

## Initiating Report

## Aban Offshore (ABALLO)

## Tough times ahead...

Aban Offshore (Aban), India's largest offshore oil service rig provider, will see its revenues and earnings peak in FY10 owing to induction of new vessels to its fleet. Post FY10, the growth will taper down due to lower day rates and fall in utilisation levels for its fleet. The slowdown in revenues and earnings momentum will reduce the ability of Aban to service its highly leveraged balance sheet. We are initiating coverage on the stock with an UNDERPERFORMER rating.

- Revenues and earnings to peak in FY10

We expect Aban's revenues and earnings to fall post FY10E to Rs 3455.9 crore in FY11E, on the back of an increase in the number of idle rigs from four to eight by FY11E, existing contracts expiring and new contracts at lower day rates. The company's revenues registered a CAGR of 22.9% over FY07-FY09, on the back of addition of eight new rigs and rigs getting contracts at all-time high day rates. However, with the current cutbacks in global E&P spending, we expect the rigs to be contracted at 25-35% lower day rates.

- Slowdown of E&P capex to reduce fleet utilisation post FY10

Aban is a company purely involved in drilling with high earnings leveraged to the exploration and production (E&P) capex cycle. Thus, the cutback in spending is already impacting the company. Weak oil prices are currently leading to a decline in the oil E&P activities, which, in turn, is reducing the fleet utilisation. Since Aban's newly acquired assets are mainly debt financed, low fleet utilisation will lead to weak cash flows post FY10E.

- High leverage and refinance woes to burden earning growth

Aban has a debt to equity of 16x in FY08. The company will find it difficult to repay US\$360.2 million liability by December 2009 and will need to refinance it during the year. In the current scenario, we believe the company may succeed in restructuring its debt profile probably at higher interest rates.

- Valuations

At the current market price of Rs 1050, the stock is trading at a P/E multiple of 6.2x its FY10E earnings of Rs 169.4 per share and 8.2x its FY11E earnings of Rs 128.1 per share. Weak crude oil prices and slowdown in E&P activities have had a negative impact on the stock. We have valued Aban on multiple valuation parameters using global benchmarks and arrived at a target price of Rs 810, downside of 23%.

## Exhibit 1: Key Financials

Year to March 31	FY07	FY08	FY09E	FY10E	FY11E
Operating revenues (Rs crore)	718.7	2021.1	3183.6	3821.2	3455.9
Net Profit (Rs crore)	-14.0	123.0	555.3	670.8	514.7
Shares in issue (in crore)	3.7	3.8	3.8	3.8	3.8
EPS (Rs)	-8.1	24.5	138.7	169.4	128.1
% Growth	-	48.0	466.8	22.1	-24.4
PER (x)	-129.6	42.9	7.6	6.2	8.2
Price / Book (x)	7.3	4.9	3.3	2.3	1.9
EV/EBITDA (x)	38.8	13.1	9.6	7.4	8.2
RoNW (%)	-6.5	15.1	36.7	32.0	20.6
RoCE (%)	3.0	9.0	10.5	12.6	12.0

Source: ICICIdirect.com Research, Company

Current Price Rs 1050	Target Price Rs 810
--------------------------	------------------------

Potential upside -23%	Time Frame 12-15 months
--------------------------	----------------------------

**UNDERPERFORMER**

## Analysts' Name

Bharat Chhoda

bharat.chhoda@icicidirect.com

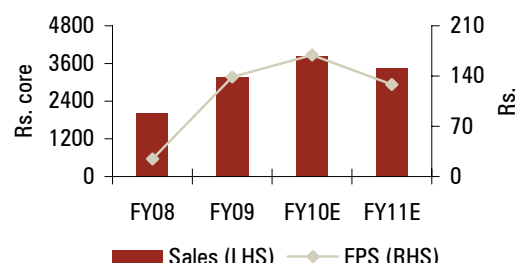
Purna Jhunjunwala

purna.jhunjunwala@icicidirect.com

Rahul Malhotra

rahul.malhotra@icicidirect.com

## Sales &amp; EPS trend



## Stock Metrics

Bloomberg Code	ABAN IN
Reuters Code	ABAN.BO
Face value (Rs)	2
Promoters Holding	61%
Market Cap (Rs cr)	3969
52 week H/L	3845 / 221.1
Sensex	15411
Average volumes	1475984

## Comparative return metrics

Stock Returns (%)	3M	6M	12M
Aban Offshore	328	65	-69
Garware Offshore	182	129	-18
GE Shipping Co	97	93	-35
Great Offshore	82	62	-43

## Price Trend



## Company background

### Aban Offshore Ltd

Aban Offshore Ltd (Aban), formerly Aban Loyd Chiles Offshore Ltd established in 1986, is an offshore oil and gas drilling company. Aban provides oilfield services to offshore exploration and production of hydrocarbons to the oil industry in India and abroad.

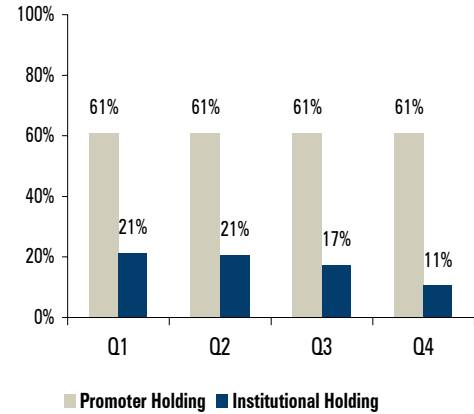
Aban is India's largest offshore drilling entity, offering world class drilling services. The company is among the ten largest and fastest growing offshore drilling service providers in the world. The company acquired Sinvest ASA in early 2007, taking its total fleet size from 14 to 21 offshore rigs. The fleet comprises of 16 jack-up drilling rigs, three drill ships, one floating production platform and one semi-submersible.

Aban Offshore caters to major oil companies like ONGC, Hardy Exploration and Production (India) Inc, Oriental Oil and Co Dubai, Shell Brunei, Shell Malaysia, Gujarat State Petroleum Corporation Ltd (GSPC), Cairn energy and Petronas Carigali.

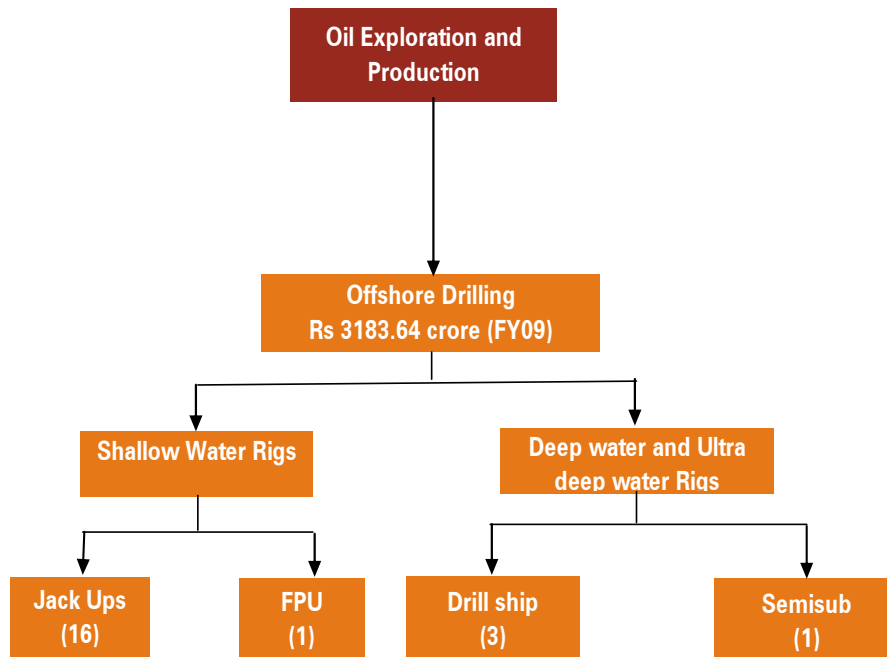
### Shareholding pattern (Q4FY09)

Shareholder	% holding
Promoters	60.8
Institutional investors	10.5
Other investors	10.1
General public	18.6

