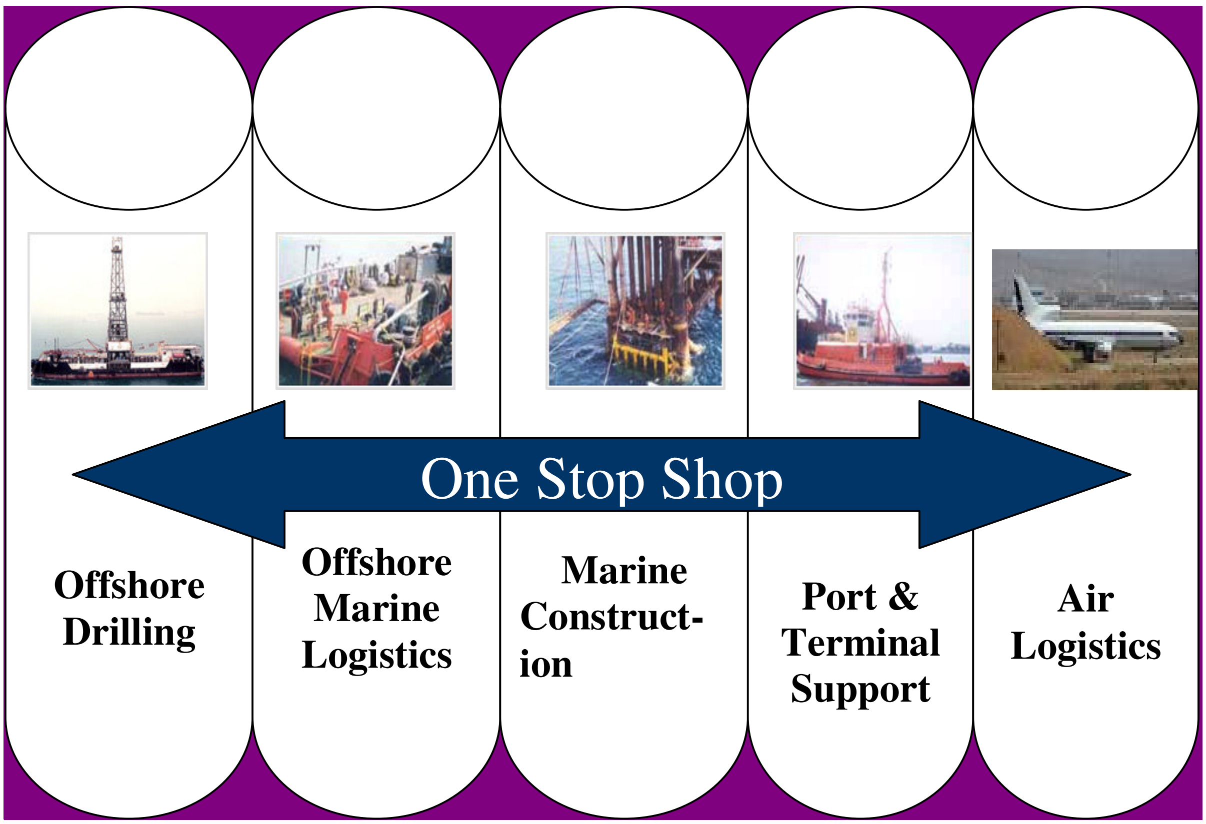
arm research

outperform

26th AUG 2008 **GREAT OFFSHORE CO LTD** CMP: 470

REVISED REPORT



Office No.2, Rajgriha, First Floor, Four Bungalow Junction, Andheri (west), Mumbai – 400 058.

PROFILE

Great Offshore is the largest integrated offshore oilfield services provider offering a broad spectrum of services to upstream oil and gas producers to carry out offshore exploration and production (E&P) activities. The company also provides Port and Terminal Support Services and has presence in almost all major ports.

Great Offshore an erstwhile division of Great Eastern Shipping Co. Ltd was demerged into separate entity effective 1st April 2005. The founding fathers of G. E. Shipping were great visionaries who excelled against all odds and laid the foundation of The Great Eastern Shipping Co. Ltd. The Company was promoted by the Muliji (Sheth) brothers and Bhiwandiwalla family.

Company has serviced various E & P oil majors nationally as well as international waters stretching across North Sea in the Northern hemisphere, Gulf of M.E., to S. Africa and Indian Ocean. With demonstrated track record spreading over 25 years experience as an offshore service provider to the E& P major's world wide it offers a basket of various offshore services under one window shop. Company also provides port and terminal support services through a fleet of harbour tugs.

Key Stock Data	
Sector	**Shipping (Offshore Services)**
Shares o/s (m)	**37.23**
OCR Pref. shares (m)	**1.50**
Free Float Stock (%)	**79.94**
Face Value (Rs)	**10.00**
BSE Code	**532786**
BSE Scrip ID	**GREATOFF**

BUSINESS PROFILE

- Offshore Logistics Support Services;
- Port and Terminal Support Services;
- Offshore Drilling Services;
- Marine Construction Projects and Services.

OFFSHORE SUPPORT AND LOGISTICS SERVICES

Great Offshore owns and operates a fleet of 25 OSV's comprising 11 anchor handling tug supply vessels (AHTSV), 3 anchor handling tugs (AHT), 7 platform supply vessels (PSV), 2 fire fighting support vessels (FFSV), 1 multi role vessel (MSV) and 1 diving support vessel (DSV). With its OSV fleet, it undertakes production support, diving support, supply duties for personnel and materials, anchor handling, towing, mooring, rig moving, emergency response/rescue and fire fighting operations. Its vessels operate in Indian as well as international waters. Its OSV fleet has worked in India for ONGC, Cairn Energy, BG Exploration and Production, Gujarat State Petroleum Corporation, Hardy Exploration and Production and many others. It commenced international operations in 2001 when Malaviya Two entered service with Saudi Aramco and since then it has worked for clients such as Hadi Group, IOEC, Doha Marine Services, Lamnalco, NPCC and Valentine Maritime.

PORT AND TERMINAL SUPPORT SERVICES

Great Offshore is the first Indian operator of harbour tugs in India with a presence in almost all major ports. Their tugs have excellent maneuvering capabilities. Its fleet of 11 harbour tugs operates in major ports such as Jawaharlal Nehru Port Trust, Mumbai Port Trust, Kolkata Port Trust, Tuticorin Port Trust, New Mangalore Port Trust as well as in private ports like Gujarat Pipavav Port Limited, Gujarat Adani Port Limited, Hazira Port Pvt. Ltd and Mundra Port. The tugs provide round-the clock service at ports for berthing / unberthing, towing of vessels, emergency fire fighting and all other harbour operations.

