

VARUN SHIPPING CO.LTD

SHIPPING INDUSTRY

BSE Scrip Code: 500465

CMP Rs.18¹

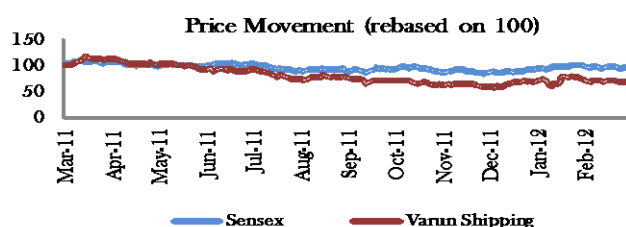
March 23, 2012

KEY EQUISTATS

Market Capitalisation	Rs. Crores	269
Enterprise Value	Rs. Crores	2,957
52 Week High / Low	Rs.	33/15
Diluted EPS (FY11)	Rs.	NM
P/E (FY11)	times	NM
Regression Beta	times	0.7
Average Daily Volumes *	Lakhs	2.0

* BSE + NSE for last 52 weeks

STOCK PERFORMANCE



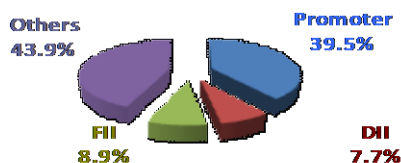
Returns	1M	3M	6M	1 Yr
Absolute	-6%	15%	-9%	-33%
Rel. to Sensex	-3%	6%	-16%	-29%

FINANCIAL SNAPSHOT

Rs. Crores	FY09	FY10	FY11
Net operating income	965	685	491
EBITDA	513	279	22
EBITDA margins	53.2%	40.7%	4.4%
PAT	48	-191	-327
PAT margins	5.0%	NM	NM
Gearing (times)	3.4	3.4	3.3
RoCE	7.1%	0.6%	NM
RoE	5.4%	NM	NM
P/E (times)			NM
EV/EBITDA (times)			137.1

Financial Year: (April, 1 - March, 31)

SHARE HOLDING PATTERN



ANALYTICAL CONTACTS

Amod Khanorkar	General Manager	+91-22-6754 3520
Jumana Badshah	Manager	+91-22-6754 3481

¹ CMP: Current Market Price

Diverse service provider

Varun Shipping Company Ltd. (VSCL) provides diverse services such as transportation and support solutions to its valued customers across the entire hydrocarbon value chain. The company provides service to Liquefied Petroleum Gas (LPG) deploy a mix of time charters and spot charters with charterers such as Hindustan Petroleum Corporation Limited, Indian Oil Corporation Limited etc. VSCL also participates in the seaborne transportation of liquid cargo globally by owning and chartering out crude oil tankers on time charter, voyage charter or in a pool arrangement. In the offshore sector, the company offers Anchor Handling Towing and Supply (AHTS) vessels to oil and gas companies operating offshore for their exploration, production and development of oil and natural gas.

Dominant player in niche LPG segment

VSCL controls more than 78% of the total LPG tonnage under the Indian flag, and is the second-largest global player in the mid-size fully-refrigerated LPG carrier segment owning around 10.1% of the fleet size.

Key concerns

- Marine mishaps and accidents
- Volatility in freight rates
- Foreign exchange fluctuation risk
- Stiff competition from international players

Valuations

At current market price, VSCL is trading at FY11 P/BV and EV/EBITDA multiple of 0.3x and 137.1x respectively.



