

**November 14, 2011**

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Rating	<b>Reduce</b>
Price	Rs93
Target Price	Rs89
Implied Upside	-4.3%
Sensex	17,119

*(Prices as on November 14, 2011)*
**Trading data**

Market Cap. (Rs bn)	2.7
Shares o/s (m)	28.9
3M Avg. Daily value (Rs m)	37.5

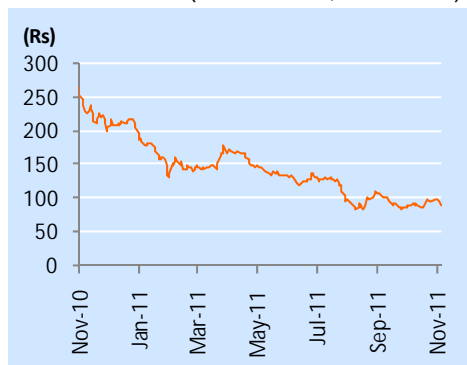
**Major shareholders**

Promoters	46.88%
Foreign	1.37%
Domestic Inst.	10.69%
Public & Other	41.06%

**Stock Performance**

(%)	1M	6M	12M
Absolute	0.8	(36.8)	(63.4)
Relative	0.6	(29.2)	(48.3)

Price Performance (RIC: BHAR.BO, BB: BHSL IN)



Source: Bloomberg

## Bharati Shipyard

### No order visibility, debt pressure mounts

■ **Operating performance in line:** Revenues were in line, with estimates at Rs3,578m, a growth of 4% YoY and down 2% sequentially. EBITDA margins came in at 18.7% compared to 18.2% in Q1FY12. Subsidy-booking witnessed a sharp increase in the current quarter, higher by 44% QoQ to Rs1,074m. Increased subsidy booking was able to offset a sharp 22% QoQ increase in interest cost in Q2FY12. Consequently, reported PAT stood at Rs232m, a growth of 34% QoQ. However, the company continued to report losses, excluding subsidy, at Rs520m for Q2FY12 as compared to a loss of Rs348.7m in Q1FY12.

■ **Stretched balance sheet continues to hurt:** Standalone net debt has only reduced by ~Rs1,341m in H1FY12 to Rs31.88bn, translating into a continued stretched 3.1:1 debt-equity ratio for the company. Interest cost witnessed a sharp increase during the quarter to Rs1,294m, translating into a ~16% cost of debt for the company. Thus, the company's debt burden continues to pose a huge challenge to the company in the current scenario of low future revenue visibility.

■ **Strategic action:** On account of a stretched balance sheet and a dwindling order book, giving us less than a quarter's visibility, the only way out for the company seems to be a strategic tie-up or a stake sale.

■ **Valuation:** We are downgrading the stock to '**Reduce**' in the wake of low order inflow visibility and the consequent uncertainty on company's future financials. Our future projections are based on the execution of the current order book, certain contract revenues as well expectation of some orders being received towards the end of FY12. Our SOTP-based target price stands at **Rs89/share**.

Key financials (Y/e March)	2010	2011	2012E	2013E
Revenues (Rs m)	12,644	13,977	13,278	15,270
Growth (%)	35.2	10.5	(5.0)	15.0
EBITDA (Rs m)	2,324	2,638	2,271	2,626
PAT (Rs m)	1,301	913	242	365
EPS (Rs)	45.0	30.1	8.0	12.0
Growth (%)	(7.2)	(33.0)	(73.5)	50.9
Net DPS (Rs)	3.0	3.0	3.0	3.0

Source: Company Data; PL Research

Profitability & Valuation	2010	2011	2012E	2013E
EBITDA margin (%)	18.4	18.9	17.1	17.2
RoE (%)	16.8	9.6	2.3	3.3
RoCE (%)	8.3	7.1	6.1	6.9
EV / sales (x)	1.8	2.7	2.6	2.2
EV / EBITDA (x)	9.8	14.2	15.4	13.0
PE (x)	2.1	3.1	11.6	7.7
P / BV (x)	0.3	0.3	0.3	0.3
Net dividend yield (%)	3.2	3.2	3.2	3.2

