
Other income	218	261	337	347
Interest	9768	9238	9486	8933
EBT	6838	7984	5819	7034
Tax	2571	2531	1771	2059
Effective tax rate (%)	37.6	31.7	30.4	29.3
Adjusted PAT	4268	5453	4048	4975
Growth (%)	100.6	27.8	-25.8	22.9
Net Margin (%)	12.7	16.3	12.1	13.8
(Profit)/loss from JVs/Ass/MI	1250	217	326	326
Adjusted PAT After JVs/Ass/MI	5518	5670	3722	4649
E/O items	-2408	-4221	0	0
Reported PAT	3110	1450	3722	4649
Growth (%)	-42.5	-53.4	156.7	24.9

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT (Ex-Other income)	4430	3315	5482	6687
Depreciation	4616	4907	5219	5359
Interest Provided	9717	9194	9486	8933
Other Non-Cash items	1991	4784	0	0
Chg in working cap	2131	-4709	-694	-382
Tax paid	-2584	-2286	-1771	-2059
Operating Cashflow	20301	15204	17721	18538
Capital expenditure	-3935	5026	0	0
Free Cash Flow	16366	20230	17721	18538
Other income	48	59	337	347
Investments	8097	4355	0	0
Investing Cashflow	4211	9440	337	347
Equity Capital Raised	6982	8	0	0
Loans Taken / (Repaid)	-24278	-11629	-5286	-6493
Interest Paid	-10307	-8892	-9486	-8933
Dividend paid (incl tax)	-478	-510	-510	-510
Income from investments	0	0	0	0
Others	-19	-32	0	0
Financing Cashflow	-28099	-21054	-15282	-15935
Net chg in cash	-3588	3590	2777	2950
Opening cash position	5948	2360	5951	8727
Closing cash position	2360	5950	8727	11677

Balance Sheet

Y/E, Dec (Rs. m)	FY10	FY11	FY12E	FY13E
Equity share capital	87	87	87	87
Preference Capital	3260	3260	3260	3260
Reserves & surplus	18459	17991	21529	25994
Networth	21806	21338	24876	29341
Minority Interest	0	0	0	0
Secured Loans	138622	126077	120790	114298
Unsecured Loans	3018	4401	4401	4401
Loan Funds	141641	130478	125191	118699
Net deferred tax	436	292	292	292
Total Liabilities	163883	152107	150359	148332
Gross Block	173147	163041	163216	163216
Less: Depreciation	19634	23982	29201	34560
Net block	153513	139059	134015	128656
CWIP (incl cap adv)	131	175	0	0
Investment	4951	153	153	153
Current Assets	14629	21325	24735	28642
Inventories	2478	2616	2747	2970
Sundry debtors	7691	9692	10193	10928
Cash & bank balance	2360	5951	8727	11677
Loans & advances	2100	3067	3067	3067
Current Liab & Prov	9341	8605	8544	9120
Current liabilities	7891	6764	6702	7278
Provisions	1450	1842	1842	1842
Net current assets	5288	12720	16191	19522
Misc. exp				
Total Assets	163883	152107	150359	148332

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	62.5	65.3	60.4	58.1
Net Margin	12.7	16.3	12.1	13.8
ROCE	9.6	10.9	10.1	10.7
ROE	15.0	24.8	17.2	17.8
RoIC	11.7	11.2	10.4	11.3
Per Share Data (Rs)				
EPS	119.3	122.8	85.5	106.8
CEPS	170.0	138.6	205.4	229.9
BVPS	426.1	415.4	496.7	599.3
DPS	3.6	3.6	3.6	3.6
Valuations (x)				
PER	3.6	3.5	5.1	4.1
P/CEPS	2.6	3.1	2.1	1.9
P/BV	1.0	1.0	0.9	0.7
EV / Sales	4.6	4.3	4.0	3.5
EV / EBITDA	7.3	6.6	6.7	6.0
Dividend Yield (%)	0.8	0.8	0.8	0.8
Gearing Ratio (x)				
Net Debt/ Equity	7.4	7.1	5.5	4.2
Net Debt/EBIDTA	6.6	5.8	5.9	5.2
Working Cap Cycle (days)	24.8	60.5	68.1	66.9

Recommendation History: Aban Offshore – ABAN IN

Date	Reports	Reco	CMP	Target
08/08/2011	Aban Offshore Q1FY12 Result Update	Buy	454	580
27/05/2011	Aban Offshore Q4FY11 Result Update	Accumulate	541	645
25/02/2011	Aban Offshore Company Update	Accumulate	542	680
11/02/2011	Aban Offshore Q3FY11 Result Update	Accumulate	570	680

Recent Research Reports

Date	Reports	Reco	CMP	Target
02/11/2011	Ambuja Cement Q3CY11 Result Update	Hold	157	165
02/11/2011	Orient Paper Q2FY12 Result Update	Buy	62	82
01/11/2011	ACC Q3CY11 Result Update	Accumulate	1,184	1,290
01/11/2011	Century Plyboards Q2FY12 Result Update	Buy	59	82

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