

**STOCK DATA**

Market Capitalisation	Rs21.3bn
Book Value per share	Rs145
Eq. Shares O/S (F.V. Rs10)	50.9 mn
Median Vol. (12 mths)	59,561mn(BSE+NSE)
52 Week High / Low	Rs. 1047/ 375
BSE Scrip Code	532682
NSE Scrip Code	ABGSHIP
Bloomberg Code	ABGS.IN
Reuters Code	ABGS.BO

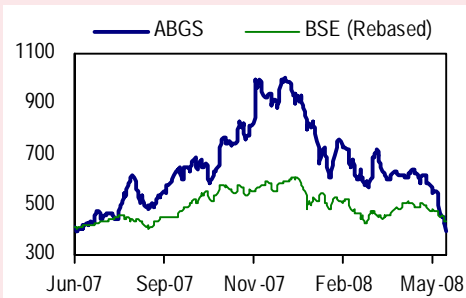
**SHAREHOLDING PATTERN (%)**

Qtr. Ended	Sep-07	Dec-07	Mar-08
Promoters	56.9	56.9	56.9
MFs/ FIs	11.6	10.4	13.4
FII's/ NRI's/ OCB's	24.3	24.0	22.2
PCBs	3.1	4.5	2.9
Indian Public	4.1	4.2	4.6

**STOCK PERFORMANCE (%)**

	1M	3M	12M
Absolute	(36.1)	(34.5)	(2.6)
Relative	(28.2)	(30.0)	(7.9)

**STOCK PRICE PERFORMANCE**



ABG Shipyards Ltd. (ABG) is one of the largest private sector shipbuilding companies in India with a strong expertise in building offshore and specialised vessels.

Its flagship facility is located at Magdalla (Gujarat), which it is in the process of expanding. It has recently set up another facility at Dahej (Gujarat) which will manufacture larger size vessels, primarily in the dry bulk segment. ABG has also outlined plans to set up a Rig Yard by Dec'08, which will manufacture 4 jack-up rigs simultaneously.

Of the global order book of ~500mn dwt (USD300bn), ABG with orders of ~1.8mn dwt has approx 0.4% share (Rs85bn).

Recently, ABG acquired operations of *Western India Shipyards* to strengthen its presence in ship repairing. It intends to follow this up with a greenfield shipyard in Surat, to be operational by FY11.

ABG has been able to garner a major share of the ship building demand by expanding its capacities and building competency & competitiveness. The above, with the head start it has is expected to stand it in good stead in coming years. Thus, there is not only the potential of ramping up scale and complexity of jobs undertaken, but also a high degree of visibility and safety in operating margins. We initiate coverage with a 'BUY' recommendation with a 12-month price target of Rs550.

**INVESTMENT RATIONALE**

- Being in a cyclical upturn, the global ship building industry boasts of a robust order book of ~500mn dwt, deliverable over the next 4 years. India's share of this order book is ~1%, and ABG accounts for almost half of this share.
- The competitive advantage of Indian shipyards is expected to be boosted by the technological competence they would develop in the coming years. Thus, India along with China is expected to emerge as a player to reckon with in the global arena. ABG, by virtue of being one of the larger players is well poised to capitalise on this shift.

**KEY FINANCIALS (STANDALONE)**

Rs mn	Quarter Ended			Yr Ended (March)				
	Sep-07	Dec-07	Mar-08	2006	2007	2008	2009E	2010E
Net Sales	2,118	2,750	2,767	4,687	6,242	8,850	14,158	27,354
YoY Gr. (%)	26.1	54.8	43.3	44.0	33.2	41.8	60.0	93.2
Op Profits	644	816	907	664	1,134	2,099	3,258	6,025
Op. Marg (%)	30.4	29.7	32.8	14.2	18.2	23.7	23.0	22.0
Net Profits	341	471	461	837	1,163	1,607	2,234	4,136
Eq Capital	509	509	509	509	509	509	549	549

**KEY RATIOS**

	Yr Ended (March)				
	2006	2007	2008E	2009E	2010E
EPS (Rs)	15.2	21.2	29.3	40.7	75.3
ROCE (%)	23.3	25.3	24.2	20.2	24.3
RONW (%)	17.5	21.7	24.3	22.3	28.2
P/E (x)	25.4	18.3	13.3	10.3	5.6
EV/Sales (x)	5.8	2.6	3.0	2.6	1.4
EV/EBIDT (x)	18.6	8.0	8.8	8.0	4.7

ABG Shipyard Ltd was originally incorporated as *Magdalla Shipyard Pvt Ltd* in Mar'85. The current promoter, Mr Rishi Agarwal, acquired controlling stake in the company in 1989 and the company got its present name in June'95.

*23 year old Gujarat based company...*

ABG secured its breakthrough into the nascent domestic ship building market in 90's and made its mark by delivering its first vessel to *Essar Shipping* in Nov'90. The scale up from there on was consistent and the company executed its first delivery to an overseas client in CY96. Since then, the company has been enhancing its skillset and now has the ability to manufacture a wide range of vessels like offshore supply vessels, mini bulk carriers and special purpose vessels and is soon set to foray into rig building by setting up a rig yard at Dahej by Dec'08. Currently, ABG accounts for 0.4% of the total world orderbook.

The company floated an IPO in CY05, wherein it raised ~Rs2.5bn for its greenfield facility in Dahej (including preferential allotment of Rs1.1bn). To sustain its growth path, ABG has continued with its expansion plans and will be setting up a greenfield facility in Surat and expanding Dahej facility to include a rig yard for manufacture of rigs.

### LOCATIONS

#### Surat

The flagship facility of ABG is located in Magdalla, near Surat in Gujarat. Spread over 35 acres, it has the ability to manufacture 32 vessels of 20k dwt each simultaneously. As the yard is operating at maximum capacity at present, the company has acquired a small shipyard adjacent to it *i.e. Vipul Shipyard*, to augment its capacity. This acquisition has brought in 8 acres into ABG's fold and the company has acquired a further contiguous land of ~12 acres. Post this acquisition, the Magdalla facility will be spread over 55 acres and will have a capacity to make ~44 vessels concurrently, by end FY09. The outstanding order book of this facility consists of 55 vessels of Rs32bn.

