

Q4FY10 Post Result Conference Call Transcript

Representative:

Mr. P.C. Kapoor, Managing Director
Mr. Parag Doshi, Financial Controller

PL Rep.:

Kejal Mehta - 91-22-6632 2246

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Moderator

Ladies and gentlemen good morning and welcome to the Bharati Shipyard Conference Call hosted by Prabhudas Lilladher. As a reminder all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need any assistance during the conference, please signal an operator by pressing "*" and then "0" on your touchtone phone. Joining us on the call today from Prabhudas Lilladher is Ms. Amisha Vora and Mr. Dilip Bhat, Joint Managing Directors along with Ms. Kejal Mehta - Analyst, Prabhudas Lilladher. I would now like to hand the conference over to Ms. Mehta. Thank you and over to you Madame.

Ms. Kejal Mehta - Prabhudas Lilladher

Thanks. I would like to welcome Mr. Kapoor as well as Mr. Parag Doshi on behalf of Prabhudas Lilladher as well as all the participants onto this call. We are going to start with some brief comments on the results by Mr. Kapoor followed by a Q&A session. Mr. Kapoor can you take on?

Mr. P. C. Kapoor - Bharati Shipyard

Total turnover surged 35.37% to Rs1,264 crores for April 2009 to March 2010 as against Rs434cr for April-March 2009. EBITDA increased by 24.37% to Rs319cr for 2009-10, from Rs256cr for 2008-09. Net profit increased by 3.85% to Rs138.45cr, from March 2010 compared to Rs133cr for the last year. EPS for the current year stands at Rs50.17.

Moderator

Ladies and gentlemen, we will now begin with the Q&A session. At this time if you like to ask a question, kindly press "*" and then "1" on your touchtone phone. Please use only handsets while asking a question. The first question comes from Mr. Abhishek Agarwal from PUG Securities. Please go ahead.

Mr. Abhishek Agarwal - PUG Securities

Hello sir.

Mr. P. C. Kapoor - Bharati Shipyard

Yes.

Mr. Abhishek Agarwal - PUG Securities

Sir, what was the debt at the end of the last quarter and as on 31st December 2009?

Mr. P. C. Kapoor - Bharati Shipyard

Parag, will you give the figures?

Mr. Parag Doshi - Bharati Shipyard

The net debt at the end of last quarter is close to Rs2,000cr.

Mr. Abhishek Agarwal - PUG Securities

And 31st December 2009?

Mr. Parag Doshi - Bharati Shipyard

It was around Rs1,850-1,900cr.

Mr. Abhishek Agarwal - PUG Securities

And sir what is the average cost of debt?

Mr. Parag Doshi - Bharati Shipyard

The average cost of debt is around 10-10.5%.

Mr. Abhishek Agarwal - PUG Securities

And sir what was the gross block at the end of the year?

Mr. Parag Doshi - Bharati Shipyard

The gross block at the end of the year is say Rs1,000cr.

Mr. Abhishek Agarwal - PUG Securities

And CWIP?

Mr. Parag Doshi - Bharati Shipyard

Including CWIP.

Mr. Abhishek Agarwal - PUG Securities

That is including CWIP.

Mr. Parag Doshi - Bharati Shipyard

Yes.

Mr. Abhishek Agarwal - PUG Securities

Sir, how much of CWIP will be converted into gross block next year?

Mr. Parag Doshi - Bharati Shipyard

That really depends on the facility that is put to use but you can say roughly 40% of CWIP will get converted.

Mr. Abhishek Agarwal - PUG Securities

And sir, if you could segregate between gross block and CWIP of the Rs1,000cr that you have mentioned?

Mr. Parag Doshi - Bharati Shipyard

Rs. 1,000 crores gross block, right?

Mr. Abhishek Agarwal - PUG Securities

Yeah, Rs. 1,000 crores you have said gross block that includes CWIP?

Mr. Parag Doshi - Bharati Shipyard

60% is CWIP and 40% is for gross block.

Mr. Abhishek Agarwal - PUG Securities

And what is the subsidy income that we are expecting in 2011?

Mr. Parag Doshi - Bharati Shipyard

That will really depend on the execution of the vessels. It will be in line with the earlier years.

Mr. Abhishek Agarwal - PUG Securities

Thank you sir. That's all from my side. I will come back with further questions.

Mr. Parag Doshi - Bharati Shipyard

Yeah.

Moderator

The next question comes from of Mr. Eric Martins from Systematix Shares & Stocks. Please go ahead.

Mr. Eric Martins - Systematix Shares & Stocks

Out of this Rs. 2,000 crores for gross debt would this include the FCCB amount?

Mr. P. C. Kapoor - Bharati Shipyard

Yes, this includes the working capital loans; this includes FCCB and the term debt.

Mr. Eric Martins - Systematix Shares & Stocks

So it includes FCCB of about US\$47m?

Mr. P. C. Kapoor - Bharati Shipyard

44 plus yield at 7.25 so that is close to US\$60m.

Mr. Eric Martins - Systematix Shares & Stocks

Close to \$60 million?

Mr. P. C. Kapoor - Bharati Shipyard

Yes.

Mr. Eric Martins - Systematix Shares & Stocks

This would include the redemption premium also?

Mr. P. C. Kapoor - Bharati Shipyard

Yes.

Mr. Eric Martins - Systematix Shares & Stocks

Sir, what would be our cash as on date?

Mr. P. C. Kapoor - Bharati Shipyard

Rs2,000cr is the net debt; this includes the cash as on date.

