

The Week Gone By

Weekly Newsletter



Parag's View 

Preservation of Capital - A Central Tenet of Value Investing

With Mr. Market currently being so manic-depressive and seeing only bad days ahead, it is important to remember that he is there to serve you, not to instruct you. The pervasiveness of his mood swings has the ability to affect all but those who inherently understand the true value of a business. Market watchers and pundits who are paid to say something about the market everyday will come up with a myriad of reasons why Mr. Market is pessimistic, and a dearth of bad news will continually stream in to reinforce this perception. Thus, the resultant effect is a massive sell off by hedge funds and mutual funds because they too are affected by the fear and panic which is spread by Mr. Market.

A falling market is the ultimate test for a value investor. It is mentioned in value investing books that you never know if the companies you pick have the ability to survive Mr. Market's manic mood swings, and there is no way to know if your portfolio is sound until it is tested by fire.

With this in mind, I would like to reiterate to readers that the goal of sound and intelligent investing is not for quick gains or huge profits. In fact, the most important tenet for value investing should be capital preservation. With this, I mean that one should invest with such a wide margin of safety that losses are largely minimized, while gains are almost certainly assured. Too many people throw their money into the market with only the upside in mind; they never think of the potential LOSS they may face, and always end up shocked and stunned when the market turns against them.

Make money by avoiding losses

It is also prudent to note that one can actually make a lot of money by avoiding losses. What do I mean by this? It simply means you don't go out there and take

unnecessary risks, like buying into a company you don't understand, subscribing for IPOs (which subsequently tank) or chasing a company's share price just because it has just rallied. Please note that avoiding such mistakes can actually make you much richer even if you do NOT know a thing about value investing; as compared to people who keep chasing the next hot tip, or buy at the peak of a bull market, or simply buy indiscriminately. This may sound quite incredible, but one can actually compound their money better in a bank than letting the market eat up their money through poor judgement and bad decisions.

To conclude, I would say that for one to really practice value investing or go down the path of value investing, one has to change one's mindset radically. What I say is: investing is only risky if you do not have capital preservation in mind, and fund managers who invest only thinking of gains are not doing their clients a favour. In order for an investor to do well in the long-run, one has to make capital preservation the central concept in one's investment philosophy.

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Jet Airways Limited

Fourth Quarter Performance Review

Research Associate : Hiren Samani

India's largest private sector airline, Jet Airways reported a Net Loss of Rs. 2,211.8 Mn. for the quarter ended March 2008, a decline of more than 142% Q-o-Q, on a standalone basis. Even with the operating revenues increasing by some 13% on a Q-o-Q basis, the company has been hit on the expenditure front from anywhere between 15% - 30%, with the overall Total Operating Expenditure rising by 19.32% over the previous quarter. Further, Jet suffered the highest percentage drop in Other Income & Forex over Q3FY08. This has been third consecutive quarter & the first financial year that the airline has reported a loss in the last five years.

The results on a Y-o-Y basis have been even more negative, with the company reporting a loss of Rs. 2,211.8 Mn. as against a profit of Rs. 880.1 Mn. reported for the same period last year. The company saw a rise of almost 40% in Operating Revenues from Rs. 19,782.7 Mn. in Q4FY07 to Rs. 27,599 Mn. in Q4FY08. However, this rise was counter attacked from the cost side, with the largest increase coming from Aircraft Fuel Expenses which rose 96% over Q4FY07 & Other Operating Expenses increasing by more than 77%. Also since the company has increased its fleet size significantly over that last year, the interest burden for Q4FY08 has increased by almost twice the absolute figure over that of Q4FY07.

As expected, on a full year basis, the company reported a net loss of Rs. 2,530.6 Mn. for FY08 over the reported profit of Rs. 279.4 Mn. for FY07. This was cushioned in a way by the Profit on Sale & Lease Back of Aircrafts for both these years. The company earned a Profit on Sale & Lease Back of Rs. 3,148.4 Mn. for FY08 against a profit of Rs. 2,110.7 Mn. for FY07.

Jet Airways currently operates a total fleet size of 84 aircrafts, while its low-cost subsidiary JetLite operates a fleet of 24 aircrafts.

