

**STOCK DATA**

Market Cap	Rs5.9 bn.
Book Value per share	Rs52
Eq Shares O/S (F.V. Rs.10)	23.8 mn.
Median Vol (12 mths)	38,822 (BSE+NSE)
52 Week High/Low	Rs310/162
Bloomberg Code	GWOS.IN
Reuters Code	GRSH.BO

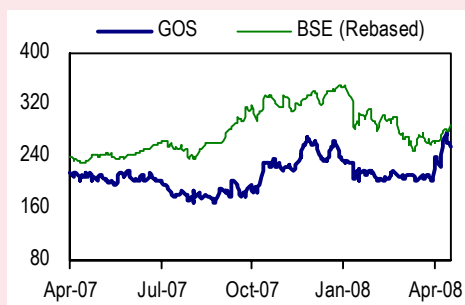
**SHAREHOLDING PATTERN (%)**

Qtr. Ended	Sep-07	Dec-07	Mar-08
Promoters	34.7	29.8	30.0
MFs/FIs	3.9	3.2	3.1
FIIIs	14.8	21.8	22.1
PCBs	7.6	13.9	15.3
Indian Public	39.0	31.3	29.5

**STOCK PERFORMANCE (%)**

	1M	3M	12M
Absolute	24.9	15.6	19.5
Relative	18.2	23.9	(0.8)

**STOCK PRICE PERFORMANCE**



**KEY HIGHLIGHTS**

**Garware Offshore Services Ltd's (GOSL) Q4FY08 results were in line with expectations as net sales rose 21% to Rs234mn. However, net profits were below estimates as they grew by 9% to Rs58mn.**

● **Moderate increase in revenues**

GOSL's revenue growth was a sedate 21% to Rs234mn vis-a-vis historical performance as one PSV *Everest* was dry-docked for 10 days and *Garware I* (AHTSV) was idle for a couple of months. *PSV Everest* was renegotiated with its current charterer British Gas till 2010 at ~20% higher rates while *Garware I* has been renegotiated with ONGC for 5 years. Benefits of both will accrue from Q1FY09.

● **OPM expands 140bps**

OPM expanded 140bps to 60.9% following renegotiation of contracts and induction of a PSV, which is more profitable than AHTSVs. However, OPM declined sequentially due to the dry-docking and partial benefit of the renegotiated prices. Operating profits grew 24% to Rs143mn.

● **Sluggish growth in net profits**

Higher earnings and operating margins were negated to a large extent by increased capital charges of interest and depreciation as GOSL has raised debt to fund its fleet expansion. Interest expenses surged by 27% and depreciation by 50%. Thus, net profits grew by a mere 9% to Rs58mn.

**VALUATIONS AND RECOMMENDATION**

At the CMP of Rs250, GOSL trades at a P/E of 8.1x and EV/EBITDA of 6.9x FY10 estimates. GOSL's plans to expand its fleet size by 3 AHTSVs and 2 PSVs remains on track. It also plans to induct higher tonnage OSVs and a construction barge to expand its presence in the offshore value chain. GOSL has further plans to diversify its revenues to include commission and brokerage earned from inchartering as well as sale of vessel designs of Havyard.

Such an aggressive expansion imparts considerable risk of slippage, which can significantly impact earnings potential. However, we are confident of the company achieving its targeted expansion and despite richer valuations, we maintain our 'BUY' recommendation with a 12-month price target of Rs300.

**KEY FINANCIALS**

Rs mn	Quarter Ended			Yr Ended (March) (Cons)				
	Sep-07	Dec-07	Mar-08	2005	2006	2008E	2009E	2010E
Net Sales	269	266	234	309	524	1,195	1,571	2,143
YoY Gr.(%)	99.2	90.3	21.0	(3.2)	69.7	128.1	31.5	36.4
Op. Profits	151	175	143	137	295	689	1,037	1,428
Op. Marg.(%)	56.1	65.6	60.9	44.3	56.2	57.7	66.0	66.6
Net Profits	235	83	58	106	156	496	467	733
Eq. Capital	238	238	238	158	221	238	238	238

**KEY RATIOS (CONS)**

	Yr Ended (March)				
	2005	2006	2008E	2009E	2010E
Dil. EPS (Rs)	4.4	6.5	20.8	19.6	30.8
ROCE (%)	8.0	11.2	21.6	16.7	17.9
RONW (%)	14.2	16.5	33.5	23.7	31.1
P/E (x)	37.3	35.4	12.0	12.7	8.1
EV/ Sales (x)	15.3	13.9	6.7	6.4	4.7
EV/EBDIT (x)	30.5	23.6	8.9	9.2	6.9

## PERFORMANCE OVERVIEW

GOSL's stand-alone net revenues in Q4FY08 rose 21% to Rs234mn, which was restrained by dry docking of *Everest* (PSV) as well as non-operation of AHTSV *Garware-I* for 2 months. OPM expanded by 140 bps to 60.9% and accordingly operating profits grew by 24% to Rs143mn. Higher capital charges however, restricted net profits to enhance by only 9% to Rs58mn.

