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Kejal Mehta  
kejalmehta@plindia.com  
+91-22-66322246

Dhrushil Jhaveri  
dhrushilhaveri@plindia.com  
+91-22-66322232

Rating	Accumulate
Price	Rs841
Target Price	Rs970
Implied Upside	15.3%
Sensex	20,852

(Prices as on November 8, 2010)

#### Trading data

Market Cap. (Rs bn)	47.5
Shares o/s (m)	56.5
3M Avg. Daily value (Rs m)	1585.6

#### Major shareholders

Promoters	53.05%
Foreign	3.52%
Domestic Inst.	6.13%
Public & Other	37.30%

#### Stock Performance

(%)	1M	6M	12M
Absolute	(2.8)	(16.8)	(34.3)
Relative	(5.8)	(41.2)	(63.4)

Price Performance (RIC: ABAN.BO, BB: ABAN IN)



Source: Bloomberg

- Overall results in-line, PAT dampened due to exceptional items:** Aban Offshore's (Aban's) results, prior to exceptional items, stood in-line with our expectations. Its top-line stood at Rs8.28bn, 17.8% YoY growth and 1.7% QoQ decline. Margins stood strong at 67.2% as against 64.6% in Q2FY10. Aban's PAT, prior to exceptional items, stood at Rs0.89bn, 24.7% YoY growth. However, there was a strong decline of 56.7% on a sequential basis on account of a loss of Rs302m from its share in the JV which owns the asset 'Deep Venture' on a bareboat charter. As against this loss, Q1FY11 witnessed a profit of Rs952m on account of 'Early Termination' fee being received. PAT after exceptional items (Rs139.4m on account of diminution in investment in Petrojack which has filed for bankruptcy) stood at Rs752m.
- Three new contracts awarded:** Aban signed two new contracts during the quarter, resulting in all of its vessels, except one, being contracted. Currently, of its 19 vessel fleet, three are dry-docking, while one is idle. All three are likely to commence their charters by November-December 2010. This includes *Aban Abraham* as well, which will result in H2FY11 looking stronger than the first half. Charters for three of the company's rigs, which are currently deployed with ONGC, are due to end within the next 6-7 months. However, we do not expect any upsides on the same as they are contracted at healthy rates of ~US\$150K/day.
- Debt position:** Aban's consolidated debt position as on September 30, 2010 stood at Rs132bn as against Rs141bn as on March 31, 2010. The repayments include US\$150m repaid from the insurance claim amount of *Aban Pearl*. Further, we expect debt to reduce to Rs119bn by the end of FY11 based on repayment of Rs16.8bn which is due during the fiscal. For this, we expect equity issuance of Rs5bn during the course of the year.
- Valuations:** On the basis of PER and EV/EBITDA, Aban trades at 6.1x FY11 and 5.7x FY12 and 7.1x FY11 and 6.1x FY12, respectively. We do not expect any strong upsides in the near term, as even in case of an improvement in the overall offshore environment, upsides for Aban upto FY12 will be capped as majority of its rigs are deployed, with contracts ending in CY12. With an equity issuance also on the cards, we expect upsides in the near-term to be limited. We maintain 'Accumulate' on the stock, with a 12 month PT of Rs970.

Key financials (Y/e March)	2009	2010	2011E	2012E
Revenues (Rs m)	30,501	33,587	37,516	39,563
Growth (%)	50.9	10.1	11.7	5.5
EBITDA (Rs m)	17,327	21,004	22,211	23,674
PAT (Rs m)	5,407	5,518	6,732	8,367
EPS (Rs)	143.1	126.8	138.8	148.1
Growth (%)	339.6	(11.4)	9.4	6.7
Net DPS (Rs)	3.6	2.0	3.6	3.6

Source: Company Data; PL Research

Profitability & Valuation	2009	2010	2011E	2012E
EBITDA margin (%)	56.8	62.5	59.2	59.8
RoE (%)	56.2	33.7	29.8	24.1
RoCE (%)	6.9	6.9	7.8	8.6
EV / sales (x)	6.3	5.2	4.2	3.6
EV / EBITDA (x)	11.1	8.4	7.1	6.1
PE (x)	5.9	6.6	6.1	5.7
P / BV (x)	2.2	2.0	1.5	1.1
Net dividend yield (%)	0.4	0.2	0.4	0.4

Source: Company Data; PL Research

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**Q2FY11 Result Overview (Rs m)**