HISTORY AND BACKGROUND

Background

Varun Shipping Company Limited (VSCL) owns and operates vessels in the hydrocarbon sector and is a global player in energy transportation and offshore exploration and production (E and P) support services. The company has a diversified fleet, on account of which it is able to offer comprehensive transportation and support solutions to customers, across the entire hydrocarbon value chain. VSCL was incorporated on January 29, 1971 as a private company limited under the name of Varun Shipping Company Pvt Ltd. The company was converted into a public limited company on February 18, 1972 and the name was changed to Varun Shipping Company Ltd. In March 1973, they commenced their shipping business with the acquisition of one product tanker. VSCL caters to major oil companies in India like Indian Oil Corp, HPCL, BPCL and Reliance Industries, along with international player like Pertamina. In FY10 (refers to the period April, 1 to March, 31), the company sold majority stake in its subsidiary, VSC International Pte. Ltd, to the tune of 51%.

Operations

VSCL owns and operates a fleet of 21 vessels, comprising 11 LPG carriers, 3 crude oil tankers and 7 anchor handling towing and supply (AHTS) vessels. VSCL together with its associate is the largest owner of LPG tonnage in India in terms of both fleet size and cargo carrying capacity, constituting around 78 per cent of the aggregate cargo carrying capacity of LPG carriers operating under the Indian flag. VSCL transported approximately 52 per cent of all Public Sector Undertaking (PSU) cargoes brought into India during FY11.

VSCL is the second-largest owner of tonnage in the global mid-size fully-refrigerated (20,000-50,000cu.m) LPG carrier fleet category and owns 10.13 per cent of the total tonnage in that category. Globally, in the fully-refrigerated LPG carriers category, VSCL together with its associate is the fourth-largest owner in terms of number of vessels and sixth-largest in terms of cargo carrying capacity. The company owns five large, modern and powerful Anchor Handling Tug Supply (AHTS) vessels with the highest bollard pull under Indian flag. It has established a leadership position in the large AHTS sector in the Asian region. VSCL is the first Indian company to operate large AHTS vessel in the North Sea.



VSCL: Fleet Composition

NAME	TYPE	YEAR OF BUILD	YARD WHERE BUILT	GRT	CBM	STATUS
MAHARSHI BHARDWAJ	GAS CARRIER	1992	SOUTH KOREA	43635	76644	OWNERSHIP
MAHARSHI VAMADEVA	GAS CARRIER	1991	U.K.	34974	57206	OWNERSHIP
MAHARSHI MAHATREYA	GAS CARRIER	1991	SOUTH KOREA	23878	35559	OWNERSHIP
MAHARSHI KRISHNATREYA	GAS CARRIER	1991	SOUTH KOREA	23878	35559	OWNERSHIP
MAHARSHI VISHWAMITRA	GAS CARRIER	1992	JAPAN	44704	78502	ON MANAGEMENT
MAHARSHI BHAVATREYA	GAS CARRIER	1991	SOUTH KOREA	23878	35559	ON MANAGEMENT
MAHARSHI DEVATREYA	GAS CARRIER	1990	SOUTH KOREA	23878	35559	ON MANAGEMENT
MAHARSHI SHIVATREYA	GAS CARRIER	1984	NORWAY	15399	24050	ON MANAGEMENT
MAHARSHI DATTATREYA	GAS CARRIER	1983	NORWAY	15709	24054	ON MANAGEMENT
MAHARSHI LABHATREYA	GAS CARRIER	1982	NORWAY	15405	24046	ON CHARTER
MAHARSHI SHUBHATREYA	GAS CARRIER	1982	JAPAN	29240	43670	ON CHARTER

NAME	TYPE	YEAR OF BUILD	YARD WHERE BUILT	GRT	DWT	STATUS
AMBA BHARGAVI	CRUDE OIL TANKER	2006	KOREA	57243	106004	OWNERSHIP
AMBA BHAVANEE	CRUDE OIL TANKER	2003	JAPAN	58136	107081	ON MANAGEMENT
AMBA BHAKTI	CRUDE OIL TANKER	1997	JAPAN	56127	106597	ON MANAGEMENT

