

January 31, 2012

Reco	Previous Reco
Hold	Accumulate
CMP	Target Price
Rs445	Rs465
EPS change FY12E/13E (%)	-9.1 / -3.8
Target Price change (%)	-4.1
Nifty	5,199
Sensex	17,194

Price Performance

(%)	1M	3M	6M	12M
Absolute	30	3	(5)	(33)
Rel. to Nifty	16	6	(1)	(30)

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	719/324
Market Cap (Rs bn/USD mn)	19/384
Daily Avg Volume (No of sh)	1015958
Daily Avg Turnover (US\$m)	7.9

Shareholding Pattern (%)

	Dec-11	Sep-11	Jun-11
Promoters	54.1	54.1	53.8
FII/NRI	9.8	7.8	8.6
Institutions	3.7	3.7	3.7
Private Corp	4.2	5.1	5.7
Public	28.3	29.4	28.2

Source: Capitaline

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Earnings disappoint-Interest Cost to Intensify

- 3Q12 PAT at Rs731 mn (-8% qoq) lower than est (Rs1.07bn) dragged by lower operating days for Aban III & Aban V & higher than expected interest cost (+12% qoq)
- Revenues at Rs8.6bn (+13% qoq) came in below est (Rs9.2bn) led by lower operating days for Aban III & Aban leading to lower than expected EBIDTA of Rs5.06bn (+9.1 qoq)
- 3Q earnings disappointment & higher interest charge lead to FY12/13 EPS of -9.1% /-3.8%. Lower TP to Rs465. Recent bond redemption (USD 160 mn) came in at a steep cost (Coupon at 12% vs earlier 9.3%, interest cost pressure to intensify)
- Though Aban boasts of revenue backlog of ~\$1.9 bn, revenue visibility stands at 65% for FY13 as 6 rigs are due for contract renewal in H2FY13. Lower FY13 visibility & increasing interest cost leaves little upside -Downgrade to HOLD

Lower operating days for Aban III & V drags Q3FY12 performance

Aban's Q3FY12 revenues at Rs8.6bn, +13% qoq came in below estimates of Rs9.2bn led by lower revenue days for Aban III & Aban V. Aban III operated for just 30 days while Aban V got operational in October. Consequently EBITDA at Rs5.06bn though +9% qoq came in below estimates of Rs5.3 bn led by lower revenues. On the cost front other expenses at Rs1.67bn, jumped 16.5% qoq due to higher mobilization expenses for Aban III and Aban V. Interest expenses came in at Rs2.57bn (+10% yoy) significantly higher than estimates of Rs2.4bn due to increase in LIBOR and the sharp INR depreciation against USD this quarter. Interest expenses could go up further up led by recent re-financing leading to higher interest rates (12% vs 9.3%). Lower revenues & higher interest expenses resulted in Q3FY12 net profit of Rs0.73bn (-3% yoy, 7.7% qoq) vs est of Rs1.07 bn. Led by disappointing 3Q earnings & higher interest expenses, we downgrade our EPS estimate for FY12/12 by 9.1 %/ 3.8%. We also lower our target price to Rs465 (Rs485 earlier) to factor in earnings downgrade.

Aban redeems bonds worth \$160 mn – coupon rate jumps steeply to 12%

Aban recently redeemed bonds aggregating to USD USD 160 mn. The redemption is financed through mix internal accruals (USD 40 mn) & debt refinancing (USD 120mn). The refinance of USD 120 mn is done through a fresh bond issue with coupon rate of 12% & repayable over 4 years. The coupon rate at 12% (v/s 9.3% for the redeemed bonds) is negative for Aban's already stretched balance sheet. The management highlighted that the sharp jump in the refinance rate is on account of unwillingness European to extend fresh credit in current uncertain global environment.

Next re-finance of USD157 mn could also be on similar lines-Interest cost pressure to intensify- Downgrade to HOLD

Apart from the higher refinance rate of the new bond issue at 12% we believe that Aban's next repayment obligation (due Mar-12) worth ~USD157 mn could also see increase in its coupon rate which in turn will further intensify interest cost pressure witnessed in 3QFY12. Though Aban boasts of revenue backlog of ~\$1.9 bn over FY12-15E, revenue visibility stands at 65% for FY13 as 6 rigs are due for contract renewal in H2FY13. Lower FY13 visibility & intensifying interest cost pressure leaves little upside for stock out performance after a recent 30% appreciation-Downgrade to HOLD.