### Promoter & Institutional holding trend (%)



### Exhibit 2: Business segment



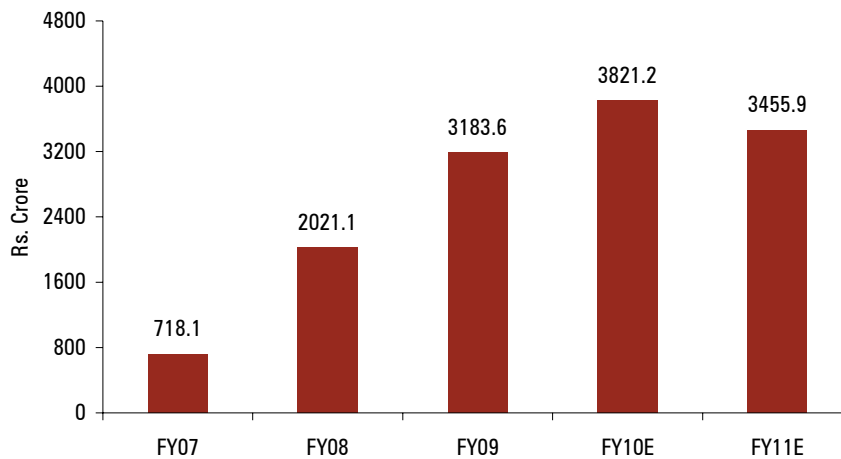
Source: ICICIdirect.com Research

## Investment concerns

### ▪ Low revenue visibility going forward

We expect Aban's revenues to decline by 9.6% in FY11E, mainly on account of lower day rates, falling jack-up utilisation levels across the globe (refer *Exhibit:20*) and recent order cancellation of Aban Abraham. A further rise in the number of idle rigs from the current four to eight in the next six to seven months is a major risk for the company. Post delivery of Deep Driller 8 that was added in Q4FY09, the current fleet stands at 21. As a result of this, the company will see its revenues peak in FY10E. However, we expect assets that are coming up for renewal in the near future to be contracted at significantly lower day rates. This, coupled with the muted outlook of the offshore industry, will lead to a decline in the total revenues from Rs 3821.2 crore in FY10E to Rs 3455.9 crore in FY11E.

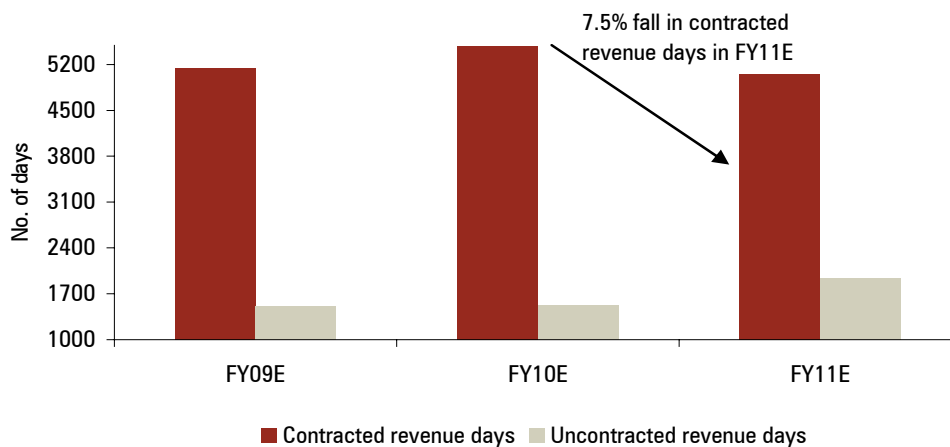
**Exhibit 3: Revenues to decline post FY10E**



*Aban to see its revenues peak in FY10 and then start falling on account of lower day rates, due to slowdown in E&P activity*

Source: Company, ICICIdirect.com Research

**Exhibit 4: Fall in contracted revenue days**

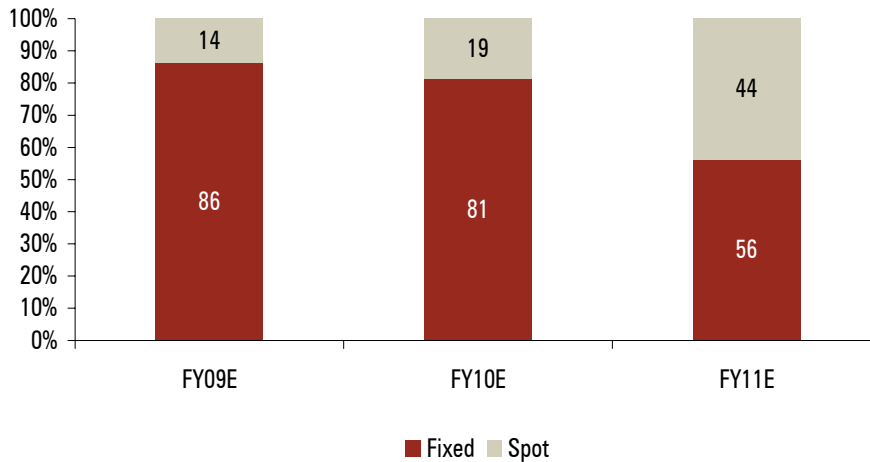


Source: Company, ICICIdirect.com Research

▪ **Revenues from fixed contracts to fall**

We expect the percentage revenue from fixed contracts to the total revenues to fall to 56% in FY11E, on account of more assets coming in for renegotiation in the near future. Companies across the globe are finding it difficult to get their assets deployed, on the back of weak crude oil prices and decline in E&P activities. Consequently, Aban is also finding it difficult to get new contracts for four rigs, which are currently idle. As a result of this, we expect the revenue contribution from fixed contracts in the total revenues to fall from 86% in FY09E to 56% in FY11E.

**Exhibit 5: Percentage revenues from fixed and spot contracts**



*Decline in revenues from fixed contracts to 56% in FY11E*

Source: Company, ICICIdirect.com Research

▪ **Decline in E&P expenditure...**

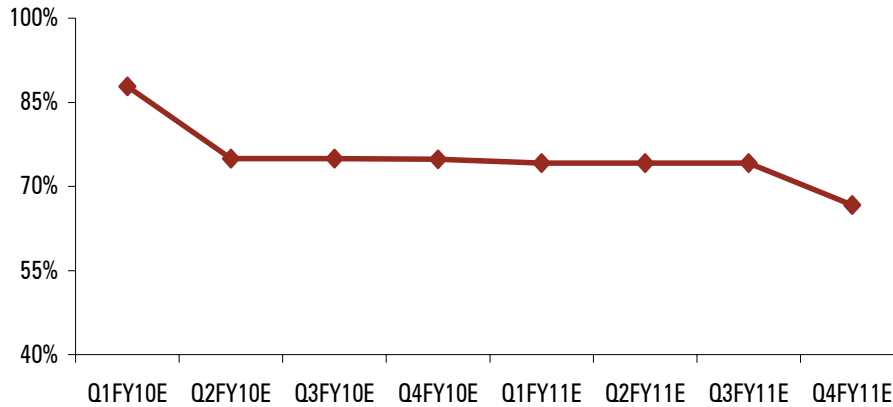
Weak crude oil prices and weak demand for crude oil will have a negative impact on the jack-up day rates, as the demand for rigs decline. Though jack-up rates and asset values have not declined significantly so far, new build prices have witnessed softness. Not only are large number of under construction rigs without contracts, even old ones are finding it difficult to get new contracts.

**...reducing fleet utilisation**

The current slowdown in the global E&P capital expenditure on the back of weak oil prices is eventually leading to a fall in the demand for rigs, resulting in shrinkage of the overall offshore industry. Globally, offshore companies are facing the risk of contract cancellations and are unable to get new contracts. Further, Aban mainly operates jack-up rigs, which are used in shallow waters.

With deepwater sea drilling gaining importance, the demand for jack-up rigs, the key revenue spinner of the company, would fall thereby reducing the utilisation of fleet. We expect the fleet utilisation for Aban to fall to 72% in FY11. That is provided the company is unable to get new contracts for the five rigs, which are currently idle and three more rigs whose contracts will expire in the next six to seven months.

### Exhibit 6: Fleet utilisation



*Fleet utilisation expected to fall from 79% in FY09 to 72% in FY11E*

Source: Company, ICICIdirect.com Research

### Exhibit 7: Idle rigs detail\*

Date	Rigs Detail
March, 2009	Four rigs idle
June, 2009	Two rigs coming for renewal
September, 2009	Two more rigs coming for renewal

Source: Company, ICICIdirect.com Research

\* excluding the two rigs (DD1 & DD4 which has contract extension option of one year and six months, respectively)

### ...in turn leading to fall in day rates

Weak crude oil prices have led to a significant drop in the E&P activity worldwide. Companies around the globe have either announced a reduction in oil exploration and production spending or are planning to do so. This, coupled with substantial rig addition to the global fleet, may result in rig day rates falling to 2004-2005 levels i.e. at an average rate of US\$80,000-110,000 over the next two years. Hence, we have factored in a 25-35% decline in the rig day rates based on crude prices averaging out at the current levels for the next two years.