Mr. Eric Martins - Systematix Shares & Stocks

That includes the net debt.

Mr. P. C. Kapoor - Bharati Shipyard

Yes.

Mr. Eric Martins - Systematix Shares & Stocks

Ok and is it possible to tell the cash as on date?

Mr. P. C. Kapoor - Bharati Shipyard

The cash as on date would be around Rs250cr.

Mr. Eric Martins - Systematix Shares & Stocks

Sir, would our gross debt be about Rs2,250cr?

Mr. P. C. Kapoor - Bharati Shipyard

Yes.

Mr. Eric Martins - Systematix Shares & Stocks

And sir, is there any additional debt taken by any of our subsidiaries?

Mr. P. C. Kapoor - Bharati Shipyard

No, no additional debt has been taken on any of the subsidiaries.

Mr. Eric Martins - Systematix Shares & Stocks

Sir, actually if you see this order book position, it has actually increased QoQ because as on 31st December, 2009 your order book ready execution was about Rs2,471cr and now it is at Rs 2,560cr. Have we received any new orders during this quarter?

Mr. P. C. Kapoor - Bharati Shipyard

We haven't received any new orders but some of the existing orders have been repriced.

Mr. Eric Martins - Systematix Shares & Stocks

So, it is basically for the additional scope of work that has come up?

Mr. P. C. Kapoor - Bharati Shipyard

Yeah.

Mr. Eric Martins - Systematix Shares & Stocks

With regards to this order book, one thing I wanted to understand since its been close to one year, what is your order book outlook, basic case is even this order prices has stabilised, not about US\$80. So are we seeing good amount of inquiries coming in for new orders for vessels, any idea you can give on that?

Mr. P. C. Kapoor - Bharati Shipyard

Yeah, a lot of inquiries are coming in. There is an increase in the level of inquiries and people would like to have deliveries in the next two years and from our side, we are full for the next 2 years. But we are negotiating and the inquiries and the nature of inquiries indicate that the interest is there in the offshore sector.

Mr. Eric Martins - Systematix Shares & Stocks

But offlate there has been a marginal increase in the inquiries because in the last one year, there is no option in building and very few orders are given out. So are you looking at more inquiries?

Mr. P. C. Kapoor - Bharati Shipyard

Now, on the basis of the level of inquiries, we expect some orders in the coming 5-6 months.

Mr. Eric Martins - Systematix Shares & Stocks

Just one last question in the financial, is it possible to tell how much would be your debt repayment over the next 2 years i.e. FY11 and FY12?

Mr. Parag Doshi - Bharati Shipyard

I will have to give you that number but most of these loans have a tenure of 18 months; so the immediate repayment is only the FCs that are coming up.

Mr. Eric Martins - Systematix Shares & Stocks

Ok, upto FY12?

Mr. Parag Doshi - Bharati Shipyard

Yeah. There will be some debt recovery but nothing significant.

Mr. Eric Martins - Systematix Shares & Stocks

That's all from my side. Thanks a lot.

Mr. P. C. Kapoor - Bharati Shipyard

Yeah.

Moderator

The next question comes from Mr. Deven Sanghoi from Birla Sunlife Insurance. Please go ahead.

Mr. Deven Sanghoi - Birla Sunlife Insurance

I have a couple of questions, one is on the subsidy which is been counted upto now in last 3 years. How much you expect that to be paid by the Government in the current year?

Mr. P. C. Kapoor - Bharati Shipyard

This year in the budget they have made a provision of around Rs650cr to be paid over the year to all the yards and we expect to receive something like Rs100-150cr during this financial year.

Mr. Deven Sanghoi - Birla Sunlife Insurance

And currently, whatever the order book you are executing, all the ships are liable for the subsidy or will it be and what will be the amount in case if you can share?

Mr. P. C. Kapoor - Bharati Shipyard

All the export vessels out of the current order book are liable for subsidies. So of the Rs5,000cr order book, around 70% orders are eligible for subsidy.

Mr. Deven Sanghoi - Birla Sunlife Insurance

And in terms of the order backlog, a lot of people are expecting within the industry some orders coming from the naval side or military orders or defence orders. So are you participating in any of these defence orders and if it is what will be the quantum?

Mr. P. C. Kapoor - Bharati Shipyard

It is difficult to say the quantum but we are participating in all of them. Nearly every order we are participating, it is difficult to predict how much we will get but we will definitely get something.

Mr. Deven Sanghoi - Birla Sunlife Insurance

What will be the quantum of business which defence can put for next couple of years? Can you share some numbers sir?

Mr. P. C. Kapoor - Bharati Shipyard

They are talking in terms of crores something like Rs10-15,000cr but how much they are able to finalise we have to see because there are normally delays in finalising defence orders because of the nature of their procedures. But very definitely they need all these ships, all these ships have to be built and there should be orders for everybody.

Mr. Deven Sanghoi - Birla Sunlife Insurance

And in terms of deleveraging, what will be your strategy to deleverage a Bharati Shipyard's book?

Mr. P. C. Kapoor - Bharati Shipyard

Parag, I will leave it to you.

Mr. Parag Doshi - Bharati Shipyard

The debt on the books is definitely drawing our attention and we are taking steps to deleverage that but not in the immediate future because we still are trying for that repayment. So we will be doing, delivering at an appropriate time and we are working on various fronts which of course as and when something gets materialised we will let the shareholders know of it.

Mr. Deven Sanghoi - Birla Sunlife Insurance

Thank you very much sir.

