

September 24, 2012

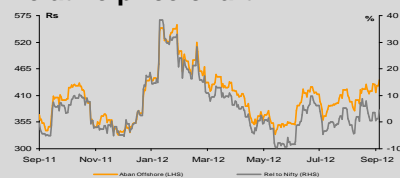
Rating	Previous Reco
Accumulate	Hold
CMP	Target Price
Rs443	Rs525
EPS Chg FY13E (%)	+9.1
Target Price change (%)	+29.6
Nifty	5,670
Sensex	18,673

#### Price Performance

(%)	1M	3M	6M	12M
Absolute	11	26	1	22
Rel. to Nifty	6	14	-6	6

Source: Bloomberg

#### Relative price chart



Source: Bloomberg

#### Stock Details

Sector	Offshore Oil Field Services
Bloomberg	ABAN IB
Equity Capital (Rs mn)	87
Face Value(Rs)	2
No of shares o/s (mn)	44
52 Week H/L	572/ 320
Market Cap (Rs bn/USD mn)	19/ 360
Daily Avg Volume (No of sh)	953,091
Daily Avg Turnover (US\$m)	7.2

#### Shareholding Pattern (%)

	Jun12	Mar12	Dec11
Promoters	54.1	54.1	54.1
FII/NRI	8.5	7.8	7.8
Institutions	3.7	3.7	3.7
Private Corp	3.6	4.7	4.7
Public	30.1	29.8	100.0

Source: Bloomberg

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- 6 rigs due for renewal in FY13. Aban confident of contract renewals and better pricing for 4 rigs. Revenue visibility expected to improve to 96%/86% for FY13/14 with renewals
- Interest burden to come down as Aban plans repayment of Rs10 bn of debt in FY13 and looking at refinancing INR debt of ~Rs18bn leading to savings of Rs1 bn in interest cost
- Improved rig pricing and lower interest cost pressure to improve cash flows driving increased pace of de-leveraging of Aban's stretched balance sheet
- Multiple triggers by way of renewal of rig contract and lower interest cost to help stock out-performance. Reasonable FY14E valuation at PER-3.5X, P/B-0.6 & EV/E-6.2X to provide downside protection- Upgrade to ACCUMULATE- TP-Rs525

#### Key AGM highlights

We attended Aban Offshore's AGM to appraise ourselves on the business prospects for offshore drilling and also Aban's strategy on rigs deployment.

#### 6 rigs due for renewal in FY13 - Contract renewals and better pricing to improve revenue visibility to 96%/86% for FY13/14

Aban has 6 of its jack up rigs due for renewal in FY13. Aban's management remains confident of bagging contract renewals for 5 out of 6 rigs with its existing clients. And for the one rig due for renewal in Jan-13 Aban is already looking for new contract. The company also highlighted that 4 out of the 6 rigs are likely to get ~10% higher day rates. Deep Drillers 2, 4, 5 deployed in Iran (renewal in Sept-12) and Deep Driller 1 deployed in India (renewal in Dec-12) are expected to be renewed at higher contract day rates. However DD7 deployed in Mexico (renewal in Nov-12) would be deployed at current day rate while DD3 deployed in Malaysia (renewal in Oct-12) would receive lower contract day rate. With renewal of the 6 rigs, we expect Aban's revenue visibility (which currently stands at 79%/48% for FY13/14) to improve substantially to 96%/86%. The contract renewals not only addresses one of our biggest concern on revenue visibility, but the better day rates also implies USD21-28 mn higher EBIDTA for Aban's FY14 numbers.

#### Debt repayment and refinancing to lower interest cost pressure

With its highly stretched balance sheet and difficult refinance option, Aban's interest cost has increased substantially over last 3-4quarter. For eg. Aban's recently refinanced its bond bullet payment of USD357 mn through issue of fresh bonds. The 1<sup>st</sup> Bond issue was refinanced at coupon of 12% while the 2nd bond redemption was refinanced at coupon of 14.25%. This was significantly higher as compared to its earlier bond coupon of 9.5%. This has lead to a sharp 35.5% jump in its interest cost in Q1FY13 with its interest coverage ratio coming down to just 1.7X. However we expect the interest cost pressures to have peaked out as Aban is looking at refinancing its high cost rupee term loan of Rs18 bn(~USD300mn with interest rate of 13-14%) with ECB (having interest rate of ~7-8%) there by looking at interest cost saving of 500-600bps. We estimate that the INR debt refinance would lead to annual interest cost saving of ~Rs0.9-1 bn. Further Aban is also looking to repay debt of Rs10 bn in FY13 through internal accruals.