### Exhibit 8: Day rates by rig type (US\$ '000)

Day rates	August, 2008	June, 2009
Semi-submersible	200 - 500	180 - 420
Jack up Rigs	120 - 200	100 - 150
Drillships	400 - 600	350 - 450

Source: Industry, ICICIdirect.com Research

Aban has four of its assets without contracts and contract for the rig DD1 has expired in May 2009. As of now, the company has been unable to find any new contract for the same. Going forward, three more are coming up for renewal in the next six to seven months. Further, according to recent news flow Addax Petroleum has cancelled the contract for Aban Abraham, a drill ship due to delays in delivery. We have factored in the same in our estimates.

### Exhibit 9: Rigs status and day rates assumptions (US\$ per day)

Rigs	Rig Type	Status	FY09E	FY10E	FY11E
Aban 7	Jack Up (250ft)	Currently idle	70,000	63,000	56,700
Deep Driller 7	Jack up (375ft)	Currently idle	98,000	88,200	79,380
Murmaskaya	Jack up (331ft)	Currently idle	79,600	-	-
Deep Driller 2	Jack up (350ft)	Ended in May 2009	185,000	185,000	166,500
Deep Driller 6	Jack up (350ft)	Currently idle	120,000	108,000	97,200
Deep Driller 5	Jack up (375ft)	Ends in June 2009	225,000	167,000	167,000
Deep Driller 8	Jack up (350ft)	Ends in August 2009	200,000	200,000	180,000
Tahara	Floating Platform Unit (FPU)	Ends in July 2009	56,875	56,875	51,188
Deep Driller 1	Jack up (375ft)	Ends in May 2009+1 yr option	194,000	194,000	174,600
Deep Driller 4	Jack up (375ft)	Ends in June 2009+6 month option	98,000	100,000	90,000
Aban II	Jack up (250ft)	Ends in May 2010	80000	80000	80000
Aban III	Jack up (300ft)	Ends in April 2011	156600	156600	156600
Aban IV	Jack up (300ft)	Ends in January 2011	156600	156600	152167
Aban V	Jack up (300ft)	Ends in May 2011	156600	156600	156600
Aban VI	Jack up (250ft)	Ends in Jan 2011	80083	87300	87300
Aban VIII	Jack up (375ft)	Ends in April 2012	199500	199500	199500
Aban Pearl	Semi-submersible	Ends in April 2014	388889	384615	426800
Aban Ice	Drill Ship (300m)	Ends in January 2011	80000	80000	80000
Aban Abraham	Drill Ship (6600ft)	Ends in June 2010	325000	325000	292500
Deep Venture	Drill Ship (4200ft)	Ends in Dec 2010	450000	450000	405000
Deep Driller 3	Jack up (350ft)	Ends in October 2012	167000	167000	167000

Currently five of Aban's assets are idle and three more would come up for renewal in the next 6-7 months (excluding two rigs, which have contract extension option)

Source: Company, ICICIdirect.com Research

### Exhibit 10: Sensitivity analysis with day rates

Day rate	Sales (Rs Crore)		EPS (Rs)	
	FY10E	FY11E	FY10E	FY11E
-20%	3705.5	3286.5	138.8	83.3
-10%	3763.3	3366.7	154.1	104.5
<b>Base case</b>	<b>3821.2</b>	<b>3455.9</b>	<b>169.4</b>	<b>128.1</b>
10%	3879.1	3545.1	184.7	151.7
20%	3937.0	3644.9	200.0	178.1

Source: ICICIdirect.com Research

▪ **High leverage and refinancing woes to burden earning growth**

Aban raised substantial amount of debt for the acquisition of Sinvest in 2007. We believe the current scenario of lower fleet utilisation and day rates would impact the company’s cash generation ability and, thereby, affecting the debt repayment position.

The near term debt repayment obligation of the company stands at US\$360 million till December 2009. This includes bullet payment of Norwegian Krone (NOK) bonds worth US\$192.5 million and US\$167.7 million due to a foreign subsidiary. The debt-equity ratio of 16x in FY08 is considerably high as compared to its peers.

**Exhibit 11: Refinancing requirement (US\$ million)**

Details of Debt	Currency	Amount as on Dec ,2008	Maturity date
9.5% bond Loan	NOK	46.6	December, 2009
6.0% Bond Loan	NOK	145.8	December, 2009
Loan payable to foreign subsidiary	Rupee	167.7	December, 2009
<b>Total</b>		<b>360.2</b>	

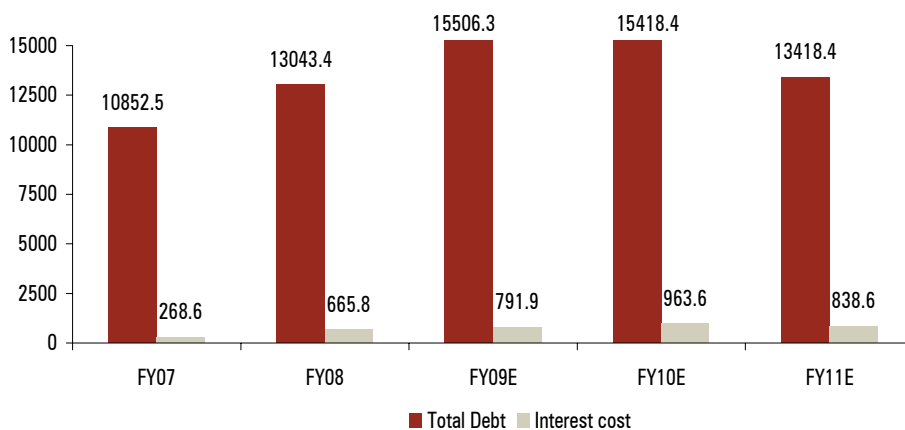
NOK- Norwegian Krone

Source: Company, ICICIdirect.com Research

*At the end of December 2009, the company needs to refinance US\$360.2 million for repaying US\$192.5 million worth of NOK bond liability and US\$167.7 million due to foreign subsidiary*

The company, however, is confident that it will be able to refinance the NOK bonds in 2009. We believe that Aban, being the largest offshore drilling service provider in India, would succeed in restructuring its debt profile probably at higher interest rates.

**Exhibit 12: Total debt and interest cost (Rs Crore)**

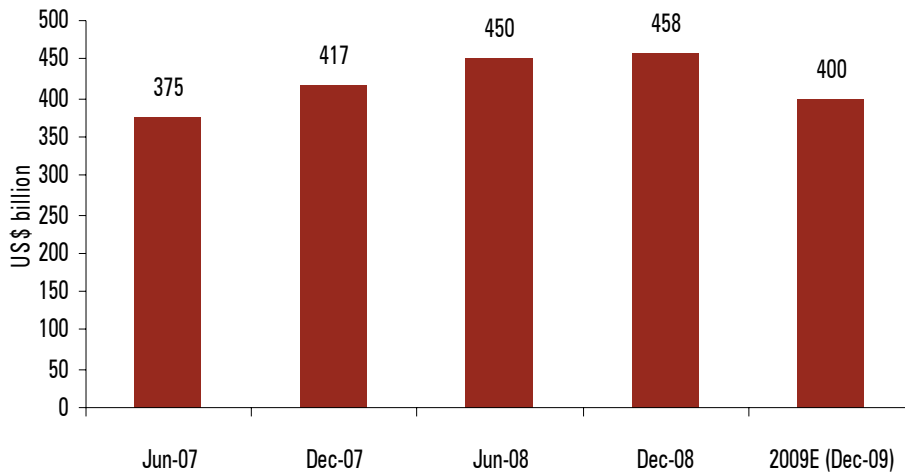


Source: Company, ICICIdirect.com Research

## Offshore industry

The prospects for offshore drilling rigs are directly linked to E&P activity, which, in turn, is a function of prevailing crude oil prices. Crude oil prices rising sharply from US\$30/bbl in 2003 to US\$72/bbl in 2007 had led to a significant increase in investments committed to E&P activities. The movement in crude oil prices and capex in E&P activities in the past years clearly indicates that E&P capex trend follows crude oil prices.