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. (%)
<b>Sales</b>	<b>3,578</b>	<b>3,434</b>	<b>4.2</b>	<b>3,652</b>	<b>7,229</b>	<b>6,764</b>	<b>6.9</b>
<b>Expenditure</b>	-	-		-			
Raw materials	1,945	1,917	1.5	2,015	3,960	3,764	5.2
<i>% of Net Sales</i>	<i>57.3</i>	<i>55.8</i>		<i>55.2</i>	<i>54.8</i>	<i>55.7</i>	
Manufacturing & Other expenses	450	430	4.5	479	929	865	7.3
<i>% of Net Sales</i>	<i>12.6</i>	<i>12.5</i>		<i>13.1</i>	<i>12.8</i>	<i>12.8</i>	
Staff Costs	513	455	13.0	492	1,006	871	15.4
<i>% of Net Sales</i>	<i>14.4</i>	<i>13.2</i>		<i>13.5</i>	<i>13.9</i>	<i>12.9</i>	
Total Expenses	2,909	2,802	3.8	2,986	5,894	5,501	7.1
<b>EBITDA</b>	<b>669</b>	<b>631</b>	<b>6.0</b>	<b>666</b>	<b>1,335</b>	<b>1,263</b>	<b>5.7</b>
<i>EBITDA Margin (%)</i>	<i>18.7</i>	<i>18.4</i>		<i>18.2</i>	<i>18.5</i>	<i>18.7</i>	
Depreciation	99	51	93.7	99	198	100	97.9
Other Income	2	8	(76.0)	0	2	12	(83.4)
Subsidy	1,074	480	123.9	745	1,820	775	134.8
<b>EBIT</b>	<b>1,646</b>	<b>1,068</b>	<b>54.1</b>	<b>1,313</b>	<b>2,958</b>	<b>1,950</b>	<b>51.7</b>
Less: Interest	1,294	634	104.1	1,056	2,350	1,181	99.0
<b>PBT</b>	<b>352</b>	<b>434</b>	<b>(18.9)</b>	<b>256</b>	<b>608</b>	<b>769</b>	<b>(20.9)</b>
Tax	120	142	(15.3)	83	203	256	(20.5)
<i>Effective Tax Rate (%)</i>	<i>34.1</i>	<i>32.6</i>		<i>32.5</i>	<i>33.4</i>	<i>33.2</i>	
<b>PAT</b>	<b>232</b>	<b>292</b>	<b>(20.6)</b>	<b>173</b>	<b>405</b>	<b>514</b>	<b>(21.1)</b>
<b>PAT Without Subsidy (Adj. for 30% tax on Subsidy)</b>	<b>(520)</b>	<b>(43)</b>	<b>NA</b>	<b>(349)</b>	<b>(869)</b>	<b>(29)</b>	<b>NA</b>

Source: Company Data, PL Research



**Income Statement (Rs m)**

Y/e March	2010	2011	2012E	2013E
<b>Net Revenue</b>	<b>12,644</b>	<b>13,977</b>	<b>13,278</b>	<b>15,270</b>
Raw Material Expenses	7,041	7,627	7,701	8,841
Gross Profit	5,603	6,350	5,577	6,429
Employee Cost	1,587	1,839	1,540	1,771
Other Expenses	1,692	1,873	1,766	2,031
<b>EBITDA</b>	<b>2,324</b>	<b>2,638</b>	<b>2,271</b>	<b>2,626</b>
Depr. & Amortization	153	234	369	371
Net Interest	1,072	2,966	4,042	4,213
Other Income	895	2,139	2,500	2,500
<b>Profit before Tax</b>	<b>1,994</b>	<b>1,576</b>	<b>359</b>	<b>543</b>
Total Tax	693	663	118	177
<b>Profit after Tax</b>	<b>1,301</b>	<b>913</b>	<b>242</b>	<b>365</b>
Ex-Od items / Min. Int.	(836)	(2,113)	(2,500)	(2,500)
<b>Adj. PAT</b>	<b>1,301</b>	<b>913</b>	<b>242</b>	<b>365</b>
<b>Avg. Shares O/S (m)</b>	<b>28.9</b>	<b>30.3</b>	<b>30.3</b>	<b>30.3</b>
<b>EPS (Rs.)</b>	<b>45.0</b>	<b>30.1</b>	<b>8.0</b>	<b>12.0</b>

**Cash Flow Abstract (Rs m)**

Y/e March	2010	2011	2012E	2013E
C/F from Operations	58	(6,433)	6,836	5,253
C/F from Investing	(11,604)	(8,177)	—	—
C/F from Financing	12,069	15,822	(7,917)	(5,784)
Inc. / Dec. in Cash	524	1,213	(1,081)	(531)
Opening Cash	2,306	2,844	4,072	3,006
Closing Cash	2,844	4,072	3,006	2,490
FCFF	(2,375)	(15,807)	(1,206)	941
FCFE	10,601	26	(4,900)	(509)