| Earnings Statement | | | | | | | | |
|--|-----------|-----------|----------|----------|----------|-----------|-----------|-----------|
| YE March (Rs. Mn.) | Q408 | Q308 | Q-Q(%) | Q407 | Y-Y(%) | 12M08 | 12M07 | Y-Y(%) |
| Net Revenues | 27,599.0 | 24,259.8 | 13.76% | 19,782.7 | 39.51% | 88,111.0 | 71,180.6 | 23.79% |
| Gross Profit | 27,599.0 | 24,259.8 | 13.76% | 19,782.7 | 39.51% | 88,111.0 | 71,180.6 | 23.79% |
| Total Expenditure | 25,477.3 | 21,352.9 | 19.32% | 15,184.0 | 67.79% | 80,602.7 | 61,101.8 | 31.92% |
| Operating Profit | 2,121.7 | 2,906.9 | -27.01% | 4,598.7 | -53.86% | 7,508.3 | 10,078.8 | -25.50% |
| OPM (%) | 7.69% | 11.98% | | 23.25% | | 8.52% | 14.16% | |
| Forex Gain/(Loss) | (110.6) | 393.0 | -128.14% | 0.0 | | 2,307.7 | 0.0 | |
| Other Income | (218.2) | 519.0 | -142.04% | 96.4 | -326.35% | 1,248.0 | 1,324.6 | -5.78% |
| EBITDAR | 1,792.9 | 3,818.9 | -53.05% | 4,695.1 | -61.81% | 11,064.0 | 11,403.4 | -2.98% |
| Aircraft Lease Rentals | 1,482.7 | 1,364.6 | 8.65% | 1,752.3 | -15.39% | 5,632.8 | 6,458.0 | -12.78% |
| EBITDA | 310.2 | 2,454.3 | -87.36% | 2,942.8 | -89.46% | 5,431.2 | 4,945.4 | 9.82% |
| Depreciation | 2,502.9 | 2,204.0 | 13.56% | 1,209.6 | 106.92% | 7,778.0 | 4,141.0 | 87.83% |
| EBIT | (2,192.7) | 250.3 | -976.03% | 1,733.2 | -226.51% | (2,346.8) | 804.4 | -391.75% |
| Interest | 1,549.2 | 1,554.1 | -0.32% | 530.0 | 192.30% | 4,927.5 | 2,401.5 | 105.18% |
| PBT | (3,741.9) | (1,303.8) | 187.00% | 1,203.2 | -411.00% | (7,274.3) | (1,597.1) | 355.47% |
| Tax | (1,530.1) | (392.6) | 289.74% | 334.3 | -557.70% | (1,595.3) | 234.2 | -781.17% |
| PAT before EI | (2,211.8) | (911.2) | 142.73% | 868.9 | -354.55% | (5,679.0) | (1,831.3) | 210.11% |
| Extra-ordinary Income | 0.0 | 0.0 | | 11.2 | -100.00% | 3,148.4 | 2,110.7 | 49.16% |
| Profit on Sale & Lease Back of Aircrafts | 0.0 | 0.0 | | 11.2 | -100.00% | 3,148.4 | 2,110.7 | 49.16% |
| Reported PAT | (2,211.8) | (911.2) | 142.73% | 880.1 | -351.31% | (2,530.6) | 279.4 | -1005.73% |
| Equity Capital | 863.3 | 863.3 | | 863.3 | | 863.3 | 863.3 | |
| EPS | -25.62 | -10.55 | 142.73% | 10.19 | -351.31% | -29.31 | 3.24 | -1005.73% |

Outlook going forward

Constantly rising crude oil prices have led to a steeper rise in Aviation Turbine Fuel (ATF) costs, thereby having a direct impact on the airline company's financials. In India, the situation has been further exacerbated by continuing overcapacity. However, the rate of capacity addition has slowed down in last few quarters. The growth in demand for air travel has also tapered off to some extent largely due to the increasing Fuel surcharges. The next few quarters for Jet are expected to be impacted negatively by the very high fuel prices as is the case with airlines across the world.

We believe that high ATF & other operating costs along with the financial crisis the world over leaves the future of the aviation industry very gloomy. We believe that in such high costs scenario, it is going to be very challenging for the country's largest airline to be able to deliver positive results going forward.

Jet Airways Ltd. - Financials

| Earnings Statement | | | | | |
|------------------------|----------|----------|----------|-----------|------------|
| Particulars (Rs Mn) | FY04 | FY05 | FY06 | FY07 | FY08 |
| Total Revenues | 34,474.2 | 43,380.1 | 56,937.3 | 70,577.8 | 102,455.5 |
| - Growth (%) | | 25.8% | 31.3% | 24.0% | 45.2% |
| Total Expenditure | 22,543.0 | 28,592.6 | 41,930.9 | 58,457.8 | 95,869.5 |
| Operating Profit | 11,931.2 | 14,787.5 | 15,006.4 | 12,120.0 | 6,586.0 |
| Non Operating Income | 746.4 | 821.6 | 1,570.6 | 1,324.6 | 3,608.8 |
| EBITDAR | 12,677.6 | 15,609.1 | 16,577.0 | 13,444.6 | 10,194.8 |
| Aircraft Lease Rentals | 3,289.9 | 2,680.9 | 5,580.7 | 8,499.2 | 8,215.7 |
| EBITDA | 9,387.7 | 12,928.2 | 10,996.3 | 4,945.4 | 1,979.1 |
| Depreciation | 5,151.5 | 4,570.0 | 4,064.1 | 4,141.0 | 8,018.0 |
| EBIT | 4,236.2 | 8,358.2 | 6,932.2 | 804.4 | (6,038.9) |
| Interest | 2,891.4 | 2,536.9 | 2,416.0 | 2,401.5 | 5,224.7 |
| PBT | 1,344.8 | 5,821.3 | 4,516.2 | (1,597.1) | (11,263.6) |
| Tax | 150.3 | 1,901.4 | 2,702.2 | 234.2 | (1,576.5) |
| PAT Before EI | 1,194.5 | 3,919.9 | 1,814.0 | (1,831.3) | (9,687.1) |
| - Growth (%) | | 228.2% | -53.7% | -201.0% | 429.0% |
| Extra-ordinary Items | 437.0 | 0.0 | 2,706.4 | 2,110.7 | 3,148.4 |
| PAT | 1,631.5 | 3,919.9 | 4,520.4 | 279.4 | (6,538.7) |