NAME	TYPE	YEAR OF BUILD	YARD WHERE BUILT	BP	BHP	STATUS
SUCHANDRA	AHTS*	2009	NORWAY	193	17200	OWNERSHIP
SUBHADRA	AHTS*	2008	NORWAY	188	17200	OWNERSHIP
SUVARNA	AHTS*	2002	CHINA	201	17300	OWNERSHIP
SUBHIKSHA	AHTS*	2001	CHINA	192	16565	ON MANAGEMENT
SUDAKSHA	AHTS*	2001	CHINA	199	16565	ON MANAGEMENT
NEEL AKASH	AHTS*	1984	JAPAN	60	5200	ON CHARTER
NEEL KAMAL	AHTS*	1983	JAPAN	60	5200	ON CHARTER

* Anchor Handling Towing and Supply Vessel

Source: Company and CARE Equity Research

VSCL: Peer comparison

(FY11)	Units	Varun Shipping Co. Ltd	GE Shipping Co. Ltd	Shreyas Shipping & Logistics Ltd	Chowgule Steamships Ltd
Net revenues	Rs. Crores	491	2,460	189	71
EBITDA	Rs. Crores	22	896	29	28
PAT	Rs. Crores	(327)	318	13	27
Growth in net operating income	%	-28.3%	-14.9%	22.5%	-22.1%
EBITDA Margin	%	4.4%	36.4%	15.2%	39.6%
PAT Margin	%	NM	12.9%	6.7%	37.7%
RoCE	%	NM	4.1%	7.9%	1.4%
RoE	%	NM	5.4%	8.7%	5.1%
Price/Earnings (P/E) Ratio	times	NM	8.6	5.5	2.8
Price/Book Value (P/BV)	times	0.3	0.6	0.4	0.1
Enterprise Value (EV)/EBITDA	times	137.1	9.5	4.1	4.0

Source: Capitaline and CARE Equity Research



CONSOLIDATED FINANCIAL PERFORMANCE AND ANALYSIS

Second consecutive decline in revenue growth

During FY11, revenues declined by 28.3 per cent to Rs.491.4 crore from Rs.685.2 crore in FY10. Revenue declined for the second consecutive year on account weak economic growth and relatively lower demand which placed downward pressure on freight rates. In FY11, the company witnessed softening of freight rates in all the three segments which it operates namely LGP, crude tankers and AHTS vessels.

Operating profit declines in-line with revenue

The company reported consolidated EBITDA of Rs.21.6 crore in FY11 with an EBITDA margin of 4.4%. However the margins cannot be compared on y-o-y basis as the company has sold its subsidiary, VSC International Pte. Ltd, during FY10. On an adjusted basis, the company reported a decline in EBITDA to the tune of 91.1% y-o-y to Rs.21.6 crore in FY11 as compared to Rs.240.2 crore in FY10. The dismal performance at the operating level can be attributed to lower depressed freight rates along with higher charter hire expenses. Consequently, the EBITDA margin in FY11 declined to 4.4% against 36.1% in FY10.

Adjusted net loss widens during FY11

During the year, the company reported a net loss of Rs.327.3 crore, an increase of 71.1% from the previous year's net loss of Rs.191.3 crore. Dismal operating performance coupled with higher interest expenses resulted in poor bottom-line performance.

VSCL: Consolidated Financial Performance (FY07-11)

(Rs. Crore)	FY07	FY08	FY09	FY10	FY11
Net operating income	684.5	945.2	964.7	685.2	491.4
EBITDA	382.4	573.2	513.2	278.7	21.6
PAT	144.9	225.4	48.1	(191.3)	(327.3)
Fully Diluted EPS* (Rs.)	9.5	14.3	7.4	(12.8)	0.9
EBITDA margins	55.9%	60.6%	53.2%	40.7%	4.4%
PAT margins	21.2%	23.8%	5.0%	NM	NM

Source: Capitaline and CARE Equity Research



EXPANSIONS, NEW INITIATIVES AND CONCERNS

Key concerns

- Marine mishaps and accidents
- Volatility in freight rates
- Foreign exchange fluctuation risk
- Stiff competition from international players