**Exhibit 13: Worldwide E&P capex**

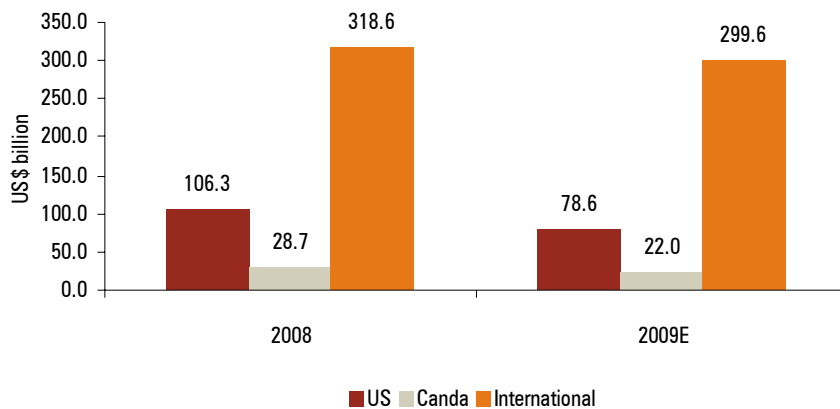


*Global E&P spend to fall by 12% in 2009*

Source: The Original E&P Spending Survey, ICICIdirect.com Research

Worldwide E&P capex is expected to fall by 12% in 2009 to US\$400 billion from US\$458 billion in 2008 (refer *Exhibit: 13*), after a six year growth. The sharp fall in spending is a result of the drastic fall in commodity prices and turmoil in the financial markets. At a time when oil prices were rising, many E&P firms were outspending cash flow using debt. However, current tight credit market conditions will limit the firms from doing this in 2009.

**Exhibit 14: Country wise E&P spending 2008 vs. 2009**



*US E&P capex expected to fall by 26% in 2009*

Source: The Original E&P Spending Survey, ICICIdirect.com Research

The following is a list of oil & gas projects and oil refinery expansion plans that have been delayed so far in 2009. The global financial crisis, falling oil demand and a slide in prices have prompted many in the industry to scale back spending and delay projects.

#### Exhibit 15: News relating to delay/cut in E&P spending

Date	Details
April 16, 2009	China cut its investment in domestic oil and gas exploration by 13.8% in the first two months of 2009. Fixed asset investment in oil and gas drilling dropped to 10.6 billion yuan (\$1.5 billion) from a year earlier according to the National Bureau of Statistics. This drop follows the record spending in 2008 which climbed 22% over 2007
March 20, 2009	Kuwait said it scrapped a tender to build a \$15-billion refinery project, the second multibillion-dollar major deal to be cancelled in three months after facing opposition in Parliament
March 17, 2009	Royal Dutch Shell Plc said start-up of the Perdido platform in the Gulf of Mexico had been pushed back to the beginning of next year from this November
February 3, 2009	Marathon said it would delay the completion of a 15,000 barrel per day expansion at its Detroit refinery to mid-2012 in an effort to cut spending. The project had been scheduled for completion in late 2010
January 22, 2009	Peru's state-owned energy company Petroperu SA has placed under review a \$1-billion plan to modernise its Talara refinery because of low crude oil prices, Peru's mining and energy minister said

Source: Reuters, ICICIdirect.com Research

#### Declining rigs demand

Demand for rigs is directly linked to the Global E&P capex. It is evident that when crude prices were at an all-time high, then E&P activities were also at peak levels. However, with weak crude prices the demand for rigs has significantly fallen during the last six months.

#### Exhibit 16: Demand-supply by rig type

Type	May-09		Apr-09		Nov-08		May-08	
	D	S	D	S	D	S	D	S
Drill Barge	9	10	9	10	9	10	9	10
Drillship	37	41	31	40	33	38	25	36
<b>Jackup</b>	<b>296</b>	<b>377</b>	<b>301</b>	<b>377</b>	<b>326</b>	<b>363</b>	<b>321</b>	<b>354</b>
Semisub	145	166	142	165	130	157	133	155
Submersible	3	3	3	3	3	3	2	3
Tender	21	26	23	26	24	26	20	25
<b>Total</b>	<b>511</b>	<b>623</b>	<b>509</b>	<b>621</b>	<b>525</b>	<b>597</b>	<b>510</b>	<b>583</b>

D-Demand, S-Supply

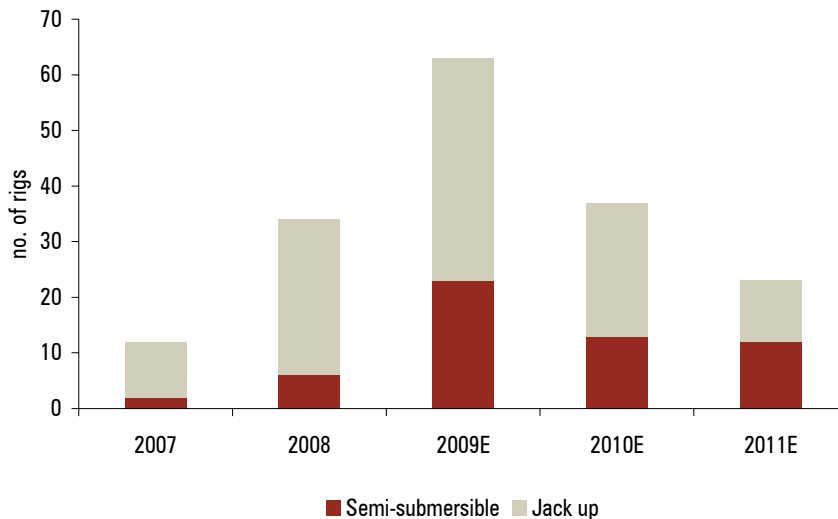
Source: Rigzone, ICICIdirect.com Research

*Drastic fall in demand for jack up rigs*

## Substantial jack-up rig supply to pressurise rates even further

With rising crude prices, oil exploration and production activities saw a significant upturn. As a result of this, the demand for rigs shot up and rig-building order books received a boost. Out of 113 jack-up rigs and semi-submersible rigs that are expected to join the global fleet by 2011, we expect around 100 to be added between 2009 and 2010. This can lead to oversupply and will have a negative impact on Aban's revenues, as 16 of its total 21 rigs are jack-up.

### Exhibit 17: Rigs addition between 2007-2011

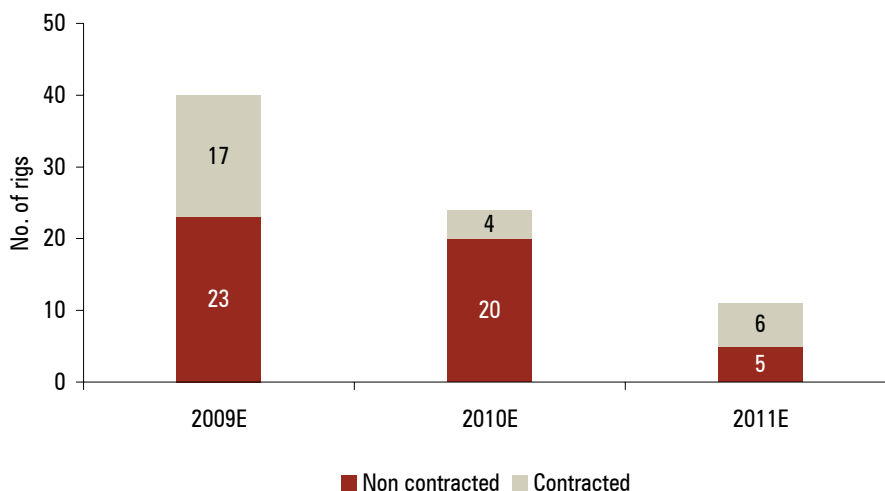


*A total of 64 jack-up and semi-submersibles rigs are being added to the global fleet in 2009*

Source: Industry, ICICIdirect.com Research

We expect 64 jack-up rigs to be added to the global fleet in 2009-2010, of which only 21 rigs have contract. Aban has three rigs, which would be coming up for renewal in the next six to seven months. With so many new non contracted rigs getting added to the global fleet, Aban will find it difficult to deploy its rigs at significantly high day rates received in the past two years.

