RESEARCH REPORT

ON

GREAT OFFSHORE LTD.

"STRONG BUY"

NVS BROKERAGE PVT. LTD.

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A Great Journey Ahead **Strong Buy**

27th October, 2011

Sector	: Oil & Gas	
CMP	: Rs. 117	
1 Year Target Price	: Rs. 225	
SENSEX	: 17712	
SENSEX P/E	: 18.96	
NIFTY	: 5325	
NIFTY P/E	: 18.94	
	Great Offshore	**Industry**
P/E	4.1	9.71

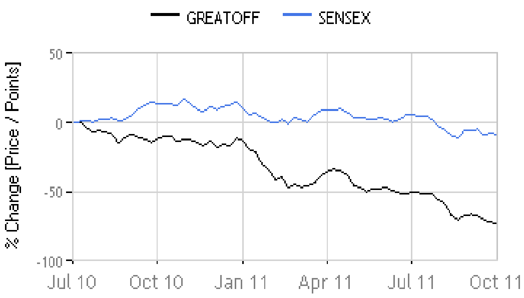
Scrip Details

Market Cap	: Rs. 425 Crs **(87 mn USD)**
Nominal Value	: Rs. 10/Share
Book Value	: Rs. 305/Share
Share Capital	: Rs. 37 Crs.
52 Week H/L	: Rs 454/Rs 111
BSE Code	: 532786
NSE Code	: GTOFFSHORE

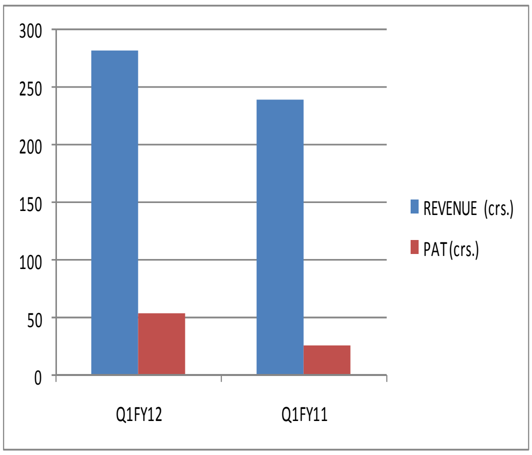
Shareholding Pattern (%)

Categories	**JUNE 11**	**JUNE 10**
Promoters	49.73	49.73
FII	12.10	12.10
DII	03.27	03.27
Others	35.00	35.00
TOTAL	**100.00**	**100.00**

Script Performance vis-à-vis Sensex



REVENUE vis-à-vis PAT



Investment Triggers

- **Great Offshore Ltd.(GOL)** is India's prominent integrated off-shore oilfield services provider, with a current fleet size of 46 which includes Jack up rigs, Hydraulic Tugs and MUV, offers a broad spectrum of services to upstream oil and gas producers to carry out offshore exploration and production (E&P) activities.
- **Bharati Shipyard Ltd.** acquired 49.73% in **GOL** through **Open Market Purchase** and subsequent **Open Offer** at an **Average Price** of **Rs. 540/ share**, making a huge investment of Rs **993 crores** (current **Market Cap**. is **Rs. 425 Crs**.).
- **GOL** Stock touched an **All time hig**h of **Rs. 1149** in Jan 2008 and gradually plummeted to a **recent low** of Rs. **111** in October. 2011 making it the best bargain buy at only **10%** of its peak value.
- **GOL** has acquired a new **Jack up Rig** which is due for deploy-ment in **Dec, 2011**.Once deployed, it should significantly im-prove **GOL's Topline and Bottom-line** and will also help **GOL** bring its **Average Fleet Age** lower .
- **GOL** posted excellent **Q1FY12** results with PAT jumping by **105%** from **Rs.27crs. to 55 crs.** and **EPS** increasing from Rs.**7.18** to **Rs.14.75** on a tiny equity of Rs. **37 crs**.
- **GOL** is currently trading at a **P/Ex** of **4.1** and **P/BV** of **0.38 (Book value of Rs. 305/share)** based on FY11 performance. With a visible turnaround in Q1 performance from an **EPS** of **Rs. 7.18** to **Rs.14.75,** we believe **GOL** is a **Highly Undervalued op-portunity** with a strong potential for growth and appreciation.
- We recommend **"Strong Buy"** with a **target price of Rs. 225** with a investment horizon of **12-18 months.**

Financial Performance Rs in Crs

PERIOD	Q1FY12	Q1FY11	Q-o-Q (%)	MAR' 11	MAR' 10	Y-o-Y (%)
REVE-NUE	282	239	18	851	1012	-15
PAT	55	27	103	102	174	-42
EPS	14	7	105	27	47	-42

Share Capital : Rs. 37 Crs.