*Revenues for 15mFY08 surge on account of vessel addition and contract renewals...*

For the 15MFY08, GOSL's consolidated net revenues surged by 128% to Rs1.2bn on the back of robust day rates, renegotiation of contracts and induction of a PSV (*Kamet*). OPM expanded by 150bps to 57.7% on account of earnings from the additional PSV, which commands better margins. Accordingly, operating profits escalated 134% to Rs689mn. Interest expenses quadrupled to Rs211mn as GOSL raised debt to finance expansion of its fleet. Depreciation and taxation was stable to garner a net profit growth of 218% to Rs496mn.

### Fleet details

*Present fleet of 3 AHTSVs and PSVs will expand to 6 AHTSVs and 5 PSVs by FY09...*

After the sale of *Garware II*, an '83 built AHTSV, GOSL has 3 AHTSVs and 3 PSVs in its fleet. During FY09, its adding 3 more AHTSVs and 2 PSVs, thus taking its fleet strength to 11. Among the existing fleet, one AHTSV is on contract with ONGC and the remaining are on spot. The three PSVs are on contract with Transocean, British Gas and ONGC. Among the new built vessels, one AHTSV has already been contracted for a period of three years at lucrative day rates and the remaining will either enter a charter contract or ply in the spot market to take advantage of the robust day rate scenario.

GOSL also plans to foray into the higher tonnage segment and is planning to induct a construction barge as well as a higher tonnage AHTSV on a bareboat charter in H1FY10. The estimated outlay for the assets would be ~Rs4.2bn and will be financed in the DER of 3:1.

### Market Scenario

*Day rates across asset classes remain firm...*

Despite fears of impending oversupply, day rates for offshore assets continue to hold firm. Semi-submersibles prices have firmed and they command an average day rate of USD285-315k/day and drill ships command day rates of almost USD300k/day. Jack-up rig rates, despite recent expectations of a softening in rates continue to hover at ~USD120k/day levels. Rig utilisation has gone up by 200bps in the last 6 months to 86.3% and with delays in supply of new built vessels and rising oil prices, rates should remain firm. Offshore supply vessel rates are directly related to rig rates and hence are also expected to remain firm.

## OUTLOOK

We expect revenues to spurt 32% to Rs1.6bn in FY09 and OPM to expand by 830 bps to 66% on account of better profitability from newer assets and increasing share of PSVs to total earnings. Net profits should stand at Rs467mn. Similarly for FY10, we expect revenues to grow by 36% to Rs2.1bn and OPM should improve by a further 60 bps to 66.6%. Stable capital charges should lead a 57% growth in net profits to Rs733mn.

## VALUATIONS AND RECOMMENDATION

*Reiterate our 'BUY' recommendation...*

*At the CMP of Rs250, GOSL trades at a P/E of 8.1x and EV/EBDIT of 6.9x its FY10E earnings. GOSL remains committed and on track in its fleet expansion programme. Earnings from newer vessels should give a fillip to earnings. Further, revision in contracts should aid the growth momentum and will be supplemented through commission and brokerage income. We remain bullish on the company's prospects and reiterate our 'BUY' recommendation with a price target of Rs300 on a 12-month investment perspective.*

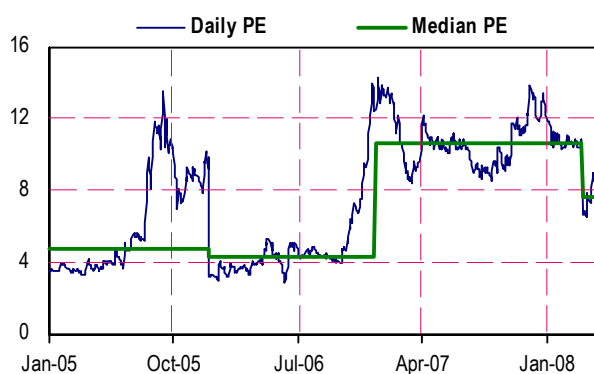
### Company description

GOSL is an established player in the domestic Offshore Supply Vessel space. It currently has 6 OSVs in its fleet, which it plans to expand to 11 by FY09. It has a prudent mix of spot and charter contracts for its vessels to capitalise on the buoyancy in day rates. Its vessels are in contracts with marquee clients like ONGC, British Gas and Transocean. It will also sell designs and set up a KPO on behalf of its supplier and partner, Havyard of Norway.