#### Financial Snapshot (Consolidated)

(Rsmn)

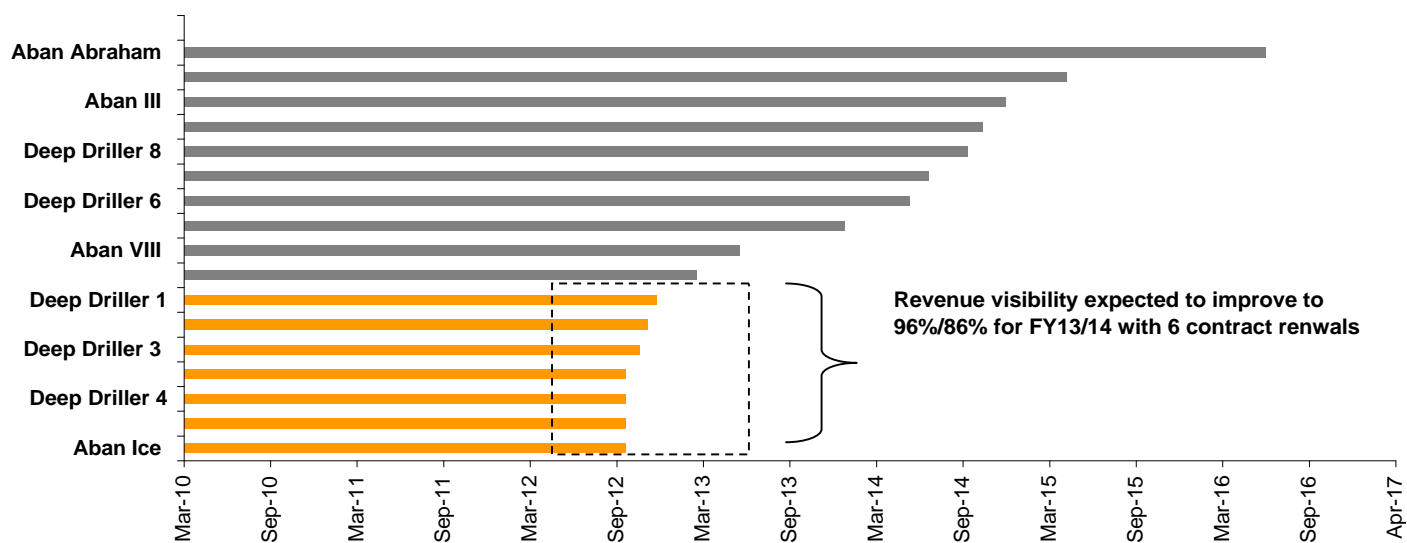
YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
Mar										
FY11A	33,472	21,454	64.1	5,279	121.3	1.7	28.8	3.6	6.9	1.1
FY12A	31,629	18,404	58.2	2,944	67.6	-44.2	13.4	6.5	8.5	0.7
FY13E	36,592	21,464	58.7	3,787	87.0	28.6	13.7	5.1	6.9	0.7
FY14E	37,553	21,991	58.6	5,462	125.5	44.2	17.1	3.5	6.3	0.6

Exhibit 1: Fleet Contract Status

Rigs	Day rate ('000 USD)	Contract renewal date
Aban Ice	121	Sep-12
Deep Driller 2	177	Sep-12
Deep Driller 4	177	Sep-12
Deep Driller 5	177	Sep-12
Deep Driller 3	165	Oct-12
Deep Driller 7	137	Nov-12
Deep Driller 1	108	Dec-12
Aban VII	68	Mar-13
Aban VIII	160	Jun-13
Aban VI	60	Jan-14
Deep Driller 6	125	May-14
Aban IV	63	Jul-14
Deep Driller 8	100	Sep-14
Aban V	115	Nov-14
Aban III	63	Dec-14
Aban II	52	Apr-15
Aban Abraham	269	Jun-16
Tahara	Under Marketing	Under Marketing