GREAT OFFSHORE LTD. - *An Interesting Story*

History

- In 1947, Mr Vasant Sheth bought Liberty vessels from US giving rise to the **Great Eastern Shipping Company (GE Shipping). GE Shipping** became India's largest private sector shipping company .

- In 1980, **GE Shipping** entered into the offshore services business. The offshore business was absorbed into **Great Eastern Shipping** and the offshore division was formed under **Vijay Sheth as Managing Director**.

- In 2005, the board of **Great Eastern Shipping** decided to demerge the offshore business into a separate company, **Great Offshore Limited**, with an independent board.

- The Sheth's consolidated their family holding to around **24%** through the so-called **"creeping acquisition route"** and two share buyback schemes floated between 2000 and 2005.

Entry of Bharati Shipyard Limited (BSL)

- Due to certain circumstances, stake held by **GOL** promoters were sold and which was subsequently acquired by **BSL**.

- On 6th May, 2009 **BSL** acquired **14.89%** stake in **GOL** at **Rs 315 per share.**

- After a long tussle between **BSL** and **ABG Shipyard** Ltd to buy out **GOL**, **BSL** finally acquired **GOL** through **Open Market Purchases** and also made an **Open Offer** at **Rs. 590 per share.**

- The entire exercise resulted in **BSL** acquiring **49.73% stake** in **GOL**, making a huge investment to the tune of Rs. **993 crores**.

About BSL

- **BSL** is the foremost privately operated shipyard in terms of building facilities in India.

- **BSL** has earned its reputation by constructing a large array of specialized sophisticated vessels for diverse offshore, coastal and the marine market sectors.

- **BSL** product range includes highly maneuverable and power packed offshore vessels including AHTS, PSV's and MSV's of varying bollard pulls, Tractor and ASD tugs, state of the art dredgers, deep sea fishing vessels, cargo and container ships, tankers and Ro- Ro Vessels.

- **BSL** is spearheaded by **Mr. P.C.Kapoor (MD)** and **Mr. Vijay Kumar (MD).** which are one of the most prominent and very well known personalities in the Indian Corporate World**.** With over 3 decades of vast experience and Remarkable achievements, **BSL** is currently headed by a strong and a sound Management.

- The acquisition of **GOL** in **FY 2010** was a forward integration for **BSL**.

GOL - One Stop for Oilfield Services

- **First Indian company to own and operate a platform supply vessel and the first to own and operate a fire fighting support vessel.**
- **Over the last 14 years GOL has successfully executed 12 offshore projects on an EPIC basis.**
- **First Indian operator of harbour tugs in India with a presence in almost all major ports.**
- **Commenced North Sea operations in 2002 with 'Malaviya Sixteen' becoming the first Indian company to operate there.**

- Great Offshore is India's prominent integrated offshore oilfield services provider offering a broad spectrum of services to upstream oil and gas producers to carry out offshore exploration and production (E&P) activities.
- From drilling services to marine and air logistics, from marine construction to port/terminal services and beyond, Great Offshore meets a wide gamut of the offshore requirements of an E&P operator.
- Since inception in 1983, Great Offshore has serviced major E&P operators in India as well as in the international waters of the North Sea, the Middle East, South Africa and South East Asia with its state-of-the-art vessels that include exploratory rigs, offshore support vessels, anchor handling tug supply vessels and a construction barge.
- GOL also provides port and terminal support services through a fleet of harbour tugs.
- **Wholly Owned Subsidiaries** :
  - Deep Water Services (India) Limited
  - Great Offshore Fujairah L.L.C. – FZC
  - Great Offshore (International) Limited
  - KEI-RSOS Maritime Limited
  - Great Offshore Salvage Services Limited
  - Great Offshore Ship Repairs Limited
- **Assets Composition**
  - 2 Drilling units
  - 29 Offshore Support Vessels
  - 12 Harbour Tugs
  - 2 Construction and Accommodation Barges
  - 1 Floating Dry Dock

