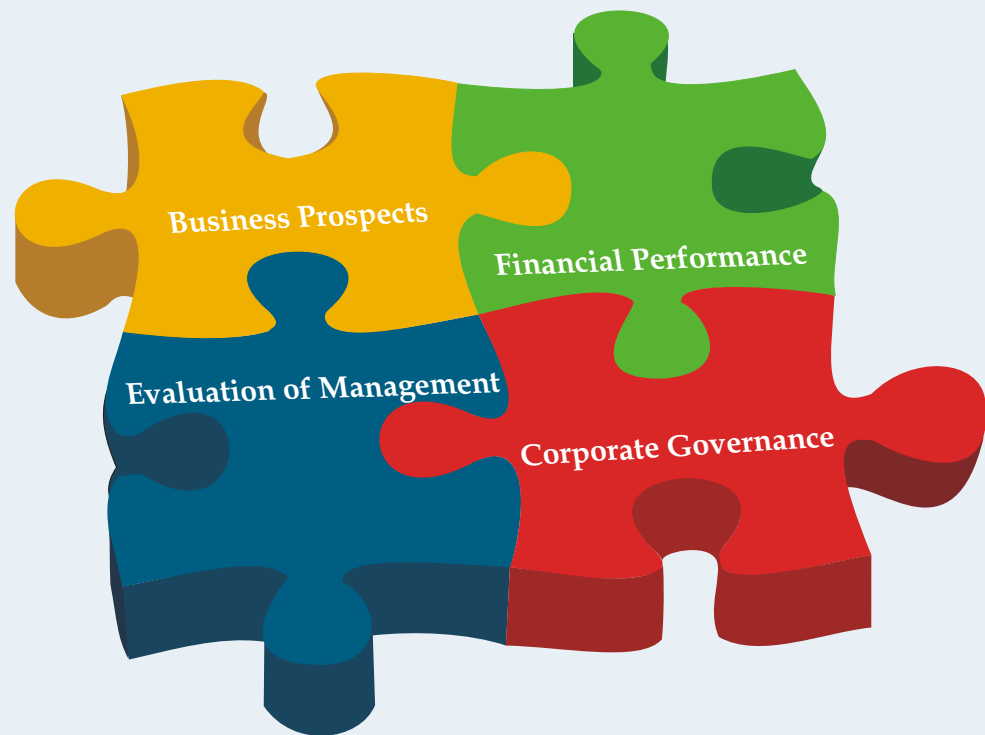


# Independent Equity Research

Enhancing investment decision



Indepth analysis of the fundamentals and valuation

Q3FY10 Result Update

**Dolphin Offshore  
Limited**

# CRISIL Independent Equity Research Team

## Senior Director

S. Venkataraman

### Analytical Contacts

Chetan Majithia	chetanmajithia@crisil.com	+91 (22) 3342 4148
Suresh Guruprasad	sguruprasad@crisil.com	+91 (22) 3342 3531
Vishal Rampuria	vrampuriah@crisil.com	+91 (22) 3342 3525
Sagar Parikh	sparikh@crisil.com	+91 (22) 3342 3502
Nihag Shah	ndshah@crisil.com	+91 (22) 3342 3533
Bhaskar Bukrediwala	bsbukrediwala@crisil.com	+91 (22) 3342 1983
Ravi Dodhia	rdodhia@crisil.com	+91 (22) 3342 3508
Urmil Shah	udshah@crisil.com	+91 (22) 3342 8135
Neeta Khilnani	nkhilnani@crisil.com	+91 (22) 3342 1882

### Sector Contacts

Nagarajan Narasimhan	nnarasimhan@crisil.com	+91 (22) 3342 3536
Ajay D'Souza	adsouza@crisil.com	+91 (22) 3342 3567
Manoj Mohta	mmohta@crisil.com	+91 (22) 3342 3554
Sachin Mathur	smathur@crisil.com	+91 (22) 3342 3541
Sridhar C	SridharC@crisil.com	+91 (22) 3342 3546
Sudhir Nair	snair@crisil.com	+91 (22) 3342 3526