Mr. Parag Doshi - Bharati Shipyard

Thank you.

Moderator

The next question comes from Mr. Raj Chauhan from Goldman Sachs. Please go ahead.

Mr. Raj Chauhan - Goldman Sachs

Most of my questions have been answered but just a quick follow-up on the order book. You said about Rs5,000cr order book, 70% is exports. Can you tell us what kind of vessels and order book, and what kind of vessels will be in the order book going forward, so that we know from where the demand is coming from and how sustainable that demand is? Then have a quick follow-up after that.

Mr. P. C. Kapoor - Bharati Shipyard

Most of the demands, the new demand will be from the offshore oil sector and from defence. We don't see much demand coming from the cargo sector.

Mr. Parag Doshi - Bharati Shipyard

Of the present order book also, close to 70% is from the offshore sector and the balance is defence and cargo so the demand will be driven by the offshore sector.

Mr. Raj Chauhan - Goldman Sachs

And how does your ownership of Great Offshore impact your strategy and has there been any progress on you guys learning from them and how is it impacting your business? Is it totally a financial investment only or does that actually translate into something other than that?

Mr. P. C. Kapoor - Bharati Shipyard

There is always a process of learning in everything but now as you may have seen 3 of our Directors were on the Board and out of those 3, 2 Directors have been appointed as Executive Directors. So we will be taking part in day-to-day operations also.

Mr. Raj Chauhan - Goldman Sachs

And their order book, how is it different from your order book in terms of size and scale. Maybe are you going to differentiate between them picking certain kinds of orders v/s you guys focussing onto that segment? Or are you going to be one for all, whatever they get and whatever you get...?

Mr. P. C. Kapoor - Bharati Shipyard

No, orders of Great Offshore?

Mr. Raj Chauhan - Goldman Sachs

Yeah, yeah.

Mr. P. C. Kapoor - Bharati Shipyard

Orders of Great Offshore are a different kind altogether. We are shipbuilders, we build ships and they are operators only, they operate the ships. There is a clear distinction between the orders that they get and orders which we will get, we only build ships.

Mr. Raj Chauhan - Goldman Sachs

Is there going to be common customers, customers who actually build to order and then operate? Or you might have same sort of customer base or that would be different?

Mr. P. C. Kapoor - Bharati Shipyard

I didn't get your question, can you repeat that?

Mr. Raj Chauhan - Goldman Sachs

Would there be any commonality of customers between Great Offshore and Bharati, going forward?

Mr. P. C. Kapoor - Bharati Shipyard

Not at all, they are different customers altogether.

Mr. Raj Chauhan - Goldman Sachs

Fair enough and on the FCCB issue can you tell us, how will you refinance the FCCB which seems far but is not really that far, given that December is not that far and what are the kind of options that the company is looking to refinance those?

Mr. P. C. Kapoor - Bharati Shipyard

Parag, will you give that.

Mr. Parag Doshi - Bharati Shipyard

Yeah, mostly we will be refinancing the FCCBs so it will be debt replacing debt since FCCBs are repayable in immediate future, premier debt replacing the debt.

Mr. Raj Chauhan - Goldman Sachs

The bank debt replacing, banks will be refinancing the FCCBs?

Mr. Parag Doshi - Bharati Shipyard

It will be an indirect debt replacement so probably the approvals will be utilised for FCCB repayments and for the working capital purposes, fresh debts would be taken.

Mr. Raj Chauhan - Goldman Sachs

Ok, from the existing set of banks?

Mr. Parag Doshi - Bharati Shipyard

Yeah, yeah.

Moderator

The next question comes from Mr. Rajiv Mehra from JM Financial. Please go ahead.

Mr. Rajiv Mehra - JM Financial

I just wanted to ask a couple of questions, one was regarding the order which was due for delivery which has got cancelled, one is right now in the arbitration procedure. If you just throw some light on that and just going ahead with the previous quarters, questions just taking ahead if you could just us some light on asset pricing as to what the scenario right now is to pickup which has happened in the global outlook. If you could just throw some light on that front?

Mr. P. C. Kapoor - Bharati Shipyard

As for the first question, we had order for 2 PSVs, these are offshore vessels from M/S Opilock, Germany. Now they have cancelled one of the orders but in our view cancellation was not correct and we have taken up the matter in arbitration. So that is where the matter stands at the movement.

Mr. Rajiv Mehra - JM Financial

And what was the quantum of that order?

Mr. P. C. Kapoor - Bharati Shipyard

That is about US\$27.5m.

Mr. Rajiv Mehra - JM Financial

Right and if you could say how much advance have we received on this order?

Mr. P. C. Kapoor - Bharati Shipyard

Around 23.

Mr. Rajiv Mehra - JM Financial

Around

Mr. P. C. Kapoor - Bharati Shipyard

Yes.

Mr. Rajiv Mehra - JM Financial

And by when do you think will this get sorted out?

Mr. P. C. Kapoor - Bharati Shipyard

I think it will take another 4-5 months.

Mr. Rajiv Mehra - JM Financial

And none of the revenues is booked for this order, right?

Mr. P. C. Kapoor - Bharati Shipyard

No.

Mr. Rajiv Mehra - JM Financial

Ok and just on the scenario outlook on the asset pricing if you could just give me...?

Mr. P. C. Kapoor - Bharati Shipyard

Can you repeat that question again?

Mr. Rajiv Mehra - JM Financial

Just understanding as to the prices of the vessels which had collapsed because of the outlook, the weak global outlook which had happened and now with the pickup in demand if you could just throw a sense whether the prices have come in line as to what they were earlier or are the customers willing to pay that kind of prices for the asset or the renegotiating happening on the lower side or on the upper side if you could just..?

