



Company Profile

Pipavav Shipyard Limited (PSL), a Gujarat-based company, is raising funds from the primary market to fund the construction of its facilities for shipbuilding, ship near and offshore vessels. 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. After the issue the promoter’s stake will reduce to 39.56 from 45.38%. Pipavav Shipyard is owned by SKIL Infrastructure and Punjlloyd. Punjlloyd invested around Rs.350 crore and became a Shareholder with highest stake in the company. Sembcorp the shipping giant has bought the shares of the company at Rs.45. Other financial giants have bought shares at Rs.80 per share. The yard is mapping out its focus areas to build equipments for the power sector besides defense and offshore vessels.



Pipavav Shipyard, the largest dockyard in India

Business Strategy

PSL’s long-term strategy is to have four pillars to stand on, each capable of supporting the Shipyard on its own. The Company has engaged in activities in the following business sectors

- Commercial shipbuilding
- Offshore fabrication and servicing
- Naval vessel
- Ship repair

This strategy will insulate PSL from the risks of relying on one market segment alone, and also allow for profitable business opportunities in each segment to be grasped as market conditions dictate.

Growth prospects

Pipavav Shipyard started commercial operations on April 1 this year and builds vessels, like Panamax, while simultaneously completing the construction of its offshore yard and installation of two large cranes at its facilities. Upon completion of its shipyard, Pipavav Shipyard will be capable of manufacturing ships and repair a range of vessels, including naval and coast guard vessels. The company plans to focus on the needs of the defense sector to mitigate the effects of the cyclical nature of commercial shipbuilding sector. Pipavav Shipyard comprises two sites – an SEZ unit located on approximately 95 hectares of land and an EOU located on approximately 103.92 hectares of land. The construction of the shipyard (excluding the offshore yard) is expected to be completed in October 2009.

IPO Details

<i>Symbol Series</i>	<i>PIPAVAV EQ</i>
<i>Issue Period</i>	<i>Sep 16,09 to Sep 18,09</i>
<i>Issue Size</i>	<i>854,50,225 equity shares</i>
<i>Issue Type</i>	<i>100% book building</i>
<i>Face Value</i>	<i>Rs 10/-</i>
<i>Price Range</i>	<i>Rs 55-60</i>
<i>Market lot</i>	<i>110 equity Shares</i>
<i>Minimum Order Qt.</i>	<i>110 equity Shares</i>
<i>Max. Subscription amount for retail investors</i>	<i>Rs 100000</i>
<i>IpoMarketTiming</i>	<i>10 am to 5 pm</i>
<i>Book runner Lead Mangers</i>	<i>JmFinancial,Citigroup global,Enam Securities Sbi capital</i>
<i>Employee Status</i>	<i>600000</i>
<i>QIP</i>	<i>60% of net issue</i>
<i>Non institutional investors</i>	<i>10% of net issue</i>



Pipavav Shipyard will also be involved in the fabrication and construction of products such as offshore platforms, rigs, jackets and vessels for oil and gas companies, which it intends to offer in its offshore business. The offshore yard is expected to be ready by end of March 2010. Pipavav Shipyard currently has orders, notably from Bermuda-based Golden Ocean Group Limited and Greece-based AVGI Maritime Group, for the construction of 10 Panamax bulk-carriers with an aggregate value of \$373.52 million (around Rs 1788 crore) and scheduled for delivery between April 2010 and May 2012.

CARE Rating:

CARE has assigned "3/5" (three on five) rating to the proposed initial public offer (IPO) of Pipavav Shipping limited.



How will the capital raised by PSL- IPO be used

The proceeds will be used for construction of facilities for ship building, ship repair and offshore business. It will also be used for its working capital requirements and other corporate purposes. The current order book of Pipavav Shipyard is \$96 billion for 34 vessels, including 12 offshore supply vessels for ONGC and their first vessel will be finished by April 2010.

Its order book worth \$930 million dollars will drive growth over next few years

Financials:

Pipavav Shipyard consolidated other income amounted to Rs 61.7 crore during FY09 compared with Rs 27.74 crore a year ago. Also, its adjusted net profit amounted to Rs 4.85 crore in FY09, marginally higher than the previous year. And, given the limited duration of its commercial operations, a comparison with peers like Bharati Shipyard and ABG Shipyard, on financial parameters, like P/E and top line growth, is meaningless. Pipavav Shipyard has just started its operations and has almost 0 experience and operational history.