### Business Development Contacts

Vishal Thakkar	tvishal@crisil.com	+91 98 201 86264
Vinaya Dongre	vdongre@crisil.com	+91 99 202 25174
Sagar Sawarkar	ssawarkar@crisil.com	+91 98 216 38322
Sejal Kothari	sakothari@crisil.com	+91 99 206 25746
Gayathri S	gayathris@crisil.com	+91 98 864 98175

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- White Labelled Research
- Valuation on companies for use of Institutional Investors, Asset Managers, Corporates

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- Customised research content for Information Memorandum and Offer documents

## Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process - Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade)

### Fundamental Grade

CRISIL's Fundamental Grade represents an overall assessment of the fundamentals of the company graded in relation to other listed equity securities in India. The grade facilitates easy comparison of fundamentals between companies, irrespective of the size or the industry they operate in. The grading factors in the following:

- Business Prospects: Business prospects factors in Industry prospects and company's future financial performance
- Management Evaluation: Factors such as track record of the management, strategy are taken into consideration
- Corporate Governance: Assessment of adequacy of corporate governance structure and disclosure norms

The grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals)

CRISIL Fundamental Grade	Assessment
5/5	Excellent fundamentals
4/5	Superior fundamentals
3/5	Good fundamentals
2/5	Moderate fundamentals
1/5	Poor fundamentals

### Valuation Grade

CRISIL's Valuation Grade represents an assessment of the potential value in the company stock for an equity investor over a 12 month period. The grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Valuation Grade	Assessment
5/5	Strong upside (>25% from CMP)
4/5	Upside (10-25% from CMP)
3/5	Align (+-10% from CMP)
2/5	Downside (negative 10-25% from CMP)
1/5	Strong downside (<-25% from CMP)

### Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

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## List of companies under coverage

Sl. No.	Company Name	Fundamental grade
1	Aarti Industries	3/5
2	ABG Shipyard Ltd	3/5
3	Apollo hospitals	4/5
4	DLF	3/5
5	Dolphin Offshore	3/5
6	EID Parry	4/5
7	Everest Kanto	4/5
8	Hero Honda	5/5
9	Indiabulls Securities	4/5
10	JBF Industries	3/5
11	JM Financial	4/5
12	NTPC	5/5
13	Pantaloon Retail (India)	4/5
14	Phoenix Mills	2/5
15	UTV Software Communications	3/5

# Independent Research Report – Dolphin Offshore Limited

'Good fundamentals and aligned valuation'

Industry  
Date

Oil and Gas allied services  
January 27, 2010



## Q3FY10 Result Update

### Q3FY10 results far higher than our expectations

Dolphin Offshore Ltd's (Dolphin) revenues increased significantly at Rs 1,870 Mn in Q3FY10, growing by 105 % YoY. EBITDA at Rs 357.5 Mn soared by 141.5 % YoY. EBITDA margin improved to 19.1% from 16.2% YoY on account of revenues booked from better-margin turnkey projects. PAT at Rs 215 Mn has surged 235 % YoY. This has resulted in the company posting an EPS (diluted) of Rs 12.8 from Rs 4.1 YoY.

### Revenues mainly from turnkey projects

Dolphin's Q3FY10 revenues have been mainly from turnkey projects that are being executed for ONGC. Revenues from high margin turnkey (EPC) business were two-third (at Rs 1,220 Mn) of the total revenues booked in the quarter. The company was also able to deploy its assets in the domestic market, due to growing investments for oil and gas infrastructure by ONGC. The sub-contracting revenues resulted in Rs 600 Mn in the quarter.

### Significant FCCB conversion taken place

In Q3FY10, a tranche of FCCB loans was converted to equity shares. A total of US\$ 2.1 Mn were converted for 5,81,355 shares in the quarter. Another tranche of FCCB loan of US\$ 2.5 Mn were converted for 8,00,315 shares at the start of Q3FY10. As a result, promoter's shareholding has come down to 57% from 62.5% in Q2FY10. We have assumed the balance US\$ 3.1 Mn to be converted in FY11.