Mr. P. C. Kapoor - Bharati Shipyard

You have to take it sector by sector, there is really no movement in the cargo sector. The demand is still weak but as far as the offshore sector is concerned, defence sector is concerned demand is picking up and I don't see any substantial reduction of anything in the asset values. It is there in the cargo sector, order book there is very little in the cargo sector, mostly offshore.

Mr. Rajiv Mehra - JM Financial

Correct. Just one more question, if you could just throw some light on your ongoing expansions status and going ahead, what would be your CAPEX plans?

Mr. P. C. Kapoor - Bharati Shipyard

Expansion at the movement is going on in 2 of the shipyards, one is Dabhol and second is Mangalore and at both places it is going on at a very good pace, I would say satisfactory pace. So I think very soon in the next 1.5 years Dabhol would get completed.

Mr. Rajiv Mehra - JM Financial

In 1.5 years?

Mr. P. C. Kapoor - Bharati Shipyard

Yeah and around 2 years or 2.5 years, Mangalore would get completed.

Mr. Rajiv Mehra - JM Financial

Right and if you could just throw the amount which is already being spent on Dabhol and Mangalore?

Mr. P. C. Kapoor - Bharati Shipyard

Parag, you have the figures?

Mr. Parag Doshi - Bharati Shipyard

On the Dabhol yard so far we have spent close to Rs600cr.

Mr. Rajiv Mehra - JM Financial

And Mangalore?

Mr. Parag Doshi - Bharati Shipyard

And Mangalore, we have close to Rs160cr.

Mr. Rajiv Mehra - JM Financial

Alright. Thanks a lot.

Mr. Parag Doshi - Bharati Shipyard

Thank you.

Moderator

The next question comes from Ms. Prerna Jhavar from Emkay Global. Please go ahead.

Ms. Prerna Jhavar - Emkay Global

Sir could you just clarify where is this all of this debt, the Rs2,000cr of debt put in the books, standalone books, sitting in the books of the subsidiary?

Mr. Parag Doshi - Bharati Shipyard

The entire debt is on the standalone books, there is no debt on the subsidiary books.

Ms. Prerna Jhavar - Emkay Global

Alright and when should the first tranche of repayment commence from?

Mr. Parag Doshi - Bharati Shipyard

Most of these loans have 18 months moratorium and of course tranche of repayment will come in financial year `11-`12. These are all 7 year loans, most of them. In this financial year, the FCCB repayment is becoming due.

Ms. Prerna Jhavar - Emkay Global

Sir how many vessels do we have, number of vessels in the order book currently?

Mr. Parag Doshi - Bharati Shipyard

We have got close to about 51 vessels in the order book.

Ms. Prerna Jhavar - Emkay Global

And of these, how many are scheduled for delivery in FY11?

Mr. Parag Doshi - Bharati Shipyard

Many of them, I think 6-7 of them are deferred delivery.

Ms. Prerna Jhavar - Emkay Global

6 or 7. Alright. Thank you so much sir.

Moderator

The next question comes from Mr. Sangam Iyer from Alpha Advisors. Please go ahead.

Mr. Sangam Iyer - Alpha Advisors

Sir could you share with us your CAPEX plans for both standalone as well as the subsidiary Great Offshore?

Mr. P. C. Kapoor - Bharati Shipyard

Great Offshore, there has not been any expansion in the last 2 years because of their internal problems with promoter. So now they need to expand and this is the correct time and the correct price so we should expand. So they have an expansion programme and they are going to raise some funds for that. And Board has already given the approval and it should start very soon.

Mr. Sangam Iyer - Alpha Advisors

Any timeline on the kind of amount that they are looking at in terms of XXX, based on their future expansion?

Mr. Parag Doshi - Bharati Shipyard

The expansion programme here started out and will require 3 years to identify the type of vessels they want to acquire. So that is the timeline they are looking at.

Mr. Sangam Iyer - Alpha Advisors

So in the near terms, for example in FY11, could you share some data in terms of what's the kind of expansion or CAPEX that you are planning to do? FY11 and FY12 for two years.

Mr. Parag Doshi - Bharati Shipyard

Typically, the CAPEX that they will be paying will basically depend on the assets that they are able to procure, is assets by assets so I won't be able to give any specific number.

Mr. Sangam Iyer - Alpha Advisors

It's based on any opportunity that comes in that they would be going in...?

Mr. Parag Doshi - Bharati Shipyard

Yes.

Mr. Sangam Iyer - Alpha Advisors

It would be in fund raising that would happen on the subsidiary, in the near term based on the opportunity, that's what you are trying to say, right?

Mr. Parag Doshi - Bharati Shipyard

No, Great Offshore itself is going ahead with fund raising plan, they have taken shareholder's approval and those funds will be deployed as and when the opportunity arises.

Mr. Sangam Iyer - Alpha Advisors

And sir for us, I mean in terms of our order book, you know Rs5,000cr and we have been talking for the last 2 years, if not much of incremental orders that are coming in. Could you give us, how do you see the order book going forward, I

mean in terms of improving scenario? Is there any stage wherein we are in advance stage of negotiation with clients or on talks with people for orders, etc.?

Mr. Parag Doshi - Bharati Shipyard

We are in negotiation with number of them and I think something would be finalised in the next 5-6 months.

Mr. Sangam Iyer - Alpha Advisors

Great sir. And this order book is executable over a period of?