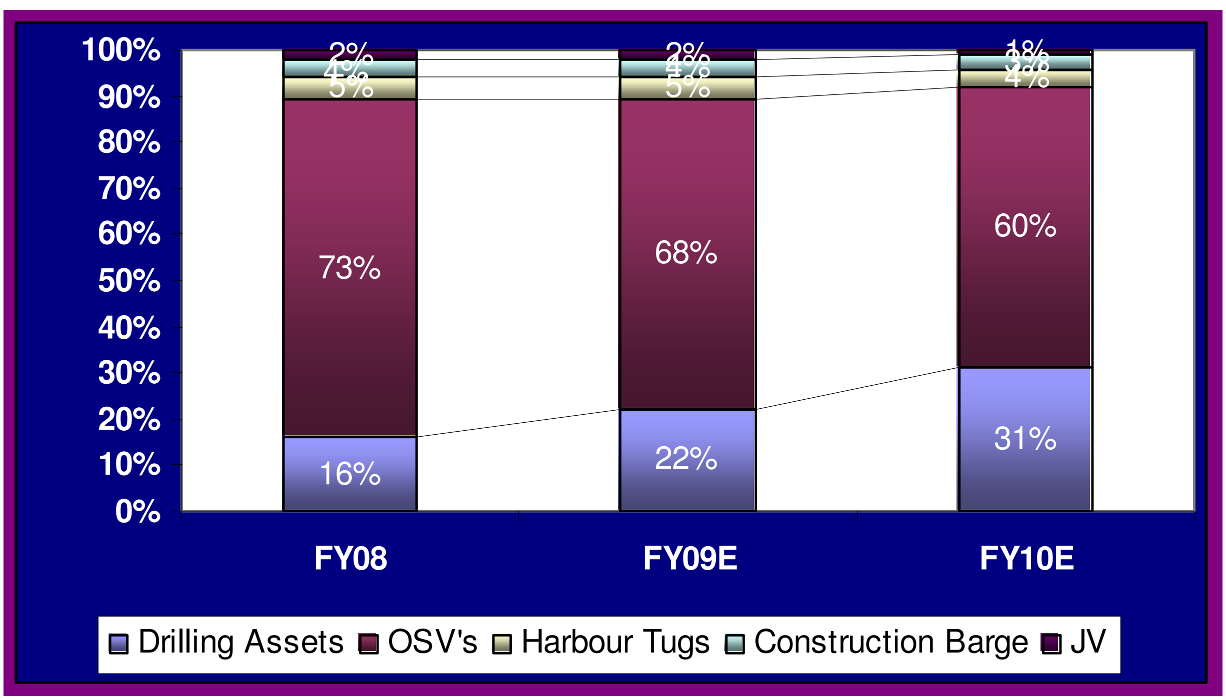
OFFSHORE DRILLING RIGS

Great Offshore provides charter hire of drilling services with its 2 offshore drilling units, Kedarnath and Badrinath. Kedarnath is an independent leg jack-up rig capable of operating in 300 feet of water with a drilling depth of up to 20,000 feet. Badrinath is a drilling barge capable of operating in 600 feet of water with a drilling depth of up to 20,000 feet. Badrinath is owned by one of its subsidiaries M/s. Deep Water Services (I) Ltd.

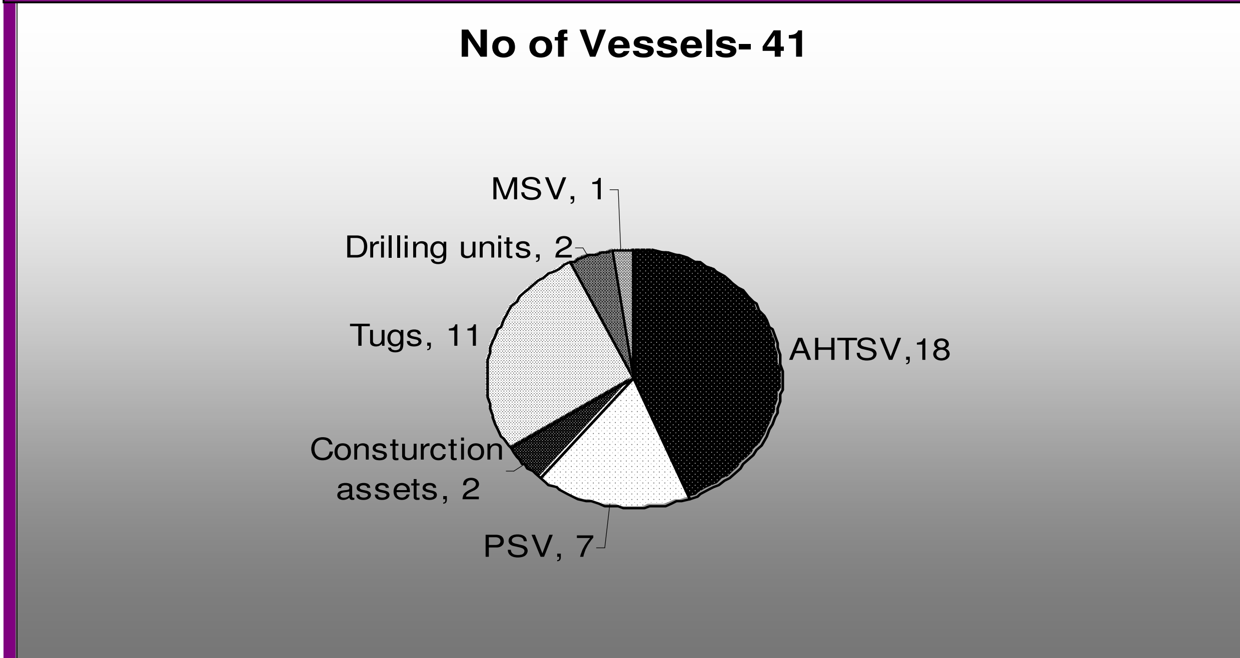
MARINE CONSTRUCTION PROJECTS AND SERVICES

Great Offshore owns and operates a construction barge Gal Constructor with a complementing anchor handling tug, designed to provide a complete package service to the offshore construction industry. Gal Constructor has successfully undertaken various types of projects like setting up of process and wellhead platforms, modifications to existing platforms for oil production enhancement, replacement of sub sea pipes, etc both in India and internationally with customers like L&T, ONGC, SMOE, Iranian Offshore Engineering Construction Co., Mubarak Marine LLC and Hyundai Engineering.

Contribution of drilling assets to increase



FLEET PROFILE



NO OF VESSELS OWNED BY THE COMPANY HAVE INCREASED FROM 16 VESSELS IN 1997 TO 41 VESSELS AS ON JUNE 08.

Apart from these 41 Vessels, there are 2 other vessels which are under construction:

Asset type	Asset name	Cost (USD mn)	Delivery	Specifications	Contract
Jack Up Rig	Samed Shikar	165	9-Jan	350 feet jack up Rig, Design:Le Tourneau	5 Year contract from ONGC from May 2009 for USD 255MN.
MSV	Malaviya 32	65	9-Jun	ROV/Diving/Sub sea installation enabled FiFi, DP 2, 150T-Crane	

GOL is increasing its fleet size by adding 1 jack up Rig and 1 MSV, scheduled to be delivered during Jan 2009 & June 2009 at an approximate cost of USD 165mn & USD65mn respectively. In addition to this, GOL has already entered in to a contract with ONGC for its new jack up rig named "Samed Shikar" for a period of 5 years for USD 255mn starting May 2009. Thus, these new fleets will enhance the margins to a great extent for the company.

DETAILS ABOUT THE VESSELS

JACK UP RIG

A jack up rig is a combination drilling rig and floating barge, fitted with long support legs that can be raised or lowered independently of each other. The jackup, as it is known informally, is towed onto location with its legs up and the barge section floating on the water. Upon arrival at the drilling location, the legs are jacked down onto the seafloor, preloaded to securely drive them into the sea bottom, and then all three legs are jacked further down. Since the legs have been preloaded and will not penetrate the seafloor further, this jacking down of the legs has the effect of raising the jacking mechanism, which is attached to the barge and drilling package. In this manner, the entire barge and drilling structure are slowly raised above the water to a predetermined height above the water, so that wave, tidal and current loading acts only on the relatively small legs and not the bulky barge and drilling package.

DRILLING BARGE

Drilling barges are large, floating platforms, which must be towed by tugboat from location to location.

CONSTRUCTION BARGE

Construction barges are for sub sea construction services. Offshore Construction barge maneuvers into position to approach a platform for work. The vessel has been designed and constructed to provide accommodation for around 200-300 people, workshop for maintenance, repair and installation activity, construction, crane with capacity of around 250-300 tons.

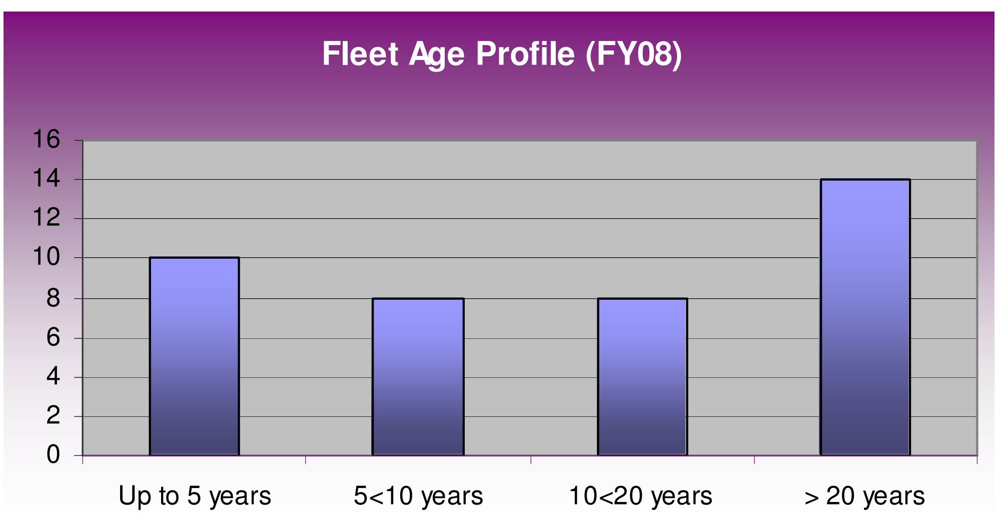
AHTSV

Anchor Handling Tugs Supply vessels, or AHTS vessels, tow rigs from one location to another and are equipped with powerful winches which are used to lift and position the rig's anchors. In addition, many can carry moderate amounts of supplies such as drilling fluid or drill pipe and also support offshore construction projects. AHTS vessels are usually specified in terms of horsepower (BHP) and towing capacity.