### Exhibit 18: Jack-up rigs delivery schedule

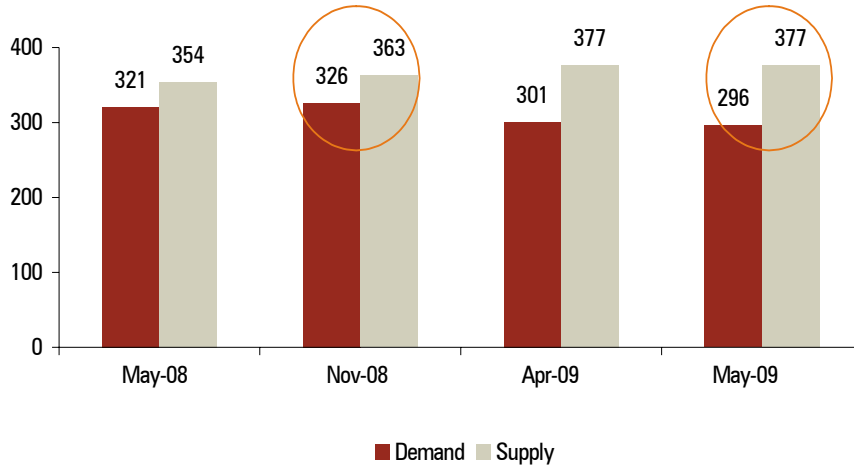


*A total of 64% of jack up rig additions to the fleet by 2011 are non-contracted*

Source: Industry, ICICIdirect.com Research

Oil prices are now trending downwards and companies are delaying or cancelling E&P spending worldwide on account of declining cash flows and lower projected returns coupled with shift in demand from shallow water to deep water. This has resulted in a widening of gap between demand and supply of jack-up rigs.

**Exhibit 19: Jack-up demand-supply (No. of Rigs)**

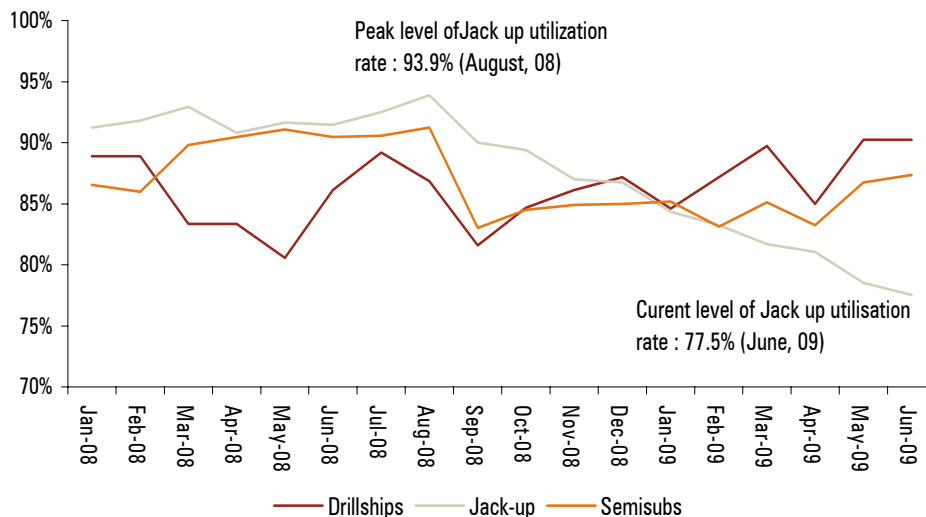


*The demand supply mismatch for jack-up rigs increased to 81 in May 2009 from 37 compared to six months ago, clearly signifying fall in demand*

Source: Rigzone, ICICIdirect.com Research

There was a fall in demand for jack-up rigs from 326 in November 2008 to 296 in May 2009. This, combined with the addition of a substantial number of jack-up rigs to the global fleet in the next two to three years, has ensured that jack-up rigs utilisation has fallen sharply to 77.5% in June 2009 from a peak utilisation rate of 93.9% in August 2008, when oil was above US\$120/bbl.

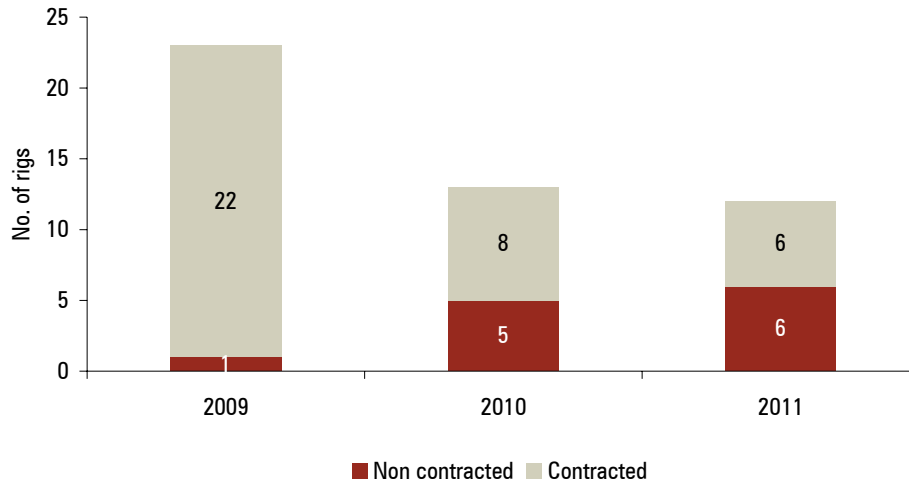
**Exhibit 20: Offshore rig utilisation by rig type**



Source: R S Platou, Rigzone, ICICIdirect.com Research

Deepwater rigs have not witnessed a sharp fall in utilisation levels as in the case of jack ups, mainly on the back of a shift in demand from shallow water to deepwater. This is evident from the fact that out of 48 semi-submersible rigs getting added to the world fleet, more than 75% are already contracted. This clearly signifies a shift in demand from shallow water to deepwater. Aban's presence in deepwater is very miniscule (three rigs).

**Exhibit 21: Semi-submersible delivery schedule**



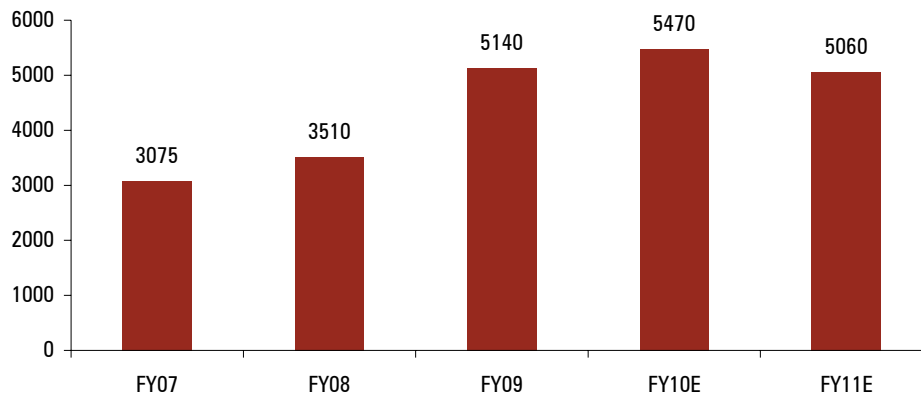
Source: Industry, ICICIdirect.com Research

## Financials

### Revenue days to decline post FY10

We expect the total number of revenue days to fall post FY10, mainly on account of rig contracts coming up for renewal and reduction in fixed contracts. Total revenue days are expected to decline to 5060 in FY11E from 5470 in FY10E. This decline in the revenue days combined with significantly low day rates will lead to a fall in the total revenues.

**Exhibit 22: Number of revenue days**



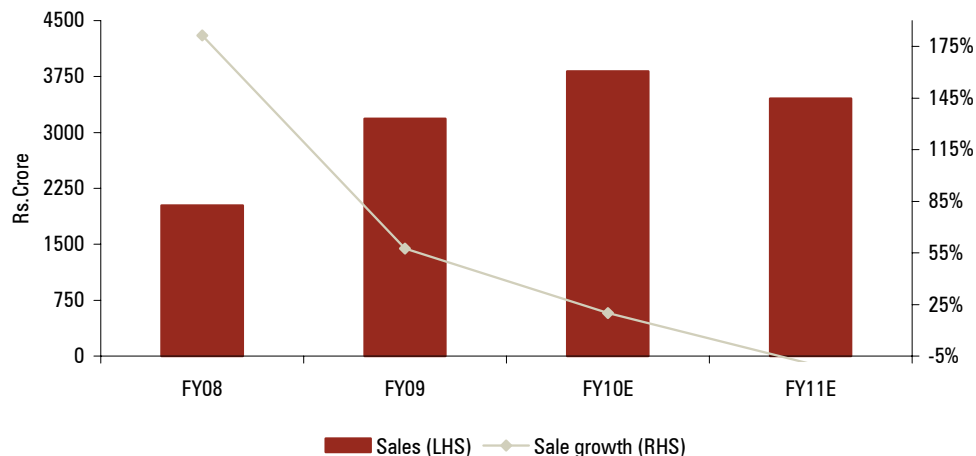
*Decline in revenue days in FY11E will lead to a decline in the total revenues*

Source: Company, ICICIdirect.com Research

### Declining revenue growth

The operating revenues of Aban grew at 181.2% to Rs 2021.1 crore in FY08 from Rs 718.7 crore in FY07, mainly on account of acquisition of Sinvest. Post acquisition, Aban's fleet increased from eight to 21 rigs. Although we expect the company's revenues to register a CAGR of 38% over FY08-FY10E to Rs 3821.2, we expect it to decline in FY11E to Rs 3455.9 crore on account of lower utilisation levels in the jack-up segment (refer *Exhibit:20*), which constitute 75% of Aban's total fleet.