Mr. Parag Doshi - Bharati Shipyard

Next 3-4 years.

Mr. Sangam Iyer - Alpha Advisors

Ok. Thanks a lot sir.

Moderator

The next question comes from Mr. Bhavin Gandhi from B&K Securities. Please go ahead.

Mr. Bhavin Gandhi - B&K Securities

Just wanted to check, would you be in the position to share with us the probably unexecutable order book that we have, what's the kind of booking that we will be seeing in the next 2 years?

Mr. P. C. Kapoor - Bharati Shipyard

I didn't understand.

Mr. Bhavin Gandhi - B&K Securities

The unexecuted order book, how much is going to be translated into revenues for FY11-12 based on the delivery schedule?

Mr. P. C. Kapoor - Bharati Shipyard

For the next 2 years?

Mr. Bhavin Gandhi - B&K Securities

Yeah.

Mr. P. C. Kapoor - Bharati Shipyard

Substantially most of it.

Mr. Bhavin Gandhi - B&K Securities

Alright and the second question is, can you give us the delivery schedule for the rig that is being constructed and the MSV for Great Offshore?

Mr. P. C. Kapoor - Bharati Shipyard

Rig should be delivered by the end of this year and the MSV, when is MSV scheduled Parag?

Mr. Parag Doshi - Bharati Shipyard

Sir, it is March 2012.

Mr. Bhavin Gandhi - B&K Securities

And sir, what's the cumulative subsidy that you have booked so far on the vessel till date?

Mr. Parag Doshi - Bharati Shipyard

Cumulative subsidy booked is Rs336cr so far.

Mr. Bhavin Gandhi - B&K Securities

And out of this for the balance unexecuted order book, what is the kind of quantum of subsidy that we are looking at totally?

Mr. Parag Doshi - Bharati Shipyard

Close to 70% of our order book is eligible for subsidy so that would give you an estimate of the subsidy that we are eligible.

Mr. Bhavin Gandhi - B&K Securities

And out of which any booking which will happen so far?

Mr. Parag Doshi - Bharati Shipyard

These 336 subsidies that are being booked on the total order book.

Mr. Bhavin Gandhi - B&K Securities

Ok. Thank you sir.

Moderator

The next question comes from Mr. Pritesh Chheda from Emkay Global. Please go ahead.

Mr. Pritesh Chheda - Emkay Global

Ok. Firstly, what is the long-term strategy? Have we drawn the long term strategy for Great Offshore post the acquisition? Secondly, when you said that Great Offshore will get into an expansion drive, how much of the CAPEX will Great Offshore do in next 3 or 4 years? Can we handle that CAPEX or do we have any product line gap because of which we cannot fulfil Great Offshore's needs, some of those...?

Mr. P. C. Kapoor - Bharati Shipyard

There is no product line gap that we cannot fulfil, our only situation would be that we do have a full order book for the next 2 years for all our facilities but Great Offshore being our company they would get the first preference there. These are still being worked out, how to execute that.

Mr. Pritesh Chheda - Emkay Global

When you say the capacities are full, first of all will Dabhol yard get capitalised fully in block in FY11 and become completely operational?

Mr. P. C. Kapoor - Bharati Shipyard

Yes, that's right. Even right now it is operational but at a lower capacity. It will get operational at full capacity and that time we don't see any problem, any of the products that they need that we will not be able to give.

Mr. Pritesh Chheda - Emkay Global

So Dabhol is currently in WIP but according to you, is it operational?

Mr. Parag Doshi - Bharati Shipyard

Dabhol is currently fixed assets as well as WIP and as and when the facilities are put to use the assets are capitalised.

Mr. Pritesh Chheda - Emkay Global

When you gave me the Rs1,000cr figure you said 60% of that is WIP...?

Mr. Parag Doshi - Bharati Shipyard

That is Dabhol and Mangalore, both. So Rs450cr is currently Dabhol's WIP figure, more or less.

Mr. Pritesh Chheda - Emkay Global

When we say that we are short of capacity, if you look at the fact that incrementally a lot of it is in WIP. So you can take a lot of orders once this WIP gets converted into...?

Mr. Parag Doshi - Bharati Shipyard

Basically once the assets are put to use, the execution capacity in Dabhol increases and we are able to take up more orders.

Mr. Pritesh Chheda - Emkay Global

Any reason again why this CAPEX is being delayed by more than about 1.5 years because if you recall, we have raised the money from the public market around 2008 and this CAPEX side, we should have come in `09 and we are at the end of `10 and now the CAPEX is coming, there is a huge delay...?

Mr. Parag Doshi - Bharati Shipyard

No, the CAPEX is already done but as you know the facilities are setup one by one and the utilisation of that facility takes some more time.

Mr. Pritesh Chheda - Emkay Global

Secondly at this stage do you need the Mangalore yard because your outlook on the cargo side is weak? Your outlook on the offshore side is just picked up a bit. Do you think you require Mangalore yard or are you going to spend Rs150cr at this stage in review and spend later?

Mr. Parag Doshi - Bharati Shipyard

I think we have clarified here that the Mangalore project has been broken up into two phases. In Phase-I, we would be doing CAPEX of close to

Rs150-200cr and we will operationalise the yard so that it can deliver assets. And Phase II will be taken up when the market turns around.

Mr. Pritesh Chheda - Emkay Global

What have you spent Rs150cr on? What kind of facility have you created in Mangalore?

Mr. Parag Doshi - Bharati Shipyard

In Mangalore, we will be building large offshore vessels and some of the defence vessels.

