

**A Financial Analysis
of
ABG Shipyard Limited**

Course - PGCHRM - 15

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A Project on Financial Analysis of ABG Shipyard Limited

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An Introduction of ABG Shipyard Limited:

ABG Shipyard Ltd., the flagship company of ABG group was incorporated in the year 1985 as Magdalla Shipyard Pvt. Ltd. with the main objects of carrying Shipbuilding and Ship Repair business. In a span of 15 years from the year 1991, the company has achieved the status of the largest private sector shipbuilding yard in India with satisfied customer base all around the world. The registered office and the yard are situated at Surat in the state of Gujarat and the corporate office is in Mumbai.

The Company has its state of the art manufacturing facility at Dahej and Surat in Gujarat. It is one of the largest private sector shipbuilding yards in India and is certified by DNV for ISO 9001 - 2008.

ABG Shipyard has received All India Trophy for Highest Exporters, every year continuously from 2003-04 onwards, in Recognition of outstanding Contribution to Engineering Export from Govt. of India - Ministry of Commerce.

The Company's Head Quarter is in Mumbai, Maharashtra and top management consists of following members:

- Rishi Agarwal (Chairman)
- Ram swaroop Nakra (managing director)
- DP Gupta (Vice president)
- Subas Gantayat (Vice president)

ABG Shipyard builds a range of commercial vessels. These include self-loading and self-discharging bulk carriers, container ships, floating cranes, split barges, anchor handling tugs, dynamic positioning ships, offshore supply vessels and diving support vessels.

ABG was granted clearance from the Government of India to build warships and various other vessels for the Indian Navy. It was the second corporate shipyard to receive this license after Pipavav Shipyard.

Financial Indicators of the Organization:

Some of the financial indicators of the organization could be:

- a. The Company's shares price in BSE & NSE bourses.
- b. Sales Turnover
- c. Net Profit
- d. Earnings Per Share

The same are explained in below mentioned tabular form.

(data as on 4th April '13)

(Amt. in Rs.)

Average Price	52 Weeks High	52 Weeks Low
320.50	415.85	232.20

By Simple Moving Average - Share Price movement of ABG Shipyard:

(Amt. in Rs.)

Days	BSE	NSE
30 Days	315.57	316.87
50 Days	341.92	343.54
150 Days	361.55	362.86
200 Days	363.09	364.27

Price to Book Value Ratio

Particulars	Amt. in Rs.
Market Value per Share (MV)	320.50
Book Value Per Share (BV)	279.07
Earnings Per Share (2012) (EPS)	35.41
P/E Ratio (MV / EPS)	9.05
P/BV Ratio (MV / BV)	1.15

(The data is gathered from moneycontrol and is latest as on date).

The P/BV ratio is higher than 1. It reflects that the share price of ABG shipyard is traded higher than its potential. For the investor it is situation wherein he can sell of his shares and realize the investment.

Looking into the trend of the share performance in last one year, it is traded at the mid point of years high and low share traded value. The table of simple moving average also reflects that the share price is not getting stable and is reducing at a fast pace.

This reflects that there is a high chance that the share price will be further corrected and hence the best decision would be to realize the investments.

(Amt. in Rs. Crore)

Financial Indicators	Mar '12	Mar '11	Mar '10	Mar '09	Mar '08
Sales Turnover	2,472.48	2,136.90	1,812.44	1,413.00	706.16
% Change over last year	15.70	17.90	28.27	100.10	-
Net Profit	190.77	196.88	218.12	171.16	116.31
% Change over last year	-3.10	-9.74	27.44	47.16	-
Earning Per Share (Rs)	37.46	38.66	42.83	33.61	22.84
% Change over last year	-3.10	-9.74	27.43	47.15	-

Non Financial Indicators:

a. Production Capacity:

ABG Shipyard is one of the largest private sector shipbuilding yards in India which is certified by DNV for ISO 9001 - 2008.

