

Shipping Corp of India

Q2FY11 update

2 November 2010

Hold

Target Price: Rs168

CMP: Rs183*

Downside: 8.2%

*as on 2 November 2010

Other income boosts profitability

Shipping Corp of India's (SCI) Q2FY11 result was better than-expectations on back of strong performance across segments and profit from sale of ships. SCI's EBITDA margin improved 10.5 percentage points YoY to 23.0%. The liner segment continued to report profits with healthy growth. SCI has filed the DRHP with the market regulator proposing a follow-on public offer (FPO) to raise funds during the current fiscal. We believe the stock is fairly valued and maintain Hold.

- **Strong Q2 performance:** Though Q2FY11 revenue was flat at Rs8,764mn, up 3.7% YoY, net profit jumped 643.7% YoY on back of better performance across segments and profit from sale of ships. Bulk segment's revenue grew 14.5% YoY to Rs6,732mn, liner revenue increased 34.1% YoY to Rs2,894mn and others reported a 27.5% YoY growth to Rs598mn.
- **Other income boosts profitability:** Net profit for Q2 jumped 643.7% YoY and 30.9% QoQ to Rs2,506mn, on back of profit from sale of ships. SCI sold two product tankers and four crude oil carriers during Q2FY11 resulting in a profit of Rs1,280mn, thus boosting overall profitability.
- **Trading at fair value; maintain Hold:** We value SCI at 1x FY12 book value and maintain our target price of Rs168. Though we are positive on SCI's business portfolio mix and the strong performance during H1FY11, we believe that the stock appears fully valued at the current valuation of 1.1x FY12E P/BV and do not leave room for any further upside.

Siddhartha Khemka

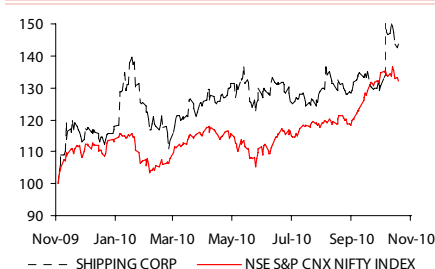
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Key Data

Bloomberg Code	SCI IN
Reuters Code	SCI.BO
Current Shares O/S (mn)	423.5
Diluted Shares O/S (mn)	465.8
Mkt Cap (Rsbn/USDbn)	77.7/1.8
52 Wk H / L (Rs)	203/120
Daily Vol. (3M NSE Avg.)	677,110
Face Value (Rs)	10

USD = Rs44.4

One Year Indexed Stock Performance



Price Performance (%)

	1M	6M	1Yr
SCI	11.9	11.2	41.1
NIFTY	(0.4)	15.9	29.9

Source: Bloomberg, Centrum Research

*as on 2 November 2010

Y/E March (Rsmn)	Q2FY11	Q2FY10	YoY (%)	Q1FY11	QoQ (%)
Revenue	8,764	8,449	3.7	9,065	(3.3)
Operating Expenses	4,203	5,142		4,588	
% of sales	48.0	60.9	(1,290)bp	50.6	(266)bp
Employee costs	1,158	1,063		1,284	
% of sales	13.2	12.6	63bp	14.2	
Other op expenses	1,390	1,193		963	
% of sales	15.9	14.1	174bp	10.6	
Operating profit	2,014	1,051	91.5	2,229	(9.7)
OPM (%)	23.0	12.4	1,053bp	24.6	(161)bp
Depreciation	1,033	957		1,013	
Interest	133	150	(11.8)	123	7.6
Profit from sale of ships	1,280	0		155	726.3
Other income	638	643		857	
PBT	2,766	587	371.3	2,105	31.4
Provision for tax	260	250		190	
-effective tax rate	9.4	42.6		9.0	
PAT (adjusted)	2,506	337	643.7	1,915	30.9
NPM (%)	28.6	4.0	2,461bp	21.1	747bp
EPS (adjusted) (Rs)	5.9	0.8		4.5	