GOL - A Promising Future

- Wide range of **Fleet composition** contributes in making **GOL** a Diversified and Integrated Oilfield Service provider with presence in all the major areas of **Offshore business** such as **Offshore Drilling, Logistic Support, Engineering Services, Port and Terminal Support, Ship Repair Services and Inspection and Maintenance Services.**

- **GOL** has ordered a new,350 feet, **Jack up Rig (V351)** which is due for delivery in **Q3FYI2** and will hopefully will be operational from **Q4FY12**.This new **Jack up Rig** shall contribute significantly to **GOL's Topline and Bottom-line** from **Q4FY12** and the full potential of the new Rig will be reflected from **FY12-13** onwards.

- **ONGC**, **GOL**'s biggest client, is a **Navratna PSU** and the **largest Oil producer** in the country which contributes more than **50%** of **GOL's revenue**. New expansions and Large Capex plans undertaken by **ONGC** will help **GOL** bag New Orders and contribute significantly to its **Topline and Bottom-line.**

- **GOL's** experience of deploying assets in international waters has been rewarding and enables the company to leverage the track record and experience while serving the foreign customers in Indian territory as well.

- The deal between **BSL** and **GOL** was highly beneficial to both of them as all the Ship Building orders from **GOL** flows to **BSL** which keeps their Order Book filled whereas **GOL** gets decent discounts on the Ship Building Orders given to **BSL.**

- ***Strong Client Profile***
    - ONGC
    - Reliance Industries Ltd.
    - Bharat Petroleum Corp. Ltd.
    - Indian Oil Corporation Ltd
    - Cairn Energy
    - Ratnagiri Gas Power Generation Ltd.
    - PPN Power
    - Tuticorin Port
    - Qatar Petroleum

GOL - Performance at a Glance (2007-2011)

Particulars	Mar ' 11	Mar ' 10	Mar ' 09	Mar ' 08	Rs. in crs. Mar ' 07
Total Income	851	1,012	950	694	537
EBIDTA	356	431	422	328	261
PAT	102	174	211	203	142
Equity Cap. (FV - Rs.10)	37	37	37	38	38
Reserves	1,100	992	656	670	585
Per Share Data					
EPS (Rs)	28	47	57	53	37
Book Value (Rs.)	305	276	186	191	168
Dividend (%)	25	25	25	80	80
EBIDTA Margin (%)	42	42	45	47	48
PAT Margin (%)	12	17	22	29	26

GOL - Q1FY12 Performance

Particulars	Quarter Ended		(%) Change	Year Ended		(%) Change
	June'11	June' 10	Q-o-Q	Mar' 11	Mar' 10	Y-o-Y
Total Income	282	239	18	851	1012	-15
EBIDTA	127	65	95	356	431	-15
PBT	93	34	173	109	192	-43
PAT	55	27	103	102	174	-42
Equity Cap.	37	37	-	37	37	-
EPS	14	7	105	27	47	-42
PAT Margin (%)	19	11	72.6	12	17	-28

Notes : **1) Q1FY12 Total Income includes Profit on sale of vessel of Rs. 48 crs.**
2) Q1FY12 PAT is arrived at after Provision for Current Tax of Rs. 17 crs. and Deferred Tax of Rs. 21 crs.

CRITICAL ANALYSIS

- Global Meltdown had a severe impact on **GOL's Financials** from the year 2007 to 2011.**GOL's PAT** Margins has **shrunk** drastically over the years owing to **the Global Meltdown**. However, **GOL's** stellar **Q1FY12** performance shows good improvement in **PAT Margin**. We believe, from here, there would be a gradual improvement in **Margins** Y-o-Y.

- **GOL's Q2 performance** should give a conclusive evidence of a **definite turnaround** in the fortune of the company and hence the current levels should provide **excellent opportunity** for investment to the **Equity Investors.**

- **GOL's** fortune should receive big boost in **FY12-13** (and probably in **Q4FY12)** when the new **Jack up Rig** is added to the Companies Fleet. Based on our enquiry, we believe that this **new Rig** should fetch a **rental** of not less than **USD 1,50,000/day** equivalent to approximately **Rs. 250 crs. annually.** to the **Topline.**

SWOT ANALYSIS

STRENGTHS

- Large fleet size of 46 vessels in an attractive offshore space
- Strong Promoters
- 85% of the contracts are long-term with the contract period up to 5 years, indicating more stability in revenue.
- Diversification into marine engineering and port services is expected to con tribute nearly 10% and 15% to the total revenue in FY12E.
- ONGC, a leading Indian Company in Oil & Gas Sector, is GOL's biggest client

WEAKNESSES

- 34% of the fleet is more than 20 years old.
- As 85% of the fleet is on long-term contract. It may not be able to get maximum benefit from spurting rates in spot markets.
- Any major dry docking expense for its fleet may dampen profitability.
- GOL is subject to exchange rate risk as its business is dollar dominated.