Key Financials

YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY10	33587	21004	62.5	5518	119.3	54.3	15.0	3.7	7.3	1.0
FY11	33472	21868	65.3	5670	122.8	2.9	24.8	3.6	6.6	1.1
FY12E	33023	19752	59.8	3326	76.4	-37.8	15.7	5.8	6.9	0.9
FY13E	35943	20745	57.7	3960	91.0	19.1	15.8	4.9	6.1	0.8

Results table

Rs mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	YTDFY12E	YTDFY11	YoY (%)
Revenue	7,780	8,987	7,313	7,627	8,659	11.3	13.5	23,599	24,485	-3.6
Expenditure	2,614	3,050	2,725	3,038	3,652	39.7	20.2	9,415	8,554	10.1
as % of sales	33.6	33.9	37.3	39.8	42.2			39.9	34.9	14.2
Consumption of RM	319	436	279	251	317	-0.5	26.3	847	928	-8.7
As % of Sales	4.1	4.9	3.8	3.3	3.7			3.6	3.8	-5.3
Employee Cost	850	692	759	863	931	9.6	7.9	2,554	2,604	-1.9
As % of Sales	10.9	7.7	10.4	11.3	10.8			10.8	10.6	1.8
Other expenditure	1,445	1,922	1,687	1,924	2,403	66.3	24.9	6,014	5,023	19.7
As % of Sales	18.6	21.4	23.1	25.2	27.8			25.5	20.5	24.2
EBITDA	5,166	5,937	4,589	4,588	5,007	-3.1	9.1	14,184	15,931	-11.0
Depreciation	1,186	1,200	1,231	1,337	1,441	21.4	7.8	4,008	3,707	8.1
EBIT	3,980	4,737	3,357	3,252	3,566	-10.4	9.7	10,175	12,224	-16.8
Other Income	94	-	58	126	79	-15.8	-37.4	263	261	0.9
Interest	2329	2231	2166	2299	2570	10.4	11.8	7036	7007	0.4
PBT	1,745	2,506	1,249	1,079	1,075	-38.4	-0.3	3,403	5,478	-37.9
Total Tax	557	538	307	286	344	-38.3	20.0	938	1,993	-52.9
Adjusted PAT	1,187	1,968	941	793	731	-38.4	-7.7	2,465	3,485	-29.3
(Profit)/loss from JV's/Ass/MI	-433	0	0	0	0	-100.0		0	217	-100.0
APAT after MI	755	1,968	941	793	731	-3.1	-7.7	2,465	3,702	-33.4
Extra ordinary items	-135	-451	-55	0	0	-100.0	-	-55	-3770	-98.5
Reported PAT	620	1,517	886	793	731	18.0	-7.7	2,410	(67)	-3687.8
Reported EPS	17.4	45.2	21.6	18.2	16.8	-3.1	-7.7	56.7	85.1	-33.4

Margins (%)					(bps)	(bps)			(bps)	
EBIDTA	66.4	66.1	62.7	60.2	57.8	-858	-234	60.1	65.1	-496
EBIT	51.2	52.7	45.9	42.6	41.2	-997	-145	43.1	49.9	-681
EBT	22.4	27.9	17.1	14.1	12.4	-1001	-173	14.4	22.4	-795
PAT	15.3	21.9	12.9	10.4	8.4	-681	-194	10.4	14.2	-379
Effective Tax rate	31.9	21.5	24.6	26.5	32.0	2	542	27.6	36.4	-882

Downgrade FY12E/13E earnings by 9.1%/3.8%

	FY12E			FY13E		
	Earlier	Revised	Change	Earlier	Revised	Change
Revenues	33333	33023	-0.9%	35943	35943	0.0%
EBITDA	20094	19752	-1.7%	20789	20745	-0.2%
Margin (%)	60.3%	59.8%	-47.1	57.8%	57.7%	-12.0
PAT	3660	3326	-9.1%	4118	3960	-3.8%
EPS	84.1	76.4	-9.1%	94.6	91.0	-3.8%