**Exhibit 23: Revenue growth FY08-FY11E**

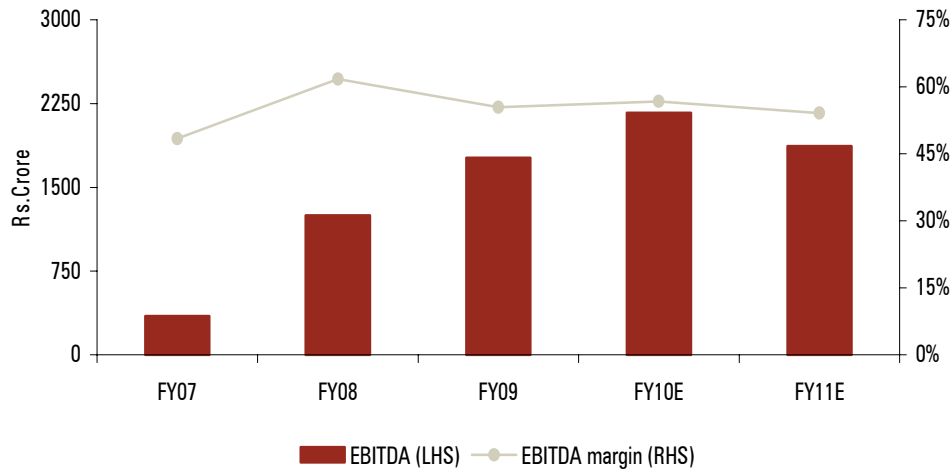


Source: Company, ICICIdirect.com Research

▪ **Contraction of EBITDA**

We expect Aban’s EBITDA to decline post FY10E to Rs 1869.7 crore in FY11E after reporting a continuous growth from FY07-FY10E. This decline was mainly on account of a fall in fleet utilisation and lower day rates. Aban’s EBITDA would see a CAGR of 31.8% over FY08-FY10E on the back of addition of new rigs. Going forward, the EBITDA will decline by 13.8% to Rs 1869.7 crore.

**Exhibit 24: Fall in margins**

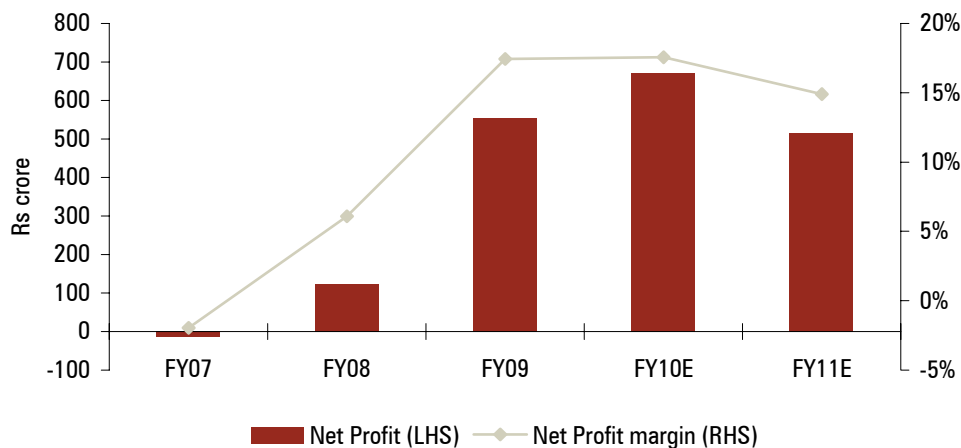


Source: Company, ICICIdirect.com Research

▪ **Decline in net profit**

Aban’s revenue visibility is expected to decline on account of reduction in contribution from fixed contracts to the total revenues from 86% in FY09 to 56% in FY11E. This would result in weakening of cash flows and make servicing of debt difficult. High interest cost would burden the profitability. We expect the net profit to decline post FY10E by 23% to Rs 514.7 crore.

**Exhibit 25: Net profit and net profit margin**

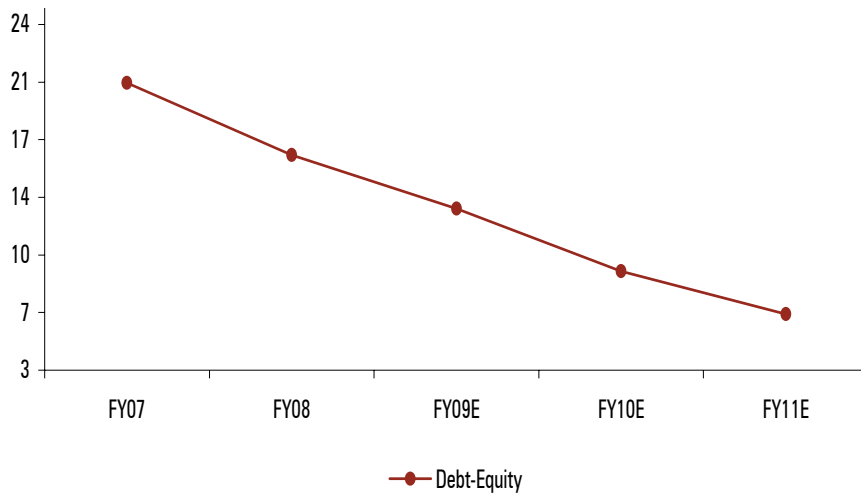


Source: Company, ICICIdirect.com Research

▪ **High debt to equity**

At the end of FY08, the company had a debt of Rs 13043.4 crore translating into debt to equity ratio of 16.1x. Though we expect the debt to equity ratio to decline from 16.1x in FY08 to 6.4x in FY11E, it would be still high compared to its peers. Consequently, the company will find it difficult to repay the debt in case day rates and E&P spending do not improve. This may impact the profitability of the company negatively.

**Exhibit 26: Debt-equity to decline**



*We expect Aban's debt to decline to Rs 13,418 crore in FY11E with a debt to equity ratio of 6.4x from 16.1x in FY08. However, it is still high compared to global peers*

Source: Company, ICICIdirect.com Research

## Risks to our call

### ▪ Rise in jack-up day rates

The day rates in the offshore segment have declined by more than 25-35%, due to the slowdown in the exploration and production activities. Going forward, we expect day rates to further fall to 2003-04 levels. On the other hand, if E&P activities see a rise, then the rate in the offshore segment will improve. Thus, any upward momentum in the day rates will be in favour of the company.

### ▪ Positive oil price movement — an upside risk

With oil price falling from US\$133.5/bbl, a significant decline was witnessed in E&P activities worldwide. This clearly indicates that E&P activities are directly linked to crude oil price movements. As a result of this, any rise in crude prices is an upward risk to our call.

### ▪ Delay and cancellations of rigs

Shipyards around the world are facing problems due to the credit crisis in the form of non-availability of credit. If the credit crunch lasts for a long term, then shipyards, especially the new ones, will find it difficult to deliver ships on time and may even cancel orders on account of financing problems. In turn, this will limit the supply somewhat in the near future and will be positive in the form of a rise in day rates. This is an upward risk to our call as it may improve the day rates in the offshore segment.

### ▪ Debt servicing

Aban has a huge debt of Rs 13043.4 crore (FY08). On account of contraction of revenues post FY10E due to a fall in day rates and non-availability of new contracts for the idle rigs, the debt repayment will be slow. In case the company is able to get new contracts and the global E&P capex increases, the company's ability to repay debt will improve significantly. This is an upward risk to our call.

## Valuations

We anticipate a challenging environment for the offshore industry, which, in turn, will lead to lower demand for jack-up rigs (utilisation rate of jack up rigs have already fallen to 75.5% in June 2009, refer *Exhibit:20*). Further, the addition of new rigs to the global fleet (refer *Exhibit: 17*) will lead to a demand-supply mismatch. On the back of this coupled with a correction in day rates, lower debt repayment and high interest cost, we are initiating coverage on the stock with an **UNDERPERFORMER** rating.