OPPORTUNITIES

- GOL may consider an acquisition or order new assets.
- Securing more orders in the newly diversified sector.
- There is a natural entry barrier as the order book of most shipyards is running full till FY12.

THREATS

- Damage to its rigs, which are old, will dampen revenue.
- Delay in new deliveries.
- Re-pricing of assets at lower than existing rates or major fall in spot market rates will affect its revenue.

TECHNICAL ANALYSIS - GOL

- **GOL (BSE Code : 532786)** was listed on BSE in **Dec. 2006** after being spun off as a separate Company from erstwhile, the division of the **Great Eastern Shipping Co. Ltd.** The share made an **All Time High of Rs. 1149.95 on 8th Jan 2008** and crashed to a **low of Rs. 215** on **9th March 2009**.In line with the relief rally in the markets, the share bounced back and touched a **High of Rs. 584** on **17th September 2009.**

- The Markets staged a further rally to cross **BSE Sensex level of 21,000** on **5th Nov., 2010**, however **GOL** started its next phase of correction and touched an **All time Low** of **Rs. 110.95** on **26th Oct. 2011** and since then it seems to be consolidating. We believe that considering the positive **Q1FY12** financial performance and the technical correction taking the share price to almost less than **10% of its All Time High on 8th Jan 2008,** the share has almost completed its downward journey and is in the process of bottoming out.

- The **Q2FY12 performance** and the **general trend** in the stock market will decide the course of the share price in next couple of months.

VALUATIONS

TABLE NO. 1

Particulars	P/BV	PE
GOL	0.38	4.1
Sensex	3.49	18.65
BSE 100	3.08	17.67
BSE 200	2.98	17.21
BSE 500	2.83	17.11

TABLE NO. 2

Year	Market Capitalization (crs.)	Market Price (Rs.)
2007-08	4,200	1149
2010-11	425	117

- **GOL's** Share price plummeted almost **90%** from **Rs. 1,149** in **January 2008** to **Rs. 111** in **October 2011** leading to a massive destruction in **Market Capitalization** of **GOL (refer Table no.2)** from **Rs. 4200 crs**. in **Jan 2008** to **Rs. 415 crs**. in **September 2011** as a result of selling pressures on account of **Global Meltdown**

- **Table No. 1** compares **GOL's Price to Book Value Ratio and Price-earnings ratio viz-a-viz the broad Capital Market Indices** and proves that **GOL** is an **Highly Undervalued Investment Opportunity.**

- **GOL** is attractively priced at a **Price to Book value ratio** of **0.38** when compared to its peer **Aban Offshore** which trades at a **Price to Book value ratio** of **0.92** which indicates a strong appreciation opportunity.

- The **New Jackup Rig** which is likely to join the **Companies Fleet** and hopefully be deployed in **December 2011** to **January 2012** should substantially augment the **Topline** and **Bottom-line** of **GOL**, strengthening its financial performance**.**

- **ONGC's,** the biggest client of **GOL, New Expansions** and **large Capex Plans** should help **GOL** bag **New Projects** in the near future which should auger well for **GOL Financials** in the times ahead.

RECOMMENDATIONS

- At **CMP** of Rs **117/share**, which is at **90% discount** to its **All time high** of **Rs. 1149**,**GOL** appears to be an **Attractive Investment Opportunity**. We believe that investors with a **Investment Horizon** of **12-18 months** should **accumulate** this stock.

- We **recommend** our Investors '**Strong Buy'** with **Long Term Price Target of Rs 225/share.**

- We **strongly recommend** all the **Individuals, HNIs and Institutional Investors** to **add Great Off-shore Ltd. (GOL)** to their **investment Portfolio** with a **12-18 Months Price Target** of **Rs. 225/ share**.

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