**Key Financial Metrics**

Y/e March	2010	2011	2012E	2013E
<b>Growth</b>				
Revenue (%)	35.2	10.5	(5.0)	15.0
EBITDA (%)	35.3	13.5	(13.9)	15.7
PAT (%)	(2.6)	(29.8)	(73.5)	50.9
EPS (%)	(7.2)	(33.0)	(73.5)	50.9
<b>Profitability</b>				
EBITDA Margin (%)	18.4	18.9	17.1	17.2
PAT Margin (%)	10.3	6.5	1.8	2.4
RoCE (%)	8.3	7.1	6.1	6.9
RoE (%)	16.8	9.6	2.3	3.3
<b>Balance Sheet</b>				
Net Debt : Equity	2.4	3.3	3.0	2.8
Net Wrkng Cap. (days)	—	—	—	—
<b>Valuation</b>				
PER (x)	2.1	3.1	11.6	7.7
P / B (x)	0.3	0.3	0.3	0.3
EV / EBITDA (x)	9.8	14.2	15.4	13.0
EV / Sales (x)	1.8	2.7	2.6	2.2
<b>Earnings Quality</b>				
Eff. Tax Rate	34.8	42.1	32.7	32.7
Other Inc / PBT	2.9	1.6	—	—
Eff. Depr. Rate (%)	3.5	2.2	2.5	2.5
FCFE / PAT	814.8	2.8	(2,025.7)	(139.5)

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e March	2010	2011	2012E	2013E
Shareholder's Funds	8,422	10,650	10,785	11,044
Total Debt	23,010	38,844	35,150	33,700
Other Liabilities	437	1,508	1,508	1,508
<b>Total Liabilities</b>	<b>31,869</b>	<b>51,002</b>	<b>47,443</b>	<b>46,252</b>
Net Fixed Assets	10,958	16,439	16,070	15,699
Goodwill	3	1,113	1,113	1,113
Investments	9,275	10,046	10,046	10,046
Net Current Assets	11,604	23,378	20,129	19,309
<i>Cash &amp; Equivalents</i>	<i>2,844</i>	<i>4,072</i>	<i>3,006</i>	<i>2,490</i>
<i>Other Current Assets</i>	<i>21,208</i>	<i>34,168</i>	<i>34,215</i>	<i>36,474</i>
<i>Current Liabilities</i>	<i>12,448</i>	<i>14,862</i>	<i>17,091</i>	<i>19,655</i>
Other Assets	28	26	86	86
<b>Total Assets</b>	<b>31,869</b>	<b>51,002</b>	<b>47,443</b>	<b>46,252</b>

**Quarterly Financials (Rs m)**

Y/e March	Q3FY11	Q4FY11	Q1FY12	Q2FY12
<b>Net Revenue</b>	<b>3,450</b>	<b>3,477</b>	<b>3,652</b>	<b>3,578</b>
<b>EBITDA</b>	<b>635</b>	<b>633</b>	<b>666</b>	<b>669</b>
<i>% of revenue</i>	<i>18.4</i>	<i>18.2</i>	<i>18.2</i>	<i>18.7</i>
Depr. & Amortization	51	63	99	99
Net Interest	635	929	1,056	1,294
Other Income	1	—	—	2
<b>Profit before Tax</b>	<b>347</b>	<b>579</b>	<b>256</b>	<b>352</b>
Total Tax	115	196	83	120
<b>Profit after Tax</b>	<b>232</b>	<b>382</b>	<b>173</b>	<b>232</b>
<b>Adj. PAT</b>	<b>232</b>	<b>382</b>	<b>173</b>	<b>232</b>

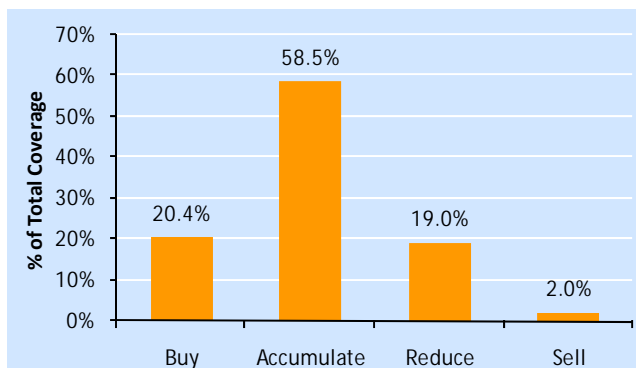
Source: Company Data, PL Research.

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#### PL's Recommendation Nomenclature

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

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