*Post expansion Surat and Dahej can together make vessels to the tune of 2 mn dwt...*

#### Dahej

The main objective of ABG's IPO was to fund a greenfield expansion at Dahej. This facility was envisaged to be set up in two phases to cater to shipbuilding and rig building with a total outlay of Rs11.2bn. Phase-I (shipyard) commenced operations during Q1FY09. This facility has a capacity of making 12 vessels of 120k dwt simultaneously. Phase-II will be a rigyard which can manufacture 4 jack up rigs at the same time and would be operational by Q4FY09. ABG has already pre-booked orders for the Dahej facility and its current order book stands at 38 vessels (Rs53bn). The company has not yet commenced accepting orders for its rig yard. ABG has also applied for SEZ status for the Dahej facility.

#### Western India Shipyard-Goa

ABG acquired operations of Western India Shipyard (WIS) in CY07 with some regulatory approvals still pending. It has tendered a restructuring scheme, which is under consideration. Post approval, ABG will hold a 62% equity stake. WIS is one of the leading ship repair companies in India with a facility in Goa having capacity to repair ships upto 60k dwt. The ship repair business is a high turnover, high margin business (~30%) and offers ABG strong synergy benefits as it would be able to capture the ship building value chain and offer a complete solution.

*ABG to acquire controlling stake in WIS which will give it ship repair facility with higher OPM...*

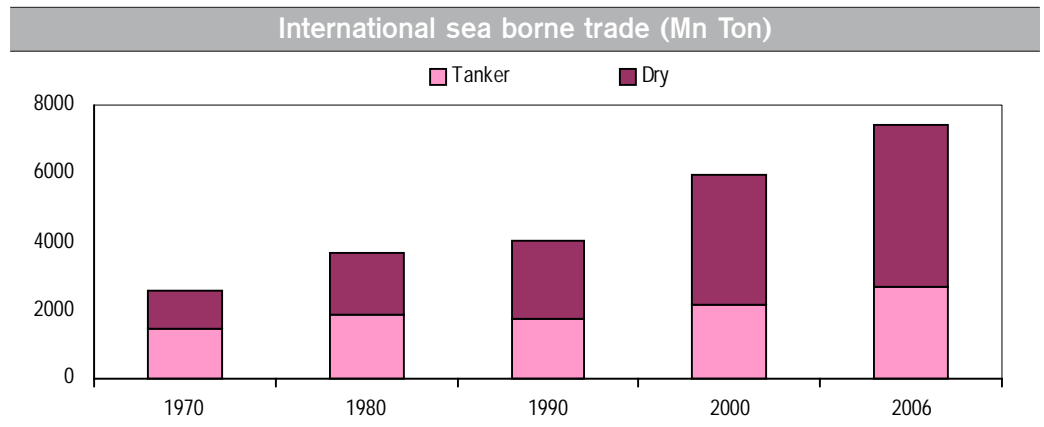
Currently, WIS is loss-making due to high overheads arising from inability to effectively utilise capacity. For FY07, it generated revenues of Rs533mn and incurred a net loss of Rs208mn. The company has the capability to earn revenues of ~Rs2bn by 2010-11 assuming peak capacity utilisation. The scheme of restructuring envisages a partial write off of outstanding debt and conversion of balance fixed debt instruments into equity.

Shipbuilding industry's fortunes are inter-linked with the cyclicity of the shipping sector. Thus, the shipbuilding industry is positively correlated with freight rates but does not mimic it. We portray below the dynamics of segments in the shipping industry.

**Shipping**

Demand for shipbuilding accrues from shipping and oil exploration companies. Economic growth and resultant increase in global trade boosts demand for shipping. Supply is influenced by shipyard capacity and scrapping of vessels. Of late, demand for vessels has emanated as a result of robust freight rates, driven by a 4% CAGR world GDP growth and 7% CAGR trade growth over the past five years. With world GDP expected to sustain (IMF estimates), trade growth rates should be maintained over the next few years. Within the trade cycle, maritime (seaborne) trade has increased over the last three years and has been buoyed by rising demand for grains, metals and other commodities. Diversified supply sources have also resulted in longer trade routes, which has in turn boosted ton-mile demand. We expect maritime demand to be sustained through robust dry bulk and tanker offtake as well as additional triggers in container shipping and offshore services.