More than 149 specialized and sophisticated vessels have been manufactured by the Company so far.

b. Orders in Hand:

The company holds sales orders worth Rs. 16,600 Crores in hand at present.

c. Infrastructure:**Shipyard Area:**

- a. Dahej Shipyard & Rigyard - 165 acres land
- b. Surat Shipyard & Rigyard - 55 acres land
- c. Goa Shipyard & Rigyard - 21 acres land

Jetties : 2 existing and 1 under construction (dolphin jetty)

d. Certification:

ABG Shipyard has received All India Trophy for Highest Exporters, every year continuously from 2003-04 onwards, in Recognition of outstanding Contribution to Engineering Export from Govt. of India - Ministry of Commerce

e. Employee Strength:

Total manpower of ABG shipyard is more of contractual worker and less of staff worker. Staff is 500 and workers strength is 3500+ inclusive of all 3 sites. The high worker and less staff is due to nature of the business.

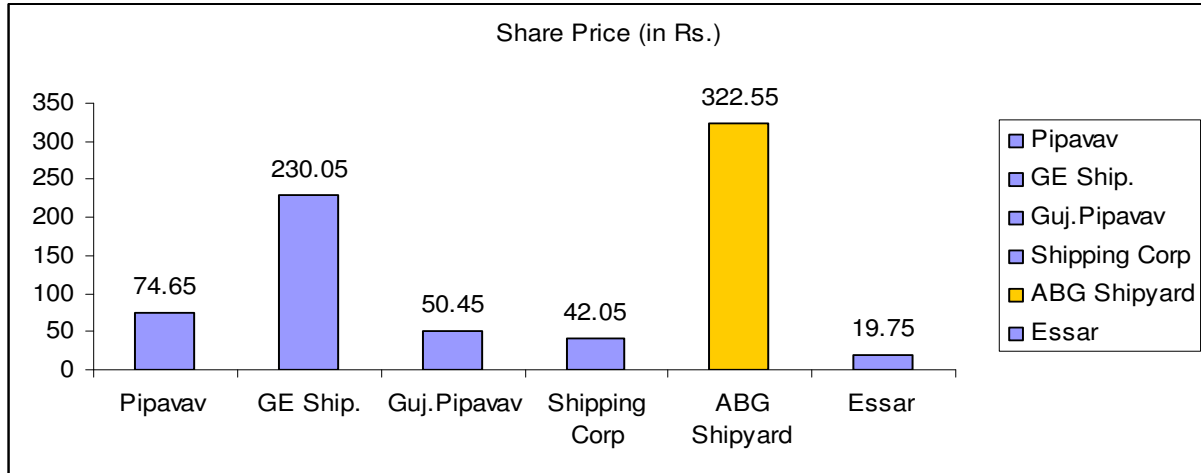
The Competition:

(Rs. in Crores)

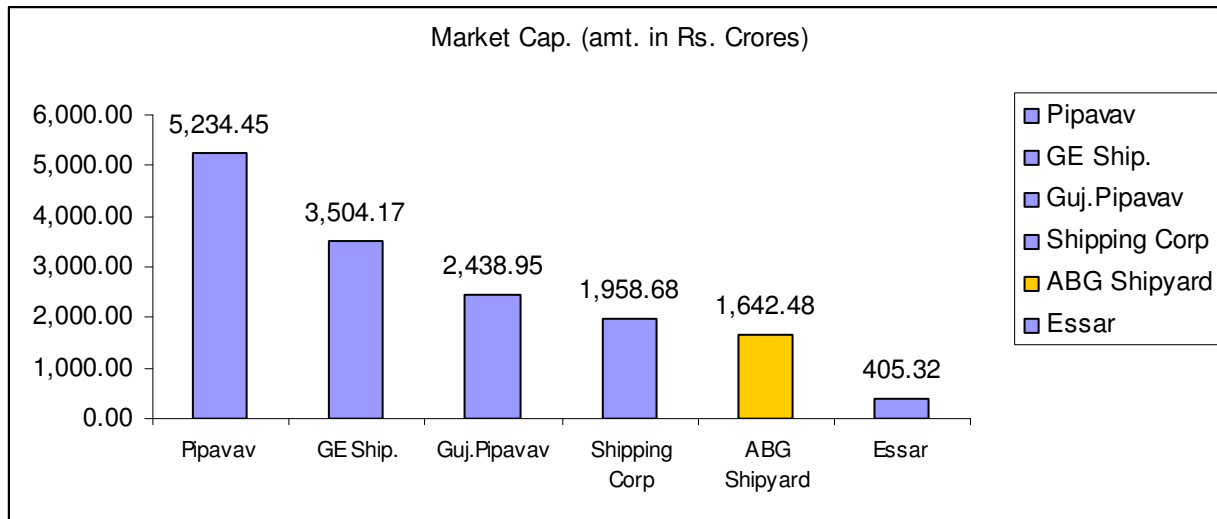
Name	Share Price (in Rs.)	Market Cap.	Sales Turnover	Net Profit	Total Assets
Pipavav Defence	74.65	5,234.45	1,867.67	18.52	4,703.87
GE Shipping	230.05	3,504.17	1,709.62	143.34	8,635.25
Gujarat Pipavav	50.45	2,438.95	416.03	73.96	1,468.83
Shipping Corp	42.05	1,958.68	4,308.61	-428.21	12,260.10
ABG Shipyard	322.55	1,642.48	2,391.77	180.29	4,724.41
Essar Shipping	19.75	405.32	1,245.35	95.82	8,656.73
Mercator	13.75	336.73	562.45	-118.67	1,864.58
GOL Offshore	65.4	243.55	883.56	74.34	3,106.20
Seamec	55.65	188.65	181.83	-10.38	436.68
Global Offshore	61.85	152.95	153.15	33.75	642.24
BharatiShipyard	38.05	146.31	1,405.87	5.95	4,849.15
Varun Shipping	8.65	129.76	604.13	38.37	1,659.62