Source: Company, Centrum Research

Y/E Mar (Rsmn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	EPS (Rs)	RoE (%)	RoCE (%)	P/BV (x)	P/E (x)	EV/EBITDA (x)
FY09	41,666	11.8	10,844	26.0	9,407	15.6	20.2	15.9	12.7	0.8	5.4	4.5
FY10	34,631	(16.9)	4,754	13.7	3,769	(59.9)	8.1	6.0	4.7	1.0	22.6	14.4
FY11E	37,885	9.4	9,446	24.9	6,965	84.8	15.0	10.1	7.7	1.1	12.2	10.5
FY12E	40,914	8.0	11,277	27.6	6,210	(10.8)	13.3	8.1	6.2	1.1	13.7	10.3
FY13E	44,023	7.6	12,899	29.3	6,958	12.1	14.9	8.7	6.4	1.0	12.3	9.2

Source: Company, Centrum Research Estimates

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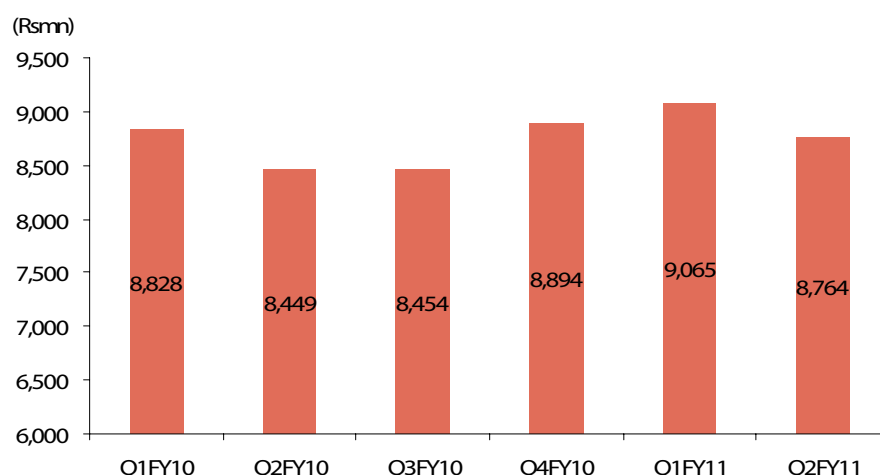
Strong performance across business segments

SCI's Q2FY11 results were better-than-expectations on back of strong performance across segments and profit from sale of older vessels. The revenue was flat at Rs8,764mn, up 3.7% YoY but declined 3.3% QoQ. However, the net profit jumped 643.7% YoY and 30.9% QoQ to Rs2,506mn, as the company recorded Rs1,280mn of profit from sale of ships.

On the segmental basis, the bulk segment continued with its stellar performance and dominated SCI revenue and profitability. Bulk segment's revenue grew 14.5% YoY to Rs6,732mn on back of new vessel addition in the product carriers. During Q2, the company took delivery of four LR-1 and one LR-2 new product tankers.

The liner business continued to improve its performance with a 34.1% YoY revenue growth during Q2 to Rs2,894mn (up 6.9% QoQ). The others segment comprising of the offshore vessels, passenger vessels and managed ships was steady at Rs598mn in Q1, a 27.5% YoY growth and 19.4% QoQ growth.