Note : FY08 is the first consolidated year for Jet with JetLite

| Balance Sheet | | | | |
|--------------------------|----------|----------|----------|----------|
| Particulars (Rs Mn) | FY04 | FY05 | FY06 | FY07 |
| Equity Capital | 720.9 | 863.3 | 863.3 | 863.3 |
| Preference Capital | 698.3 | 0.0 | 0.0 | 0.0 |
| Reserves | 2,754.9 | 19,238.3 | 22,195.5 | 21,509.2 |
| Shareholders Funds | 4,174.1 | 20,101.6 | 23,058.8 | 22,372.5 |
| Borrowed Funds | 32,099.9 | 29,648.4 | 48,956.0 | 60,563.0 |
| Deferred Tax Liability | 507.5 | 1,948.5 | 3,206.6 | 3,310.6 |
| Total Liabilities | 36,781.5 | 51,698.5 | 75,221.4 | 86,246.1 |
| Fixed Assets | 31,267.9 | 26,406.5 | 47,881.5 | 72,920.1 |
| Investments | 2,334.2 | 15,957.3 | 1,872.3 | 689.3 |
| Current Assets | | | | |
| Inventory | 3,474.4 | 3,325.2 | 4,052.5 | 4,389.9 |
| Sundry Debtors | 2,344.4 | 2,523.1 | 4,331.5 | 6,039.0 |
| Loans & Advances | 1,803.4 | 2,353.3 | 11,348.8 | 12,249.4 |
| Cash & Bank Balance | 3,699.4 | 12,242.4 | 21,042.5 | 10,966.4 |
| Current Liabilities | | | | |
| Sundry Creditors | 5,356.9 | 7,731.7 | 10,656.2 | 18,526.4 |
| Provisions | 2,785.3 | 3,377.6 | 4,651.5 | 2,481.6 |
| Net Current Assets | 3,179.4 | 9,334.7 | 25,467.6 | 12,636.7 |
| Total Assets | 36,781.5 | 51,698.5 | 75,221.4 | 86,246.1 |
| Ratio Analysis | | | | |
| Particulars (Rs Mn) | FY04 | FY05 | FY06 | FY07 |
| OPM (%) | 34.6% | 34.1% | 26.4% | 17.2% |
| EBITDA (%) | 27.2% | 29.8% | 19.3% | 7.0% |
| PBIT (%) | 12.3% | 19.3% | 12.2% | 1.1% |
| PAT (%) | 4.7% | 9.0% | 7.9% | 0.4% |
| Interest Cover (x) | 1.5 | 3.3 | 2.9 | 0.3 |
| EPS (Rs.) | 22.6 | 45.4 | 52.4 | 3.2 |
| P/E (x) | 21.7 | 10.8 | 9.4 | 151.4 |
| P/BV (x) | 8.5 | 2.1 | 1.8 | 1.9 |
| BVPS (Rs.) | 57.9 | 232.8 | 267.1 | 259.2 |
| Market Cap (Rs. Mn.) | 35,324.1 | 42,301.7 | 42,301.7 | 42,301.7 |
| M Cap/Sales (x) | 1.0 | 1.0 | 0.7 | 0.6 |
| EV (Rs. Mn.) | 63,724.6 | 59,707.7 | 70,215.2 | 91,898.3 |
| EV/EBITDA (x) | 6.8 | 4.6 | 6.4 | 18.6 |
| EV/EBITDAR (x) | 5.0 | 3.8 | 4.2 | 6.8 |
| EV/Sales (x) | 1.8 | 1.4 | 1.2 | 1.3 |
| ROCE (%) | 11.7% | 16.8% | 9.6% | 1.0% |
| RONW (%) | 28.6% | 19.5% | 7.9% | -8.2% |
| Debt/Equity Ratio (x) | 7.7 | 1.5 | 2.1 | 2.7 |
| Inventory T/o Days | 36.8 | 28.0 | 26.0 | 22.7 |
| Debtors T/o Days | 24.8 | 21.2 | 27.8 | 31.2 |
| Advances T/o Days | 19.1 | 19.8 | 72.8 | 63.3 |
| Creditors T/o Days | 56.7 | 65.1 | 68.3 | 95.8 |
| Working Cap T/o Days | 33.7 | 78.5 | 163.3 | 65.4 |
| Fixed Assets T/o (Gross) | 0.7 | 0.8 | 1.3 | 1.2 |
| DPS (Rs.) | 0.0 | 3.0 | 6.0 | 6.0 |
| Dividend Payout (%) | 0.0% | 6.6% | 11.5% | 185.4% |
| Dividend Yield (%) | 0.0% | 0.6% | 1.2% | 1.2% |

Indian Offshore Sector Report Extracts

Consider this. The odds for an oil exploration company to identify presence (seismic surveys, etc.) of any oil / gas / hydrocarbons at a given location is say 40%, the success rate to actually locate these would be say 20% and the likelihood of the company to commercially exploit these resources is say 25%. **Then the overall probability of an exploration company actually realizing cashflows from the entire endeavour = $0.40 \times 0.20 \times 0.25 = 0.020 = 2\%$ only.**

This is the biggest frailty & vulnerability in the exploration business. But then its essentiality (critical demand - so, [need to spend](#)) & the economic viability (given the increasing prices - [willingness & ability to spend](#)) drive the efforts of these upstream companies. This contrasting nature of two sides of the coin is what makes the position of many offshore plays (rigs, support vessels & other services), extremely strong.

However, the buoyant day rates enjoyed by the offshore assets are not just a function of the demand desperation. Expected supply of the respective vessels would play a more critical role to determine the short to medium term equilibrium. We understand that the demand for oil is expected to increase at 2% annually and would necessitate a 7.5% - 8.5% increase in supply of rigs & offshore vessels. A little math suggest that based on the current orders, the incremental annual supply in the foreseeable future would be ~2% for rigs & ~5% for offshore vessels; still much lower than the incremental demand.

We see the sector to remain into limelight for some more time. In the longer run, we believe that the economics of this business to be too attractive, not to entice more investments into such offshore assets. Therefore an opinion based on relative valuation would be unaffected & therefore inappropriate; and a prolonged valuation methodology like DCF would be able to reflect the correct impact & hence is a more suitable option.


We have tried to analyse & differentiate a few key players in the Indian Offshore space, on various operating & valuation parameters. We have compared these companies on a number of relative considerations like P/E, P/BV, EV/EBITDA and also DCF. We prefer DCF over relative valuation options as the performance of each of these companies in any specific year in the near foreseeable future is impacted by many case-to-case factors and finally the ultimate net profit may not be reflective, that of a sustainable one. [The issue of terminal value for an offshore asset due to its limited life has been taken care through assumptions on replacement capex over maintenance capex.](#) Also the high visibility on account of the long term contract rates merit the use of DCF over other options.

Aban Offshore is our top pick with a 47% upside. Its WACC is much lower at 10.1% (lowest in all 4, on account of its high leverage & higher taxation for rigs) as compared to our assumed/desired discounting rate of 13%. Apart from this little conservatism, we also feel good that ~47% (highest in all 4) of our DCF value comes from the explicit period of FY09E-13E. Importantly, Aban is also better on other parameters like P/E (5.4x FY10) & EV/EBITDA (5.3x FY10).