Mr. Pritesh Chheda - Emkay Global

I don't think in Rs150 crores, you might have a dry docking or a ship lift facility?

Mr. Parag Doshi - Bharati Shipyard

No, but we will have enough building berth to take care of the production requirement.

Mr. Pritesh Chheda - Emkay Global

So it is more of a fabrication kind of a setup which is being done on

Rs150cr?

Mr. Parag Doshi - Bharati Shipyard

It will be having a building berth also.

Mr. Pritesh Chheda - Emkay Global

Obviously, when you say that Mangalore yard has been now done in two phases. When do you think the second phase of expansion should start?

Mr. Parag Doshi - Bharati Shipyard

It is really after the markets revive, so I should not comment on that at the movement.

Mr. Pritesh Chheda - Emkay Global

So at this stage lot of the CAPEX has been done and in next 2 years you hardly have any money to go in for CAPEX unless and until you decide Mangalore yard to where you want to spend again?

Mr. Parag Doshi - Bharati Shipyard

Yes. In next 1-1.5 years, we will be incurring only the CAPEX which is required to complete both the yards.

Mr. Pritesh Chheda - Emkay Global

One question on the debt side. When you say Rs2,000cr net debt and that also entirely is in standalone. And on the other hand, you have 10% as your cost of funds. Between Q3 and Q4, there is hardly any movement in debt and interest cost for the quarter should be atleast Rs40cr if I don't consider anything on the FCCB, yet the interest cost for the quarter is just ~Rs24cr?

Mr. Parag Doshi - Bharati Shipyard

No, the interest cost in the consolidated books will be a little higher than this.

Mr. Pritesh Chheda - Emkay Global

Then debt is not in standalone?

Mr. Parag Doshi - Bharati Shipyard

No, the debt is entirely on the standalone but the loans that have been given by the parent to the subsidiaries, nominal interest has been charged on those loans. So on consolidated Balance Sheet, the debt number will be the same, the interest cost will be slightly higher than this.

Mr. Pritesh Chheda - Emkay Global

That means from parent the debt has gone to be subsidiary, you are booking an interest income in parent and when you consolidate...?

Mr. Parag Doshi - Bharati Shipyard

_ income...

Mr. Pritesh Chheda - Emkay Global

But could you give us the interest cost for the full year on consolidated?

Mr. Parag Doshi - Bharati Shipyard

It will go by another Rs15cr.

Mr. Pritesh Chheda - Emkay Global

Still then the calculation of 10% doesn't work out if it goes...?

Mr. Parag Doshi - Bharati Shipyard

I think we can do a call post this.

Mr. Pritesh Chheda - Emkay Global

Ok, no issues.

Mr. Parag Doshi - Bharati Shipyard

Because a lot of debt has been taken off for the CAPEX, so till the time you put the asset to use, the proportional interest is to be capitalised there as per the accounting standards. So it is going into too much technicalities.

Mr. Pritesh Chheda - Emkay Global

No issues. On the FCCB part, we have now converted it and since we have also added the interest means this is due for repayment now. There is no conversion here?

Mr. Parag Doshi - Bharati Shipyard

We have been adding interest YoY just for your information. So in all the years we have booked the interest on FCCBs.

Mr. Pritesh Chheda - Emkay Global

But the date has lapsed for conversion?

Mr. Parag Doshi - Bharati Shipyard

It can be converted anytime upto 40 days prior to the repayment.

Mr. Pritesh Chheda - Emkay Global

On the order backlogs, are there any orders like the one where one of the orders has gone under cancellation, arbitration, on the unexecuted side are you fairly comfortable with the balance orders of

Rs2,500cr?

Mr. Parag Doshi - Bharati Shipyard

Yes. There is no such issue of arbitration. As of now, there are no signs of any cancellations or anything.

Mr. Pritesh Chheda - Emkay Global

Ok and the last question on the subsidy of payment side. What has been the last 3 years experience in terms of whatever has been budgeted for the industry and finally, what has been paid out if you could give us the payout percentage of last 2 years or so?

Mr. Parag Doshi - Bharati Shipyard

If I understand, in the last one year, the Government has paid subsidy close to 3 CPRs and I think close to Rs100cr subsidy has been paid by the Government in the last one year.

Mr. Pritesh Chheda - Emkay Global

And what was the budgeted amount then?

Mr. Parag Doshi - Bharati Shipyard

The budgeted amount last year was Rs300cr.

Mr. Pritesh Chheda - Emkay Global

Against 33% payout roughly?

Mr. Parag Doshi - Bharati Shipyard

Yes.

Mr. Pritesh Chheda - Emkay Global

Ok. Many thanks to you and all the best to you.

Moderator

The next question comes from Mr. Shekhar Singh from Goldman Sachs. Please go ahead.

Mr. Shekhar Singh - Goldman Sachs

Hi sir. You just mentioned the subsidy of close to subsidy payment is close to 33% of what was booked? Wanted to understand this point.

Mr. Parag Doshi - Bharati Shipyard

No, that was the analysis drawn. What happens is subsidy is paid vessel by vessel, so depending on the vessels that have cleared, the subsidy amount has been paid. And it is likely that in some of the subsidy payouts may exceed the budget provision. So liberalised budget provision is made.

Mr. Shekhar Singh - Goldman Sachs

Sir you have been booking subsidy for I think close to 2-2.5 years now. Why is the payment to Bharati Shipyard been slightly on the lower side?