Y/e March	Q2FY11	Q2FY10	YoY gr. (%)	Q1FY11	H1FY11	H1FY10	YoY gr. (%)
<b>Sales</b>	<b>8,281</b>	<b>7,029</b>	<b>17.8</b>	<b>8,425</b>	<b>16,705</b>	<b>14,964</b>	<b>11.6</b>
<b>Expenditure</b>							
Consumption Stores & Spares	276	266	4.0	333	609	648	(6.0)
<i>% of Net Sales</i>	<i>3.3</i>	<i>3.8</i>		<i>3.9</i>	<i>3.6</i>	<i>4.3</i>	
Staff cost	870	544	59.9	884	1,754	1,280	37.0
<i>% of Net Sales</i>	<i>10.5</i>	<i>7.7</i>		<i>10.5</i>	<i>10.5</i>	<i>8.6</i>	
Other exp	1,572	1,690	(7.0)	2,006	3,577	3,818	(6.3)
<i>% of Net Sales</i>	<i>19.0</i>	<i>24.0</i>		<i>23.8</i>	<i>21.4</i>	<i>25.5</i>	
Total Expenses	2,718	2,500	8.7	3,223	5,940	5,745	3.4
<b>EBITDA</b>	<b>5,563</b>	<b>4,529</b>	<b>22.8</b>	<b>5,202</b>	<b>10,765</b>	<b>9,218</b>	<b>16.8</b>
<i>EBITDA Margin (%)</i>	<i>67.2</i>	<i>64.4</i>		<i>61.7</i>	<i>64.4</i>	<i>61.6</i>	
Depreciation	1,230	994	23.7	1,291	2,521	1,983	27.1
Other Income	24	70	(65.9)	143	167	170	(1.7)
<b>EBIT</b>	<b>4,357</b>	<b>3,606</b>	<b>20.8</b>	<b>4,054</b>	<b>8,411</b>	<b>7,405</b>	<b>13.6</b>
Less: Interest	2,406	2,611	(7.8)	2,272	4,678	4,975	(6.0)
<b>PBT</b>	<b>1,950</b>	<b>995</b>	<b>96.0</b>	<b>1,783</b>	<b>3,733</b>	<b>2,430</b>	<b>53.6</b>
Tax	757	711	6.6	678	1,435	1,319	8.8
<i>Effective Tax Rate (%)</i>	<i>38.8</i>	<i>71.4</i>		<i>38.0</i>	<i>38.4</i>	<i>54.3</i>	
<b>PAT</b>	<b>1,193</b>	<b>284</b>	<b>319.8</b>	<b>1,105</b>	<b>2,298</b>	<b>1,111</b>	<b>106.8</b>
Share in JV	(302)	430	NA	952	650	712	(8.7)
<b>PAT After Share in JV and Minority Interest</b>	<b>891</b>	<b>714</b>	<b>24.7</b>	<b>2,057</b>	<b>2,948</b>	<b>1,823</b>	<b>61.7</b>
Exceptional item	(139)	-		(3,496)	(3,635)	-	
<b>PAT after exceptional item</b>	<b>752</b>	<b>714</b>	<b>5.2</b>	<b>(1,439)</b>	<b>(687)</b>	<b>1,823</b>	<b>NA</b>

Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	2009	2010	2011E	2012E
<b>Net Revenue</b>	<b>30,501</b>	<b>33,587</b>	<b>37,516</b>	<b>39,563</b>
Raw Material Expenses	1,735	1,300	1,951	1,978
Gross Profit	28,766	32,287	35,566	37,585
Employee Cost	3,153	2,883	3,376	3,561
Other Expenses	8,286	8,399	9,978	10,349
<b>EBITDA</b>	<b>17,327</b>	<b>21,004</b>	<b>22,211</b>	<b>23,674</b>
Depr. & Amortization	6,015	4,616	5,602	4,967
Net Interest	8,553	9,768	8,194	5,916
Other Income	4,043	218	800	1,200
<b>Profit before Tax</b>	<b>6,802</b>	<b>6,838</b>	<b>9,215</b>	<b>13,991</b>
Total Tax	2,508	2,571	3,686	6,296
<b>Profit after Tax</b>	<b>4,294</b>	<b>4,268</b>	<b>5,529</b>	<b>7,695</b>
Ex-Od items / Min. Int.	1,120	(3,566)	(5,788)	672
<b>Adj. PAT</b>	<b>5,407</b>	<b>5,518</b>	<b>6,732</b>	<b>8,367</b>
<b>Avg. Shares O/S (m)</b>	<b>37.8</b>	<b>43.5</b>	<b>48.5</b>	<b>56.5</b>
<b>EPS (Rs.)</b>	<b>143.1</b>	<b>126.8</b>	<b>138.8</b>	<b>148.1</b>

**Cash Flow Abstract (Rs m)**

Y/e March	2009	2010	2011E	2012E
C/F from Operations	14,529	1,814	9,180	14,529
C/F from Investing	(55,409)	18,637	7,850	(824)
C/F from Financing	40,375	(24,040)	(17,699)	(20,357)
Inc. / Dec. in Cash	(506)	(3,588)	(669)	(6,651)
Opening Cash	6,453	5,948	2,360	1,691
Closing Cash	5,948	2,360	1,691	(4,961)
FCFF	(37,240)	(24,812)	21,069	13,706