Garware is our next best investment proposition. For Garware, the DCF valuation remains constrained on account of the capital investment in the current year. As the negative impact of this would dilute in the near future, we feel that the scrip could go to Rs. 210 generating a decent annualized upside from the current levels. We recommend a Buy on the stock. We are optimistic on Garware on three fronts - improving business mix with increasing share in the highly profitable Platform Support Vessel (PSV) segment, the clever self financing deal for the new asset additions and the unfactored possibility of multiple non-fund based revenues to chip in.

Great Offshore, we believe is fully priced in at the current levels. However, if it is able to get hold of even one of the high end rigs from Sea Dragon, it would add ~ 46% to its current intrinsic value and deliver exciting return on annualized basis. People willing to take bets may Buy now, while others should act on more clarity on this front.

Poor CY08 to be followed by an outstanding CY09; but we feel Seamec is still avoidable.

At the end, its 'ABANdance in  deficit'! Aban has neither any ensuing capex to constrain the DCF valuation (like in case of Garware), nor is dependent on any event (like that in case of Great Offshore).

[Click here for our Full Coverage Report on Indian Offshore Industry](#)

| | | |
|------------------------------|---------------------------------------|-----------------------------------|
| Aban Offshore Limited | CMP Rs. 3,006.0 Target Rs. 4,426.0 | Initiating Coverage BUY |
|------------------------------|---------------------------------------|-----------------------------------|

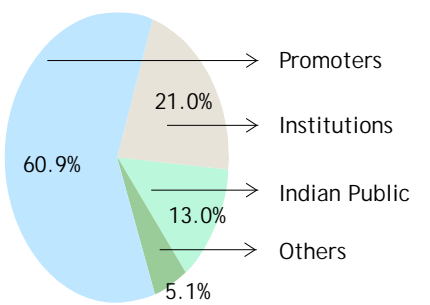
Stock Data

Bloomberg : ABAN.IN
Reuters : ABAN.BO
BSE Code : 523204
NSE Code : ABAN
BSE Group : A

Stock Codes

Benchmark : OILGAS Index
52 W High/Low : 5555.0/2424.0
Mkt Cap : Rs. 116,509 Mn
Free Float : 15.15 Mn Shares
Face Value : Rs. 2.0

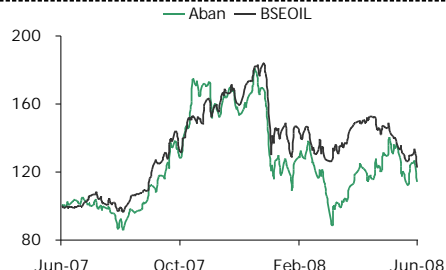
Shareholding Pattern (as on March 08)



Stock Returns

| | 1 Mth | 3 Mths | 6 Mths |
|--------|--------|--------|--------|
| ABAN | -18.26 | 8.23 | -25.69 |
| BSEOIL | -10.27 | -2.82 | -23.96 |

Price Comparison



— Aban — BSEOIL

Jun-07 Oct-07 Feb-08 Jun-08

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Best placed to reap the benefits of the industry upcycle
Surging E&P activities across the globe are expected to keep the day-rates for rigs at substantially higher levels in the coming times. Being India's largest private sector offshore drilling rig company with a pool of 21 assets within its fleet, Aban is well placed to reap the benefits & garner from the robust offshore industry fundamentals.

Inorganic Expansion at the right time
Aban opted for the inorganic route of expansion with the takeover of the Norwegian offshore drilling company Sinvest ASA. With this acquisition, Aban directly got hold of 9 premium drilling rigs & 1 drill-ship owned & operated by Sinvest. In the current buoyant industry scenario, getting direct access to such a large number of premium drilling assets puts Aban in the league of top 10 players in the world.

Further additions to rig fleet to boost top-line
Aban Offshore has 3 premium drilling rigs coming into its fleet in this financial year & during the first quarter of the next financial year (of the total of 21). These assets, we believe would fetch similar or higher day rates as compared to its current assets, which would substantially boost its top-line.

Revenues growing at 36% CAGR
After the company takes delivery of all its new assets, we estimate Aban's revenues to grow at 36% CAGR during FY08-FY11E period. This would be on the back of the new rigs getting operational & re-pricing for its existing assets during this period. We estimate the company's EBITDA to grow at a slightly higher rate of 39% CAGR over the same period.

Singapore listing to act as a trigger
Aban plans to list its Singapore subsidiary - Aban Singapore Pte. Ltd. on the Singapore Stock Exchange, thereby unlocking value for its shareholders. This would definitely act as a trigger for the scrip.

| Particulars (Rs Mn) | FY06 | FY07 | FY08E | FY09E | FY10E | FY11E | FY12E |
|---------------------|---------|---------|----------|----------|----------|----------|----------|
| Total Revenues | 4,901.6 | 7,186.8 | 22,104.0 | 49,445.5 | 55,898.1 | 55,898.1 | 55,898.1 |
| PAT | 822.6 | (140.0) | 2,158.4 | 17,314.4 | 21,398.5 | 21,871.2 | 22,245.0 |
| EPS (Rs.) | 22.3 | (3.8) | 57.1 | 446.7 | 552.1 | 564.3 | 573.9 |
| P/E (x) | 134.7 | (791.9) | 52.6 | 6.7 | 5.4 | 5.3 | 5.2 |
| P/BV (x) | 25.7 | 20.9 | 12.1 | 4.3 | 2.6 | 1.8 | 1.4 |
| EV/EBITDA (x) | 41.2 | 45.2 | 16.8 | 6.5 | 5.3 | 4.8 | 4.4 |
| ROCE (%) | 12.6% | 2.9% | 8.7% | 22.8% | 25.9% | 25.7% | 25.5% |
| RONW (%) | 19.1% | -2.6% | 25.6% | 69.4% | 51.1% | 36.9% | 29.5% |

Note: FY08E is first consolidated year with Sinvest.