PSV

Platform Supply Vessels (PSV), deliver drilling supplies such as liquid mud, dry bulk cement, fuel, drinking water, drill pipe, casing and a variety of other supplies to drilling rigs and platform. Offshore supply boats are usually specified in terms of cargo carrying capacity, measured in dead weight tons (dwt), but it is more common to specify the boat by its length.

FLEET AGE PROFILE



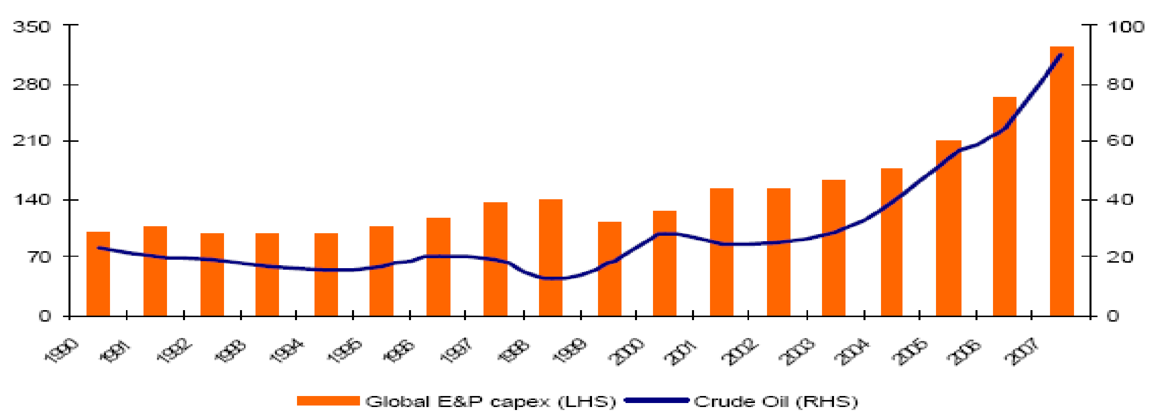
FLEET EXPANSION PLAN

Segment	Fleet type	Current (FY08)	FY09E	FY10E	Post Expansion
Offshore Drilling	Jack Up Rig	1	1	0	2
Drilling Barge		1	0	0	1
Logistics support	AHTSV	13	0	0	13
	AHTSV	3	0	0	3
	PSV	7	0	0	7
	FFSV	2	0	0	2
	MSV	1	0	1	2
Construction Projects	Construction Barge	1	0	0	1
	HLV	1	0	0	1
Terminal Supports	Harbour Tugs	11	0	0	11
	Total	**41**	**1**	**1**	**43**

INDUSTRY OVERVIEW

During CY2007 global E&P capex also jumped significantly and grew 19% yoy to USD 325 bn and the same is expected to grow by 12-14% in CY2008. However we strongly believe that following the unprecedented rally in global crude oil prices (currently ruling at over USD142 per barrel) the E&P capex will most likely cross the level of expected growth.

E&P capex and crude oil price



Source: BP Statistical review of World energy, Citigroup

INCREASE IN CRUDE OIL PRICES

Global crude oil prices have rallied for past 3 years & have touched to USD 142per Barrel in June 08. High crude oil prices has led to rise in Budgetary allocation for E & P activities by Oil companies, thereby resulting in increased demand for offshore services. In addition to all this, increase in crude prices has also resulted in to deep water & ultra deep water exploration economically viable.

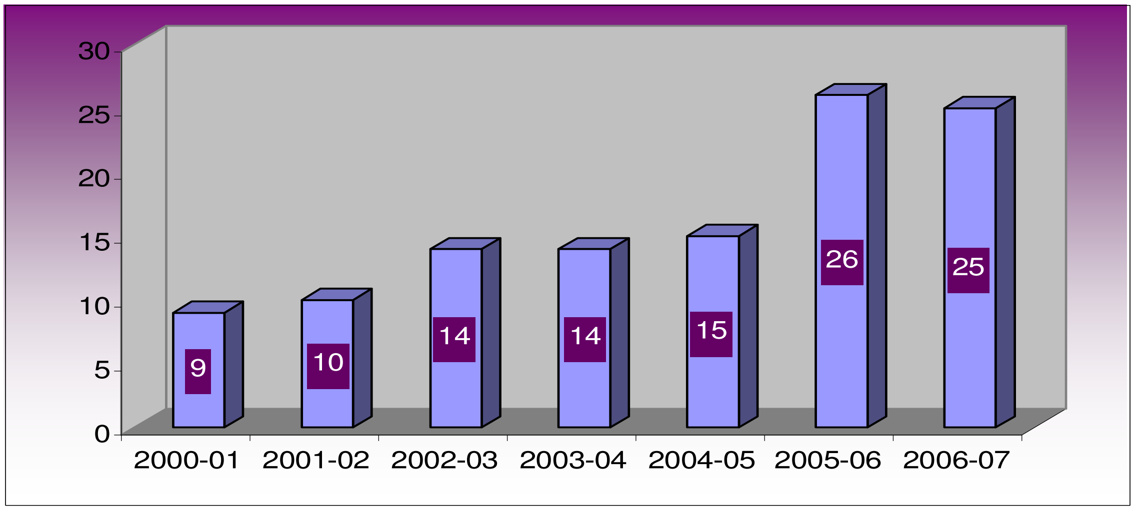
DEMAND FOR OIL & GAS MORE THAN LIKELY TO GO UP

The demand for oil in the country has been increasing at a very fast pace with the GDP growing at around 9 per cent for the last few years. By 2010, the demand is further likely to be anything over 150 million tonnes, while another study has projected it to reach 172.47 million tonnes by 2011-12. Likewise, the demand for gas is too bound to increase to 84 billion cubic metre (from 35 billion in 2004-05). Sadly, over two decades of oil exploration have not been quite successful except in the past few years in which the private sector has played a crucial role.

Thus, it goes without saying that the oil and gas sector plays a crucial role in the socio-economic life of an emerging nation like India. It may be mentioned here that India remains one of the least explored regions in the world with a well density of 20 per 10,000 sq km. Though the number of wells drilled as well as the metreage has increased, the current reserve accretion continues to be low. With the rising demand for fossil fuel in the country, it is critical that upstream exploration and production is geared up to find good reserves of hydrocarbons.