SECTOR OUTLOOK

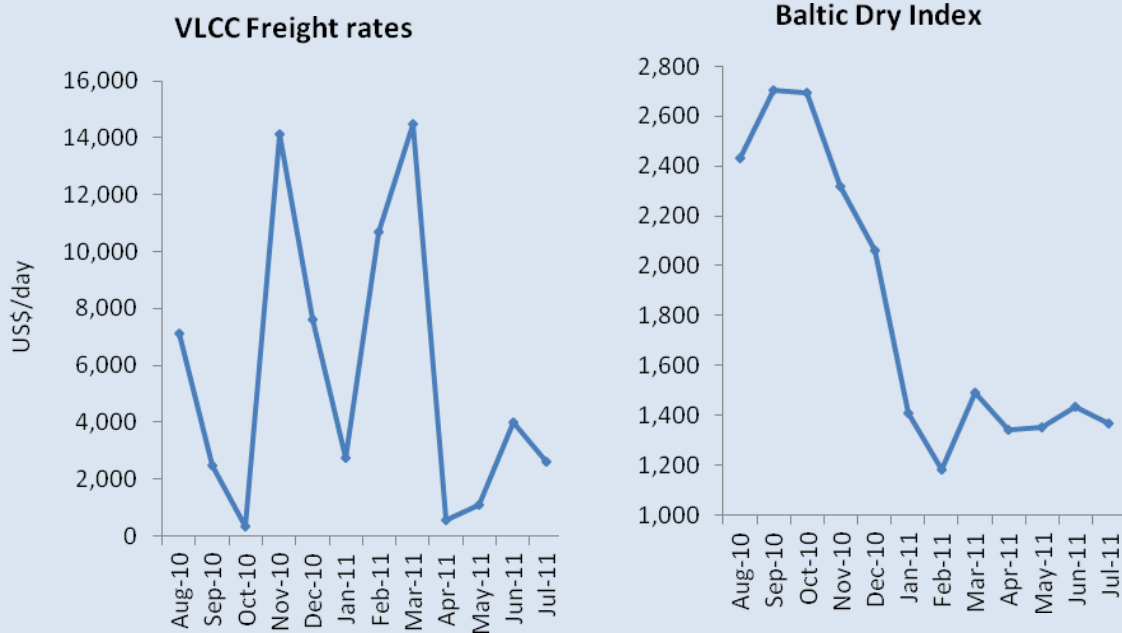
The Indian fleet size aggregated 9.31 mn GT during CY08 with gross additions of 0.94 mn GRT during the year implying a y-o-y growth of 3.1%. However, with the economic recession into effect since the latter half of CY08, the phenomenon of re-scheduling of deliveries and vessel scrapping was witnessed, thereby resulting in reduction of the total fleet size to 9.28 mn GRT up till April 1, 2009 with gross additions of 0.05 mn GT during the period January-March 2009. With the gradual recovery in the global economy coupled with the vessel deliveries for orders placed by the Indian shipowners prior to the recessionary period, net addition of 0.4 mn GRT (y-o-y growth of 4.3%) was witnessed in the fleet of the Indian shipowners during FY10. The fleet of the Indian shipowners comprised of 1,005 vessels aggregating 9.68 mn GRT (Gross Registered Tonnage) as on April 1, 2010. Of the same, the tonnage of coastal vessels aggregated 0.99 mn GRT (678 vessels) while the overseas vessels tonnage aggregated 8.68 mn GRT (327 vessels).