*Robust trade growth and increasing ton-mile demand driving shipping demand...*

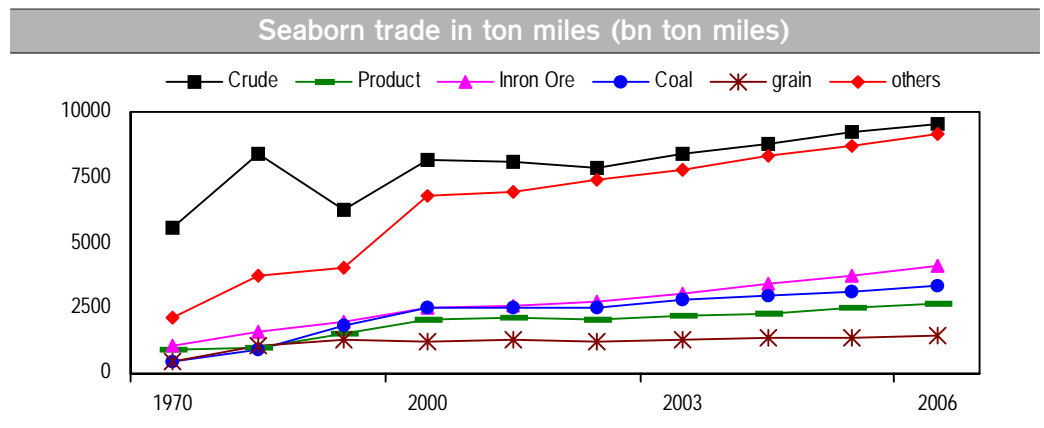


Source: UNCTAD Report on Maritime trade

**Dry Bulk segment**

The dry bulk segment has seen an upsurge in vessel demand on account of robust offtake of commodities from China. Further, increasing ton-miles due to longer routes as a result of higher outsourcing of manufacturing activity to cheaper locations has also buoyed demand for vessels. Vessel-wise, there was strong demand for smaller ships like Handymax for shipping steel from China to Europe, grain trade, raw materials etc. Capesize vessels continue to witness surging demand although they remain volatile. Dry bulk demand has been robust in CY07 and is expected to remain firm across categories in CY08/09. Capesize vessels newbuilt demand continues on account of increase in trade from Australia to South East Asia for metals. Commodity trade has spruced up demand for smaller vessels like Panamax and Handymax carriers.

*Dry bulk segment buoyant on account of demand for grains and metals...*



Source: Fearnley's Review 2006

**Tanker segment**

Tanker segment demand is driven by demand for crude oil/other liquid products as well as location of refineries, which boosts the ton/mile demand. Of late, tanker market freight rates have remained steady across vessel categories due to buoyant demand for crude, conversion of crude vessels to dry bulk carriers as well as new refining capacity paving way for long haul routes.

*Phasing out of single hull tankers and spike in crude demand as well as springing up of newer refineries augurs well for tanker segment...*

A number of initiatives have been taken in the past few years to mandate compulsory double hulled tankers. This can be achieved through scrapping of single hulled vessels or converting them to double hull. The EU has restricted entry of single hull carriers in its ports. The International Maritime Organisation (IMO) has mandated phasing out single hulled tankers by 2010. India is set to follow suit in 2-3 years. Thus, a shortage of double hulled vessels coupled with growing demand for crude has led to burgeoning orders for new built at shipyards. Around 24% of the global tanker fleet remains as single hull, which should be phased out in the coming years. This is further expected to boost freight rates owing to scarcity of double hulled ships.

**Container segment**

Demand for container vessels has gone up due to rising consumption of consumer goods in emerging economies, pharmaceutical products and conversion of non-containerised cargo to containers in developing nations like India.

**Offshore exploration**

The sustained increase in crude oil prices has prompted a rise in exploration and prospecting activity in offshore locations as it now justifies the higher exploration costs. Thus, both globally and domestically, there has been a surge in demand for offshore vessels like rigs, drillships and support vessels, which are essential to oil exploration. Further, replacement of an ageing global offshore fleet, pegged at more than 20 years has further fuelled demand as against a useful life of 25 years for an offshore vessel.

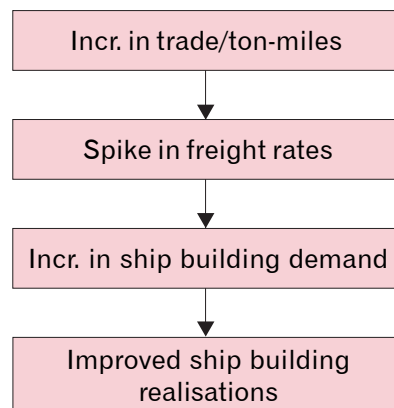
*Record high crude prices mandating increase in offshore exploration; Replacement of ageing fleet further fuelling offshore vessel demand...*

The shortage has been accentuated with the congestion at shipyards leading to an increase in gestation period for new built. For instance, as against 15 months previously, an offshore supply vessel now takes ~36 months to build. Also, global shipyards in Korea and Japan are concentrating on scale viz. building bulk carriers which afford higher realisations. As a result, there are fewer yards to cater to the offshore segment.

**Policy Initiatives**

The Indian government has taken various initiatives to help the industry. Under the National Maritime Development Programme (NMDP), the government has allowed 100% FDI, invested heavily in ports and related infrastructure and envisaged addition of ~2k ships under the Sagarmala programme etc. Apart from this, the 30% subsidy granted by the government helps domestic shipyards compete on par globally as various shipyards too get government grant and support.

**Demand Flow in Ship Building**



**Ship building cycle**

Till date, the global ship building industry has followed 4 business cycles. While a shipping cycle lasts for a decade, ship building cycles last longer at 15-18 years. Shipbuilding traditionally has been the forte of developed nations in Europe. However, renewed trade growth during the '60s led to demand for vessels thereby triggering investment in new capacity. Newer shipbuilding nations like South Korea and Japan also emerged during this stage. The '73 oil crisis however, led to a sudden and sharp global economic collapse leaving shipyards with large unutilised capacities. A long drawn economic lull led to a rationalisation of yards in Europe and Japan.

In the early '90s, there was a resurgence in demand for vessels led by outsourcing of manufacturing activity to Asia coupled with rising consumption of commodities by China. Chinese shipyards increasingly took centerstage during this period and along with Korea and Japan, today command ~90% of the world order book. Vessel demand has remained strong and is being further fuelled by an ageing fleet of '80s vintage, which need replacement. Further, stricter regulatory norms have led to faster scrapping of older vessels. India's position globally is a distant 4th with 1.2% of the world order book by volume. Realisations of shipbuilding have also risen exponentially in the last 4-5 years due to lack of capacity and increase in input costs like steel plates, propellers and engines.

**India's positioning**

There are totally 28 shipyards in India of which, only 4 command global orders, while the balance are either small or cater largely to the government. Two of these four are government run shipyards viz. Hindustan Shipyard and Cochin Shipyard, apart from ABG and Bharati. Indian shipyards have carved a niche for themselves in the offshore and mini bulker space as the bigger shipyards in China, Korea and Japan concentrate on mega bulk carriers, LNG tankers and crude carriers which maximise utilization of their yard as well as give them better margins due to economies of scale. Thus, smaller vessels requiring customization do not find favour in such yards which are highly modular in nature. Also, since each OSV involves a greater degree of customisation, they also require more technological support than regular plain vanilla vessels. This is another factor in favour of India over China and Korea.