The coloured cells indicate highest value in particular column. For the analysis and representation of the competition analysis, I have compared first six players of the industry and same is elaborated in next section with graphs and interpretation.

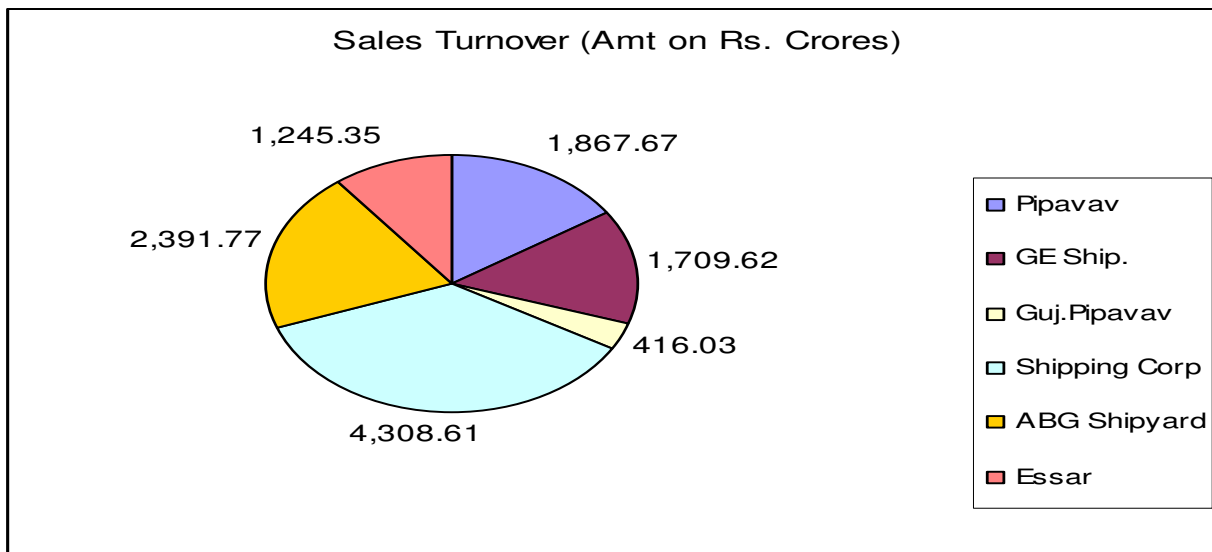
Share Price



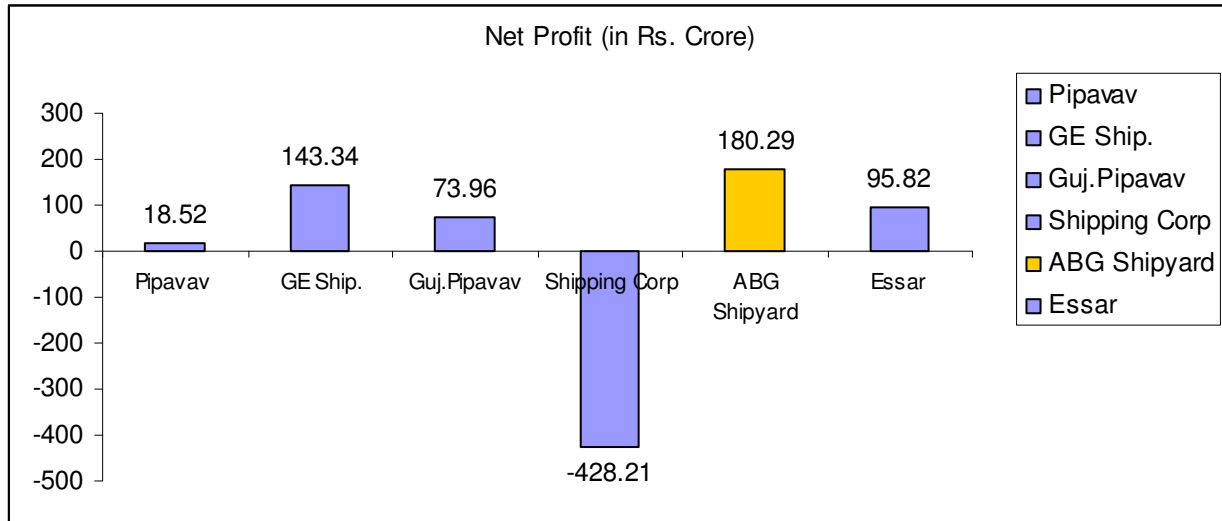
Market Capitalization



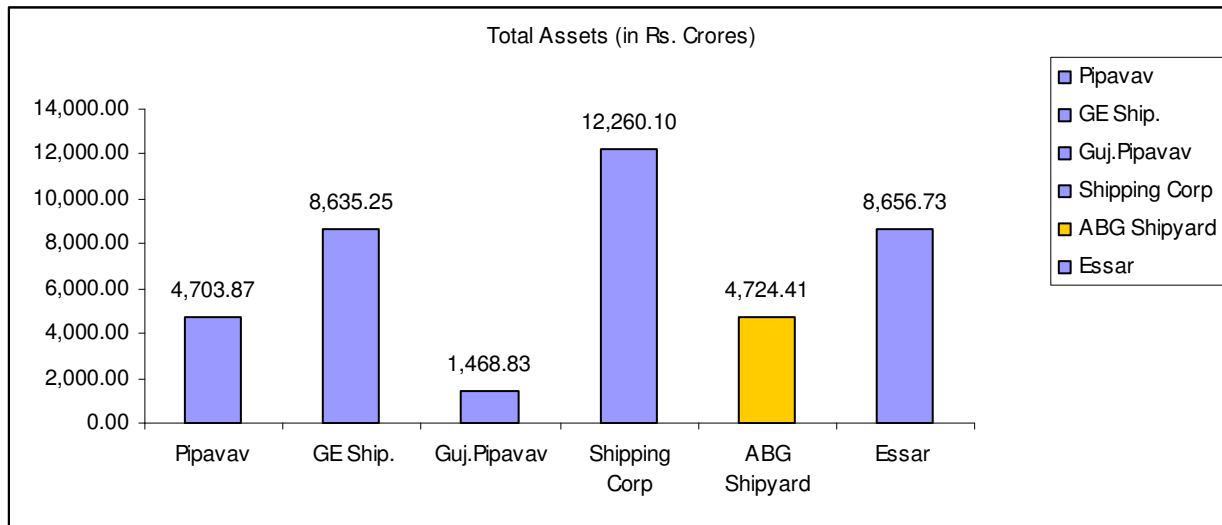
Sales Turnover



Net Profit



Total Assets



Observations:

By market capitalization, ABG shipyard stands on 5th position in India. The reason is less number of shares offered into the market. But looking into the Sales turnover, amongst key six players from the industry, ABG shipyard stands on the second position. Shipping Corporation is highest in sales, but on the contrary it has a negative profit (loss of 428 crores) in 2012. shipping Corporation, also holds highest assets (in comparison to ABG shipyard it is 2.75 times higher).