Garware Offshore Services Ltd

CMP Rs. 163.7
Target Rs. 210.0

Initiating Coverage
BUY

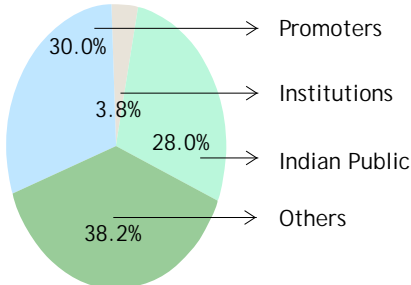
Stock Data

Bloomberg : GWOS.IN
Reuters : GRSH.BO
BSE Code : 501848
NSE Code : GARWOFFS
BSE Group : S

Stock Codes

Benchmark : BSESMLCAP
52 W High/Low : 310.0/162.3
Mkt Cap : Rs. 3898 Mn
Free Float : 16.67 Mn Shares
Face Value : Rs. 10.0

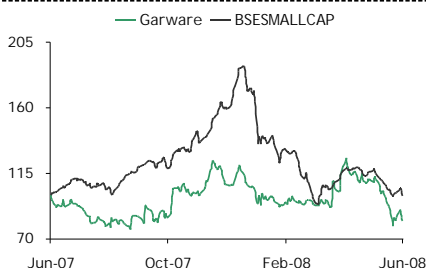
Shareholding Pattern (as on March 08)



Stock Returns

| | 1 Mth | 3 Mths | 6 Mths |
|---------|--------|--------|--------|
| Garware | -27.32 | -12.17 | -23.24 |
| BSESML | -14.61 | 2.43 | -37.38 |

Price Comparison



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Jigar Valia - jigar@ppfas.com

We feel that there are many factors which make Garware standout.

- ▶ Garware would benefit from the change in business mix in favour of PSV & Barges, which are much better in terms of payback period. These are not just more profitable in terms of margins, but also return accretive given the investments warrant these assets.
- ▶ Garware would see a 10 fold increase in profits from Rs. 90 Mn. in CY05 to Rs. 930 Mn. in FY10, a growth rate of a staggering 73% CAGR.
- ▶ Garware is acquiring a Barge & a support vessel on bareboat charter for a few years, with the earnings from these to be used to then acquire the same assets on pre-determined depreciated values. We feel this has been a very clever move from the management to secure growth without much strain on the balance sheet.
- ▶ Garware, which functions mostly in Indian waters, has tried to bring about some risk reduction strategy in place. The company has two of the current six contracts negotiated on Rupee rates.
- ▶ Another unique move on part of Garware has been to get into non-fund based Services segment, through multiple options like broking of ships & ship designs, setting up a design KPO & a new service line for operations & maintenance of vessels. The impact of these may be nominal but important in medium to long term.

Overall, we are optimistic on Garware on three fronts - improving business mix with increasing share in the highly profitable PSV segment, the clever self financing deal for the new asset additions and the unfactored possibility of multiple non-fund based revenues to chip in. In terms of valuation & financials, Garware is our next best investment proposition after Aban. The DCF valuation remains constrained on account of the capital investment in the current year. But, as the negative impact of this would dilute in the near future, we feel that the scrip could go to Rs. 210 generating a decent annualized upside from the current levels. We recommend BUY.

| Particulars (Rs Mn) | CY05 | CY06 | FY08 # | FY09E | FY10E | FY11E | FY12E |
|---------------------|-------|-------|---------|---------|---------|---------|---------|
| Total Revenues | 308.6 | 523.8 | 1,194.9 | 1,459.6 | 2,416.7 | 2,600.2 | 2,574.5 |
| PAT | 105.8 | 155.8 | 496.2 | 549.9 | 930.0 | 973.7 | 969.6 |
| EPS (Rs.) | 7.3 | 8.3 | 20.8 | 23.1 | 39.0 | 40.9 | 40.7 |
| P/E (x) | 22.3 | 19.8 | 7.9 | 7.1 | 4.2 | 4.0 | 4.0 |
| P/BV (x) | 3.2 | 2.7 | 1.9 | 1.5 | 1.1 | 0.9 | 0.7 |
| EV/EBITDA (x) | 22.5 | 15.8 | 9.1 | 7.5 | 5.3 | 4.7 | 4.5 |
| ROCE (%) | 6.7% | 7.7% | 11.2% | 12.6% | 16.0% | 15.5% | 14.1% |
| RONW (%) | 12.1% | 13.4% | 14.7% | 20.3% | 27.3% | 22.5% | 18.6% |

15 months

Great Offshore Limited

CMP Rs. 583.6
Target Rs. 569.0

Initiating Coverage
HOLD

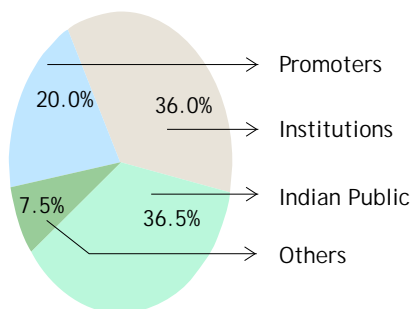
Stock Data

Bloomberg : GOFF.IN
Reuters : GOFS.BO
BSE Code : 532786
NSE Code : GTOFFSHORE
BSE Group : A

Stock Codes

Benchmark : BSEMIDCAP
52 W High/Low : 1149.9/552.0
Mkt Cap : Rs. 22,245 Mn
Free Float : 30.49 Mn Shares
Face Value : Rs. 10.0