*Ship building in its 5th cycle, fuelled by commodity consumption and offshore exploration demand...*

*Indian shipyards concentrating on mid sized vessels with increased customization....*

Shipbuilding order book		
	CGT Mn	% share
South Korea	62.07	42.7
China	45.57	31.4
Japan	26.37	18.2
India	1.77	1.2
Vietnam	1.74	1.2
Germany	1.71	1.2
Turkey	1.71	1.2
Phillipines	1.62	1.1
Taiwan	1.62	1.1
Romania	1.04	0.7
<b>Total</b>	<b>145.21</b>	<b>100.0</b>

Source: Company

Global positioning of ship building nations	
Container Vessels	Korea, Japan, China
Crude Carriers	Korea, Japan, China
Bulk Carriers	Korea, Japan, China
Passenger Vessels	Europe
Offshore Vessels	India, Europe, China
Specialised Vessels	India
LNG Carriers	Korea

Source: Pinc Research

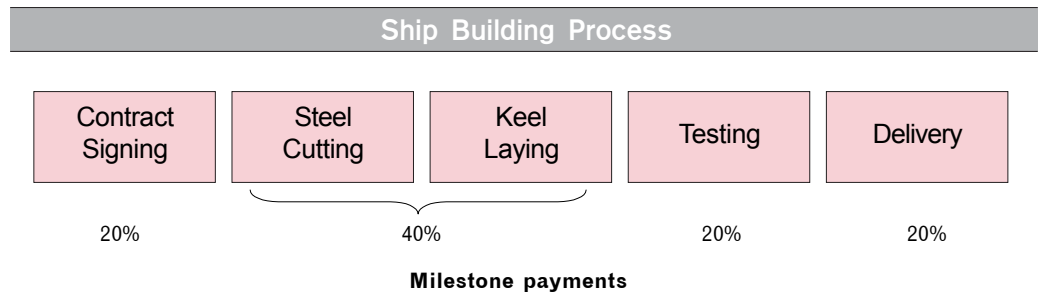
**ABG's business model**

ABG is involved in the business of ship building for a variety of marine vessels. It has a shipyard in Surat wherein it undertakes building various offshore vessels and has a yard in Dahej where it has commenced building bulk carriers. ABG will start making jack-up rigs in its rig yard at the same location in Dahej from Q4FY09.

**Revenue booking**

Shipbuilding revenues are based on milestone payments on completion of different modules of a ship. Firstly, around 20% of contract value is paid as advance for procurement of material and working capital. The date of signing the contract is considered as zero date for calculating the completion date. A second milestone payment (~20-40%) is generally advanced after the keel laying with balance being paid post test runs and final delivery.

*Revenues booked in terms of vessel completion as milestone payments...*



*Source: Company*

**Manufacturing process**

Ship building is a process oriented activity run like a project with a separate project manager for each vessel. The vessel is broken into modules which are executed simultaneously to maximise throughput. Depending on the type of vessel and complexity as well as size, it takes ~24-30 months to complete one vessel.

Bill of materials forms ~60% of ship building cost. This constitutes steel plates/ ship grade steel as well as brought out items like engines and propellers. Labour forms ~8-12% and design costs constitute ~5-6%. ABG imports steel plates and basically stocks a year's worth of steel inventory. When it enters into a shipbuilding contract with a customer, it does back to back quantity negotiations with steel suppliers. Long lead items like engines and propellers are booked 12-18 months in advance.

**INVESTMENT RATIONALE**

**Favourable macroeconomic scenario**

The overall robustness of the trade cycle has led to firm freight rates. This has resulted in constant demand for vessels across types. Demand particularly for dry bulk vessels has been resurgent due to growing dry bulk trade, increased demand of coal and high port congestion. Demand for coal from China, Japan and India has led to surge in demand of dry bulk fleet. Spiralling oil prices has led to increase in offshore exploration of oil which has led to demand of rigs and offshore supply vessels. Government initiatives on the domestic front) in schemes like NELP has further boosted demand for such vessels.

**Replacement of ageing fleet**

The age profile across segments works in favour of ABG. In the offshore segment, of the existing ~400 jack up rigs globally, ~90% are >20 years old, which will lead to demand arising from scrapping of older vessels (jack up rigs can be used upto 25 years). Similarly, >70% of the offshore supply vessel fleet like PSVs and AHTSVs is >20 years old. In the dry bulk segment, 60% of the mini bulkers like handysize/supramax are >20 years old. Regulatory measures for scrapping of older vessels as well as increased technology requirements would hasten the process of scrapping, thereby fuelling a faster build up in demand for new builds. Thus, order flows for offshore vessels, mini bulkers and jack up rigs for its new rig yard are expected to remain robust.

*Robust trade cycle, higher oil prices and regulatory measures boosting demand while replacement of fleet holding realisations...*

**India's positioning in the global framework**

*Indian shipyards filling the void for smaller customised vessels...*

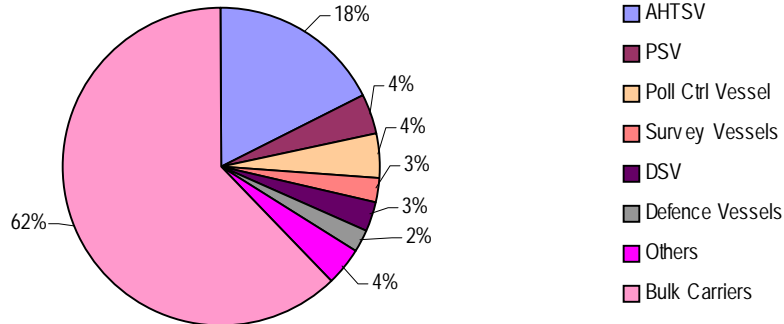
Indian shipyards are in a strategic position to capture incremental ship building demand. With yards in Korea and China booked till beyond FY11, incremental orders are flowing to Indian players like ABG, who are able to promise earlier deliveries. Korean and Chinese shipyards are concentrating on scale and mechanization as it proves to be beneficial for them to cater to generic mega bulk orders, which can be executed on a modular basis and maximising throughput. The void for niche, customised and smaller vessels is filled by Indian shipyards like ABG.