Thus in overall scenario, there are several major players in competition to ABG shipyard, but the company is able to withstand the position well and able to generate **highest topline amongst all other players.**

Understanding the Financial Statements (connectivity between BS & P&L)

Amt in Rs. Crore

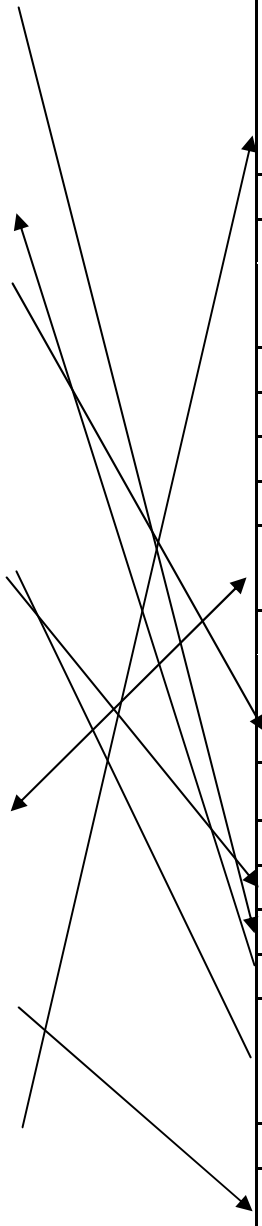
Amt in Rs. Crore

Profit & Loss Statement

Particulars	41345
Income	
Sales Turnover	2472.28
Excise Duty	0
Net Sales	2472.48
Other Income	43.71
Stock Adjustments	22.35
Total Income	2538.54
Expenditure	
Raw Materials	1318.36
Power & Fuel Cost	14.17
Employee Cost	99.07
Other Manufacturing Expenses	204.94
Selling and Admin Expenses	0
Miscellaneous Expenses	159.89
Preoperative Exp Capitalised	0
Total Expenses	1796.43
Operating Profit	
PBDIT (Op. Profit + Other Income)	742.11
Interest	343.06
PBDT	399.05
Depreciation	109.72
Other Written Off	0
Profit Before Tax	289.33
Extra-ordinary items	-13.41
PBT (Post Extra-ord Items)	275.92
Tax	85.15
Reported Net Profit	190.77
Minority Interest	4.97
Net P/L After Minority Interest	199.21
Total Value Addition	478.07
Equity Dividend	0
Corporate Dividend Tax	0

Balance Sheet

Particulars	41345
Sources of Funds	
Total Share Capital	50.92
Reserves	1452.72
Revaluation Reserves	0
Networth (a)	1503.64
Secured Loans	
Secured Loans	2504.49
Unsecured Loans	897.55
Total Debt (b)	3402.04
Minority Interest (c)	
Minority Interest (c)	9.31
Total Liabilities (a + b + c)	4914.99
Application Of Funds	
Gross Block	1561.24
Less: Accum. Depreciation	445.4
Net Block (A)	1115.84
Capital Work in Progress (B)	
Capital Work in Progress (B)	1423.97
Investments (C)	
Investments (C)	228.92
Current Assets	
Inventories	3357.52
Sundry Debtors	72.05
Cash and Bank Balance	364.78
Total Current Assets	3794.35
Loans and Advances	2574.52
Fixed Deposits	0
Total CA, Loans & Advances	6368.87
Current Liabilities	
Current Liabilities	4166.51
Provisions	56.1
Total CL & Provisions	4222.61



Consolidated Balance Sheet

(Amount in Rs. Crore)