**Key Financial Metrics**

Y/e March	2009	2010	2011E	2012E
<b>Growth</b>				
Revenue (%)	50.9	10.1	11.7	5.5
EBITDA (%)	64.5	21.2	5.7	6.6
PAT (%)	339.6	2.1	22.0	24.3
EPS (%)	339.6	(11.4)	9.4	6.7
<b>Profitability</b>				
EBITDA Margin (%)	56.8	62.5	59.2	59.8
PAT Margin (%)	17.7	16.4	17.9	21.1
RoCE (%)	6.9	6.9	7.8	8.6
RoE (%)	56.2	33.7	29.8	24.1
<b>Balance Sheet</b>				
Net Debt : Equity	11.5	7.7	4.5	2.3
Net Wrkng Cap. (days)	(2,133)	(1,436)	(1,235)	(1,448)
<b>Valuation</b>				
PER (x)	5.9	6.6	6.1	5.7
P / B (x)	2.2	2.0	1.5	1.1
EV / EBITDA (x)	11.1	8.4	7.1	6.1
EV / Sales (x)	6.3	5.2	4.2	3.6
<b>Earnings Quality</b>				
Eff. Tax Rate	36.9	37.6	40.0	45.0
Other Inc / PBT	59.4	3.2	8.7	8.6
Eff. Depr. Rate (%)	4.2	2.7	3.4	3.0
FCFE / PAT	(24.4)	(897.5)	(21.3)	(172.3)

Source: Company Data, PL Research.

**Balance Sheet Abstract (Rs m)**

Y/e March	2009	2010	2011E	2012E
Shareholders Funds	14,180	18,546	26,584	42,719
Total Debt	166,355	141,641	119,141	91,016
Other Liabilities	3,783	3,696	3,696	3,696
<b>Total Liabilities</b>	<b>184,318</b>	<b>163,883</b>	<b>149,421</b>	<b>137,431</b>
Net Fixed Assets	175,604	153,645	140,193	136,050
Goodwill	—	—	—	—
Investments	5,751	4,951	4,951	4,951
Net Current Assets	2,964	5,288	4,277	(3,569)
<i>Cash &amp; Equivalents</i>	<i>5,948</i>	<i>2,360</i>	<i>1,691</i>	<i>(4,961)</i>
<i>Other Current Assets</i>	<i>11,106</i>	<i>12,269</i>	<i>14,730</i>	<i>15,640</i>
<i>Current Liabilities</i>	<i>14,090</i>	<i>9,342</i>	<i>12,144</i>	<i>14,248</i>
Other Assets	—	—	—	—
<b>Total Assets</b>	<b>184,318</b>	<b>163,883</b>	<b>149,421</b>	<b>137,431</b>

**Quarterly Financials (Rs m)**

Y/e March	Q3FY10	Q4FY10	Q1FY11	Q2FY11
<b>Net Revenue</b>	<b>8,413</b>	<b>10,210</b>	<b>8,425</b>	<b>8,281</b>
<b>EBITDA</b>	<b>5,194</b>	<b>6,592</b>	<b>5,202</b>	<b>5,563</b>
<i>% of revenue</i>	<i>61.7</i>	<i>64.6</i>	<i>61.7</i>	<i>67.2</i>
Depr. & Amortization	1,352	1,281	1,291	1,230
Net Interest	2,599	2,194	2,272	2,406
Other Income	39	10	143	24
<b>Profit before Tax</b>	<b>1,282</b>	<b>3,127</b>	<b>1,783</b>	<b>1,950</b>
Total Tax	711	541	678	757
<b>Profit after Tax</b>	<b>895</b>	<b>393</b>	<b>(1,439)</b>	<b>752</b>
<b>Adj. PAT</b>	<b>895</b>	<b>2,801</b>	<b>2,057</b>	<b>891</b>

**Key Operating Metrics**

Y/e March	2009	2010	2011E	2012E
Fleet Size	19.0	20.0	19.0	19.0
No. of uncontracted rigs	4.0	4.0	2.0	1.0
No. of vessels under dry-docking	—	—	—	1.0

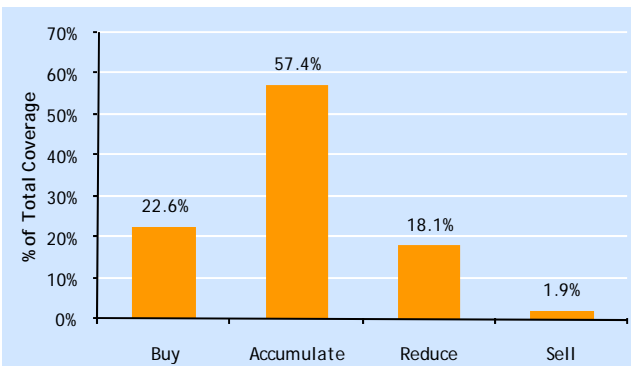
Source: Company Data, PL Research.

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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<b>Reduce</b>	: Underperformance to Sensex over 12-months	<b>Sell</b>	: Over 15% underperformance to Sensex over 12-months
<b>Trading Buy</b>	: Over 10% absolute upside in 1-month	<b>Trading Sell</b>	: Over 10% absolute decline in 1-month
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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