

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 |
| <i>Effective tax rate (%)</i> | <i>37.6</i> | <i>31.7</i> | <i>30.7</i> | <i>31.4</i> |
| 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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