**Robust order backlog**

*Order book of Rs85bn to fuel company revenues till FY11...*

ABG's current order book of Rs85bn consists of 93 vessels. Majority of them are bulk carriers and offshore vessels. The order book is sufficient to sustain the company till FY11. The company's strategy is to focus on vessels where the demand-supply skew is highest. As a result, ABG has shifted focus from primarily being an offshore vessel provider to supplying dry bulk carriers. Around 62% of the order book is accounted for by dry bulk vessels of various denominations in the handysize/supramax category. A sizeable 18% of order book consists of offshore support vessels like AHTSVs and PSVs.

Order book break up (Rs85bn)



Source: PINC Research

**Expansion to capture share of buoyant demand**

*Capacity growing by 4x to 2.4mn dwt to capture demand...*

ABG will quadruple its capacity from the current 0.6mn dwt to 2.4mn dwt by end-FY09. It will further enhance capacity in FY10-11 to incorporate larger size vessels.

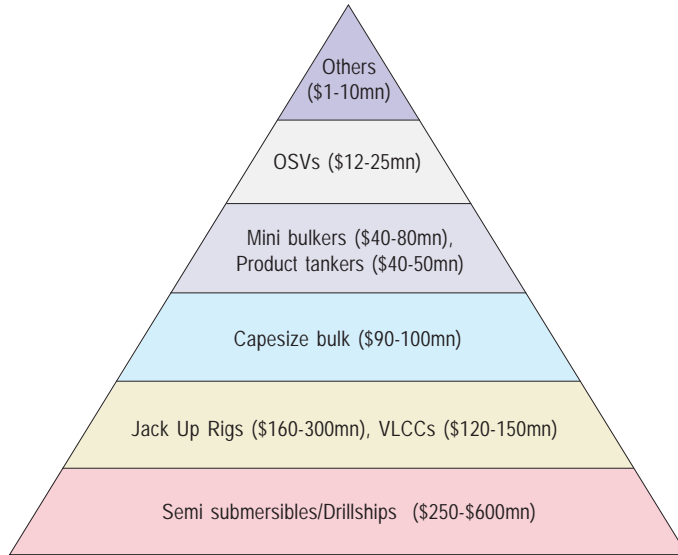
To continue its robust growth rate, ABG has sought to expand its facilities from its present single location in Surat to include Dahej and a greenfield project in Surat. The Dahej expansion has been divided into two phases to cater to different classes of vessels. Part of the order book is due to be executed through the Phase-I capacity expansion, which would primarily manufacture bulk carriers and Phase-II would undertake building jack up rigs for which ABG has not yet commenced booking orders. Surat will exclusively focus on offshore and specialised vessels. This would ensure that ABG can maximise throughput whilst concentrating on specific vessel segments. This would enable the company to speedily achieve break even scale and garner benefits of operating leverage leading to earnings and margin growth.

ABG has applied for SEZ status for its Dahej facility, which would give it additional tax benefits. However, we have not factored the same in our estimates.

**Moving up the value chain**

ABG is moving up the value chain and increasingly executing vessels of higher complexity, which result in better realisations and improved turnaround time. The following charts depict realisations across asset classes as well as their inherent complexity. ABG started out with small vessels like coast guard boats, tug boats, AHTSVs and now is moving into dry bulk vessels, product carriers and will eventually build rigs and tankers. This will ensure accelerated earnings growth with the existing asset base and staff, resulting in better ROCE.

Shipbuilding realisations



Source: Pinc Research

**OPM to sustain ~22%**

Despite a spike in input costs and bought-out items, we estimate that ABG would sustain its core OPM (excluding subsidy) ~22% (23% in FY09 and 22% in FY10) on account of increased execution of recent orders which are margin accretive. Also, since 70% of its Surat unit orderbook and 46% of its total order book consists of repeat orders, it will result in reduced design costs, which form 1-2% of total vessel cost. Moreover, centralised operations in the renewed Surat operations post merger of Vipul Shipyard and commissioning of Dahej terminal would impart scale, reduce downtime and help streamline resource utilisation.

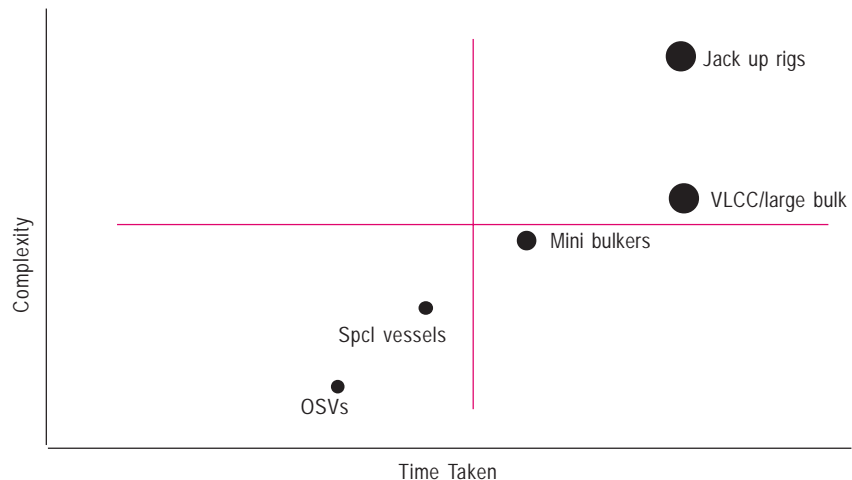
*Sustainable OPM following lucrative new orders and increase in repeat orders...*

**Effective utilisation of funds**

The capex undertaken for Dahej Phase-I (Rs4bn) is the lowest globally for setting up a shipyard of comparable size. This cost saving was primarily on account of savings in machinery as ABG acquired equipment of Irving Shipyard (Canada) for ~USD6mn (USD10mn landed cost), whereas the same was purchased in 1995 by Irving for USD130mn. Also, since Petronet LNG and IPCL operate at Dahej port, adequate draft is available with no additional dredging required near the water front.