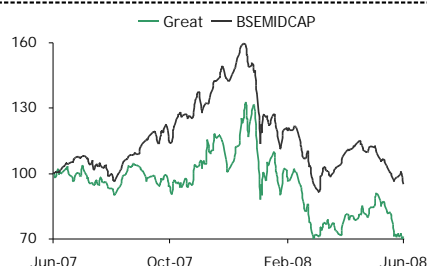
Shareholding Pattern (as on March 08)



Stock Returns

| | 1 Mth | 3 Mths | 6 Mths |
|--------|--------|--------|--------|
| Great | -20.74 | -0.93 | -30.03 |
| BSEMID | -14.42 | 1.15 | -33.16 |

Price Comparison



Hiren Samani - hiren@ppfas.com
Jigar Valia - jigar@ppfas.com

Strong Macro Environment

There has been a constant surge in E&P activities, both global & domestic, leading to an unprecedented increase in demand for drilling rigs & support vessels. This increase in demand for offshore vessels have ballooned the day rates for these vessels in the past two years or so. This has proved to be beneficial for offshore support service companies like Great Offshore Ltd. (GOFF)

A One-Stop Shop

Great Offshore is an integrated offshore services company, offering a wide spectrum of services to the oil & gas industry across the world. The company has a strong presence in offshore drilling services, marine construction & port/terminal services. With a fleet size of 40 vessels, GOFF is able to provide a gamut of services across the oil & gas sector.

Timely Fleet Expansion

Anticipating a strong uptrend in the offshore cycle, Great Offshore has expanded its fleet from 30 vessels in FY05 to 33 in FY06 & further to 40 vessels in FY08. The company has two additional vessels on order expected to be delivered during calendar year 2009. With fleet expansion coming at the right time, GOFF has been able to ramp up its operations & increase its revenue earning capacities.

Sustained & long-run earnings visibility

Great Offshore has almost 75 % of its revenues coming from long-term contracts for period ranging from 3-5 years. Such term chartered revenues give sustained & long-term revenue visibility to the company.

Acquisition - a major stock trigger

Great Offshore had recently announced its plans to acquire a Cayman Islands based company - Sea Dragon Offshore (name based on media reports). Later, it has changed its plans & now intends to acquire one of the drilling rigs being built by the said company. This acquisition, we believe would be major revenue booster for the company since it will give GOFF deep-water drilling capabilities going forward.

| Particulars (Rs Mn) | FY06 | FY07 | FY08 | FY09E | FY10E | FY11E | FY12E |
|---------------------|---------|---------|---------|---------|---------|----------|----------|
| Total Revenues | 3,884.5 | 5,821.9 | 7,459.0 | 7,942.5 | 9,639.8 | 11,142.6 | 11,142.6 |
| PAT | 970.7 | 1,451.8 | 2,016.3 | 2,248.1 | 2,876.5 | 3,459.9 | 3,356.6 |
| EPS (Rs.) | 25.5 | 38.1 | 52.9 | 59.0 | 68.9 | 82.9 | 80.4 |
| P/E (x) | 22.9 | 15.3 | 11.0 | 9.9 | 8.5 | 7.0 | 7.3 |
| P/BV (x) | 4.5 | 3.6 | 2.5 | 2.2 | 1.8 | 1.5 | 1.3 |
| EV/EBITDA (x) | 15.2 | 10.8 | 7.9 | 6.7 | 5.3 | 4.3 | 4.0 |
| ROCE (%) | 13.6% | 14.6% | 14.5% | 16.2% | 19.5% | 23.0% | 21.9% |
| RONW (%) | 19.4% | 23.5% | 22.7% | 22.2% | 21.0% | 21.7% | 18.5% |

SEAMEC Ltd

CMP Rs. 133.6
Target Rs. 139.3

Initiating Coverage
SELL

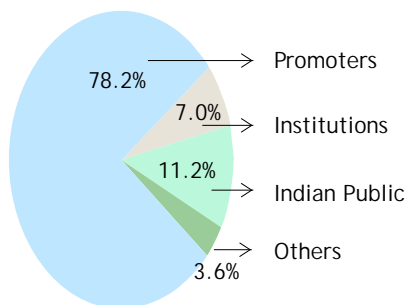
Stock Data

Bloomberg : SEAM.IN
Reuters : SEAM.BO
BSE Code : 526807
NSE Code : SEAMECLTD
BSE Group : B

Stock Codes

Benchmark : BSESMLCAP
52 W High/Low : 304.7/120.0
Mkt Cap : Rs. 4,529 Mn
Free Float : 7.38 Mn Shares
Face Value : Rs. 10.0

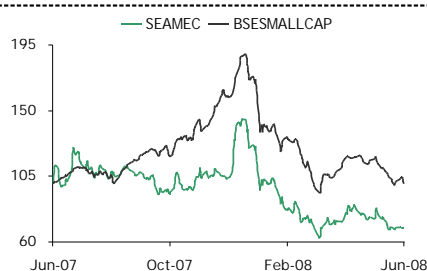
Shareholding Pattern (as on March 08)



Stock Returns

| | 1 Mth | 3 Mths | 6 Mths |
|--------|--------|--------|--------|
| SEAMEC | -16.90 | 1.08 | -32.97 |
| BSESML | -14.61 | 2.43 | -37.38 |

Price Comparison



Hiren Samani - hiren@ppfas.com
Jigar Valia - jigar@ppfas.com

SEAMEC is generally exciting on account of its debt free status in an otherwise high-leveraged industry. Apart from trading at low P/E & P/BV basis, the cash profit generation each year, averaging ~Rs. 100 Crores makes it very attractive.

After a slightly challenging CY07, we expect CY08 to be the most challenging year for SEAMEC. But CY09 would be a sharp contrast with over Rs. 860 Mn. of reported PAT and over Rs. 1200 Mn. of cash profit generation. The valuation multiples at 5.2x P/E and 3.6x EV/EBITDA (both for CY09E) are extremely attractive, given that this debt-free company provides a return on equity of over 24%.