### Low order book visibility for FY11

The order book stands at Rs 2,570 Mn. The company has bid for 2 ONGC projects amounting to US\$500 Mn. The bid results are due over the next couple of weeks. The company is hopeful of bagging at least one of the two orders.

### Revision in our earning estimates

On the back of robust results, we have revised our earnings forecast for FY10 and FY11. Our revenue estimates have been revised upwards by 7.1% to Rs 5,261 Mn for FY10 from Rs 4,913 Mn, and marginally upwards by 0.8% to Rs 6,031 Mn in FY11 from Rs 5,986 Mn. We have increased our PAT estimate to Rs 582 Mn for FY10 from Rs 413 Mn and to Rs 635 Mn in FY11 from Rs 471 Mn.

### We retain '3/5' on fundamental and valuation grade

We retain our fundamental grade of '3/5' on Dolphin, indicating that the fundamentals of the company are 'Good' relative to other listed securities in India. On account of the robust performance in Q3FY10, we have revised upwards our Fundamental Value to Rs 417 per share from Rs 315. Although our fundamental value has changed significantly, our Valuation Grade remains at '3/5' vis-à-vis our last update. This grade indicates that the current market price of Dolphin is 'Aligned' to our Fundamental Value.

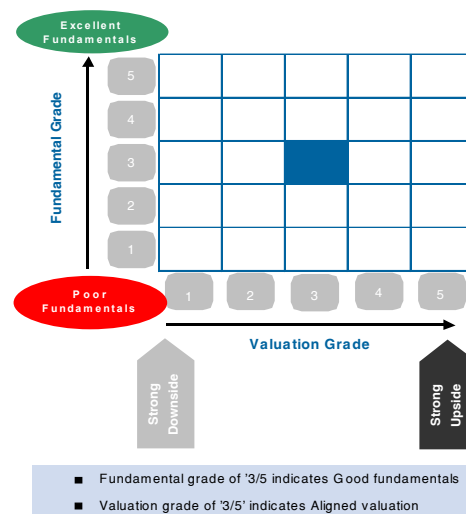
### Key forecast (Consolidated)

Rs (Mn)	FY09	FY10E	FY11E	FY12E	FY13E
Revenues	3,530	5,269	6,040	6,648	7,429
EBITDA	674	1,024	1,239	1,462	1,660
Net income	305	582	635	722	780
EPS*-Rs	31.9	36.9	37.9	43.0	46.5
EPS growth (%)	58.0%	15.7%	2.6%	13.7%	8.0%
BV per share (Rs)	110.1	94.6	102.0	105.8	110.0
PE (x)	12.1	10.4	10.2	8.9	8.3
P/BV (x)	3.5	4.1	3.8	3.6	3.5
RoCE (%)	21.1%	32.6%	30.8%	30.5%	28.9%
RoE (%)	36.0%	45.7%	39.7%	41.4%	43.1%
EV/EBITDA (x)	8.0	7.2	6.7	6.1	5.7