Currently, the offshore segment is going through a rough phase owing to weak crude oil price, slowdown in E&P activities and drop in the day rates by 20-30%. This is also evident from the fact that Aban has been unable to sign any new contracts in the last five months. Its valuation is directly linked to day rates movements, which are likely to remain soft in the medium term and is a major concern for the company considering its high leverage. The stock is trading at a P/E multiple of 6.2x FY10E and 8.2x FY11E earnings of Rs 169.4 and Rs 128.1 respectively. Low revenue visibility post FY10E and high debt are hitting the company's valuations.

We have valued the stock on multiple valuation parameters with a P/E of 6.6x FY11E earnings, giving it a discount to global peers owing to high debt, risk of contract renewal at significant lower day rates and low earning visibility post FY10E. At our target price of Rs 810, Aban would trade at a multiple of 1.5x its FY11E price to book value, FY11E market cap to revenues multiple of 0.9x, FY11E EV/EBIDTA multiple of 7.7x and a P/E of 6.3x FY11E earnings.

### Exhibit 27: Valuation parameters

Valuation based on	Global average	Target multiple (x)	Target Price (Rs)
EV/EBITDA	5.8	6.3	100
Price to book value (x)	1.4	1.2	690
Mcap/revenue (x)	2.1	1.8	1600
PE multiple (x)	7.2	6.6	850
<b>Average target price (Rs.)</b>	-	-	<b>810</b>
Current market price (Rs.)			1050
Upside (%)			-23

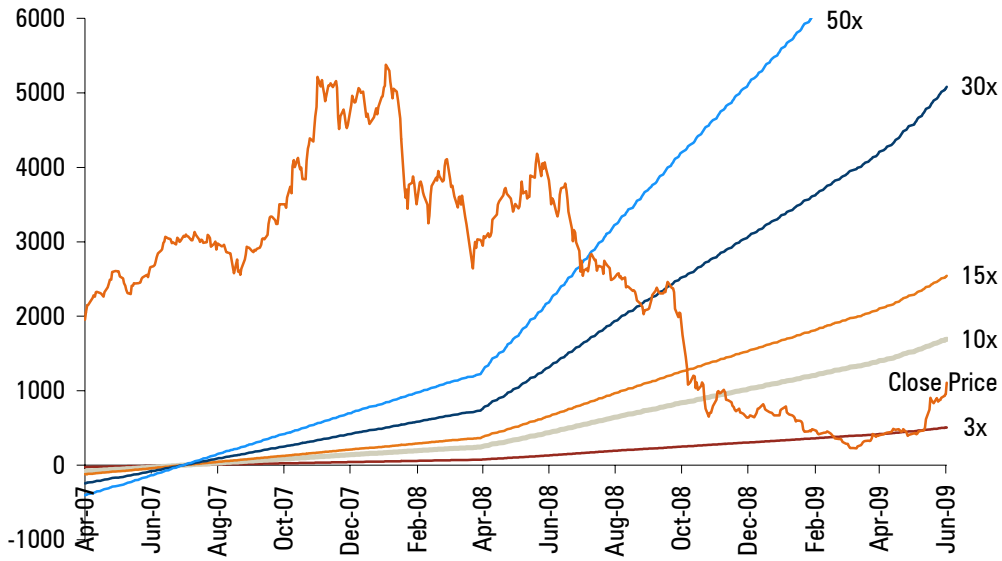
Source: Company, ICICIdirect.com Research

### Exhibit 28: Peer valuations

	Noble corp		Transocean		Diamond Offshore		EnSCO International		Aban Offshore		Seadrill	
	CY09E	CY10E	CY09E	CY10E	CY09E	CY10E	CY09E	CY10E	FY10E	FY11E	CY09E	CY10E
<b>Country</b>	India		India		Norway		Netherlands		India		Norway	
<b>Sales (US\$ crore)</b>	370.7	359.3	1201.9	1218.0	367.1	362.4	206.6	193.5	80.3	77.0	327.8	378.6
<b>EPS (US\$)</b>	6.3	5.4	12.8	12.2	10.2	9.6	5.9	4.5	4.1	3.5	2.3	2.8
<b>P/E (x)</b>	5.6	6.6	6.4	6.7	8.5	9.1	6.6	8.5	6.2	8.2	6.2	5.1
<b>M-cap/sales (x)</b>	2.5	2.6	0.2	0.2	3.3	3.3	2.7	2.8	1.0	1.1	1.8	1.6
<b>EV/EBITDA (x)</b>	4.9	5.3	5.6	5.7	5.2	5.4	4.9	6.6	<b>7.4</b>	<b>8.2</b>	6.8	5.8
<b>ROE(%)</b>	26.2	18.7	20.6	16.8	39.5	36.3	16.1	11.4	32.0	20.6	31.4	29.2
<b>Price/book (x)</b>	1.3	1.1	1.3	1.1	3.0	2.8	1.0	0.9	2.3	1.9	1.6	1.3
<b>EBITDA margin (%)</b>	65.9	61.4	56.3	54.5	61.6	60.4	60.1	54.5	57.0	55.1	51.4	52.8

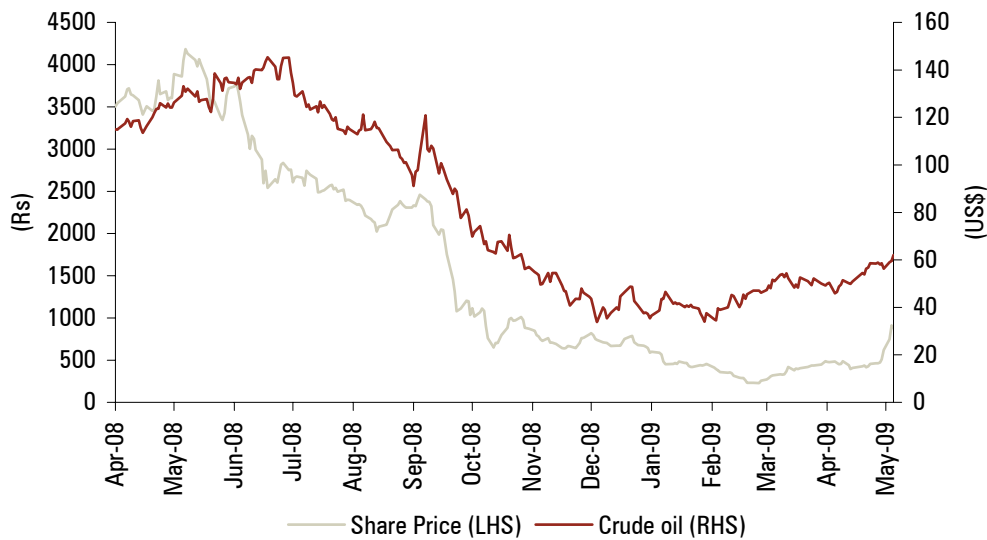
Source: Bloomberg, company, ICICIdirect.com Research

**Exhibit 29: 1yr forward P/E chart**



Source: Company, ICICIdirect.com Research

**Exhibit 30: Stock price movement vs. crude oil prices**



*Positive correlation of 0.95 between Aban's stock price and crude oil price*

Source: Capitaline, ICICIdirect.com Research

## Financial summary

### Profit & Loss

(Rs. Crore)