Mr. Parag Doshi - Bharati Shipyard

We are last in the queue so we should receive some payments in this financial year.

Mr. Shekhar Singh - Goldman Sachs

Secondly, I just wanted to know with regards to the order book of Rs2,500cr, what portion of that has already, for this Rs. 2,500 crores, have received some payments..?

Mr. Parag Doshi - Bharati Shipyard

Yeah, yeah, we received stage payments on all our orders which is in line with the execution.

Mr. Shekhar Singh - Goldman Sachs

So in terms of cash flow for FY10, now that the year has come to an end, of this Rs2,500cr, how much of cash have you already received?

Mr. Parag Doshi - Bharati Shipyard

Of the total Rs5,000cr order book that we have, we would have received close to 55-60% of the money from the customers.

Mr. Shekhar Singh - Goldman Sachs

And sir, in case of Great Offshore, do you have some idea of what is the sort of cash flow which can happen from Great Offshore? One is in terms of CAPEX which is basically in the form of an outflow but what is the sort of inflow which we can expect?

Mr. Parag Doshi - Bharati Shipyard

I can't really comment on this, but as I understand, Great Offshore has charted out its own expansion plan which would be a mix of new build and existing vessels. So definitely, some order flow would be there from Great Offshore. But I cannot estimate, as it really depends on their requirements and our ability to deliver in the given timeframe.

Mr. Shekhar Singh - Goldman Sachs

If we are going to take some more orders from Great Offshore, then some analysis in terms of what is their ability to in terms of their cash flows and that is something which can be of importance, even for the standalone company?

Mr. Parag Doshi - Bharati Shipyard

Right. They are working on their cash flows and their expansion plan. So I think most specific details would come out once they are through with their exercise.

Mr. Shekhar Singh - Goldman Sachs

Great sir. Thanks a lot.

Moderator

The next question comes from Mr. Eric Martins from Systematix Shares & Stocks. Please go ahead.

Mr. Eric Martins - Systematix Shares & Stocks

I just have a follow-up question. How much more are we expecting to spend at capexing Dabhol as well as Mangalore, going forward?

Mr. Parag Doshi - Bharati Shipyard

Dabhol, the CAPEX will be very little now maybe Rs25-50cr and Mangalore will be spending close to Rs50-100cr in the next 2 years.

Mr. Eric Martins - Systematix Shares & Stocks

And just one more thing, I might have missed this. Out of our order book execution of Rs2,560cr, how much advance money have we received from customers?

Mr. Parag Doshi - Bharati Shipyard

I mentioned that out of the total order book of Rs5,000cr, we have received close to 55-60% advance money.

Moderator

The next question comes from Mr. Abhishek Agarwal from PUG Securities. Please go ahead.

Mr. Abhishek Agarwal - PUG Securities

Sir, your unexecuted portion of the order book as on 31st December, 2009 was Rs24.7bn and it has gone upto Rs25.6bn in March 2010 even after booking Rs3 bn of revenues. So you said that there has been repricing in some of the asset classes, right?

Mr. Parag Doshi - Bharati Shipyard

Yes, some of the vessels, the scope has been expanded and therefore the order value has gone up.

Mr. Abhishek Agarwal - PUG Securities

Sir, we see repricing to the tune of 17% and specially considering the fact, I mean most of these orders are bagged during 2007 when asset prices were already at their peak. So I mean it is a huge jump, I mean 17% asset repricing at this point of time wherein these assets were, I mean order for these assets...?

Mr. Parag Doshi - Bharati Shipyard

What happens when a customer has ordered a vessel in 2007, the charter and other things are not fixed up. When these vessels are nearing their delivery, they would go for a charter and depending on the charter's requirement, modifications are carried out in the vessel, certain items are added and additional contract is given for those additions that are made to the vessels. So that's the reason these order books have gone up to some extent. I am not sure about the percentage but yes it has gone up to some extent.

Mr. Abhishek Agarwal - PUG Securities

And sir when was the warrant, preferential warrants issued to promoters...?

Mr. Parag Doshi - Bharati Shipyard

Last 2 AGMs, we have issued preferential warrants to promoters, wherein around 5% will be converted every year upto March 2012.

Mr. Abhishek Agarwal - PUG Securities

It has been mentioned in the press release, that the company has allotted some 13.7 lacs equity shares, the conversion of preferential warrant.

Mr. Parag Doshi - Bharati Shipyard

Yeah that was the first tranche which was converted before March XXXX.

Mr. Abhishek Agarwal - PUG Securities

Sir when these preferential warrants, I mean have been issued recently?

Mr. Parag Doshi - Bharati Shipyard

It has been issued in 2 tranches.

Mr. Abhishek Agarwal - PUG Securities

I mean in financial year FY `10 only?

Mr. Parag Doshi - Bharati Shipyard

No, one was in financial year 2009 and the second was in financial year 2010.

Mr. Abhishek Agarwal - PUG Securities

Sir, I mean the warrants were issued at a steep discount to the current share price because current share price are close to 250 levels. And these warrants have been converted...?

Mr. Parag Doshi - Bharati Shipyard

First tranche of warrants were issued at Rs80 which was the price as per semi price bill and the second tranche was issued at Rs200 which was the price which is higher than semi price then.

Mr. Abhishek Agarwal - PUG Securities

Ok. It has been issued at Rs200?

Mr. Parag Doshi - Bharati Shipyard

Yes.

Moderator

The next question comes from Ms. Dimple Seth from SKS Capital & Research. Please go ahead.