\*Adjusted for FX losses and gains

Source: Company, CRISIL Equities Estimates

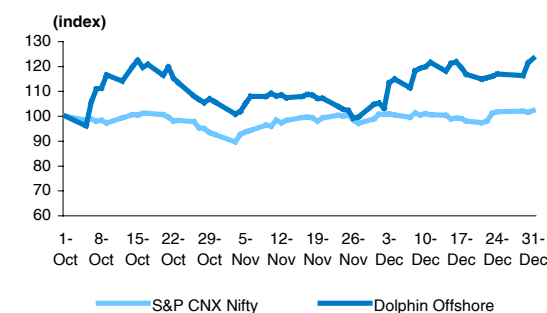
### CFV matrix



### Key stock statistics

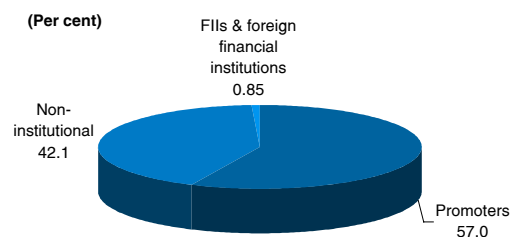
Fundamental price	417
Current market price	385
Shares outstanding (Million)	15.8
Market cap (Rs million)	6,060
Enterprise value (Rs million)	7,400
52-week range(Rs)(H/L)	473/79
PE on EPS estimate (FY11E)(x)	10.2
Beta	1.2
Free float (per cent)	42.9
Average daily volumes	27,210

### Share Price Movement – for the quarter



- Indexed to 100

### Shareholding as on 31<sup>st</sup> December 2009



### Analytical contact

Chetan Majithia (Head, Equities) +91 22 6644 4148  
Savio Monteiro (Analyst) +91 22 6644 4150  
Email: clientservicing@crisil.com +91 22 6691 3561

## Other updates

### *Current order book stands at Rs 2,570 Mn*

#### **Low order book visibility for FY11**

The order book as on January 1, 2010 stood at Rs 2,570 Mn. The company is awaiting the bid results for 2 EPC projects of ONGC, amounting to \$500 Mn.

ONGC had announced 3 tenders worth over \$720 Mn for projects such as building platforms and laying pipelines, etc. Dolphin had bid for these projects and, despite competition from international and domestic players, expects to be L1 in at least a one of the projects. However, the company has been unsuccessful in one of the bids, while the results of the remaining 2 bids are expected within a couple of weeks.

Revenues in Q3FY10 surged significantly on account of turnkey (EPC) projects for ONGC, accounting for two-third of the revenues. The quarter saw the highest revenue booking across all previous quarters. In Q4FY10, we expect revenues from the turnkey projects to be lower, as only 15 per cent of the EPC project is remaining to be billed. Sub-contracting revenues would be the major component in Q4FY10.

### *Increasing competition in turnkey and sub-contracting business*

#### **Increasing competition to pressurise margins going ahead**

With the sluggishness in global operations, international players, particularly from the Saudi market, are focussing on India. This has resulted in immense competition while bidding for projects. For example, the number of players bidding for the projects (when Dolphin had bid earlier) has gone up from 3-4 players to 8-9 players. We expect intense competition to pressurise the margins of the EPC contracts and sub-contracting business.

#### **Capex delayed on account of environmental issues**

Of the vessels (2 workboats and a construction barge) under construction, 1 workboat has been delivered to Dolphin (the asset is owned under its Mauritius subsidiary, Dolphin Mauritius). The delivery of the other workboat is expected by Q2FY11, while the construction barge is expected by the end of Q4FY10.

The fabrication and shipyard units, which were planned in Gujarat, have been delayed on account of environmental issues raised by the central government. The company believes that the shipyard issue would get resolved in another 18 months; however, Dolphin is expected to go ahead with its plans for the fabrication unit, and is exploring various options/ locations to set up the same.

## Changes in Earnings Estimates

We have revised upwards our earnings estimate on sales, EBITDA and consolidated PAT for FY10 and FY11. Our sales estimate has increased on account of significant revenue growth in Q3FY10, which recorded highest historical growth. This was mainly on account of revenues from turnkey projects, accounting for two-third of the Q3FY10 results.

In Q4FY10, revenues from the turnkey business are expected to be lower, as only 15 per cent of the EPC work is remaining to be completed, translating into around Rs 425 million. The major share of revenues in Q4FY10 is expected to be from sub-contracting work.

Given the increase in top line, we expect EBITDA to also grow significantly on account of strong margins in turnkey projects. As the company's situation is improving as regards working capital requirements, interest cost is expected to come down. Also, delays in the delivery of 3 vessels resulted in lower depreciation. Hence, our consolidated PAT is expected to be at Rs 579 Mn vis-a-vis our previous estimate at Rs 413 Mn.