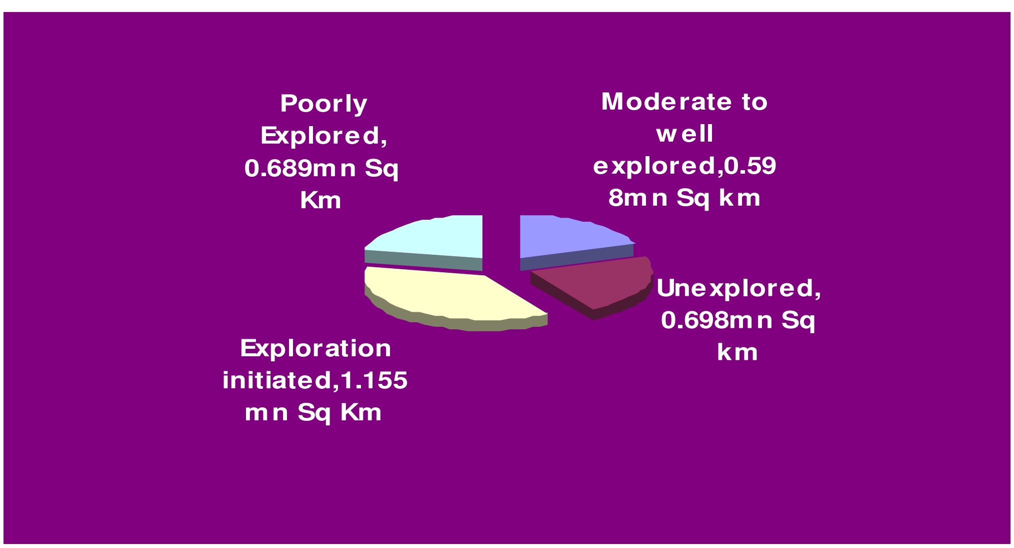
EXPLORATION SITUATION-INDIA

Oil & Gas Discovery Trend

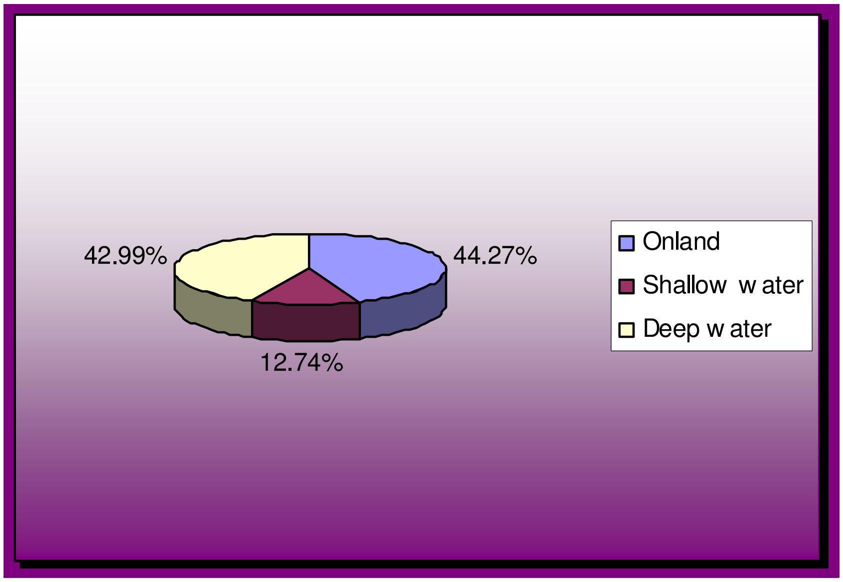


In India, there is lot of opportunity for the oil & gas producers for further exploration. Approximately 56% of the India's total exploratory sedimentary basins lie in the offshore sector & out of this, only 19% of the area is fully explored.

EXPLORATION STATUS OF INDIAN SEDIMENTARY BASINS



AREA WISE BREAK UP OF INDIAN SEDIMENTARY BASINS



STUMBLING BLOCKS ON THE WAY

The growth in the E & P sector, while being very encouraging, has brought forth some problems too:

The technology intensive hydrocarbon industry requires a committed, talented and skilled workforce. India has a vast resource of technical manpower. However, in recent years, due to spurt in E & P activities worldwide, there has been a high rate of attrition of qualified and trained technical manpower in our national oil companies. This has placed enormous constraints on the functioning of the operators.

The other major stumbling block is the availability of drilling rigs. What is now needed is an effort on the part of companies to share their resources in this resource-constrained scenario.

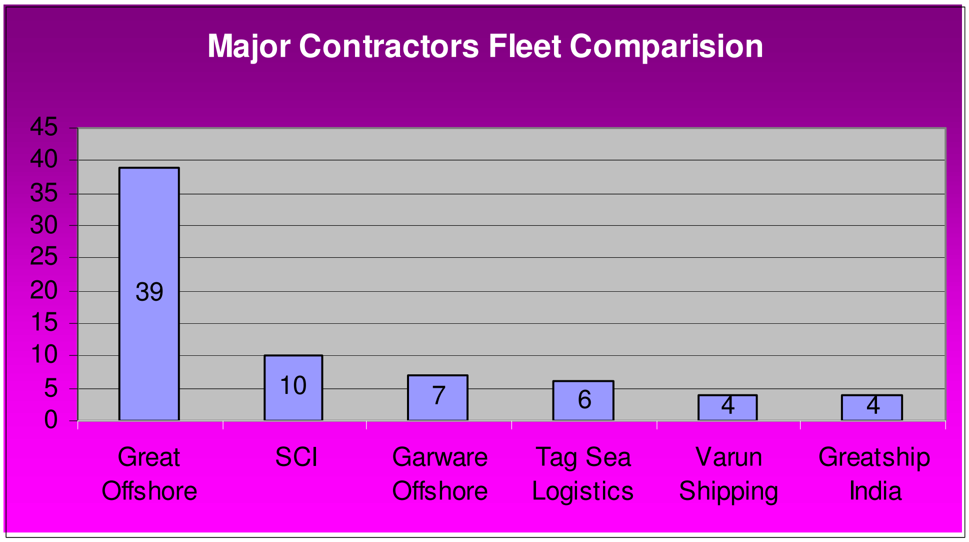
GALORE OF OPPORTUNITIES FOR THE OFFSHORE SERVICE PROVIDERS

- Large Scale Survey Demand
- Supply-demand gap in the industry leaving enough room for all
- India is a growing economy
- Enormous demand for subsea technologies
- Energy Security tops the Government plans
- Tonnage Tax regime is very encouraging
- India's E & P sector will be all set to attract FDI in the coming years
- Massive demand for drilling support services, consumables & also the production systems
- Oilfield revamping, re-engineering requirements

Oil and gas accounts for around 30 per cent of India's total energy consumption and 70 per cent of total country's oil consumption is met through imports with domestic gas production insufficient for domestic consumption

PEER GROUP

The current players in offshore oilfield services sector include the Great Offshore Limited, Garware Offshore Services, Varun Shipping Company, Shipping Corporation of India, South East Asia Marine Engineering & Construction, Dolphin Offshore Enterprises India, Essar Shipping and Oil and Natural.



CLIENT BASE

COMPANY HAS VAST CLIENT BASE COMPRISING OF SOME OF THE MAJOR INDIAN OIL PRODUCERS:

- ONGC
- Cairn
- Reliance Industries Ltd
- Marathon Oil Corporation
- GSPC
- Hardy Oil
- ASCO
- Canadian Natural
- B G Group

NELP: TO DRIVE GROWTH IN E & P SECTOR

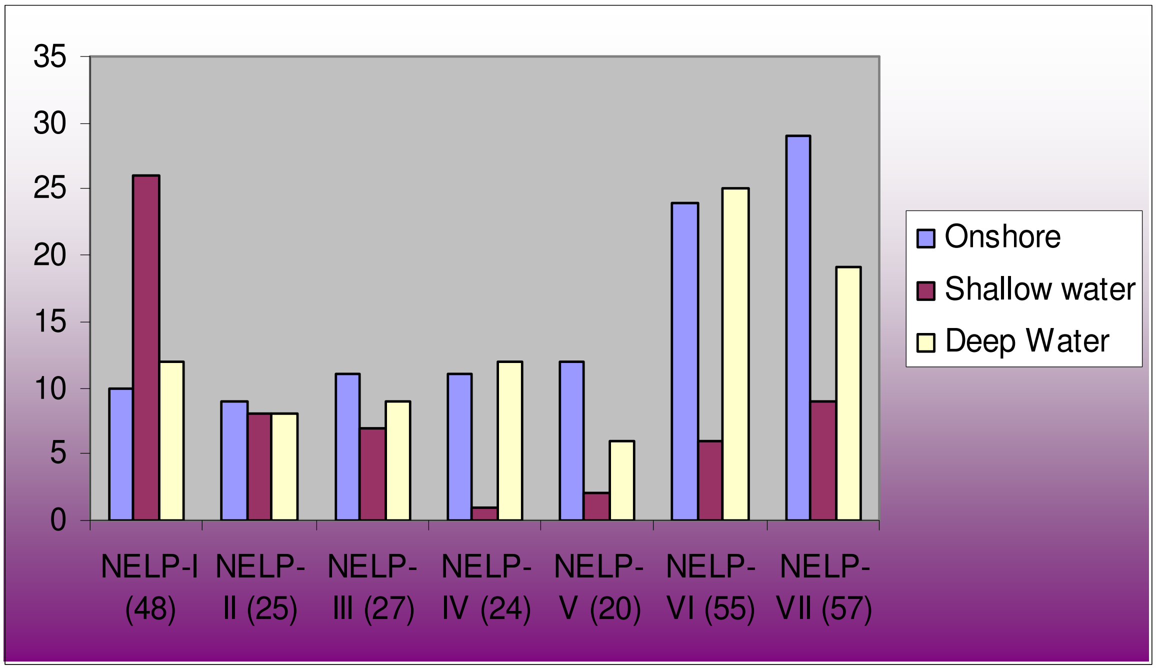
The main thrust for acceleration of exploration activities had begun with the introduction of New Exploration licensing policy (NELP) by the GOI in 1997. NELP has so far been successful in accelerating the pace of Hydrocarbon exploration in the country.