However, we maintain a slightly pessimistic view on the scrip despite the exceptionally good outlook for next year, CY09. WHY?..

- ▶ The total fleet strength at just 4, renders the overall earnings extremely volatile on account of the dry docking factor.
- ▶ 3 of the 4 MSVs are extremely old ones, all 1980's built. The typical dry docking expenditure & the downtime has generally been too high in case of the first 3 vessels.
- ▶ While SEAMEC did acquire one vessel last year, the company appears to be less inclined to growth. We believe that, should the company leverage, it could increase its fleet size significantly, but we assign a probability for this event to be very low.
- ▶ The fantastic results expected for CY09 are unsustainable. There would be no dry docking in this year. So the earnings are higher than average and expenses are lower in this year.
- ▶ The higher WACC rate at 14.6% and the sizable upgradation capex for Seamec Princess adds pressure to our DCF value. We have adjusted the impact of the one-time capex in CY08 to arrive at our target of Rs. 139 per share.

We believe that due to the absence of any asset growth and the erratic earnings on low fleet strength, the valuations would remain subdued. On a forward five year average EPS of Rs. 17.5, the scrip would trade at 7.63x, from where we see little chance of betterment. Sell.

| Particulars (Rs Mn) | CY06 | CY07 | CY08E | CY09E | CY10E | CY11E | CY12E |
|---------------------|---------|---------|---------|---------|---------|---------|---------|
| Total Revenues | 1,591.3 | 1,704.5 | 2,260.5 | 2,824.4 | 2,769.3 | 2,759.0 | 2,825.6 |
| PAT | 585.7 | 370.3 | (31.3) | 867.1 | 517.3 | 432.3 | 731.5 |
| EPS (Rs.) | 17.3 | 10.9 | (0.9) | 25.6 | 15.3 | 12.8 | 21.6 |
| P/E (x) | 7.7 | 12.2 | (144.7) | 5.2 | 8.8 | 10.5 | 6.2 |
| P/BV (x) | 1.9 | 1.6 | 1.7 | 1.3 | 1.1 | 1.0 | 0.9 |
| EV/EBITDA (x) | 5.2 | 6.7 | 13.1 | 3.6 | 4.3 | 3.9 | 2.0 |
| ROCE (%) | 25.3% | 14.8% | 2.4% | 24.3% | 12.9% | 10.0% | 14.6% |
| RONW (%) | 24.5% | 13.5% | -0.4% | 24.2% | 12.6% | 9.5% | 13.9% |

| Local Equity Market | | | | | |
|---------------------|-----------|-----------|--------|-----------|---------|
| INDICES | 30-Jun-08 | Week Ago | % Chng | Month Ago | % Chng |
| Sensex | 13,802.22 | 14,293.32 | (3.44) | 16,415.57 | (15.92) |
| Nifty | 4,136.65 | 4,266.40 | (3.04) | 4,870.10 | (15.06) |
| CNX Nifty Junior | 6,488.15 | 6,797.55 | (4.55) | 8,221.35 | (21.08) |
| S&P CNX500 | 3,293.65 | 3,416.60 | (3.60) | 3,959.65 | (16.82) |
| CNX Midcap 200 | 5,418.75 | 5,657.45 | (4.22) | 6,562.70 | (17.43) |
| CNX IT | 4,002.60 | 4,191.55 | (4.51) | 4,688.35 | (14.63) |

| International Equity Market | | | | | |
|-----------------------------|-----------|-----------|--------|-----------|---------|
| INDICES | 30-Jun-08 | Week Ago | % Chng | Month Ago | % Chng |
| DJIA | 11,346.51 | 11,842.36 | (4.19) | 12,638.32 | (10.22) |
| Nasdaq | 2,315.63 | 2,385.74 | (2.94) | 2,522.66 | (8.21) |
| S&P 500 | 1,278.38 | 1,318.00 | (3.01) | 1,400.38 | (8.71) |
| FTSE 100 | 5,529.90 | 5,667.20 | (2.42) | 6,053.50 | (8.65) |
| Nikkei 225 | 13,569.95 | 13,857.47 | (2.07) | 14,338.54 | (5.36) |
| Hang Seng | 22,040.33 | 22,714.96 | (2.97) | 24,533.12 | (10.16) |
| HSCEI | 11,861.75 | 12,236.31 | (3.06) | 13,770.51 | (13.86) |

| MSCI Indices | | | | | |
|-----------------|-----------|----------|--------|-----------|---------|
| MSCI Indices | 30-Jun-08 | Week Ago | % Chng | Month Ago | % Chng |
| The World Index | 1,397.59 | 1,424.48 | (1.89) | 1,515.99 | (7.81) |
| Emerging Market | 1,084.79 | 1,099.69 | (1.35) | 1,207.75 | (10.18) |
| EM Asia | 398.03 | 409.23 | (2.74) | 456.80 | (12.87) |
| EM India | 401.72 | 415.67 | (3.36) | 474.49 | (15.34) |

| Commodities | | | | | |
|------------------------|-----------|----------|--------|-----------|--------|
| Commodities | 30-Jun-08 | Week Ago | % Chng | Month Ago | % Chng |
| GOLD (\$/oz) | 926.55 | 883.80 | 4.84 | 886.50 | 4.52 |
| SILVER (\$/oz) | 17.57 | 16.80 | 4.58 | 16.88 | 4.06 |
| ALUMINIUM (\$/t) | 3,123.00 | 3,141.00 | (0.57) | 2,931.00 | 6.55 |
| COPPER (\$/t) | 8,530.00 | 8,400.00 | 1.55 | 7,935.00 | 7.50 |
| CRUDE - BRENT (\$/bbl) | 141.75 | 135.91 | 4.30 | 127.79 | 10.92 |
| CRUDE - WTI (\$/bbl) | 141.69 | 136.74 | 3.62 | 127.50 | 11.13 |

| Transportation | | | | | |
|----------------------|-----------|----------|--------|-----------|---------|
| Commodities | 30-Jun-08 | Week Ago | % Chng | Month Ago | % Chng |
| World SCALE | 235.00 | 222.50 | 5.62 | 185.00 | 27.03 |
| BALTIC FREIGHT INDEX | 9,599.00 | 9,211.00 | 4.21 | 11,440.00 | (16.09) |