*Prudent capex plan with minimum outlay to increase return ratios...*

Vessel Complexity for ABG



Note: not present in VLCC

Source: Pinc Research



A global comparison indicates that for building ~6 ships of >100k dwt, a Chinese shipyard will incur a capex of USD500-600mn while Dahej has been set up for USD100mn for double the capacity. Land at Dahej has been lease from GIDC at economical rates of ~Rs200/sq. mtr. for 99 years. The aforementioned implies that there will be a minimal expansion of ABG's gross block vis-a-vis the addition to capacity.

### OUTLOOK

In FY09, we expect net revenues to jump 60% to Rs14.1bn (ex-subsidy) on account of incremental revenues flowing in from Dahej shipyard and expanded capacity of Surat. OPM should decline by 70bps to 23% in view of hardening input prices. However, execution of new margin accretive orders should negate this to a large extent. Accordingly, net profits should grow by 39% to Rs2.2bn. Similarly in FY10, revenues should accelerate by 93% to Rs27.4bn based on full scale operations of Surat and Dahej shipyards. We have factored in a further decline of 100bps in OPM to 22% in spite of growing scale and new remunerative orders as we feel steel prices would harden and also possibility of delays in execution. However, we believe these will be base level margins and may improve due to economies of scale. Net profits should accordingly surge by 85% to Rs4.1bn.

### VALUATIONS AND RECOMMENDATION

With encouraging macro fundamentals for the shipbuilding sector and India's unique positioning in the same, we believe ABG will emerge as a front runner by virtue of its positioning, product portfolio and timely expansion. The stock trades at a P/E of 10.3x and 5.6x and EV/EBITDA of 8x & 4.7x FY09 and FY10 estimates respectively. We initiate coverage with a 'BUY' rating and a 12-month price target of Rs550.

### CONCERNS

#### Increasing input prices

Raw materials and bought-out items constitute ~60% of the total vessel cost for ABG and other ship builders. Steel plate and high grade steel is used in building vessels and rigs while bought-out items include propellers, engines etc. Margins could be adversely impacted if steel prices rise beyond USD1,200/mt, as there is no cost escalation clause in the contracts. Although ABG is partially hedged as it enters into back-to-back contracts with steel suppliers, there could be a possibility of enforcing a Force Majeur clause by the steel suppliers in case of increasing input prices. There could also be a possibility of suppliers of engines and propellers squeezing players like ABG as they have the bargaining power due to scarcity of such long lead items.

#### Delay in deliveries/execution risks

ABG has broadened its vessel portfolio and accepted orders for making mini bulkers of increasing tonnage. There might be certain bottlenecks in their execution as ABG does not have the benefit of a learning curve. This might lead to delays and trigger penalties clauses, which could have an adverse bearing on margins and feasibility of future orders.

#### Slowdown in sector

The shipbuilding sector has been on a cyclical upswing for nearly a decade leading to concerns of the cycle nearing a peak. There have also been news of order cancellations at newer shipyards. Any slowdown in demand due to the US recession and increase in vessel supply could lead to lower realisations and demand for ship builders, thereby impacting earnings.

#### Subsidy concerns

The regulatory authorities in India have still not indicated about the proposed revival of the subsidy scheme and they are considering extension of the subsidy in a modified form. There have also been persistent delays in disbursing the actual subsidy accruing to private shipyards. ABG is the only private yard to receive the subsidy amount in FY08 (Rs193mn). If subsidy is delayed further or scrapped, it may impact the working capital position as well as margins.

*Earnings to grow at a CAGR of ~60% buoyed by expanded operations...*

*Increase in input prices as well as delays in delivery could impact earnings...*

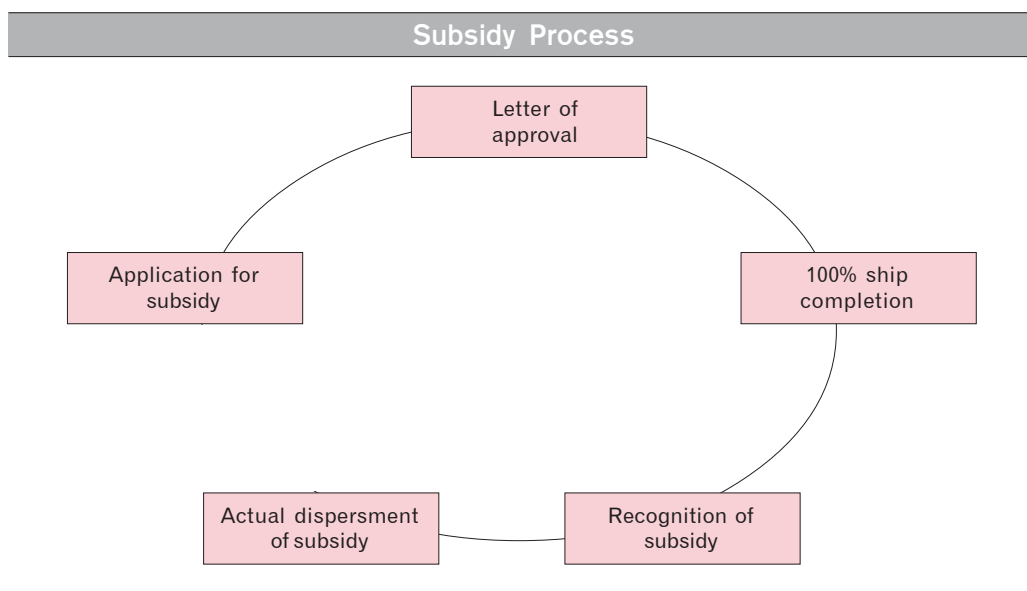
**Capital raising**

ABG plans to raise ~Rs11bn through issue of equity. However, it has not firmed up its plans and lack of clarity/delay in raising funds can lead to increased leverage or delays in project execution. This can severely impact earnings prospects. We have factored in expansion purely through raising debt.