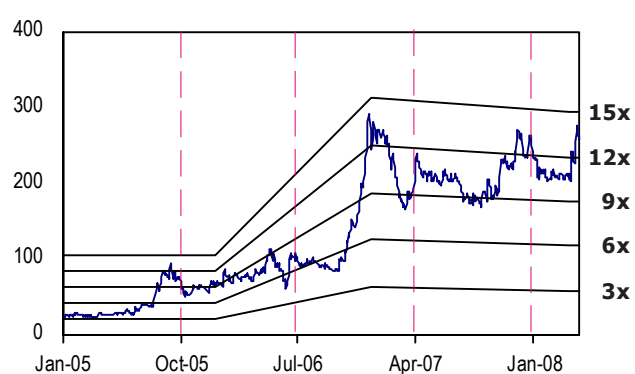
## Standalone Financial Results for the quarter & fifteen months ended 31 March 2008 (15mFY08)

Particulars (Rs mn)	Quarter Ended			15 Month ended		
	31/03/08	31/03/07	Gr %	31/03/08	31/03/07	Gr %
<b>Net Sales</b>	<b>234</b>	<b>193</b>	<b>21.0</b>	<b>1,112</b>	<b>524</b>	<b>112.3</b>
<b>Expenditure</b>	<b>91</b>	<b>78</b>	<b>16.6</b>	<b>440</b>	<b>229</b>	<b>92.0</b>
(Inc.) / Dec. stock-in-trade	(18)	1		(68)	(29)	
Staff Cost	50	33	53.5	216	111	94.3
Other expenditure	59	45	31.8	292	147	98.4
<b>Operating profit</b>	<b>143</b>	<b>115</b>	<b>24.0</b>	<b>672</b>	<b>295</b>	<b>128.2</b>
Other Income	2	2		205	14	
<b>PBDIT</b>	<b>145</b>	<b>117</b>	<b>23.3</b>	<b>878</b>	<b>308</b>	<b>184.8</b>
Interest	43	34		211	68	
Depreciation	43	29		180	76	
<b>PBT &amp; Extra Ord. Items</b>	<b>59</b>	<b>55</b>	<b>7.1</b>	<b>486</b>	<b>164</b>	<b>195.8</b>
Tax inc. deferred tax	1	1		7	9	
<b>Net Profit</b>	<b>58</b>	<b>53</b>	<b>8.5</b>	<b>479</b>	<b>156</b>	<b>207.3</b>
Equity Capital (FV Rs 10)	238	190		238	188	
Reserves (excl. rev. res.)	-	-		-	918	
<b>EPS for the period (Rs)</b>	<b>2.4</b>	<b>2.8</b>		<b>20.1</b>	<b>8.3</b>	
Book Value (Rs)	-	-		-	52	
<b>OPM (%)</b>	<b>60.9</b>	<b>59.5</b>		<b>60.4</b>	<b>56.2</b>	
NPM (%)	24.7	27.5		43.1	29.8	
<b>Expend. (% of net sales)</b>						
(Inc.) / Dec. stock-in-trade	(7.5)	0.5		(6.1)	(5.5)	
Staff Cost	21.4	16.8		19.4	21.2	
Other expenditure	25.2	23.2		26.2	28.1	