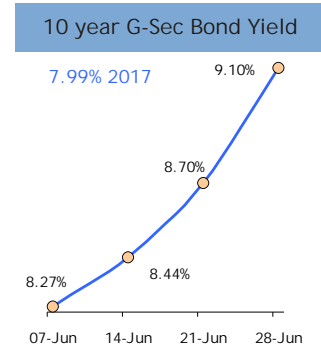
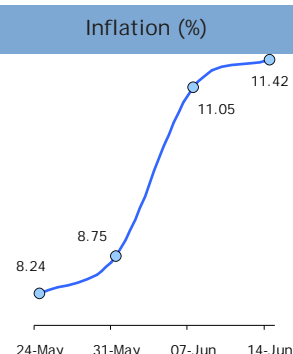
| Forex | | | | | |
|-------|-----------|----------|--------|-----------|--------|
| FOREX | 30-Jun-08 | Week Ago | % Chng | Month Ago | % Chng |
| USD | 42.91 | 43.04 | (0.30) | 42.16 | 1.78 |
| GBP | 85.50 | 84.59 | 1.08 | 83.57 | 2.31 |
| EURO | 67.74 | 66.79 | 1.41 | 65.58 | 3.29 |
| YEN | 40.41 | 39.91 | 1.25 | 39.96 | 1.13 |

| Global Listings | | | | | |
|-----------------|-----------|-----------|------------|------------------|-------------------|
| Scripts | 28-Jun-08 | Week Chng | Month Chng | Premium/Discount | Share per ADR/GDR |
| Infosys ADR | 43.03 | (4.38) | (8.37) | 8.27% | 1 |
| Wipro ADR | 12.01 | (3.92) | (11.72) | 16.94% | 1 |
| ICICI Bank ADR | 29.66 | (10.45) | (12.22) | -2.42% | 2 |
| Satyam ADR | 24.99 | (2.57) | (11.86) | 21.99% | 2 |
| HDFC Bank ADR | 71.56 | (8.79) | (21.34) | 0.19% | 3 |
| MTNL ADR | 4.27 | (5.32) | 11.36 | 0.07% | 2 |
| Dr. Reddy ADR | 15.29 | (0.07) | (5.96) | -0.18% | 1 |
| Reliance GDR | 100.25 | 4.97 | (16.23) | -1.46% | 2 |
| ITC GDR | 4.14 | (4.61) | (16.54) | -3.29% | 1 |
| Ranbaxy GDR | 12.01 | 1.78 | (5.98) | -1.56% | 1 |
| L & T GDR | 52.10 | (7.79) | (22.60) | -1.33% | 1 |

| Top Gainers & Losers of the Week | | |
|---------------------------------------|------------|--------|
| Top Gainers | Jun 30, 08 | % Chng |
| Geometric Software Solutions Co. Ltd. | 52.70 | 15.32 |
| GHCL Ltd. | 70.75 | 10.46 |
| I-Flex Solutions Ltd. | 1,381.55 | 10.23 |
| L.G. Balakrishnan & Bros Ltd. | 16.15 | 7.67 |
| Torrent Pharmaceuticals Ltd. | 167.10 | 6.20 |
| CRISIL Ltd. | 3,706.95 | 5.78 |
| Lumax Industries Ltd. | 132.15 | 5.55 |
| Oriental Hotels Ltd. | 274.70 | 5.13 |

| Top Losers | | |
|--|--------|---------|
| Godrej Industries Ltd. | 142.65 | (25.43) |
| S. Kumars Nationwide Ltd. | 80.65 | (25.01) |
| SREI Infrastructure Finance Ltd. | 84.50 | (24.86) |
| Hindustan Construction Co. Ltd. | 84.15 | (22.73) |
| Triveni Engineering & Industries Ltd. | 69.90 | (22.38) |
| National Aluminium Co. Ltd. | 334.40 | (22.26) |
| Ansal Properties & Infrastructure Ltd. | 74.45 | (20.33) |
| IndusInd Bank Ltd. | 55.00 | (19.53) |

| Sectoral Performance | | | |
|-------------------------------|--------|---------|----------|
| Sectors | Week | Month | 3 Months |
| Dyes And Pigments | (1.38) | (4.96) | (14.89) |
| Chemicals - Speciality | (1.66) | (5.37) | 15.26 |
| Solvent Extraction | (1.80) | (8.03) | (1.97) |
| Finance - Housing | (1.89) | (13.98) | (6.88) |
| Paints | (2.21) | (6.04) | (7.38) |
| Pesticides And Agrochemicals | (2.45) | (7.55) | 10.81 |
| Compressors / Pumps | (3.06) | (9.81) | (6.22) |
| Abrasives | (3.18) | 9.60 | 13.22 |
| Airconditioners | (3.43) | (10.51) | (15.16) |
| Fastners | (3.45) | (20.29) | (23.67) |
| Tea And Coffee | (3.49) | (20.31) | 4.79 |
| Detergents | (3.61) | (10.81) | (9.41) |
| Mining | (3.79) | (12.13) | (7.63) |
| Textiles - Cotton | (3.93) | (17.60) | (8.02) |
| Computers - Software | (3.96) | (13.89) | (1.32) |
| Auto Ancillaries | (4.02) | (13.49) | (15.95) |
| Food And Food Processing | (4.04) | (5.23) | (3.18) |
| Bearings | (4.49) | (17.80) | (31.77) |
| Paper And Paper Products | (4.54) | (12.90) | (9.61) |
| Telecommunication - Equipment | (4.66) | (15.75) | (13.67) |



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