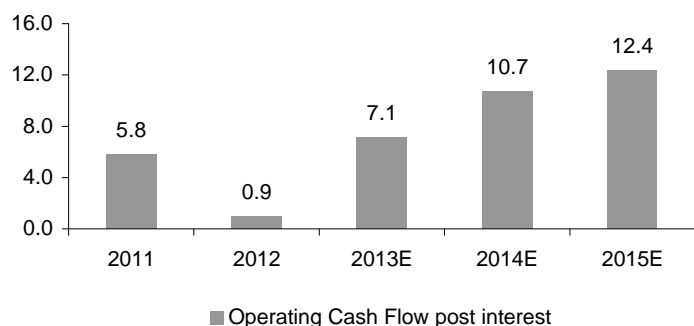
Source: Company, Emkay Research

Exhibit 2: Contract renewals to improve revenue visibility



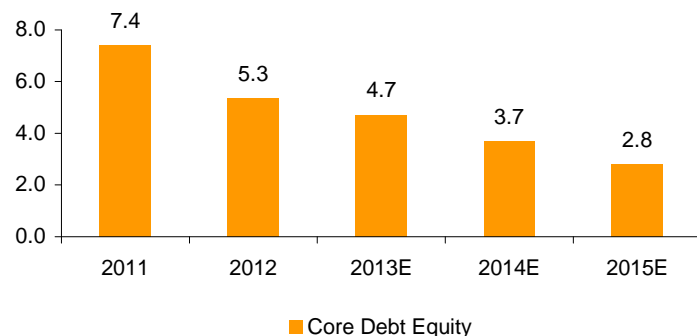
Source: Company, Emkay Research

Exhibit 3: Improving cash flows...



Source: Company, Emkay Research

Exhibit 4: ...to reduce leverage



Source: Company, Emkay Research

### Upgrade FY13E numbers – Introduce FY14E EPS at Rs125.5

With the contract renewals for 4 out of 6 rigs likely to happen at higher day rates we upgrade our FY13E EPS estimate by 9.1%. Further with improved visibility for FY14E fleet status we introduce our FY14E EPS at Rs125.5 implying EPS growth of 44% over FY13.

#### Exhibit 5: Upgrade FY13E EPS by 9.1%. Introduce FY14 EPS at Rs125.5

	FY13E			FY14E
	Earlier	Revised	Change	Introduced
Revenues	36766	36592	-0.5%	37553
EBITDA	21444	21464	0.1%	21991
Margin (%)	58.3%	58.7%	35.8	58.6%
PAT	3472	3787	9.1%	5462
EPS	79.8	87.0	9.1%	125.5

Source: Company, Emkay Research

### Balance de-leveraging to gather pace – Earnings triggers lined up – Upgrade to ACCUMULATE – Target Rs525

As mentioned earlier the contract renewals not only addresses one of our biggest concern on revenue visibility, but the better day rates also implies USD21-28 mn higher EBIDTA for Aban's FY14 numbers. Further with Rs10 bn of debt repayment and refinance of Rs18 bn high cost debt, we see lower interest cost pressure help improving cash flows and driving increase pace of de-leveraging of Aban's stretched balance sheet. Multiple triggers by way of gradual renewal of rig contract and lower interest cost to help stock out-performance. Reasonable FY14 valuation at PER of 3.5X, P/B 0.6 and 6.3X EV/EBIDTA to provide downside protection to stock. We upgrade our recommendation on the stock from HOLD to ACCUMULATE. We also revise our price target upwards to Rs525 valuing the stock on average 6X PER, 6.4X EV/EBIDTA and 0.8X P/B on average of our FY13E/14E numbers.