	Mar '12	Mar '11	Mar '10	Mar '09	Mar '08
Sources of Funds					
Total Share Capital	50.92	50.92	50.92	50.92	50.92
Reserves	1,452.72	1,194.93	1,014.03	787.87	485.35
Revaluation Reserves	0	44.87	46.31	47.83	51.57
Net Worth (a)	1,503.64	1,290.72	1,111.26	886.62	587.84
Secured Loans	2,504.49	1,926.26	2,237.44	1,428.72	379.58
Unsecured Loans	897.55	616.11	660	342.15	30
Total Debt (b)	3,402.04	2,542.37	2,897.44	1,770.87	409.58
Minority Interest (c)	9.31	4.34	0	0.02	0
Total Liabilities (a + b + c)	4,914.99	3,837.43	4,008.70	2,657.51	997.42
Application of Funds					
Gross Block	1,561.24	1,365.44	737.74	605.26	178.59
Less: Accum. Depreciation	445.4	342.18	137.96	87.7	47.51
Net Block (D)	1,115.84	1,023.26	599.78	517.56	131.08
Capital Work in Progress (E)	1,423.97	1,357.49	1,375.44	1,007.60	165.2
Investments (F)	228.92	200.57	609.31	23.54	0
Inventories	3,357.52	2,489.51	1,066.07	1,223.64	532.04
Sundry Debtors	72.05	163.6	72.04	41.77	8.12
Cash and Bank Balance	364.78	46	20.85	32.78	2.03
Total Current Assets	3,794.35	2,699.11	1,158.96	1,298.19	542.19
Loans and Advances	2,574.52	1,853.75	1,636.52	1,350.67	663.21
Fixed Deposits	0	618.94	7.53	17.78	138.12
Total CA, Loans & Advances	6,368.87	5,171.80	2,803.01	2,666.64	1,343.52
Current Liabilities	4,166.51	3,850.53	1,310.37	1,496.31	627.37
Provisions	56.1	65.16	68.47	29.65	15.01
Total CL & Provisions	4,222.61	3,915.69	1,378.84	1,525.96	642.38
Net Current Assets (G)	2,146.26	1,256.11	1,424.17	1,140.68	701.14
Total Assets (D + E + F + G)	4,914.99	3,837.43	4,008.70	2,689.38	997.42
Contingent Liabilities	1,136.20	1,161.12	239.71	231.81	17.7
Book Value (Rs)	295.28	244.66	209.13	164.72	105.31

Profit & Loss Statement

Particulars	Mar '12	Mar '11	Mar '10	Mar '09	Mar '08
Income					
Sales Turnover	2,472.48	2,136.90	1,812.44	1,413.00	706.16
Excise Duty	0	0	0	0	0
Net Sales	2,472.48	2,136.90	1,812.44	1,413.00	706.16
Other Income	43.71	17.36	95.67	9.05	18.63
Stock Adjustments	22.35	-274.35	145.78	221.38	24.11
Total Income	2,538.54	1,879.91	2,053.89	1,643.43	748.9
Cost of Goods Sold (Expenditure)					
Raw Materials	1,318.36	931.14	1,197.54	1,094.59	458.11
Power & Fuel Cost	14.17	11.69	7.53	4.61	2.73
Employee Cost	99.07	72.89	48.1	29.58	15.65
Other Manufacturing Expenses	204.94	154.86	106.34	66.61	30.97
Selling and Admin Expenses	0	127.07	110.42	62	23.87
Miscellaneous Expenses	159.89	11.55	8.33	3.03	3.13
Preoperative Exp Capitalised	0	0	0	0	0
Total Expenses	1,796.43	1,309.20	1,478.26	1,260.42	534.46
Operating Profit	698.4	553.35	479.96	373.96	195.81
PBDIT (Operating Profit + Other Income)	742.11	570.71	575.63	383.01	214.44
Interest	343.06	203.48	223.95	123.24	41.71
PBDT	399.05	367.23	351.68	259.77	172.73
Depreciation	109.72	68.47	38.69	14.57	5.96
Other Written Off	0	0	0	0	0
Profit Before Tax	289.33	298.76	312.99	245.2	166.77
Extra-ordinary items	-13.41	-0.78	6.53	3.16	1.38
PBT (Post Extra-ord Items)	275.92	297.98	319.52	248.36	168.15
Tax	85.15	90.38	101.4	77.2	51.84
Reported Net Profit	190.77	196.88	218.12	171.16	116.31
Minority Interest	4.97	2.89	0	0	0
Net P/L After Minority Interest	199.21	194.77	211.59	168	114.93
Total Value Addition	478.07	378.06	280.72	165.83	76.34
Equity Dividend	0	20.37	20.37	10.18	7.64
Corporate Dividend Tax	0	3.38	3.46	1.73	1.3
Per share data (annualised)					
Shares in issue (lakhs)	509.22	509.22	509.22	509.22	509.22
Earning Per Share (Rs)	37.46	38.66	42.83	33.61	22.84
Equity Dividend (%)	0.0	0.4	0.4	0.2	0.2
Book Value (Rs)	295.28	244.66	209.13	164.72	105.31