### Median PE v/s Daily PE



### PE Band



<b>Income Statement</b>	<b>2005</b>	<b>2006</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
<b>Revenues</b>	<b>309</b>	<b>524</b>	<b>1,195</b>	<b>1,571</b>	<b>2,143</b>
<i>Growth (%)</i>	(3.2)	69.7	128.1	31.5	36.4
<b>Total Expenditure</b>	<b>172</b>	<b>229</b>	<b>506</b>	<b>534</b>	<b>715</b>
<b>Operating Profit</b>	<b>137</b>	<b>295</b>	<b>689</b>	<b>1,037</b>	<b>1,428</b>
<i>Growth (%)</i>	7.3	115.7	134.0	50.4	37.7
Other Income	19	14	205	60	15
<b>EBIDT</b>	<b>155</b>	<b>308</b>	<b>895</b>	<b>1,097</b>	<b>1,443</b>
(-) Interest	5	68	211	380	400
(-) Depreciation	36	76	180	240	280
<b>PBT &amp; extraordinary items</b>	<b>114</b>	<b>164</b>	<b>503</b>	<b>477</b>	<b>763</b>
(-) Tax provision	8	9	7	10	30
<b>Net Profits</b>	<b>106</b>	<b>156</b>	<b>496</b>	<b>467</b>	<b>733</b>
<i>Growth (%)</i>	-	47.25	218.38	(5.90)	56.98
Fully diluted Eq. sh. O/s (mn no)	15.8	22.1	23.8	23.8	23.8
Book Value (Rs)	47	52	77	89	109
Basic EPS (Rs)	6.7	7.1	20.8	19.6	30.8
<b>Diluted EPS (Rs)</b>	<b>4.4</b>	<b>6.5</b>	<b>20.8</b>	<b>19.6</b>	<b>30.8</b>

<b>Balance Sheet</b>	<b>2005</b>	<b>2006</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
<i>Equity Share Capital</i>	158	221	238	238	238
<i>Reserves &amp; Surplus</i>	588	918	1,585	1,879	2,353
<b>Net worth</b>	<b>746</b>	<b>1,139</b>	<b>1,823</b>	<b>2,117</b>	<b>2,591</b>
Total Debt	811	1,847	2,200	4,200	4,250
<b>Capital Employed</b>	<b>1,557</b>	<b>2,987</b>	<b>4,023</b>	<b>6,317</b>	<b>6,841</b>
Fixed Assets	1,284	2,667	3,478	5,659	5,801
Net current assets	268	315	534	643	1,005
Investments	5	6	11	15	35
<b>Total Assets</b>	<b>1,557</b>	<b>2,987</b>	<b>4,023</b>	<b>6,317</b>	<b>6,841</b>

<b>Cash Flow Statement</b>	<b>2005</b>	<b>2006</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
<b>PBT &amp; Extraord. items</b>	<b>114</b>	<b>164</b>	<b>503</b>	<b>477</b>	<b>763</b>
Depreciation	36	76	180	240	280
Interest & dividend inc.	(2)	(11)	(205)	(60)	(15)
Interest paid	5	68	211	380	400
Misc Exp W/off	(16)	(3)	(104)	(60)	(40)
Tax paid	(12)	(20)	(7)	(10)	(30)
(Inc/Dec in working capital	(23)	37	(184)	(146)	(289)
<b>Cash from operations</b>	<b>101</b>	<b>312</b>	<b>394</b>	<b>821</b>	<b>1069</b>
Net capital expenditure	(949)	(1,426)	(888)	(2,362)	(381)
Net investments	-	(1)	(5)	(4)	(20)
Interest recd	2	11	205	60	15
<b>Cash from investing activities</b>	<b>(946)</b>	<b>(1,416)</b>	<b>(688)</b>	<b>(2,306)</b>	<b>(386)</b>
Issue of eq. shares incl premium	86	277	187	-	-
Change in debt	778	1,036	353	2,000	50
Dividend paid	(7)	(34)	-	(173)	(259)
Interest paid	(2)	(96)	(211)	(380)	(400)
<b>Cash from financing activities</b>	<b>855</b>	<b>1184</b>	<b>329</b>	<b>1448</b>	<b>(609)</b>
<b>Inc/Dec. in cash</b>	<b>10</b>	<b>79</b>	<b>35</b>	<b>(37)</b>	<b>74</b>

<b>Key Ratios</b>	<b>2005</b>	<b>2006</b>	<b>2008E</b>	<b>2009E</b>	<b>2010E</b>
EBIDT (%)	44.3	56.2	57.7	66.0	66.6
ROACE (%)	8.0	11.2	21.6	16.7	17.9
ROANW (%)	14.2	16.5	33.5	23.7	31.1
Sales/Total Assets (x)	0.2	0.2	0.3	0.2	0.3
Debt:Equity (x)	1.1	1.6	1.2	2.0	1.6
Current Ratio (x)	5.0	4.5	4.0	4.4	4.8
Debtors (days)	172.7	78.1	76.4	79.0	82.6
Inventory (days)	65.9	95.7	86.6	102.5	117.4
Net working capital (days)	254.2	81.7	47.2	65.3	77.6
EV/Sales (x)	15.3	13.9	6.7	6.4	4.7
EV/EBIDT (x)	30.5	23.6	8.9	9.2	6.9
P/E (x)	37.3	35.4	12.0	12.7	8.1
P/BV (x)	5.3	4.8	3.3	2.8	2.3

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