Year ending March	FY07	FY08	FY09	FY10E	FY11E
<b>Net Sales</b>	<b>718.7</b>	<b>2021.1</b>	<b>3183.6</b>	<b>3821.2</b>	<b>3455.9</b>
% Growth	-	181.2	57.5	20.0	-9.6
Raw Materials	-	-	-	-	-
Employee Expenses	56.4	200.3	343.3	412.0	373.2
Sell. & Admin. Expenses	314.8	572.8	1074.5	1240.2	1213.0
<b>Total Exp.</b>	<b>371.3</b>	<b>773.1</b>	<b>1417.8</b>	<b>1652.3</b>	<b>1586.3</b>
% Growth	-	108.2	83.4	16.5	-4.0
<b>Operating Profit</b>	<b>347.4</b>	<b>1248.0</b>	<b>1765.9</b>	<b>2168.9</b>	<b>1869.7</b>
Depreciation	126.6	314.0	608.3	465.5	468.8
Interest expense	268.6	665.8	791.9	963.6	838.6
<b>PBT before Other income</b>	<b>-47.8</b>	<b>268.1</b>	<b>365.6</b>	<b>739.8</b>	<b>562.3</b>
Other Income	88.1	107.0	345.9	152.8	138.2
<b>PBT after Other income</b>	<b>-34.4</b>	<b>232.0</b>	<b>444.4</b>	<b>546.8</b>	<b>431.5</b>
Tax	74.7	143.0	267.2	345.9	269.0
<b>Net Profit</b>	<b>-34.4</b>	<b>37.7</b>	<b>444.4</b>	<b>546.8</b>	<b>431.5</b>
share of associates and Joint. Ventures	20.4	85.3	110.9	124.1	83.2
<b>Net profit after share of associates</b>	<b>-14.0</b>	<b>123.0</b>	<b>555.3</b>	<b>670.8</b>	<b>514.7</b>
% Growth	-	LP	351.6	20.8	-23.3
Equity	7.4	7.6	7.6	7.6	7.6
<b>EPS</b>	<b>-8.1</b>	<b>24.5</b>	<b>138.7</b>	<b>169.4</b>	<b>128.1</b>

Decline in net profit by 23.3% in FY11E

### Balance sheet

(Rs. Crore)

Year ending March	FY07	FY08	FY09E	FY10E	FY11E
Share Capital	7.4	7.6	7.6	7.6	7.6
Preference Share Capital	306.0	306.0	306.0	306.0	306.0
Reserves & Surplus.	217.4	498.8	896.2	1396.6	1781.7
Secured Loans	9726.5	11527.5	14500.0	14500.0	12500.0
Unsecured Loans	1126.1	1515.9	1006.3	918.4	918.4
Deferred Tax	73.7	65.4	54.2	43.0	31.8
<b>Total liabilities</b>	<b>11457.1</b>	<b>13921.1</b>	<b>16770.2</b>	<b>17171.5</b>	<b>15545.4</b>
Net Block	7520.3	8352.9	13172.9	12772.8	12370.3
Capital WIP	2244.4	4271.8	-	-	-
Investments	468.3	639.1	639.1	639.1	639.1
Inventories	102.2	164.7	259.4	311.3	281.6
Sundry Debtors	203.3	471.2	742.3	890.9	805.8
Cash & Bank	1326.4	645.3	2579.7	3260.4	2080.7
Loans & Adv.	287.1	127.8	201.3	241.6	218.5
Current Assets	1919.0	1409.0	3782.6	4704.3	3386.5
CL & Prov.	694.9	751.7	824.4	944.7	850.5
Net Current Assets	1224.1	657.3	2958.2	3759.6	2536.0
<b>Total Assets</b>	<b>11457.1</b>	<b>13921.1</b>	<b>16770.2</b>	<b>17171.5</b>	<b>15545.4</b>

## Cash flow statement

(Rs. Crore)

Year ending March	FY07	FY08	FY09E	FY10E	FY11E
<b>Opening Cash</b>	<b>13.5</b>	<b>1326.4</b>	<b>645.3</b>	<b>2579.7</b>	<b>3260.4</b>
Profit after Tax	34.4	37.7	444.3	546.8	431.5
Dividend Paid	28.8	46.4	46.4	46.4	46.4
Depreciation	126.6	314.0	457.5	465.5	468.8
<b>Cash Profit</b>	<b>85.1</b>	<b>323.0</b>	<b>844.2</b>	<b>954.7</b>	<b>842.7</b>
Changes In working Capital					
Net Increase in CL	542.0	306.9	72.7	120.3	94.2
Net Increase in CA	455.2	171.0	439.3	240.9	138.0
CF after changes in Working Capital	171.8	458.8	477.7	834.1	886.5
<b>Cash Flow from Investing Activities</b>					
Sale/Purchase of FA	3557.8	-3173.1	1005.7	65.4	66.2
sale/purchase of investments	5215.7	-170.8	-	-	-
<b>Cash from Financing Activities</b>					
Increase /(Decrease) in Loan Funds	8617.2	2190.9	2462.9	-88.0	-2000.0
Increase /(Decrease) in Equity Cap	0.0	0.2	0.0	0.0	0.0
<b>Closing Cash</b>	<b>1326.4</b>	<b>645.3</b>	<b>2579.7</b>	<b>3260.4</b>	<b>2080.7</b>

## Ratios

Year ending March	FY07	FY08	FY09E	FY10E	FY11E
EPS (Rs)	-8.1	24.5	138.7	169.4	128.1
Cash EPS (Rs)	25.0	115.7	278.5	267.8	238.2
Book Value (Rs)	143.9	215.0	320.0	452.4	554.3
Operating Margin (%)	48.3	61.7	55.5	56.8	54.1
Net Profit Margin (%)	-4.8	6.1	14.0	14.3	12.5
RONW (%)	-6.5	15.1	36.7	32.0	20.6
ROCE (%)	3.0	9.0	10.5	12.6	12.0
Debt/Equity	<b>20.4</b>	<b>16.1</b>	<b>12.8</b>	<b>9.0</b>	<b>6.4</b>
FA Turnover Ratio	0.1	0.2	0.2	0.3	0.3
Enterprise Value (RS crore)	13495.2	16367.1	16895.6	16126.9	15306.6
EV/EBIDTA (x)	38.8	13.1	9.6	7.4	8.2
Sales to Equity (x)	97.4	267.5	421.1	505.5	457.1
Market Cap to Sales (x)	5.5	2.0	1.2	1.0	1.1
Price to Book Value (x)	7.3	4.9	3.3	2.3	1.9

High debt to equity ratio compared to peers

## DuPont analysis

Year ending March	FY07	FY08	FY09E	FY10E	FY11E
PAT/PBT	-0.9	0.3	0.6	0.6	0.6
PBT/PBIT	0.2	0.4	0.6	0.5	0.5
PBIT/Sales	0.3	0.5	0.4	0.4	0.4
Sales/ Assets	0.1	0.1	0.2	0.2	0.2
Assets/Net Worth	21.6	17.1	13.9	10.0	7.4

## RATING RATIONALE

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Outperformer, Performer, Hold and Underperformer. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

**Outperformer (OP):** 20% or more;

**Performer (P):** Between 10% and 20%;

**Hold (H):**  $\pm 10\%$  return;

**Underperformer (UP):** -10% or more;

**Pankaj Pandey**

**Head – Research**

**pankaj.pandey@icicidirect.com**

**ICICIdirect.com Research Desk,  
ICICI Securities Limited,  
7th Floor, Akruiti Centre Point,  
MIDC Main Road, Marol Naka  
Andheri (East)  
Mumbai – 400 093**

**research@icicidirect.com**

## ANALYST CERTIFICATION

We I, Bharat Chhoda MCom, MBA (Finance), Prerna Jhunjunwala MBA (Finance), Rahul Malhotra MBA (Finance) research analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts aren't registered as research analysts by FINRA and might not be an associated person of the ICICI Securities Inc.

## Disclosures:

ICICI Securities Limited (ICICI Securities) and its affiliates are a full-service, integrated investment banking, investment management and brokerage and financing group. We along with affiliates are leading underwriter of securities and participate in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their dependent family members from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on reasonable basis, ICICI Securities, its subsidiaries and associated companies, their directors and employees ("ICICI Securities and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities is acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgments by any recipient. The recipient should independently evaluate the investment risks. The value and return of investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities and affiliates accept no liabilities for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities and its affiliates might have managed or co-managed a public offering for the subject company in the preceding twelve months. ICICI Securities and affiliates might have received compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of public offerings, corporate finance, investment banking or other advisory services in a merger or specific transaction. ICICI Securities and affiliates expect to receive compensation from the companies mentioned in the report within a period of three months following the date of publication of the research report for services in respect of public offerings, corporate finance, investment banking or other advisory services in a merger or specific transaction. It is confirmed that Bharat Chhoda MCom, MBA (Finance), Prerna Jhunjunwala MBA (Finance), Rahul Malhotra MBA (Finance) research analysts and the authors of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Our research professionals are paid in part based on the profitability of ICICI Securities, which include earnings from Investment Banking and other business.

ICICI Securities or its subsidiaries collectively do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

It is confirmed that Bharat Chhoda MCom, MBA (Finance), Prerna Jhunjunwala MBA (Finance), Rahul Malhotra MBA (Finance) research analysts and the authors of this report or any of their family members does not serve as an officer, director or advisory board member of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. ICICI Securities and affiliates may act upon or make use of information contained in the report prior to the publication thereof.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.