Exhibit 1: Total revenue remains steady



Source: Company, Centrum Research

Exhibit 2: Segmental result

Y/E March (Rsmn)	Q2FY11	Q2FY10	YoY (%)	Q1FY11	QoQ (%)
Revenue					
Liner Segment	2,894	2,158	34.1	2,708	6.9
Bulk Segment	6,732	5,878	14.5	6,442	4.5
Others	598	469	27.5	501	19.4
Un-allocable	3	1		1	
Total Revenue	10,227	8,506	20.2	9,651	6.0
EBIT					
Liner Segment	371	(622)	NM	262	41.5
Bulk Segment	1,674	588	184.9	1,252	33.7
Others	409	188	117.2	291	40.3
Other un-allocable	9	4		3	
Total EBIT	2,463	157	1,464.5	1,809	36.2
EBIT margin (%)					
Liner Segment	12.8	(28.8)	NM	9.7	314bp
Bulk Segment	24.9	10.0	1,486bp	19.4	543bp
Others	68.4	40.1	2,825bp	58.2	1,016bp
Total EBIT margin (%)	24.1	1.9	2,223bp	18.7	534bp

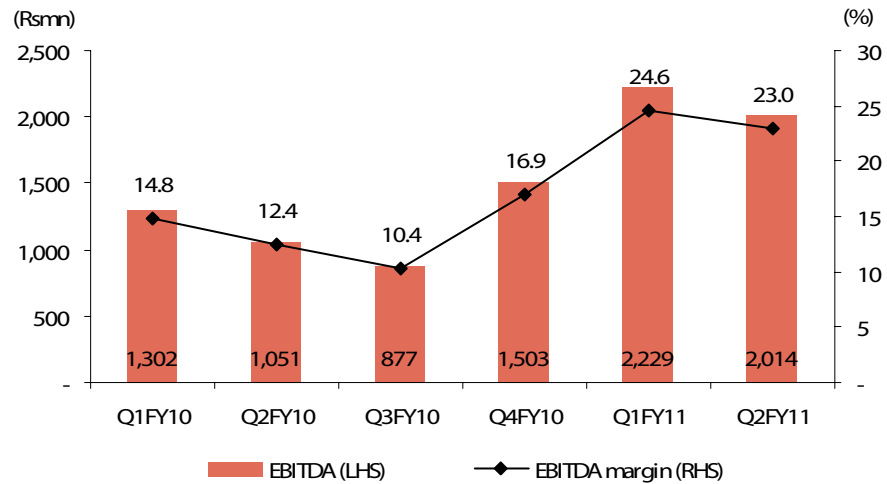
Source: Company, Centrum Research

Operating margins remain healthy

SCI's EBITDA margin improved 10.5 percentage points YoY but declined 161bp QoQ to 23.0%. The bulk segment's EBIT increased 184.9% YoY to Rs1,674mn as margins expanded both YoY and QoQ to 24.9% in Q2.

The Liner segment (container shipping business) after having turned profitable in Q1 continued its profitable performance during Q2FY11 with an EBIT growth of 41.5% QoQ to Rs371mn and against a loss of Rs622mn last year. The segmental margin was healthy at 12.8% for Q2 as against 9.7% reported during Q1 and loss last year.

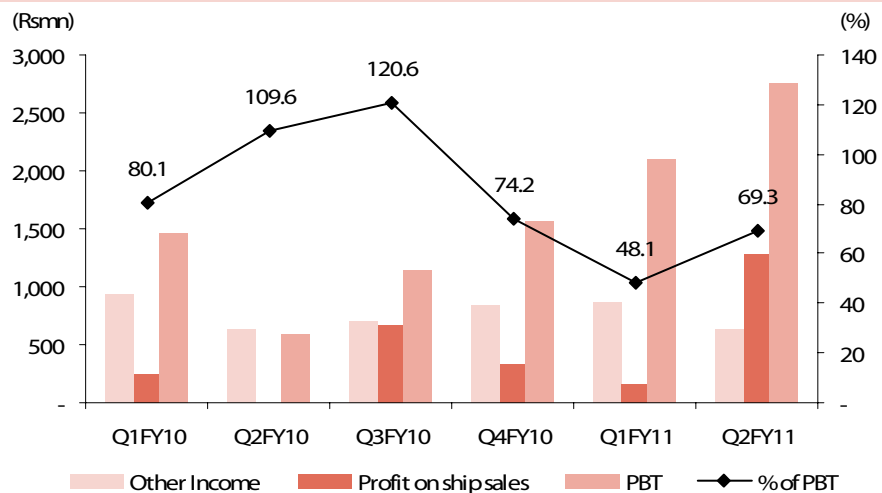
Exhibit 3: EBITDA margin up YoY but declines sequentially



Source: Company, Centrum Research

SCI sold two product tankers and four crude oil carriers during Q2FY11 resulting in a profit of Rs1,280mn, thus boosting overall profitability.