**Subsidy Explained...**

The Dept of Shipping in the Ministry of Shipping, Road transport and Highways had introduced a subsidy scheme in Aug'02 for a period of five years which gave a 30% incentive on the assessed price of a vessel more than 80 meters in length sold domestically or a vessel of any length sold to overseas clients. The present scheme has lapsed and talks are on to continue the said scheme in a modified manner. Now the proposal is for subsidy of 20% for vessels mentioned above only on globally bid tenders.

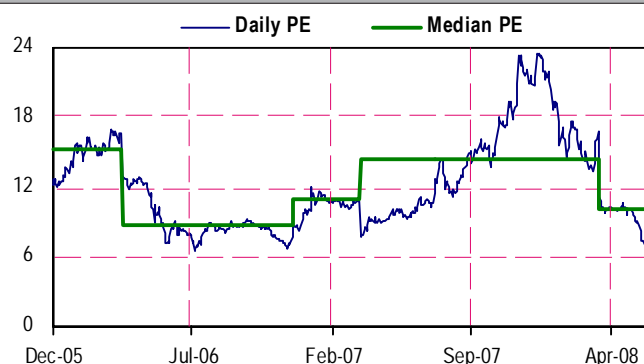
The entire process of subsidy has been described schematically as follows. When a shipyard gets an order which can be eligible for subsidy, it applies for the same to the shipping authorities. The latter issues a letter of approval indicating that the vessel on order is eligible for subsidy. Subsequently after the ship is 100% complete, the necessary authorities inspect and assess the market value of the vessel( There is a minimal difference between the assessed price and the market price of the vessel). The subsidy amount is thus calculated on the assessed value and a certificate is dispatched to the company. Subsequently there is a disbursement of subsidy. Delays occur due to time taken for processing eligibility certificates, valuation of vessels and actual subsidy recognition certificates to be granted before the pay out takes place. Also, subsidy is recognized only on 100% completion of the ship while ABG accounts for subsidy in its books in contract accounting basis i.e. based on percentage completion of the vessel. Accrued subsidy in ABG's books stands at Rs2.7bn in the form of receivables from the government.



## Financial Results for the quarter & year ended March 31, 2008

Particulars (Rs Mn)	Quarter Ended			Year Ended		
	31/03/08	31/03/07	Gr %	31/03/08	31/03/07	Gr %
<b>Net Sales</b>	<b>2,767</b>	<b>1,931</b>	<b>43.3</b>	<b>9,668</b>	<b>7,062</b>	<b>36.9</b>
<b>Total Expenditure</b>	<b>1,860</b>	<b>1,434</b>	<b>29.7</b>	<b>6,752</b>	<b>5,108</b>	<b>32.2</b>
(Inc.) / Dec. Stock-in-trade	(1,125)	(144)		(1,500)	(241)	
Materials Consumed	2,433	1,265	92.3	6,854	4,472	53.3
Staff Cost	137	36	276.9	293	156	87.3
Other expenditure	415	276	50.3	1,105	721	53.3
<b>Operating profit</b>	<b>907</b>	<b>497</b>	<b>82.5</b>	<b>2,917</b>	<b>1,954</b>	<b>49.3</b>
Other Income	20	29	(32.0)	74	54	36.4
<b>PBIDT</b>	<b>926</b>	<b>526</b>	<b>76.1</b>	<b>2,991</b>	<b>2,008</b>	<b>48.9</b>
Interest	189	93	103.6	457	267	71.3
Depreciation	20	17	19.5	74	60	24.2
<b>PBT &amp; extra-ordinary items</b>	<b>717</b>	<b>416</b>	<b>72.3</b>	<b>2,460</b>	<b>1,682</b>	<b>46.3</b>
Etx. Ord. Expenses	-	(93)		-	-	
Provision for current tax	81	52		278	194	
Provision for deferred tax	200	125		595	413	
FBT	(24)	2		(21)	(89)	
<b>Net Profit</b>	<b>461</b>	<b>330</b>	<b>39.6</b>	<b>1,607</b>	<b>1,163</b>	<b>38.1</b>
Equity Capital (F.V Rs 10)	509	509		509	509	
Reserves (excl. revaluation reserves)	-	-		6,341	4,853	
<b>EPS for the period (Rs)</b>	<b>9.0</b>	<b>6.5</b>		<b>31.6</b>	<b>22.8</b>	
Book Value (Rs)	-	-		145	115	
<b>OPM (%)</b>	<b>32.8</b>	<b>25.7</b>		<b>30.2</b>	<b>27.7</b>	
NPM (%)	16.6	17.1		16.6	16.5	
<b>Expenditure (% of Net Sales)</b>						
Raw materials (incl. stock adj.)	47.3	58.1		55.4	59.9	
Staff Cost	5.0	1.9		3.0	2.2	
Other expenses	15.0	14.3		11.4	10.2	