**Table 1: Earnings revision summary**

Dolphin (Consolidated) (Rs Mn)	FY10E			FY11E		
	Old	New	% change	Old	New	% change
Sales	4913	5261	7.1	5986	6031	0.8
EBITDA	856	1024	19.7	1128	1239	9.9
Consolidated PAT	413	582	40.9	471	635	34.8
EPS (Rs)	27.59	36.92	33.8	28.10	37.88	34.8

Source: CRISIL Equities

## Valuation Grading

We continue to value Dolphin using the DCF method. We have revised upwards the sales, EBITDA and consolidated PAT due to significant revenue growth in Q3FY10 and reduction in interest cost and depreciation. Hence, we value Dolphin's business at Rs 417 per share since our Q2FY10 update. The Valuation Grade will remain at **'3/5'** from **'3/5'** (refer to CRISIL Equities' Q2FY10 update dated November 04, 2009), indicating that the current market price is **'Aligned'** with our Fundamental Value for per share.

**Table 2: Reports published on Dolphin Offshore Ltd**

Date	Nature of report	Fundamental Grade	Fundamental Price	Valuation Grade	Market price (on the date of report)
22-Sep-09	Initiating coverage*	3/5	Rs.315	4/5	Rs.262
04-Nov-09	Q2FY10 result update	3/5	Rs.315	3/5	Rs.322
27-Jan-10	Q3FY10 result update	3/5	Rs.417	3/5	Rs.385

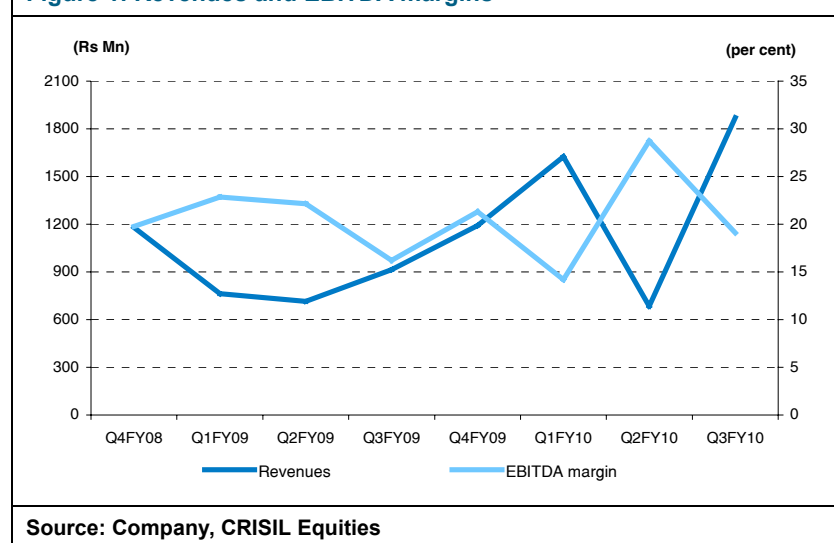
\* For detailed initiating coverage report please visit: [www.crisilresearch.com](http://www.crisilresearch.com) or [www.crisil.com](http://www.crisil.com)