Exhibit 4: Share of other income in PBT



Source: Company, Centrum Research

Trading at fair value; maintain Hold with a target of Rs168

We continue to value SCI at 1x FY12 book value and maintain our target price of Rs168. Though we are positive on SCI's business portfolio mix and the strong performance during H1FY11, we believe that the stock appears fully valued at the current valuation of 1.1x FY12E P/BV and do not leave room for any further upside. Historically, SCI has traded at an average one year forward P/B of 1.0x. We maintain Hold.

Financials

Exhibit 5: Income Statement

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
Revenue	41,666	34,631	37,885	40,914	44,023
YoY growth (%)	11.8	(16.9)	9.4	8.0	7.6
Vessel operating expenses	9,825	9,673	8,606	9,425	10,103
% of Sales	23.6	27.9	22.7	23.0	22.9
Direct operating expenses	13,600	13,700	13,184	13,502	14,087
% of Sales	32.6	39.6	34.8	33.0	32.0
Hire of chartered ships	4,732	3,755	3,789	3,682	3,742
% of Sales	11.4	10.8	10.0	9.0	8.5
Admin & Other expenses	2,666	2,749	2,860	3,028	3,192
% of Sales	6.4	7.9	7.6	7.4	7.3
Total expenditure	30,823	29,877	28,439	29,637	31,124
EBIDTA	10,844	4,754	9,446	11,277	12,899
EBIDTA margin (%)	26.0	13.7	24.9	27.6	29.3
Depreciation	3,239	3,801	5,169	5,860	6,700
EBIT	7,605	953	4,278	5,417	6,199
Interest expenses	647	525	916	1,247	1,272
Other income	3,496	2,509	2,826	2,426	2,556
Profit from sale of ships	345	1,225	1,552	304	248
PBT	10,799	4,162	7,739	6,900	7,731
Extraordinary items	(253)	598	0	0	0
Provision for tax	1,139	991	774	690	773
Effective tax rate (%)	10.5	23.8	10.0	10.0	10.0
Adj Net Profit	9,407	3,769	6,965	6,210	6,958
YoY growth (%)	15.6	(59.9)	84.8	(10.8)	12.1
PAT margin (%)	22.6	10.9	18.4	15.2	15.8

Source: Company, Centrum Research Estimates

Exhibit 6: Balance Sheet

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
Equity Share Capital	4,235	4,235	4,658	4,658	4,658
Reserves & Surplus	57,850	59,136	70,152	73,636	77,869
Net worth	62,085	63,370	74,810	78,294	82,527
Secured Loans	24,717	26,969	36,644	45,351	48,003
Total Loan Funds	24,717	26,969	36,644	45,351	48,003
Total Capital Employed	86,801	90,339	111,454	123,645	130,530
Gross Block	81,618	88,932	114,692	138,272	148,712
Accumulated Depreciation	43,339	43,864	49,033	54,893	61,593
Net Block	38,279	45,068	65,659	83,379	87,119
Capital WIP	20,999	18,547	20,042	21,776	24,640
Net Fixed Assets	59,278	63,615	85,702	105,155	111,760
Investments	1,115	1,667	1,667	1,667	1,667
Inventories	633	832	623	673	724
Sundry debtors	4,295	3,381	3,633	3,923	4,221
Cash & bank balances	26,728	24,065	22,325	14,844	14,900
Other Current Assets	5,245	6,440	5,920	6,178	6,442
Loans and Advances	3,384	3,199	3,031	3,273	3,522
Total current assets	40,285	37,915	35,532	28,890	29,808
Current liabs & prov	13,877	12,859	11,446	12,067	12,704
Net Current Assets	26,409	25,057	24,085	16,823	17,104
Total Assets	86,801	90,339	111,454	123,645	130,530