NELP has stimulated a huge amount of upstream work which will escalate significantly over the coming 6 years. Indian offshore service providers are ready to partner the E & P companies in developing opportunities under NELP VII.

India has an estimated sedimentary area of 3.14 million square kilometres, comprising 26 sedimentary basins, out of which, 1.35 million square kilometre area is in deepwater. At present 1.38 million square kilometre area is held under Petroleum Exploration Licenses in 18 basins by national oil companies' viz. Oil & Natural Gas Corporation Limited (ONGC), OIL India Limited (OIL) and Private/Joint Venture companies. Before implementing the New Exploration Licensing Policy (NELP) in 1999, 11% of Indian sedimentary basins were under exploration, which has now increased significantly.

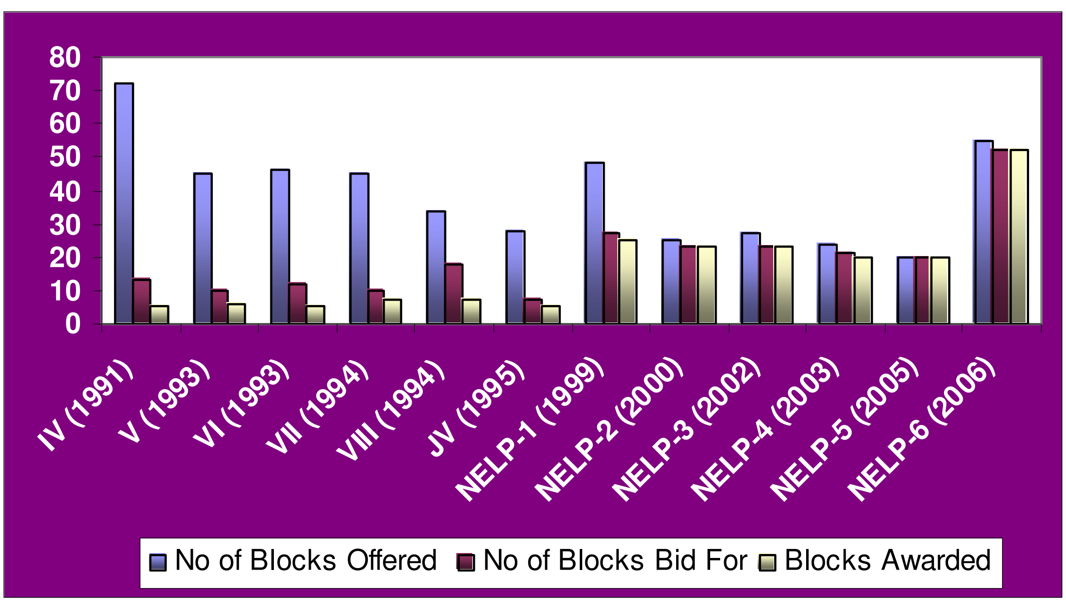
In 1997, Government of India approved the New Exploration & Licensing Policy (NELP) and it became effective in February, 1999. Since then licenses for exploration are being awarded only through a competitive bidding system and National Oil Companies (NOCs) are required to compete on an equal footing with Indian and foreign companies to secure Petroleum Exploration Licenses (PELs). Six rounds of bids have so far been invited under NELP, in which, 162 exploration blocks have been awarded more than 20 foreign companies have been awarded exploration blocks. Government of India is committed to offer exploration blocks in coming years and in the next five years, area under exploration for Indian sedimentary basins is expected to increase from 44% at present to 80%. By 2015, whole sedimentary basinal area is planned to be brought under exploration.

EXPLORATION BLOCKS ALLOTTED UNDER NEPL



http://www.dghindia.org

STATUS OF EXPLORATION ROUNDS



Source: http://www.dghindia.org

STATUS OF EXPLORATION ACTIVITIES-PRE-NELP VS. NELP

	Pre-NELP (1993-2007)	NELP- I, II, III, IV & V
2D Seismic Survey	25036 LKM	139711 LKM
3D Seismic Survey	6029 SKM	94010 SKM
Exploratory Wells	188	131
No. of Discoveries	25	39
Investment made on Exploration	US $ 1037mn*	US $ 2849 mn*

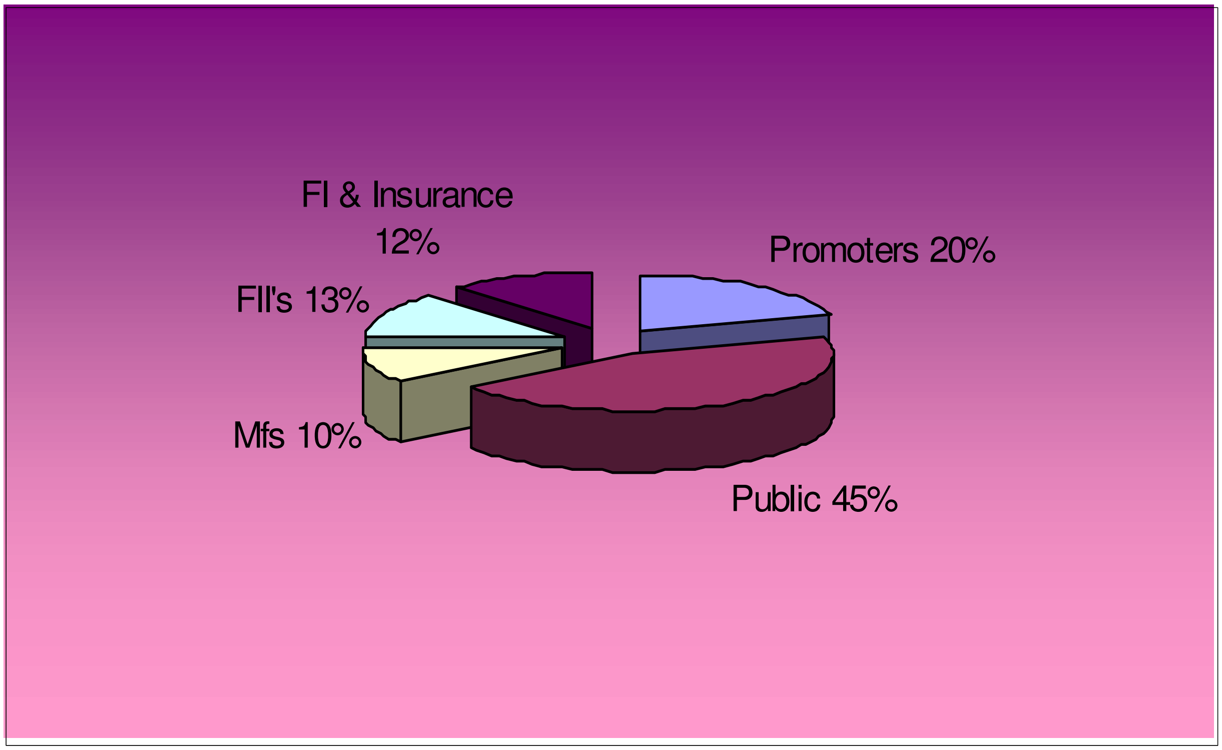
Source: http://www.dghindia.org

The E&P industry is highly knowledge intensive and requires adoption of new technology and scientific advancements on a regular basis. Since, the implementation of New Exploration Licensing Policy by Government of India, path breaking changes in the Indian E&P scenario are prominently visible. This could happen due to balanced assimilation of latest technology with industry needs in different cycles of E&P operations by various operators active in the country. To promote cooperation between different operators and to get benefited through each others experiences in respective field of operations; DGH (Directorate General of Hydrocarbons) is attempting to share knowledge between the companies for mutual benefit.