Ms. Dimple Seth - SKS Capital & Research

Sir, I would just like to know, what is the percentage of FCCBs in the

Rs. 2,000 crores debt?

Mr. Parag Doshi - Bharati Shipyard

The FCCBs are close to Rs60m.

Ms. Dimple Seth - SKS Capital & Research

And sir, what would be the conversion price?

Mr. Parag Doshi - Bharati Shipyard

The conversion price is Rs490.

Ms. Dimple Seth - SKS Capital & Research

And sir, would you please throw little light on how would you refinance your FCCBs and your rest of the debt?

Mr. Parag Doshi - Bharati Shipyard

We are taking steps to deleverage the company to reduce the debt on the company. But since the FCCBs are becoming repayable in December this year most of it will be refinanced and will be paid out of our internal approvals and other sources and maybe some debt will be raised.

Ms. Dimple Seth - SKS Capital & Research

Sir, could you please define like how much debt would again take to refinance?

Mr. Parag Doshi - Bharati Shipyard

The debt levels would remain more or less same.

Ms. Dimple Seth - SKS Capital & Research

Thank you so much sir. Best of luck.

Moderator

The last question comes from Mr. Rajesh Kumar Ravi from PINC Research. Please go ahead.

Mr. Rajesh Kumar Ravi - PINC Research

Good morning sir. Could you just give some breakup on what amount of subsidy payment you still have to receive from the Government?

Mr. Parag Doshi - Bharati Shipyard

In our accounts, we have booked subsidy of Rs336cr so far based on the execution of the vessels. But we are expecting to receive something like Rs100-150cr in this financial year.

Mr. Rajesh Kumar Ravi - PINC Research

Means FY10?

Mr. Parag Doshi - Bharati Shipyard

FY11.

Mr. Rajesh Kumar Ravi - PINC Research

In FY11, you are expecting to receive Rs150cr, so till FY10 have you booked around Rs336cr?

Mr. Parag Doshi - Bharati Shipyard

Yeah.

Mr. Rajesh Kumar Ravi - PINC Research

Because in FY11 also, you would be adding some subsidy payments, right?

Mr. Parag Doshi - Bharati Shipyard

Correct.

Mr. Rajesh Kumar Ravi - PINC Research

So what would that be like...?

Mr. Parag Doshi - Bharati Shipyard

That will be received in the subsequent financial year. This subsidy is paid vessel by vessel, so there is no fixed quantum to be dispersed in a year. I mean as and when the vessels get cleared the subsidy payments are made.

Mr. Rajesh Kumar Ravi - PINC Research

I didn't get, in FY10 have you booked around Rs84cr worth of subsidy?

Mr. Parag Doshi - Bharati Shipyard

Correct.

Mr. Rajesh Kumar Ravi - PINC Research

So like next year FY11, what would be the approximate amount you estimate that you would be booking in FY11?

Mr. Parag Doshi - Bharati Shipyard

I will not be able to give you that because that really depends on the execution of vessels. But on an average, it is around 10% of the turnover.

Mr. Rajesh Kumar Ravi - PINC Research

Ok 10% of the total turnover. Ok sir. That's all from my side. Thank you.

Moderator

It is from Mr. Anshul Mishra from ING Mutual Fund. Please go ahead.

Mr. Anshul Mishra - ING Mutual Fund

Sir, I just wanted to understand when is the last order getting executed, having getting finished?

Mr. Parag Doshi - Bharati Shipyard

Most of these orders are getting executed by the end of calendar 2012, some vessels are spilling over in 2013, but largely everything is getting delivered by calendar 2012.

Mr. Anshul Mishra - ING Mutual Fund

And it is kind of evenly distributed between the two years, two calendar years?

Mr. Parag Doshi - Bharati Shipyard

Yes.

Mr. Anshul Mishra - ING Mutual Fund

And one more thing on the order book front, normally when you would be giving the order book this would include the currency impact also, right?

Mr. Parag Doshi - Bharati Shipyard

No, what we have done is we are keeping this intact because every quarter there is currency fluctuation. As far as the order book is concerned, the rates are taken when the orders are taken.

Mr. Anshul Mishra - ING Mutual Fund

Ok. So the change in currency does not impact the order book size?

Mr. Parag Doshi - Bharati Shipyard

Yeah.

Moderator

Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to Ms. Kejal Mehta for closing comments.

Ms. Kejal Mehta - Prabhudas Lilladher

I would like to thank Mr. Parag Doshi on behalf of Prabhudas Lilladher as well as all the participants for joining this call. Thank you so much.

Mr. Parag Doshi - Bharati Shipyard

Thank you everybody.

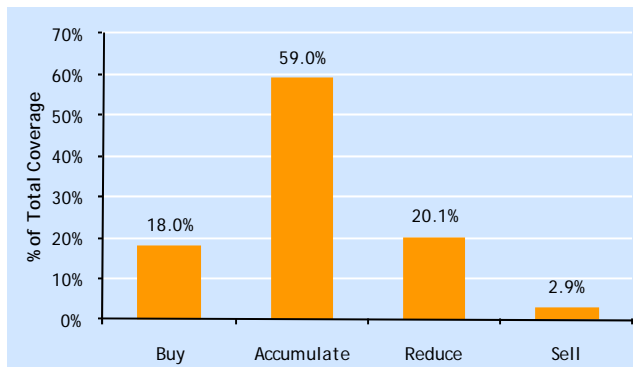


Moderator

Thank you. On behalf of Prabhudas Lilladher that concludes this conference. Thank you for joining us and you may now disconnect your lines.

END.

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