

**AVOID**
**PRICE BAND: Rs 55-60**
**Issue Details**

<b>Issue Size to public</b>	470-512
<b>Face Value (Rs)</b>	10
<b>Bid opens</b>	16-Sept
<b>Bid closes</b>	18-Sept
<b>Issue band (Rs)</b>	Rs 55-60
<b>Issue Type</b>	100% BB
<b>Lead Managers</b>	
JM Financial Consultants Private limited Citi Group Global Market India Private Limited Enam Securities Private Limited	
<b>Registrar</b>	
Karvy Computer share Private Ltd	

<b>Issue Structure</b>	<b>Equity Shares</b>
Total Shares	85,450,225
QIB Portion	50,910,135
MFs	2,545,507
Bal for all QIB's inclu. MF	48,364,628
Non Institutional Portion	8,485,022
Retail Portion	25,455,068

No of Issued, subscribed and paid up shares before the issue	580,348,163
No of Issued, subscribed and paid up shares after the issue	665,798,388

Promoter and Promoter Group holding (Pre Issue)	45.38%
Promoter and Promoter Group holding (Post Issue)	39.56%

**Share Holding Pattern**

	<b>Pre Issue</b>	<b>Post issue</b>
SKIL	20.96	18.27
Grevek Investment	2.13	1.85
Punj Lloyd	22.29	19.43
Other	54.62	47.61
Public & Employee	NIL	12.83

**BACKGROUND & BUSINESS:**

Promoted by SKIL & Punj Lloyd, Pipavav Ship Yard Limited (PSL) is currently completing the setting up of an integrated shipbuilding facility, which upon completion, will be the largest in India and among the largest in Asia. Upon the completion of the construction, the Pipavav Shipyard will be capable of ship construction and repairs for a range of vessels of different sizes and type, including naval vessels and coast guard vessels, as well as the fabrication and construction of product such as off shore platform, rigs, jackets and vessels, which they intend to offer in offshore business commercial operation at Pipavav Shipyard commenced on April 1, 2009. After the completion of Pipavav Shipyard, it will capable of handling ships of up to 4,00,000DWT or multiple combinations of smaller vessels.

**Objects of the issue:**

<b>S.no</b>	<b>Particulars</b>	<b>Amount (Rs. in Crs)</b>
1	Construction of facilities for shipbuilding, ship repair and off shore business	2566.143
2	Margin for working Capital	429.038
3	General Corporate Purpose	*

The main object of the issue is to construction of the ship building, ship repair & off shore fabrication.

Following is the breakup of capex of Rs. 2566 Crore

<b>Rs. In Crore</b>	<b>Till July 2009</b>	<b>From 2009-10</b>	<b>Total</b>
Land, Site development, civil work	434.92	89.849	524.769
Building & utilities	84.88	16.689	101.569
Mechanical & Production equipment	368.16	228.74	596.9
Construction of fit our birth, repair etc	58.2	169.43	227.63
Dry Dock conversion	332.9	41.59	374.49
Work shop/block making	205.915	21.12	227.035
IT infrastructure & Other ad. Exp	2.042	7.95	9.992
Interest on loan	284.63	4.01	288.64
Preliminary & Pre operative exp	212.64	2.335	214.975
<b>Total</b>	<b>1984.287</b>	<b>581.713</b>	<b>2566</b>

## Investment Positives

**NMDP will be spending Rs. 55,000 from (FY06-12) on 276 schemes. 60% of those investments will be from private sector**

### The Indian Ship building Industry

The Indian ship building industry is small by global standards & Indian shipyards currently account for 1% of the global order book. Indian ship building industry can be divided into three distinct segments .i.e, Public sector shipyards, Defense shipyard & Private shipyard.

Although India accounts for very small portion of the global shipbuilding market, we believe that Indian shipbuilding industry is all set for a robust growth. Key growth factors for the ship building Industry:-

1. National maritime Development Programme ( NMDP)
2. Relatively cheap labor & Pool of technical workers
3. Shipbuilding subsidiaries
4. Strategic geography location India

**Total budgetary expenditure on the Indian navy for FY 10 is Rs. 206 billion.**

### Diversified Business Model:

Company intends to continue to diversify business by focusing on opportunities across the verticals and not solely on commercial shipbuilding. Company plan to diversify its portfolio:-

1. Offshore business
2. Ship repair & Shipbuilding for navy and coast guard
3. Merchant shipbuilding of sizes and specifications other than panama bulk carrier

**1<sup>st</sup> delivery of vessels is expected in April 2010.**

### Existing Order book:-

Current order book of Pipavav ship yard is around Rs. 4459.6 crore which consists of 22 panamax bulk- carrier of 74,500 DWT and 12 vessels from ONGC (OSV).

**PSL has received USD 205 million advanced payment.**

### Break up of Order book

Name of Parties	Vessel	Qty	Value( Rs. In Crore)
Golden Ocean AVGI	Panamax	10	1788
Golden Ocean	Panamax	2	341.1
AVGI	Panamax	6	1105.8
Setaf	Panamax	4	689.3
ONGC	OSV	12	535.4
<b>Total</b>			<b>4459.6</b>

### Investment Concerns:

- Threat of cancellation of Orders.
- Volatility in commodity prices:- as contract from ONGC is a fixed priced contract, any increase in steel prices will adversely impact the revenue.
- There are criminal proceeding against certain Director and promoter group company ( DRHP)
- As company has commenced recently ( April 1, 2009) – are not generating sufficient cash flow to service our in debt -ness. ( DRHP)
- SEBI is conducting preliminary investigation into price movement of equity shares and transactions in equity shares of companies in which some of director hold controlling interest. ( DRHP)
- Company may not able to execute plan to complete the construction of Pipavav shipyard on schedule. Company doesn't have any track record or prior experience in shipbuilding /repair activities/offshore business. (DRHP)

**We recommended AVOID this public issue as the shares are offered at a much higher Valuation against peers group. There are criminal Charges and manipulation of stock prices charges against some of the Directors & Promoters. This company does not have a track record or prior experience in shipbuilding.**

We will reconsider our recommendation in future, once it establish itself in the marketplace.

### Peer Group Comparison :

Peers Group	Price	Mcap	Order Book	EPS	P/E	Mcap/order book	ROE
Pipavav Lower Band	55	3662	4459	0.08	687.5	.82	0.39
Pipavav Upper Band	60	3995	4459	0.08	750	.89	0.39
Bharti Shipyard	202	559	5070	48.4	4.17	.11	26.5
ABG Shipyard	252	1283	12470	33.6	7.50	.10	25.6

## Financial Performance

<b>Rs. In Crore</b>	<b>FY09</b>	<b>FY08</b>
Revenue	0	0
Other Income	61.778	27.7
<b>Total Income</b>	<b>61.778</b>	<b>27.7</b>
Total Expenditure	39.25	15.951
Operating Profit	22.528	11.749
Depreciation	0.163	0.188
Interest	12.958	0.07
PBT	9.407	11.491
Tax	4.67	0.348
<b>Net profit</b>	<b>4.737</b>	<b>11.143</b>
Equity	580	580
EPS	0.08	0.19

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## RATING INTERPRETATION

**Outperformer** Expected to appreciate more than 20% over a 12-month period  
**Accumulate** Expected to appreciate up to 20% over a 12-month period  
**Neutral** Expected to remain in a narrow range  
**Underperform** Expected to depreciate more than 10% over a 12-month period

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