CURRENT SCENARIO

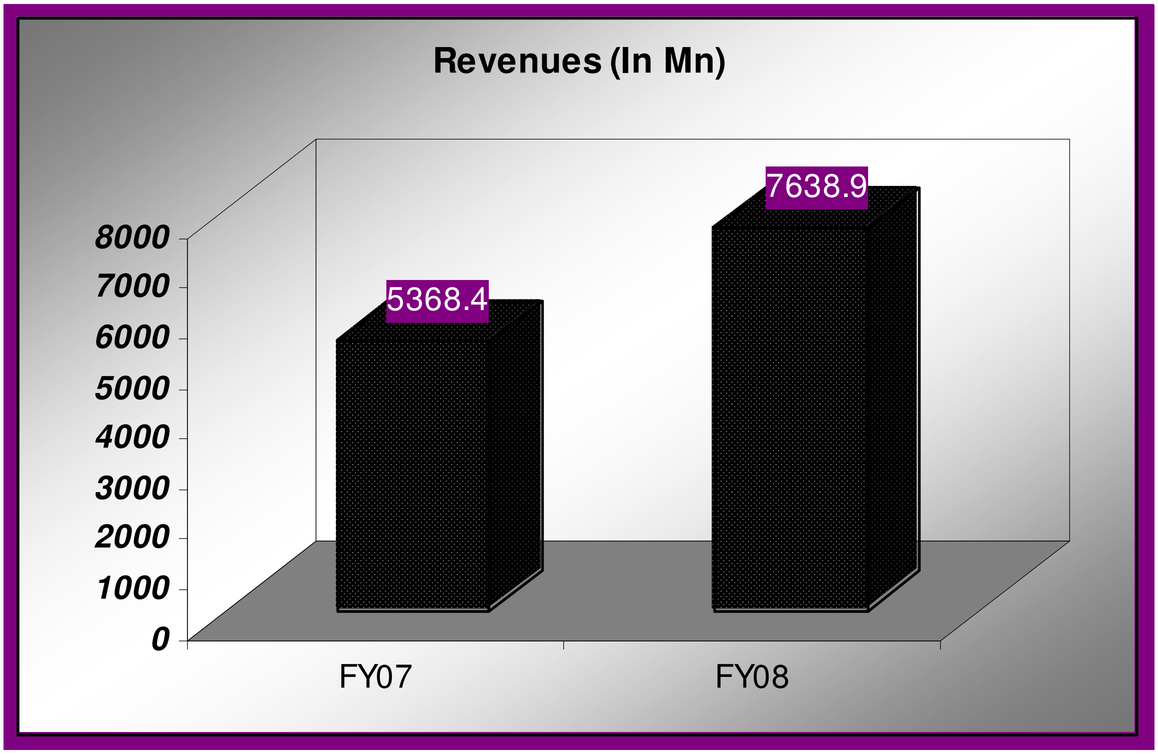
In Budget 2008-09, the finance ministry had proposed to withdraw the Tax benefit given to companies under section 80IB. As per IT dep't, tax benefit is meant for Oil production & not gas. Due to uncertainty over this issue, many companies have not been able to firm up there bids as yet. In addition to this, many companies are not very confident of the blocks being offered under NELP VII. Out of 57 blocks on offer, 39 have been recycled from previous NELP rounds. These blocks were relinquished by the companies as they were unable to find any oil or gas reserves or were not able to complete there minimum work programme on the block.

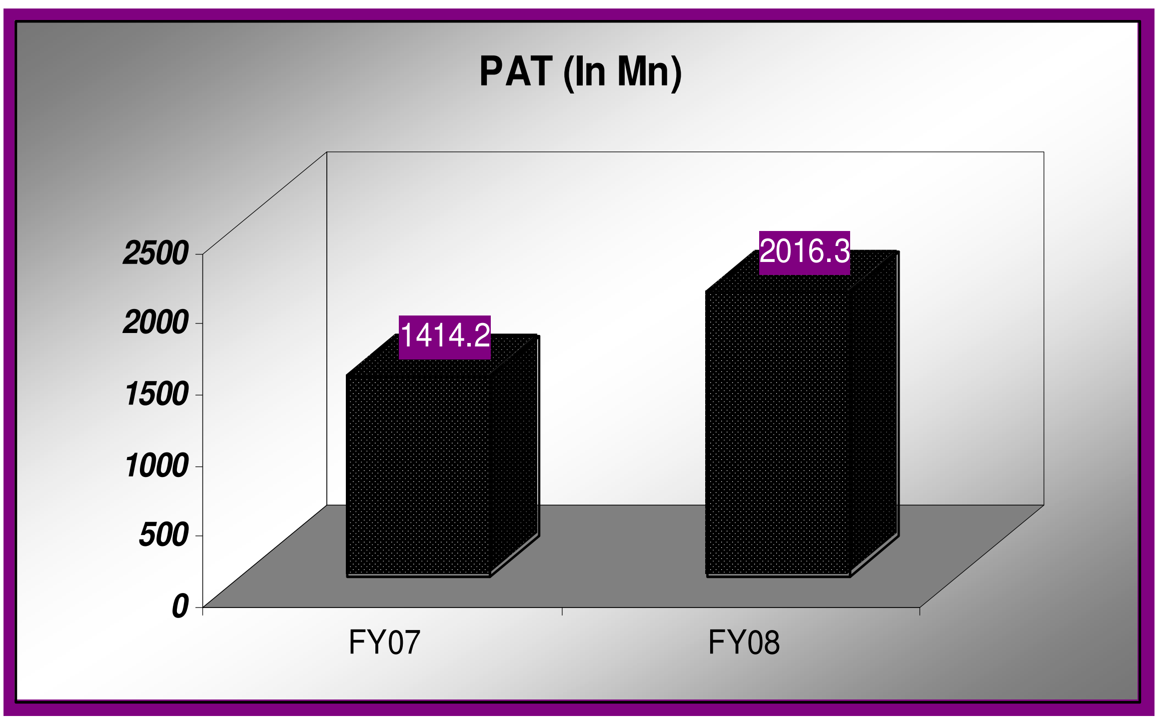
SHAREHOLDING PATTERN: (AS ON 14TH JUNE 08)



FINANCIALS

Past Performance:





PROJECTIONS

P & L A/c

P & L A/c (Rs in MN)			
Particulars	Fy08	FY09E	FY10E
Sales	7459	8354.08	10693.22
Less: Expenses	4334.6	4427.66	5453.54
EBIDTA	3124.4	3926.42	5239.68
Other income	554.8	300	375.00
Interest	683.9	750	800.00
Depreciation	985.5	995	1300.00
PBT	2009.8	2481.42	3514.68
Profit on sale of vessel	179.9	0	0.00
Tax	173.4	297.77	544.78
PAT	2016.3	2183.65	2969.90

BALANCE SHEET (Rs in MN)

	Fy08	FY09E	FY10E
Liabilities			
Share Capital			
Equity	381.2	372.30	372.30
10% OCRC Pref. shares	1500.00	1500.00	1500.00
	1881.20	1872.30	1872.30
Reserves	6934.00	7749.99	9531.93
Secured Loans	9462.00	12550.00	12450.00
Total	**18277.20**	**22172.29**	**23854.23**
Assets			
Fixed Assets			
Gross Block	14972.00	20772.00	23650.00
less: Depreciation	4974.00	5969.00	7269.00
	9998.00	14803.00	16381.00
Ships under construction	3906.00	2600.00	0
	13904.00	**17403.00**	**16381.00**
Goodwill	0.50	0.50	0.50
Investments	182.00	182.00	182.00
Deferred tax Asset (net)	66.00	33.00	0
Current Assets, Loans & Advances			
Inventories	78.00	94.00	125.00
Sundry Debtors	1748.00	2150.00	2250.00
Cash & Bank balance	3194.80	3059.79	5593.43
Loans & Advances	1562.90	1850.00	2100.00
	6583.70	7153.79	10068.43
Less: Current Liabilities			
Current Liabilities	1971.00	2100.00	2252.70
Provisions	488.00	500.00	525.00
	2459.00	2600.00	2777.70
Net Current Assets	4124.70	4553.79	7290.73
	18277.20	**22172.29**	**23854.23**

CASH FLOW STATEMENT (FY08) (Rs in MN)