In spite of the growing Indian fleet, the participation of Indian vessels in the country's overseas trade has declined considerably from 31.5% in FY2000 to 9.5% in FY2008. In absolute terms too, though India's sea-borne trade has witnessed a marked growth since 2000, the Indian cargo handled by the country's vessels, has declined from 70.85 mn tonnes in FY2000 to 54.65 mn tonnes in FY2008. Particularly, the decline has been evident in the case of POL and products wherein the cargo-handling share of Indian shipowners has sharply declined from 55% in FY2000 to 16.4% in FY2008. With respect to oil, the Public-sector units (PSUs) specifically Indian Oil Corporation (IOC), Bharat Petroleum Corporation Limited (BPCL) and Hindustan Petroleum Corporation Limited (HPCL) are being allowed to move out of TRANSCHART and arrange for their own chartering requirements in case of imports, which have substantially affected the plight of the Indian shipowners. However, during times of economic boom, the Indian shipowners preferred to charter their vessels in foreign territories owing to the receipt of higher freights as compared to TRANSCHART, which in turn affected the availability of Indian-flagged vessels to carry Indian cargo.

Especially the era spanning the post-recession period has posed difficult times for the shipowners with the freight rates across all vessels i.e. wet bulk, dry bulk & containerships plunging from the highs as witnessed during H1CY08. The freight rate of wet bulk vessels for example: VLCC vessel has declined from an average of US\$66,346/day during CY08 to US\$5,587/ day during H1CY11. The Baltic Dry Index (BDI - the barometer of freight rate for dry bulk vessels) has declined from an average of 6,349 during CY08 to 1,368 during H1CY11. In case of containerships, though, the freight rates remain comparatively better during H1CY11 owing to the rate hike by the leading container operators across the globe post-recession. The freight rate of 4,500 teu containership which averaged US\$30,808/day during CY08 averaged US\$27,416/day during H1CY11. However, barring the Shipping Corporation of India (SCI), the container fleet of the Indian shipowners is negligible.



Freight rate movement -Wet bulk and Dry bulk vessels



Source: Industry and CARE Research

The growth in sea-borne trading volumes being highly dependent on the world GDP growth, the Shipping business remains highly co-related to the developments in the international trade. With the global economy expected to record y-o-y growth of 4.3% during CY11 (as per the IMF estimates), lower than 5.1% growth as recorded during CY10, CARE Research expects the demand for commodities globally especially from the U.S and the European region to remain affected. This in turn would lower the sea-borne trading requirements as approximately 80% of the international trade is being routed through sea. The lack of demand for vessels globally is expected to lower the utilisation rates/ vessel operating days of the vessel owners thereby exerting downward pressure on the vessel freight rates. The surplus vessel situation arising out of lower demand is further worsened with the constant supply of new-build vessels being delivered by the shipyards for the orders placed by the shipowners during the times of economic boom. The orderbook of the shipyards globally aggregated 269 mn GT as on May 31, 2011 in relation to the existing fleet size of 994.5 mn GT thereby implying 27% of the existing fleet presently on order. In view of the same, CARE Research expects fleet over-supply at 10.57% of the existing fleet size during CY11.

However, the freight rates are expected to occasionally re-bound from the current lows depending upon the season-specific / short-term demand especially during the winter months in case of wet bulk vessels (owing to higher demand for oil & oil products from the western world nations) and in case of dry bulk vessels, the import demand of coal & iron- ore by the Chinese economy and the demand for commodities for the re-construction work in the Japanese



economy would be the key determinants for driving the growth of Baltic Dry Index (BDI).

The Shipping industry is characterised by its capital-intensive nature due to the capital required for the purchase of ships. Owing to the requirement of compliance to various regulatory bodies both international as well as national such as International Maritime Organisation (IMO), DG Shipping (in case of Indian vessels or vessels entering Indian waters) coupled with other socio-political issues such as piracy of vessels at sea, permission to only the home country's sea-farers to operate on the national waters etc has restricted the entry of players in the Shipping industry.