## Key Financials (Consolidated)

## Income Statement

Y/E Mar (Rsmn)	FY11A	FY12A	FY13E	FY14E
<b>Net Sales</b>	<b>33,472</b>	<b>31,629</b>	<b>36,592</b>	<b>37,553</b>
Growth (%)	-0.3	-5.5	15.7	2.6
<b>Expenditure</b>	<b>12,019</b>	<b>13,225</b>	<b>15,128</b>	<b>15,562</b>
Raw Materials	1,369	1,179	1,349	1,587
Employee Cost	2,896	3,378	3,864	4,547
Other Exp	7,754	8,668	9,915	9,428
<b>EBITDA</b>	<b>21,454</b>	<b>18,404</b>	<b>21,464</b>	<b>21,991</b>
Growth (%)	2.1	-14.2	16.6	2.5
<b>EBITDA margin (%)</b>	<b>64.1</b>	<b>58.2</b>	<b>58.7</b>	<b>58.6</b>
Depreciation	4,907	5,160	5,454	5,454
<b>EBIT</b>	<b>16,546</b>	<b>13,244</b>	<b>16,010</b>	<b>16,537</b>
<b>EBIT margin (%)</b>	<b>49.4</b>	<b>41.9</b>	<b>43.8</b>	<b>44.0</b>
Other Income	260	713	383	383
Interest expenses	9,336	9,891	11,306	9,713
<b>PBT</b>	<b>7,470</b>	<b>4,066</b>	<b>5,087</b>	<b>7,208</b>
<b>Tax</b>	<b>2,530</b>	<b>795</b>	<b>937</b>	<b>1,343</b>
Effective tax rate (%)	33.9	19.6	18.4	18.6
<b>Adjusted PAT</b>	<b>4,940</b>	<b>3,270</b>	<b>4,150</b>	<b>5,865</b>
Growth (%)	15.8	-33.8	26.9	41.3
<b>Net Margin (%)</b>	<b>14.8</b>	<b>10.3</b>	<b>11.3</b>	<b>15.6</b>
(Profit)/loss from JVs/Ass/MI	0	0	0	0
<b>Adj. PAT After JVs/Ass/MI</b>	<b>5,605</b>	<b>3,270</b>	<b>4,150</b>	<b>5,865</b>
E/O items	-4,156	-55	0	0
<b>Reported PAT</b>	<b>1,123</b>	<b>2,889</b>	<b>3,787</b>	<b>5,462</b>
<b>PAT after MI</b>	<b>5,605</b>	<b>3,270</b>	<b>4,150</b>	<b>5,865</b>
Growth (%)	1.6	-41.7	26.9	41.3

## Cash Flow

Y/E Mar (Rsmn)	FY11A	FY12A	FY13E	FY14E
<b>PBT (Ex-Other income)</b>	<b>3,315</b>	<b>4,011</b>	<b>4,704</b>	<b>6,825</b>
Depreciation	4,907	5,160	5,454	5,454
Interest Provided	9,194	9,735	11,306	9,713
Other Non-Cash items	4,784	188	0	0
Chg in working cap	-4,709	-7,721	-2,104	-189
Tax paid	-2,286	-1,670	-937	-1,343
<b>Operating Cashflow</b>	<b>15,204</b>	<b>9,703</b>	<b>18,423</b>	<b>20,459</b>
Capital expenditure	5,026	-6,610	0	0
<b>Free Cash Flow</b>	<b>20,230</b>	<b>3,093</b>	<b>18,423</b>	<b>20,459</b>
Other income	59	29	383	383
Investments	4,355	427	0	0
<b>Investing Cashflow</b>	<b>9,440</b>	<b>-6,154</b>	<b>383</b>	<b>383</b>
Equity Capital Raised	8	0	0	0
Loans Taken / (Repaid)	-11,629	1,100	215	-10,260
Interest Paid	-8,892	-8,758	-11,306	-9,713
Dividend paid (incl tax)	-510	-506	-546	-586
Income from investments	0	0	0	0
Others	-32	8	0	0
<b>Financing Cashflow</b>	<b>-21,054</b>	<b>-8,156</b>	<b>-11,637</b>	<b>-20,559</b>
<b>Net chg in cash</b>	<b>3,590</b>	<b>-4,607</b>	<b>7,169</b>	<b>283</b>
Opening cash position	2,360	5,951	1,344	8,513
<b>Closing cash position</b>	<b>5,950</b>	<b>1,344</b>	<b>8,513</b>	<b>8,796</b>