A	**CASH FLOW FROM OPERATING ACTIVITIES**	
	NET PROFIT BEFORE TAX :	2189.70
	ADJUSTMENTS FOR :	
	Depreciation	**985.50**
	Interest earned	-59.30
	Interest expensed	683.90
	Dividend received	(26.80)
	Misc. expenses written off	0.40
	Profit on Sale of investments	-
	Profit on sale of sundry assets	-
	Provision for doubtful debts	4.20
	Profit on sale of Vessel	-179.90
	Deferred Revenue Expenditure written off	0.00
	Foreign exchange	-285.50
		1122.50
	OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	**3312.20**
	ADJUSTMENTS FOR :	
	Trade & other receivables	**-1365.30**
	Inventories	**-15.20**
	Trade payables	135.50
	CASH GENERATED FROM OPERATIONS	2067.20
	Taxes paid	-260.10
	NET CASH FLOW FROM OPERATING ACTIVITIES :	1807.10
B	CASH FLOW FROM INVESTING ACTIVITIES :	
	Purchase of fixed assets	-2002.40
	Sale of fixed assets	181.30
	Purchase of investments	-3484.40
	Sale of investments	**3302.50**
	Interest received	66.10
	Dividend received	26.80
	NET CASH USED IN INVESTING ACTIVITIES :	**-1910.10**
C	CASH FLOW FROM FINANCING ACTIVITIES :	
	Proceeds from issue of Foreign Currency Convertible Bond	1685.5
	Proceeds from issue of Preference shares	1500
	Proceeds from long term borrowings	3459.8
	Repayments of long term borrowings	-2810.6
	Interest paid	-648.1
	Dividend paid	-304.9
	Tax on dividend	-51.9
	Share issue expenses	-68.6
	NET CASH USED IN FINANCING ACTIVITIES :	2761.2
	Net increase / (decrease) in cash and cash equivalents :	2658.2
	Cash and cash equivalents as at beginning of period	584.4
	Cash and cash equivalents as at end of period	**3242.6**
Note :	Cash and bank balances	**3194**
	Effect of exchange rate changes [loss / (gain)]	48.6
		3242.6

CASH FLOW STATEMENT (FY09E) (RS in MN)

A	**CASH FLOW FROM OPERATING ACTIVITIES**	
	NET PROFIT BEFORE TAX :	2481.42
	ADJUSTMENTS FOR :	
	Depreciation	995.00
	Interest expensed	750.00
	OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	4226.42
	ADJUSTMENTS FOR :	
	Trade & other receivables	-656.10
	Inventories	-16.00
	Trade payables	141.00
	CASH GENERATED FROM OPERATIONS	3695.32
	Taxes paid	-297.77
	NET CASH FLOW FROM OPERATING ACTIVITIES :	3397.55
B	CASH FLOW FROM INVESTING ACTIVITIES :	
	Purchase of fixed assets	-4494.00
	NET CASH USED IN INVESTING ACTIVITIES :	-4494.00
C	CASH FLOW FROM FINANCING ACTIVITIES :	
	Buy Back of equity	-503.10
	Proceeds from long term borrowings	3088.00
	Interest paid	-750.00
	Dividend paid	-764.28
	tax paid	-109.18
	NET CASH USED IN FINANCING ACTIVITIES :	961.44
	Net increase / (decrease) in cash and cash equivalents :	-135.01
	Cash and cash equivalents as at beginning of period	**3194.80**
	Cash and cash equivalents as at end of period	3059.79

CASH FLOW STATEMENT (FY10E) (Rs in MN)

CASH FLOW FROM OPERATING ACTIVITIES (Rs in MN)	
NET PROFIT BEFORE TAX :	3514.68
ADJUSTMENTS FOR :	
Depreciation	1300.00
Interest expensed	800.00
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	5614.68
ADJUSTMENTS FOR :	
Trade & other receivables	-317.00
Inventories	-31.00
Trade payables	177.70
CASH GENERATED FROM OPERATIONS	5444.38
Taxes paid	-544.78
NET CASH FLOW FROM OPERATING ACTIVITIES :	4899.60
CASH FLOW FROM INVESTING ACTIVITIES :	
Purchase of fixed assets	278.00
NET CASH USED IN INVESTING ACTIVITIES :	-278.00
CASH FLOW FROM FINANCING ACTIVITIES :	
Long term borrowings repaid	-100.00
Interest paid	-800.00
Dividend paid	-1039.47
tax paid	-148.50
NET CASH USED IN FINANCING ACTIVITIES :	-2087.96
Net increase / (decrease) in cash and cash equivalents :	2533.64
Cash and cash equivalents as at beginning of period	**3059.79**
Cash and cash equivalents as at end of period	5593.43

Ratios

	FY08	FY09E	FY10E
EV/EBIDTA	8.22	7.26	4.93
P/E	8.88	8.00	5.89
P/BV	2.44	2.15	2.44
EPS	52.89	58.65	79.77
ROE	15.58%	19.19%	22.72%
ROCE	11.02%	14.06%	16.50%
EBIDTA MARGIN	41.89%	47.00%	49.00%
PAT MARGIN	27.03%	26.14%	27.77%
Market price (As on 26 August 08)	470		
Book value	192	218	266

RISK & CONCERNS

OLD ASSETS

Certain Drilling assets have become quiet old. Their earning rates are likely to fall on renewal of contracts. In addition to this, any major expenses incurred on repairs & maintenance can have an adverse impact on the earnings of the company.

HIGH CRUDE OIL PRICES

Crude prices are trading at an all time high. Any fall in crude prices may affect the demand for offshore services & lead to fall in OSR charter rates.

DELIVERY ISSUES

Delay in delivery of Jack up rig & MSV may reduce the revenues leading to lowering of earnings.

RUPEE APPRECIATION

Since company’s revenues are dollar denominated, any sharp appreciation in rupee may adversely impact the revenues & profitability.

INVESTMENT RATIONALE

AN EDGE OVER PEERS THROUGH ONE WINDOW SHOP:

The company provides wide range of offshore services ranging from offshore drilling, port and terminal support services, offshore marine logistics, marine construction and air logistics (through JV). It deserves the recognition of an integrated player in the marine service segment and therefore enjoys a considerable business advantage over its peers in establishing a sound and deep rooted business relationship with its clients.

HIGH OIL PRICES TO GENERATE ACCELERATED

Considering the enormous appetite of fuel consumption amongst two Asian giants (China and India) we expect a massive increase in capex spendings of these two countries. Depleting reserves, absence of any super giant discoveries in recent years and growing global consumption will compel oil majors to earmark sizeable budgets for exploration spending continuously for several years ahead. In the last calendar year capex of global E & P majors crossed $300 bn and is expected to further grow by ~ 12% in FY 08.

HIGH OIL PRICES MAKE MARGINAL OIL FIELDS COMMERCIALLY VIABLE

Earlier due to low oil prices it was economically unviable for many oil majors including ONGC to explore small and marginal fields due to high E & P cost. Recent phenomenal rise in crude prices have prompted many global majors to consider development of marginal oil fields. In fact ONGC recent move to increase oil production is expected to come from development of small and marginal fields.

INDIA STILL REMAINS UNDER EXPLORED

We see an enormous business opportunities for the likes of Great offshore in offshore oilfield services segment in India after the recent KG basin discovery. Earlier due to low level of economic activity and severe financial constraints, miniscule budgets were provided for seismic surveys, etc. With the rise in sudden rise in demand coupled with phenomenally high prices the need to explore and drill new oil wells has become inevitable. Compared to < 60 drilled during the period 2000 – 2004 it has envisaged 498 wells to be drilled from 2006-2012 (source: DGH). With the government opening the gates for participation of domestic and global private sector in the hydrocarbon segment, we expect E & P activities to receive a tremendous Phillip.

ACQUISITION OF ADDITIONAL VESSELS WILL GENERATE ACCELERATION IN EARNINGS GROWTH.

With the acquisition of three new vessels viz: Malaviya 33, Samed Shikhar (Jack up Rig) and MSV during FY08-10E we expect ~ CAGR 21% in the company's bottom-line**.**

BADRINATH TO FUEL REVENUE GROWTH

One of their two rigs Badrinath has resumed operations on Indian west coast in H2 FY08.