Source: Company, Centrum Research Estimates

Exhibit 7: Cash flow

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
Profit after Tax	9,407	3,769	6,965	6,210	6,958
Depreciation	3,239	3,801	5,169	5,860	6,700
Misc Exp / Non cash	(411)	0	0	0	0
CF bf WC change	12,235	7,570	12,134	12,070	13,658
Working capital adj	2,860	(1,598)	(844)	(37)	(38)
Cash from operation	15,095	5,973	11,290	12,033	13,619
Capex	(15,545)	(8,139)	(27,255)	(25,314)	(13,304)
Investments	(700)	(552)	0	0	0
Advances to JV cos	25	286	75	(182)	(187)
Cash from investing	(16,221)	(8,405)	(27,180)	(25,496)	(13,491)
Borrowings/ (repayments)	10,175	2,252	9,675	8,707	2,652
Proceeds from sh capital	0	0	7,200	0	0
Dividend paid (inc tax)	(3,220)	(2,469)	(2,725)	(2,725)	(2,725)
Staff Welfare Activities	(12)	(15)	0	0	0
Cash from financing	6,942	(232)	14,150	5,982	(73)
Net Cash inc/(dec)	5,816	(2,664)	(1,740)	(7,481)	56
Opening Cash Balance	20,912	26,728	24,065	22,325	14,844
Closing Cash Balance	26,728	24,065	22,325	14,844	14,900
FCF to firm (FCFF)	(451)	(2,166)	(15,965)	(13,281)	315
FCF per share	(1)	(5)	(34)	(29)	1

Source: Company, Centrum Research Estimates

Exhibit 8: Key Ratios

Y/E March	FY09	FY10	FY11E	FY12E	FY13E
O/s shares mn (FV-Rs 10)	423.5	423.5	465.8	465.8	465.8
Per share (Rs)					
Fully diluted EPS	20.2	8.1	15.0	13.3	14.9
CEPS	27.1	16.3	26.0	25.9	29.3
BVPS	133.3	136.0	160.6	168.1	177.2
Cash/Share	57.4	51.7	47.9	31.9	32.0
Dividend ratios					
DPS (Rs)	6.5	5.0	5.0	5.0	5.0
Dividend yield (%)	6.0	2.7	2.7	2.7	2.7
Dividend payout (%)	34.5	34.2	65.5	39.1	43.9
Turnover ratios (days)					
Debtors turnover	35.4	40.4	33.8	33.7	33.8
Creditors turnover	61.1	78.7	63.8	56.2	56.3
Working cap turnover	9.8	3.5	13.3	16.7	17.3
Asset turnover (x)	0.5	0.4	0.3	0.3	0.3
Return ratios (%)					
RoE	15.9	6.0	10.1	8.1	8.7
RoCE	12.7	4.7	7.7	6.2	6.4
RoIC	13.7	4.0	7.2	5.6	5.5
Solvency ratios					
Debt/ Equity (x)	0.4	0.4	0.5	0.6	0.6
Interest coverage (%)	4.5	7.2	7.5	9.1	8.2
Valuation ratios (x)					
P/E	5.4	22.6	12.2	13.7	12.3
P/BV	0.8	1.0	1.1	1.1	1.0
EV/EBIDTA	4.5	14.4	10.5	10.3	9.2
EV/Sales	1.2	2.0	2.6	2.8	2.7
M-Cap to Sales	1.2	1.9	2.2	2.1	1.9

Source: Company, Centrum Research Estimates

Appendix A

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