Financials	FY09	FY08
Other Income	61.77	27.74
Employee cost	7.67	5.02
Admin. Selling expenses	31.58	10.93
Net Profit adjusted	4.85	4.82
Weighted Avg EPS(Rs)	0.08	-

Src:Red Herring prospect

RS in crores.

Valuation: Pipavav Shipyard has an EPS of Rs.0.08. But it should be noted that the project has not been started and how the earnings will come without the starting of the project. The book value pre-IPO is Rs.21.63.

Post IPO, the debt-equity ratio will stand at 0.7



Recommendation:

The difficult operating environment has led to several shipping companies canceling orders from overseas shipyards, which could also dampen the growth prospects for Pipavav Shipyard, going forward. However, Pipavav Shipyard's attempts to diversify into the manufacture of equipment for the offshore segment and vessels for the defense sector should help to minimize the cyclical demand for ocean-going vessels.

Investors should not expect the listing short term gains from the IPO rather the best strategy is to buy the stock once it is listed. The recommendations are positive, given the future prospects, expansion plans and healthy order book of the company. The future revenue generation potential of the company is what provides support to valuations. The shipbuilding business is fraught with revenue fluctuations and order cancellations. Moreover, the money being raised is directly for investment in the ship building capabilities, which will take a lot of time to turn revenue accretive. Considering that the world economy is still recovering from the slowdown, Pipavav Shipyard might not get a barrage of new orders right away. In the next 2 years, there will be many chances to buy the Pipavav Shipyard stock at cheaper valuations than the IPO. Very long term investors should put their money in the Pipavav Shipyard IPO. Short and medium term investors might not make an immediate buck in the process.



Contact us at	research@rrfcl.com	suhail@rrfcl.com	rekha@rrfcl.com
RR Information & Investment Research Pvt. Ltd.	47, MM Road Jhandewalan New Delhi-110055 (INDIA) 011-23636362/63 Toll free no--18001800110444 www.rrfinance.com ; www.rrfcl.com		

Disclaimer

Kindly read the Risk Disclosure Documents carefully before investing in Equity Shares, Derivatives or other instruments traded on the Stock Exchanges. RR would include RR Financial Consultants Ltd. and its subsidiaries, group companies, employees and affiliates. The 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 RR. The information contained herein is obtained from public sources and sources believed to be reliable, but independent verification has not been made nor is its accuracy or completeness guaranteed. RR or their employees may have or may not have an outstanding buy or sell position or holding or interest in the products mentioned herein. The contents and the 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 and insurance products and instruments. Nothing in this report constitutes investment, legal, accounting and/or tax advice or a representation that any investment or strategy is suitable or appropriate to recipients specific circumstances. The securities and products 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. Please note that fixed deposits, bonds, debentures are loans/lending instruments and the investor must satisfy himself/herself on the financial health of the company/bank/institution before making any investment. RR and/or its affiliates take no guarantee of soundness of any company or scheme. RR has/will make available all required information to the prospective investor if asked for in respect of any scheme/fixed deposit/bond/loan/debenture. RR is only acting as a broker/distributor and is not representing any company in any manner except to distribute its schemes. Mutual Fund Investments are subject to market risks, read the offer document carefully before investing. Any recipient herein may not take the content in substitution for the exercise of independent judgment. The recipient should independently evaluate the investment risks of any scheme of a mutual fund. RR and its affiliates accept no liability for any loss or damage of any kind arising out of the use of any information contained herein. Past performance is not necessarily a guide to future performance. Actual results may differ materially from those set forth in projections. RR may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. The information herein 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 RR and its affiliates to any registration or licensing requirement within such jurisdiction. The securities and products 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 them of and to observe such restriction(s). The display, description or references to any products, services, publications or links herein shall not constitute an endorsement by RR. Insurance is a subject matter of solicitation. Kindly also note all the risk disclosure documents carefully before investing in Equity Shares, IPO's, Mutual Fund Schemes, Insurance Schemes, Fixed Deposit schemes, Debt offers, Hybrid Instruments, or other instruments traded on Stock Exchanges or otherwise. Prospective investors can get all details and information from the sites of SEBI, IRDA, AMFI or respective Mutual Fund Companies, Insurance Companies, Rating Agencies, Stock Exchanges and individual corporate websites. Prospective investors are advised to fully satisfy themselves before making any investment decision

NSE - INB 231219636, INF 231219636 BSE - INB 011219632