Financials

Income Statement

Y/E, Dec (Rs. m)	FY10	FY11	FY12E	FY13E
Net Sales	33587	33472	33023	35943
Growth (%)	10.1	-0.3	-1.3	8.8
Total Expenditure	12583	11604	13271	15198
Manpower Costs	2884	3295	3769	4936
Consumption of stores	1303	1364	1560	2043
Repairs & Rentals to machinery	1087.7	901.0	1030.3	1349.4
Other Exps	7307	6044	6912	9052
EBIDTA	21004	21868	19752	20745
Growth (%)	21.2	4.1	-9.7	5.0
EBIDTA %	62.5	65.3	59.8	57.7
Depreciation	4616	4907	5219	5359
EBIT	16388	16961	14533	15387
EBIT margin (%)	48.8%	50.7%	44.0%	42.8%
Other income	218	261	337	347
Interest	9768	9238	9603	9485
EBT	6838	7984	5267	6249
Tax	2571	2531	1614	1962
Effective tax rate (%)	37.6	31.7	30.7	31.4
Adjusted PAT	4268	5453	3652	4287
Growth (%)	100.6	27.8	-33.0	17.4
Net Margin (%)	12.7	16.3	11.1	11.9
(Profit)/loss from JVs/Ass/MI	1250	217	326	326
Adjusted PAT After JVs/Ass/MI	5518	5670	3326	3960
E/O items	-2408	-4221	0	0
Reported PAT	3110	1450	3326	3960
Growth (%)	-42.5	-53.4	129.4	19.1

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT (Ex-Other income)	4430	3315	4930	5902
Depreciation	4616	4907	5219	5359
Interest Provided	9717	9194	9603	9485
Other Non-Cash items	1991	4784	0	0
Chg in working cap	2131	-4709	-664	-398
Tax paid	-2584	-2286	-1614	-1962
Operating Cashflow	20301	15204	17473	18386
Capital expenditure	-3935	5026	0	0
Free Cash Flow	16366	20230	17473	18386
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	-4819	-6000
Interest Paid	-10307	-8892	-9603	-9485
Dividend paid (incl tax)	-478	-510	-510	-510
Income from investments	0	0	0	0
Others	-19	-32	0	0
Financing Cashflow	-28099	-21054	-14932	-15995
Net chg in cash	-3588	3590	2879	2738
Opening cash position	5948	2360	5951	8829
Closing cash position	2360	5950	8829	11567

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	21133	24911
Networth	21806	21338	24480	28258
Minority Interest	0	0	0	0
Secured Loans	138622	126077	121258	115258
Unsecured Loans	3018	4401	4401	4401
Loan Funds	141641	130478	125659	119659
Net deferred tax	436	292	292	292
Total Liabilities	163883	152107	150431	148208
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	24714	28475
Inventories	2478	2616	2714	2954
Sundry debtors	7691	9692	10103	10886
Cash & bank balance	2360	5951	8829	11567
Loans & advances	2100	3067	3067	3067
Current Liab & Prov	9341	8605	8451	9076
Current liabilities	7891	6764	6610	7235
Provisions	1450	1842	1842	1842
Net current assets	5288	12720	16263	19399
Misc. exp				
Total Assets	163883	152107	150431	148208

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	62.5	65.3	59.8	57.7
Net Margin	12.7	16.3	11.1	11.9
ROCE	9.6	10.9	9.8	10.6
ROE	15.0	24.8	15.7	15.8
RoIC	11.7	11.2	10.1	11.1
Per Share Data (Rs)				
EPS	119.3	122.8	76.4	91.0
CEPS	170.0	138.6	196.3	214.1
BVPS	426.1	415.4	487.6	574.4
DPS	3.6	3.6	3.6	3.6
Valuations (x)				
PER	3.7	3.6	5.8	4.9
P/CEPS	2.6	3.2	2.3	2.1
P/BV	1.0	1.1	0.9	0.8
EV / Sales	4.6	4.3	4.1	3.5
EV / EBITDA	7.3	6.6	6.9	6.1
Dividend Yield (%)	0.8	0.8	0.8	0.8
Gearing Ratio (x)				
Net Debt/ Equity	7.4	7.1	5.7	4.4
Net Debt/EBIDTA	6.6	5.8	6.1	5.4
Working Cap Cycle (days)	24.8	60.5	68.6	67.1

Recommendation History: Aban Offshore – ABAN IN

Date	Reports	Reco	CMP	Target
20/01/2012	Aban Offshore Company Update	Accumulate	440	485
08/11/2011	Aban Offshore Q2FY12 Result Update	Buy	436	522
08/08/2011	Aban Offshore Q1FY12 Result Update	Buy	454	580
27/05/2011	Aban Offshore Q4FY11 Result Update	Accumulate	541	645

Recent Research Reports

Date	Reports	Reco	CMP	Target
25/01/2012	Grasim Industries Q3FY12 Result Update	Hold	2,483	2,550
23/01/2012	Shree Cement Q3FY12 Result Update	Accumulate	2,227	2,500
23/01/2012	Century Plyboards Q3FY12 Result Update	Accumulate	51	60
23/01/2012	Ultratech Cement Q3FY12 Result Update	Reduce	1,214	1,150

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