**Table 3: Quarterly result analysis**

(Rs Mn)	Q3FY10	Q2FY10	Q1FY10	Q3FY09	QoQ (%)	YoY (%)
<b>Revenues</b>	<b>1870.0</b>	<b>680.6</b>	<b>1,619.6</b>	<b>911.7</b>	<b>174.8%</b>	<b>105.1%</b>
Stores and spares	452.9	128.0	391.3	58.6	253.9%	673.0%
Employee costs	55.1	51.2	53.7	41.1	7.6%	34.1%
Other expenses	1008.3	309.2	949.0	665.6	226.1%	51.5%
<b>Cost of sales</b>	<b>1516.3</b>	<b>488.4</b>	<b>1,394.0</b>	<b>765.3</b>	<b>210.4%</b>	<b>98.1%</b>
<b>OPBDIT</b>	<b>353.7</b>	<b>192.1</b>	<b>225.6</b>	<b>146.4</b>	<b>84.1%</b>	<b>141.5%</b>
Interest and finance charges	19.1	18.4	35.8	34.0	3.6%	-43.9%
<b>OPBDT</b>	<b>334.6</b>	<b>173.7</b>	<b>189.8</b>	<b>112.4</b>	<b>92.6%</b>	<b>197.6%</b>
Depreciation	12.5	12.3	12.0	14.2	1.5%	-12.0%
<b>OPBT</b>	<b>322.1</b>	<b>161.4</b>	<b>177.8</b>	<b>98.3</b>	<b>99.5%</b>	<b>227.9%</b>
Other income	3.8	4.7	5.1	1.6	-20.0%	136.4%
<b>PBT</b>	<b>325.9</b>	<b>166.2</b>	<b>182.9</b>	<b>99.9</b>	<b>96.1%</b>	<b>226.4%</b>
Tax	111.0	55.7	62.8	35.7	99.3%	210.9%
<b>Profit after tax [ PAT ]</b>	<b>214.9</b>	<b>110.5</b>	<b>120.1</b>	<b>64.2</b>	<b>94.5%</b>	<b>235.0%</b>
No. of equity shares	15.8	14.4	9.6	9.6		
<b>EPS (Rs)- Diluted</b>	<b>12.8</b>	<b>6.6</b>	<b>10.1</b>	<b>4.1</b>	<b>-34.6%</b>	<b>-10.4%</b>

Above numbers are for Dolphin Offshore on a standalone basis

Source: Company, CRISIL Equities

**Figure 1: Revenues and EBITDA margins**

## Financials

**Table 4: FINANCIAL STATEMENTS (Consolidated)**

(Rs Mn)	FY 09	FY 10 E	FY 11E	FY 12 E	FY 13 E
Net sales	3,524.7	5,261.4	6,031.3	6,638.9	7,418.8
Other income	11.0	25.5	30.0	40.0	49.0
<b>Operating income</b>	<b>3,529.7</b>	<b>5,268.7</b>	<b>6,039.7</b>	<b>6,648.2</b>	<b>7,429.2</b>
<b>EBITDA</b>	<b>673.7</b>	<b>1,024.5</b>	<b>1,239.5</b>	<b>1,462.1</b>	<b>1,660.4</b>
Depreciation	74.5	95.4	151.3	199.0	281.9
Interest	145.9	86.3	130.3	181.5	241.2
<b>PBT</b>	<b>598.8</b>	<b>868.3</b>	<b>947.9</b>	<b>1,061.5</b>	<b>1,146.4</b>
<b>PAT</b>	<b>441.7</b>	<b>581.8</b>	<b>635.1</b>	<b>721.8</b>	<b>779.5</b>
<b>Adjusted PAT</b>	<b>305.1</b>	<b>581.8</b>	<b>635.1</b>	<b>721.8</b>	<b>779.5</b>

**Balance sheet**

(Rs Mn)	FY 09	FY 10 E	FY 11E	FY 12 E	FY 13 E
Equity (Including reserves)	1,053.4	1,490.4	1,711.0	1,774.6	1,844.5
Debt	1,833.9	1,440.1	1,914.7	2,500.0	3,101.7
Current liabilities and provisions	1,019.5	1,479.1	1,537.7	1,624.0	1,769.5
<b>Capital employed</b>	<b>3,922.8</b>	<b>4,434.3</b>	<b>5,207.1</b>	<b>5,963.4</b>	<b>6,803.4</b>
Net fixed assets	1,454.9	1,466.0	1,843.8	2,278.7	2,792.9
Total investments	1.6	0.2	0.2	0.2	0.2
Loans and advances	555.3	628.5	695.9	758.9	793.5
Receivables	1,795.4	2,234.3	2,561.2	2,819.3	3,109.8
Cash & bank balance	112.2	100.0	100.0	100.0	100.0
<b>Applications of funds</b>	<b>3,922.8</b>	<b>4,434.3</b>	<b>5,207.1</b>	<b>5,963.4</b>	<b>6,803.4</b>