## Balance Sheet

Y/E Mar (Rsmn)	FY11A	FY12A	FY13E	FY14E
Equity share capital	87	87	87	87
Reserves & surplus	17,991	25,719	29,323	34,602
<b>Net worth</b>	<b>18,078</b>	<b>25,806</b>	<b>29,410</b>	<b>34,689</b>
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Secured Loans	129,337	137,944	138,159	127,899
Unsecured Loans	4,401	0	0	0
<b>Loan Funds</b>	<b>133,738</b>	<b>137,944</b>	<b>138,159</b>	<b>127,899</b>
Net deferred tax liability	292	269	269	269
<b>Total Liabilities</b>	<b>152,107</b>	<b>164,044</b>	<b>167,863</b>	<b>162,882</b>
Gross Block	163,041	188,082	188,082	188,082
Less: Depreciation	23,982	31,107	36,561	42,015
<b>Net block</b>	<b>139,059</b>	<b>156,975</b>	<b>151,521</b>	<b>146,067</b>
Capital work in progress	175	245	245	245
<b>Investment</b>	<b>153</b>	<b>34</b>	<b>34</b>	<b>34</b>
<b>Current Assets</b>	<b>21,325</b>	<b>16,431</b>	<b>25,063</b>	<b>25,733</b>
Inventories	2,616	3,006	3,382	3,466
Sundry debtors	9,692	10,116	11,203	11,506
Cash & bank balance	5,951	1,344	8,513	8,796
Loans & advances	3,067	1,965	1,965	1,965
Other current assets	0	0	0	0
<b>Current lia &amp; Prov</b>	<b>8,605</b>	<b>9,665</b>	<b>9,024</b>	<b>9,222</b>
Current liabilities	6,764	8,703	8,062	8,260
Provisions	1,842	962	962	962
<b>Net current assets</b>	<b>12,720</b>	<b>6,766</b>	<b>16,039</b>	<b>16,511</b>
Misc. exp	0	25	25	25
<b>Total Assets</b>	<b>152,107</b>	<b>164,044</b>	<b>167,863</b>	<b>162,882</b>

## Key Ratios

Y/E Mar	FY11A	FY12A	FY13E	FY14E
<b>Profitability (%)</b>				
EBITDA Margin	64.1	58.2	58.7	58.6
Net Margin	14.8	10.3	11.3	15.6
ROCE	10.6	8.8	9.9	10.2
ROE	28.8	13.4	13.7	17.1
RoIC	10.9	8.6	10.0	10.6
<b>Per Share Data (Rs)</b>				
EPS	121.3	67.6	87.0	125.5
CEPS	234.0	186.2	212.3	250.8
BVPS	415.4	592.4	675.2	796.5
DPS	3.6	3.6	3.6	3.6
<b>Valuations (x)</b>				
PER	3.6	6.5	5.1	3.5
P/CEPS	1.9	2.4	2.1	1.8
P/BV	1.1	0.7	0.7	0.6
EV / Sales	4.4	4.9	4.1	3.7
EV / EBITDA	6.9	8.5	6.9	6.3
Dividend Yield (%)	0.8	0.8	0.8	0.8
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	7.1	5.3	4.4	3.4
Net Debt/EBITDA	6.0	7.4	6.0	5.4
Working Cap Cycle (days)	73.8	62.6	75.1	75.0

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

Date	Reports	Reco	CMP	Target
08/08/2012	<a href="#">Aban Offshore Q1FY13 Result Update</a>	Hold	394	405
30/05/2012	<a href="#">Aban Offshore Q4FY12 Result Update</a>	Hold	378	405
31/01/2012	<a href="#">Aban Offshore Q3FY12 Result Update</a>	Hold	445	465
20/01/2012	<a href="#">Aban Offshore Company Update</a>	Accumulate	440	485

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
14/09/2012	<a href="#">Cement Sector Update</a>			
22/08/2012	<a href="#">Shree Cements Q5FY12 Result Update</a>	Accumulate	3,394	3,850
14/08/2012	<a href="#">India Cement Q1FY13 result update</a>	Hold	85	103
03/08/2012	<a href="#">Orient Paper Q1FY13 Results Update</a>	Buy	65	80

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