In the Indian context, companies i.e. Shipping Corporation of India (SCI), Mercator Lines Ltd (MLL), Great Eastern Shipping (GE Shipping), Essar Shipping and Varun Shipping together constitute the bulk of the total Indian fleet of which the state-owned SCI remains the most dominant player in terms of fleet size. Most of the remaining players in the industry (apart from those listed above) either own & operate few vessels each or own barges which can only be operated on the nation's coastal waters. This therefore implies high concentration of the industry strongly inclined towards the performance of the nation's top- 4 to 5 shipowners. However, the dominance of the said shipowners for the cargo-carrying requirements remains minimal owing to the availability of foreign-owned fleet at competitive freight rates in case of international trade.

The Shipping industry being closely linked to the global phenomenon and the plight of the Indian shipowners remaining akin to their global counterparts the vessel operating rates remain low owing to the over-supply of vessels globally.



CONSOLIDATED FINANCIAL SUMMARY

Rs. Crores	FY07	FY08	FY09	FY10	FY11
Income Statement					
Net operating income	684.5	945.2	964.7	685.2	491.4
EBITDA	382.4	573.2	513.2	278.7	21.6
Depreciation and amortisation	162.9	212.0	271.2	258.1	177.9
EBIT	219.5	361.2	242.0	20.6	(156.3)
Interest	119.2	139.5	145.5	198.0	216.0
PBT	151.9	228.3	127.3	(110.7)	16.8
Ordinary PAT (After minority interest)	144.9	227.5	124.0	(152.9)	14.8
PAT (After minority interest)	144.9	225.4	48.1	(191.3)	(327.3)
Fully Diluted Earnings Per Share* (Rs.)	9.5	14.3	7.4	(12.8)	-
Dividend, including tax	60.5	75.0	75.0	12.0	12.0
* Calculated based on ordinary PAT on Current Face Value of Rs. 10/- per share					
Balance sheet					
Net worth (incl. Minority Interest)	752.0	945.0	845.0	812.0	812.8
Debt	1,793.0	2,200.8	2,846.8	2,739.4	2,703.7
Deferred Liabilities / (Assets)	-	-	-	-	-
Capital Employed	2,545.0	3,145.8	3,691.8	3,551.3	3,516.4
Net Fixed Assets (incl. Capital WIP)	2,438.5	3,124.3	3,536.1	2,946.9	1,892.3
Investments	20.5	22.1	23.2	42.2	27.3
Loans and Advances	64.8	17.2	115.5	355.2	1,701.6
Inventory	4.3	12.5	13.2	16.0	6.4
Receivables	52.8	57.0	61.7	331.9	142.6
Cash and Cash Equivalents	71.9	70.1	96.1	34.1	16.2
Current Assets, Loans and Advances	193.8	156.8	286.5	737.2	1,866.8
Less: Current Liabilities and Provisions	107.9	157.5	154.0	175.0	270.0
	-	-	-	-	-
Total Assets	2,545.0	3,145.8	3,691.8	3,551.3	3,516.4
Ratios					
Growth in Operating Income		38.1%	2.1%	-29.0%	-28.3%
Growth in EBITDA		49.9%	-10.5%	-45.7%	-92.3%
Growth in PAT		55.5%	-78.6%	NM	NM
Growth in EPS		50.6%	-48.2%	NM	NM
EBITDA Margin		60.6%	53.2%	40.7%	4.4%
PAT Margin		23.8%	5.0%	NM	NM
RoCE		12.7%	7.1%	0.6%	NM
RoE		26.6%	5.4%	NM	NM
Debt-Equity (times)		2.3	3.4	3.4	3.3
Interest Coverage (times)		2.6	1.7	0.1	NM
Current Ratio (times)		1.0	1.9	4.2	6.9
Inventory Days		5	5	9	5
Receivable Days		22	23	177	106
Price / Earnings (P/E) Ratio					NM
Price / Book Value(P/BV) Ratio					0.3
Enterprise Value (EV)/EBITDA					137.1

Source: Capitaline, CARE Equity Research



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