It is a drilling barge capable of operating in 600ft of water with a drilling depth of 20000 feet. In Fy 09 it is estimated to earn ~$86000 per day and this would lead to improvement in margins and growth in revenue. Its deployment will generate revenue for the entire year Fy08 as against seven months of FY07. In FY08 company incurred USD 10 million as a one time repair and maintenance cost towards dry dock expenses of Badrinath.

IMPROVEMENT IN AGE OF THE VESSELS

Through recent acquisitions the company has managed to reduce the age of its fleet vessels. In FY07 its drill rigs were 30 years old and OSv's were 20 years old. This was resulting into low day rates, high operating costs, accidents and frequent breakdowns. Currently its average fleet age is around 12 years which is lower than industry global standards. Through recent acquisitions of new vessel and with improvement in age of the vessels the company would not only be able to reduce its maintenance and dry dock expenses but also be able to fetch better rates for newer vessels.

FOCUS ON MARINE CONSTRUCTION ACTIVITY TO PROVIDE UPSIDE

The company owns one construction barge named 'Gal Construction' which provides complete range of off shore activities. This vessel is mostly on charter and does very few construction projects itself. This segment contributes ~ Rs.300 mn to the top line.

Looking at the scope of E & P activities there is a vast scope for marine construction and other related projects which includes repairs and maintenance of E & P structures. One can gauge the potential of this business from the fact that a L & T sub contractor of the size of Dolphin Offshore has managed to more than quadruple its revenues in last couple of years.

IMPACT ON EQUITY EXPANSION

10% Optionally Convertible Redeemable Cumulative Preference Shares (OCRCPS)

On Sept. 2007 the company has issued and allotted 1,500,000 (FV Rs.1000/- per share), 10% OCRCPS to EXIM Bank. These OCRCPS are convertible within a period of 12-16 months from the date of subscription into 1,714,285 equity at Rs.875/- per share. Alternatively they can be redeemed at par at the end of three years from the date of allotment @ Rs 1000/- per share.

FCCB

In Oct 2007 it has issued 7.25% Unsecured Foreign Currency Convertible Bonds 2012 of USD 100,000 aggregating to USD 42,000,000 listed on Singapore Stock Exchange. These are convertible in part or in full, during the period 11th Oct 2007 to 28th Sept. 2012 .In the event of bonds in part or full being not converted the same will be redeemed on 28th Sept. 2012 at 420 $ per bond with a fixed Exchange rate of USD 1=Rs 39.82.

Buy back

In April 2008 management decided on buy back of 10% of aggregate equity capital at a price not exceeding Rs.750/- per share aggregating to Rs.552.4 mn till March 2009. As on 31st March 2008 the paid up equity capital was Rs.381 mn (38.11 mn shares of Rs.10/- each). Under this arrangement the company can buy ~ 0.74 mn shares.

As on 22nd Aug 08 the company has bought back 881,031 shares amounting to Rs. 503.10 mn.

CASE I (IN CASE CONVERSION OPTION IS EXERCISED)

	No. of shares (mn)
Present equity	38.12
Add: On conversion of FCCB	1.911
Add: On conversion of OCRCPS	1.714
No. of equity shares post conversion	41.745
Less: Buy Back	.81
Total no. of equity shares post dilution	40.93

CASE II (IN CASE CONVERSION OPTION IS NOT EXERCISED

	No. of shares (mn)
Present equity	38.11
Less: Expected Buy Back	.88
Total no. of equity shares post buy back*	37.23

As on 22/08/2008, the company has bought back 881,031 equity shares at Rs. 571/- per share and the same has been factored into the financials.

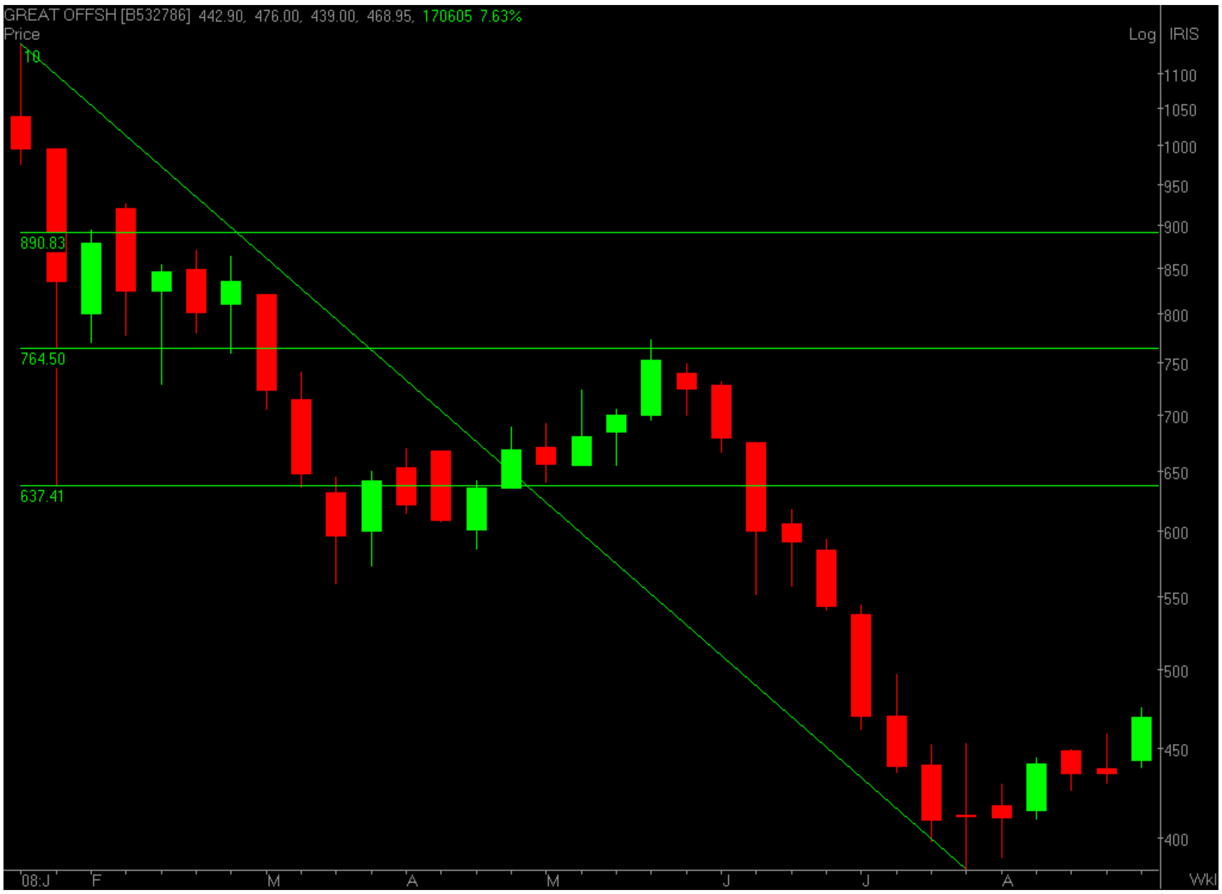
POTENTIAL PRICE RANGE (FY09E x)

	EBIDTA (x)	EBIDTA FY09E (Rs. Mn)	Total no. of shares (in mn)	Mkt Cap (Rs. in mn)	Potential Price (Rs.)
Base	6.31	3124.4	37.23	19713	529
Average	8.68	3124.4	37.23	27106	728
Maximum	12.96	3124.4	37.23	40483	1087

POTENTIAL PRICE RANGE (FY10E x)

	EBIDTA (x)	EBIDTA FY10E (Rs. Mn)	Total no. of shares (in mn)	Mkt Cap (Rs. in mn)	Potential Price (Rs.)
Base	6.31	5239.68	37.23	33060	888
Average	8.68	5239.68	37.23	45458	1221
Maximum	12.96	5239.68	37.23	67892	1823

What do Technical say:




GREAT OFFSH [B532786] 442.90, 476.00, 439.00, 468.95, 170605 7.63%
Price
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Technical Report:

Stock has shown tremendous strength in weekly chart with volumes, seems the worst is over and can initiate intermediate uptrend from here. Daily chart shows some resistance around 556 levels, but after some consolidation stock can touch 640 levels in short term, also there is series of resistance between 750 and 850 levels .Intra day data clearly suggests break out on closing basis above 455.

Contact us : arm research pvt. ltd.

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