

Shipping Corporation of India: Good Issue; Subscribe for Long Term Gain

FPO Note: Largest Shipping Company; Huge expansion Program

Rating***

Issue details

| | |
|------------------|--------------------------|
| Price band (Rs) | Rs.135-140 |
| FPO Opening Date | 30/11/10 |
| FPO Closing Date | 03/12/10 |
| Issue Size | Rs.1143.32-1185.67 Crore |

Valuations & Recommendation

The shares are being offered in a price band of Rs 135-140, based on the fiscal 2010 EPS of 8.90, the P/E stands at 15.17x at the lower price band while it stands at 15.73x at the higher price band. The issue would result in reduction of the government stake to 63.75% from 80.12%. For the recent quarter ended September 30, 2010, the company's sales grew by 17.48% to Rs 1068.21 crore and net profit was up by whopping 643.70% to Rs 250.63 crore. The issue has been attractively priced, over 20% lower from its 52 week average price and with a 5% discount lot has been left for the retail investors on table.

SCI is one of the largest shipping companies with a good track record and has been performing consistently. Though, the company has to face stiff competition.

Looking to its strong performance coupled with its aggressive plans, the company is expected to perform very well in next couple of years. We recommend subscribing the issue for long term gain. Also, the sector has started showing strong growth after the recession.

Highlights

- ◆ For the recent quarter ended September 30, 2010, the company's sales grew by 17.48% to Rs 1068.21 crore and net profit was up by whopping 643.70% to Rs 250.63 crore.
- ◆ The company has made up plans double its shipping tonnage to 10 million tonnes by buying 40 ships in the next three years.
- ◆ It is one of India's largest shipping companies in terms of Indian flagged tonnage, with approximately a 35% share of Indian flagged tonnage as of June 30, 2010. As of September 30, 2010

Company Introduction

Shipping Corporation of India (SCI) was established on October 2, 1961 by the amalgamation of Eastern Shipping Corporation and Western Shipping Corporation. The company has emerged into a giant conglomerate with extensive interests in 10 different segments of the shipping trade. It is India's premier shipping line having a major presence on the global maritime map.

Operations

The company is the only Indian shipping company operating break-bulk service, international container service, liquid / dry bulk service, offshore service, passenger service, in addition to manning/ managing a large number of vessels on behalf of various government departments and organisations.

It has presence of a modern, young and diversified fleet along with the presence of a large pool of well trained and experienced manpower both ashore and afloat to operate it. Bulk Carrier & Tanker Division (B&T), the largest profit centre of SCI, operates state-of-the-art and diversified fleet comprising of vessels designed to carry dry, liquid and



liquefied gaseous bulk cargoes. During fiscal 2008, the company's fleet included 79 ships. During the said fiscal, it owned 20 bulk carriers comprising 15 Handymax and five Handysize vehicles.

Industry Overview:

The shipping industry is fundamental to international trade, being the only practicable and cost effective way means of transporting large volumes of many essential commodities and finished goods. In 2008, total annual world seaborne trade amounted to 8.7 billion tonnes of goods (loaded). Dry cargo, including bulk, break bulk and containerized cargo, accounted for the largest share of goods loaded (66.3%) while oil and related products made up the balance. The United Nations Conference on Trade and Development (UNCTAD) estimates that the operation of merchant ships contributes about \$380 billion in freight rates within the global economy, equivalent to about 5% of total world trade. projects mentioned above, 17 are in operation and six are under construction.

Future Plans

The company has made up plans double its shipping tonnage to 10 million tonnes by buying 40 ships in the next three years. The company is also eager on shipbuilding yards and is in dialogue with a number of Korean companies for setting up world-class shipbuilding yards. However, it has deferred its purchase of eight new vessels and the timeline has been extended to the next financial year.

SCI is also planning to buy vessels from the second-hand market. The company is also looking forward to acquire the sick shipping companies with good assets.

Concerns

On the concern side, the company's most of the revenues are derived from a few key customers. The company's bulk carrier and tanker division is the primary income source, which demand depends, to a large extent, depends on the demand for energy products, including crude oil, gas and coal. Non employment of vessels or low productivity due to reduced demand, weather interruptions or other causes can have a significant negative effect on its results of operations and financial condition as a consequence.

Financial Summary

| Particulars | 1003 (12) | 0903 (12) | 0803 (12) |
|--------------|-----------|-----------|-----------|
| Total Income | 3896.33 | 4564.49 | 4088.5 |
| OPM (%) | 26.24 | 35.58 | 34.05 |
| Net Profit | 376.91 | 940.67 | 813.9 |
| EPS (Rs) | 8.9 | 22.21 | 19.22 |

RANKING METHODOLOGY

| | |
|-----------|-------|
| WEAK | * |
| AVERAGE | ** |
| GOOD | *** |
| VERY GOOD | **** |
| EXCELLENT | ***** |

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