**Ratios**

	FY 09	FY 10 E	FY 11E	FY 12 E	FY 13 E
Revenue growth	50.8%	49.3%	14.6%	10.1%	11.7%
EBITDA growth	83.8%	52.1%	21.0%	18.0%	13.6%
EPS growth	190.3%	-20.1%	2.6%	13.7%	8.0%
Adjusted EPS growth	58.0%	15.7%	2.6%	13.7%	8.0%
EBITDA margin	19.1%	19.4%	20.5%	22.0%	22.3%
PAT margin	12.5%	11.0%	10.5%	10.9%	10.5%
Adjusted PAT margin	8.6%	11.0%	10.5%	10.9%	10.5%
Return on capital employed (RoCE)	21.1%	32.6%	30.8%	30.5%	28.9%
Return on equity (RoE)	52.1%	45.7%	39.7%	41.4%	43.1%
Adjusted return on equity (RoE)	36.0%	45.7%	39.7%	41.4%	43.1%
Debtors days	186	155	155	155	153
Gross current days	248	201	199	199	194
Earnings per share (Rs)	46.2	36.9	37.9	43.0	46.5
Adjusted earnings per share (Rs)	31.9	36.9	37.9	43.0	46.5
Book value per share (Rs)	110.1	94.6	102.0	105.8	110.0
Debt-equity	1.7x	1.0x	1.1x	1.4x	1.7x
Current ratio	2.4	2.0	2.2	2.3	2.3
Interest coverage	0.2	0.1	0.1	0.1	0.1
Price-earnings	12.1x	10.4x	10.2x	8.9x	8.3x
Price-book	3.5x	4.1x	3.8x	3.6x	3.5x
EV/EBITDA	8.0x	7.2x	6.7x	6.1x	5.7x

Note: All ratios have been computed on adjusted PAT; interest costs are adjusted for FX losses and gains

Source: Company, CRISIL Equities estimate

## About CRISIL Limited

CRISIL is India's leading Ratings, Research, Risk and Policy Advisory Company

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### Mumbai

CRISIL House  
Central Avenue  
Hiranandani Business Park  
Powai, Mumbai - 400 076, India.  
Phone +91 (22) 3342 8026/29/35  
Fax +91 (22) 3342 8088

### New Delhi

The Mira  
G-1 (FF), 1st Floor, Plot No. 1&2  
Ishwar Nagar, Near Okhla Crossing  
New Delhi - 110 065, India.  
Phone +91 (11) 4250 5100, 2693 0117-21  
Fax +91 (11) 2684 2212/ 13

### Bangaluru

W-101, Sunrise Chambers  
22, Ulsoor Road  
Bangaluru - 560 042, India.  
Phone +91 (80) 4117 0622  
Fax +91 (80) 2559 4801

### Kolkata

'Horizon', Block 'B', 4th floor  
57 Chowringhee Road  
Kolkata - 700 071, India.  
Phone +91 (33) 2283 0595  
Fax +91 (33) 2283 0597

### Chennai

Mezzanine Floor, Thappar House  
43 / 44, Montieth Road  
Egmore  
Chennai - 600 008, India.  
Phone +91 (44) 2854 6205/06, 2854 6093  
Fax +91 (44) 2854 7531

For further details  
or more information, please contact:  
Client Servicing  
CRISIL Research  
CRISIL House  
Central Avenue  
Hiranandani Business Park  
Powai, Mumbai - 400 076, India.  
Phone +91 (22) 3342 3561/ 62  
Fax +91 (22) 3342 3501  
E-mail: [clientservicing@crisil.com](mailto:clientservicing@crisil.com)  
E-mail: [research@crisil.com](mailto:research@crisil.com)