### Median PE v/s Daily PE



### PE Band



<b>Income Statement</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009E</b>	<b>2010E</b>
<b>Revenues</b>	<b>3,256</b>	<b>4,687</b>	<b>6,242</b>	<b>8,850</b>	<b>14,158</b>	<b>27,354</b>
<i>Growth (%)</i>	<i>10.2</i>	<i>44.0</i>	<i>33.2</i>	<i>41.8</i>	<i>60.0</i>	<i>93.2</i>
<b>Total Expenditure</b>	<b>2,845</b>	<b>4,023</b>	<b>5,108</b>	<b>6,752</b>	<b>10,900</b>	<b>21,329</b>
<b>Operating Profit</b>	<b>411</b>	<b>664</b>	<b>1,134</b>	<b>2,099</b>	<b>3,258</b>	<b>6,025</b>
<i>Growth (%)</i>	<i>28.3</i>	<i>61.8</i>	<i>70.8</i>	<i>85.0</i>	<i>55.3</i>	<i>84.9</i>
Interest & dividend income	1	61	54	74	72	87
Subsidy	511	745	819	818	1,250	1,850
<b>EBIDT</b>	<b>923</b>	<b>1,471</b>	<b>2,008</b>	<b>2,991</b>	<b>4,580</b>	<b>7,962</b>
(-) Interest	202	167	267	457	1,046	1,451
(-) Depreciation	31	36	60	74	200	320
<b>PBT &amp; extraordinary items</b>	<b>689</b>	<b>1,267</b>	<b>1,682</b>	<b>2,460</b>	<b>3,334</b>	<b>6,191</b>
(-) Tax provision	241	505	618	853	1100	2055
(-) Extra Ordinary items	-	(75)	(100)	-	-	-
<b>Net Profits</b>	<b>447</b>	<b>837</b>	<b>1,163</b>	<b>1,607</b>	<b>2,234</b>	<b>4,136</b>
<i>Growth (%)</i>	<i>246.5</i>	<i>87.1</i>	<i>38.9</i>	<i>38.1</i>	<i>39.0</i>	<i>85.1</i>
Fully diluted Eq. sh. O/s (mn no)	32.5	50.9	50.9	50.9	54.9	54.9
Book Value (Rs)	47	95	115	145	231	304
Basic EPS (Rs)	13.8	16.4	22.8	31.6	40.7	75.3
<b>Diluted EPS (Rs)</b>	<b>8.1</b>	<b>15.2</b>	<b>21.2</b>	<b>29.3</b>	<b>40.7</b>	<b>75.3</b>

<b>Balance Sheet</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
<i>Equity Share Capital</i>	325	509	509	509	549	549
<i>Reserves &amp; Surplus</i>	1,219	4,315	5,369	6,849	12,124	16,122
<b>Net worth</b>	<b>1,544</b>	<b>4,824</b>	<b>5,878</b>	<b>7,358</b>	<b>12,673</b>	<b>16,672</b>
Total Debt	730	997	4,096	6,163	14,658	14,638
Deferred Tax liability	-	667	1,080	1,675	2,280	3,030
<b>Capital Employed</b>	<b>2,274</b>	<b>6,489</b>	<b>11,055</b>	<b>15,196</b>	<b>29,612</b>	<b>34,340</b>
Fixed Assets	1,000	1,560	2,963	6,136	14,888	16,417
Net current assets	1,552	4,928	8,092	9,060	14,724	17,923
Deferred Tax Liability	(278)	-	-	-	-	-
<b>Total Assets</b>	<b>2,274</b>	<b>6,489</b>	<b>11,055</b>	<b>15,196</b>	<b>29,612</b>	<b>34,340</b>

<b>Cash Flow Statement</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
<b>PBT &amp; Extraord. items</b>	<b>689</b>	<b>1,267</b>	<b>1,682</b>	<b>2,460</b>	<b>3,334</b>	<b>6,191</b>
Depreciation	31	36	60	74	200	320
Interest & dividend inc.	-	(5)	-	(74)	(72)	(87)
Interest paid	202	167	250	457	1,046	1,451
Misc Exp W/off	-	-	-	(25)	170	68
Tax paid	(50)	(75)	(120)	(258)	(495)	(1,305)
(Inc/Dec in working capital	(851)	1	(5,845)	(1,154)	(6,026)	(3,529)
Profit/Loss on sale of FA	-	-	(2)	-	-	-
Exchange differences	-	2	17	-	-	-
<b>Cash from operations</b>	<b>22</b>	<b>1,392</b>	<b>(3,958)</b>	<b>1,480</b>	<b>(1,843)</b>	<b>3,109</b>
Net capital expenditure	(96)	(618)	(1,480)	(3,247)	(9,125)	(1,935)
Interest recd	-	5	-	74	72	87
<b>Cash from investing activities</b>	<b>(96)</b>	<b>(613)</b>	<b>(1,480)</b>	<b>(3,173)</b>	<b>(9,053)</b>	<b>(1,848)</b>
Issue of eq. shares	-	2,534	-	-	3,184	-
Change in debt	371	420	3,096	2,067	8,495	(20)
Dividend paid	-	-	(70)	(102)	(100)	(120)
Interest paid	(202)	(167)	(240)	(457)	(1,046)	(1,451)
<b>Cash from financing activities</b>	<b>169</b>	<b>2,787</b>	<b>2,787</b>	<b>1,508</b>	<b>10,533</b>	<b>(1,591)</b>
<b>Inc/Dec. in cash</b>	<b>95</b>	<b>3,566</b>	<b>(2,651)</b>	<b>(185)</b>	<b>(363)</b>	<b>(329)</b>

<b>Key Ratios</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
OPM (%)	12.6	14.2	18.2	23.7	23.0	22.0
ROACE (%)	48.7	23.3	25.3	24.2	20.2	24.3
ROANW (%)	33.6	17.5	21.7	24.3	22.3	28.2
Sales/Total Assets (x)	1.4	0.7	0.6	0.6	0.5	0.8
Debt:Equity (x)	0.5	0.2	0.7	0.8	1.2	0.9
Current Ratio (x)	2.5	2.3	2.5	2.1	2.4	2.0
Debtors (days)	14.3	4.7	4.7	4.9	5.3	4.3
Inventory (days)	90.7	201.4	375.0	439.4	446.8	316.1
Net working capital (days)	171.6	378.5	466.7	368.5	374.4	235.9
EV/Sales (x)	4.3	5.8	2.6	3.0	2.6	1.4
EV/EBIDT (x)	15.0	18.6	8.0	8.8	8.0	4.7
P/E (x)	30.4	25.4	18.3	13.3	10.3	5.6
P/BV (x)	8.8	4.4	3.6	2.9	1.8	1.4

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