Ratio Analysis

Short Term Solvency Ratios						
Particulars		Mar '12	Mar '11	Mar '10	Mar '09	Mar '08
Current Ratio Current Assets / Current Liabilities	Current Assets	3,794.35	2,699.11	1,158.96	1,298.19	542.19
	Current Liabilities	4,166.51	3,850.53	1,310.37	1,496.31	627.37
	Ratio	0.91	0.70	0.88	0.87	0.86
Quick Ratio (Current Assets - Inventory) / Current Liabilities	Current Assets (a)	3,794.35	2,699.11	1,158.96	1,298.19	542.19
	Inventories (b)	3,357.52	2,489.51	1,066.07	1,223.64	532.04
	(a - b)	436.83	209.60	92.89	74.55	10.15
	Current Liabilities	4,166.51	3,850.53	1,310.37	1,496.31	627.37
Ratio	0.10	0.05	0.07	0.05	0.02	
Cash Ratio Cash / Current Liabilities	Cash & Bank Balance	364.78	46	20.85	32.78	2.03
	Current Liabilities	4,166.51	3,850.53	1,310.37	1,496.31	627.37
	Ratio	0.09	0.01	0.02	0.02	0.00

Observations:

The ideal current ratio is expected to be at least 1. Here it is 0.91 and the average of last 5 years is also less than that is 0.85. It reflects that Company's current liabilities are higher than its current assets, meaning in case of liquidity the Company may find shorter net working capital and may lead to affecting the company's short term funds requirement.

Looking at the quick ratio, it is 0.10 times. The reason for this could be nature of the business itself. As the Company is in manufacturing of ships, there is a high inventory in process. The order completion time is in years. This blocks the maximum working capital in inventory. Over the last few years there is a marginal correction in the ratio, still it is on a lower side. This is alarming as company's liquidity position is like walking on tight rope.

The cash ratio also stands near to 0.09 times. Over last 4 years, it has increased almost 8 times as in past several years the balance stands in double digits only. It implies that company does not have enough cash/liquidity to pay off its liability in short term.

Long Term Solvency Ratios						
Particulars		Mar '12	Mar '11	Mar '10	Mar '09	Mar '08
Total Debt Ratio (Total Assets - Total Equity) / Total Assets	Total Assets (a)	4,914.99	3,837.43	4,008.70	2,689.38	997.42
	Total Equity (b)	1,503.64	1,290.72	1,111.26	886.62	587.84
	(a - b)	3,411.35	2,546.71	2,897.44	1,802.76	409.58
	Ratio	0.69	0.66	0.72	0.67	0.41
Debt - Equity Ratio Total Debt / Total Equity	Total Debt	3,402.04	2,542.37	2,897.44	1,770.87	409.58
	Total Equity	1,503.64	1,290.72	1,111.26	886.62	587.84
	Ratio	2.26	1.97	2.61	2.00	0.70
Equity Multiplier Total Assets / Total Equity	Total Assets	4,914.99	3,837.43	4,008.70	2,689.38	997.42
	Total Equity	1,503.64	1,290.72	1,111.26	886.62	587.84
	Ratio	3.27	2.97	3.61	3.03	1.70
Times Interest Earned Ratio EBIT / Interest	PBIT	632.39	502.24	536.94	368.44	208.48
	Interest	343.06	203.48	223.95	123.24	41.71
	Ratio	1.84	2.47	2.40	2.99	5.00
Cash Coverage Ratio (EBIT + Depreciation) / Interest	PBDIT	742.11	570.71	575.63	383.01	214.44
	Interest	343.06	203.48	223.95	123.24	41.71
	Ratio	2.16	2.80	2.57	3.11	5.14

Observations:

Looking into the total debt ratio, it comes out as 69 percentages; meaning for every one rupee in asset total debt of the company is 69 paise. While, the debt - equity ratio is 2.26 times, which is higher than last 5 years average of 1.91 times. There is 31 paise in equity (1- 0.69) for every 69 paise in debt. This reflects that there is an increase in the debt of the company. Looking at the average debt over last 5 years, it is Rs. 2200 crore and if we compare it with the last years figure, it is almost 55 % higher. This reflects that the debtors were increased in this year. Also, the debts are higher than the net worth of the company. It is an alarming situation, and in case of liquidation, Company may have to sell of the assets to repay the debts.

Other two ratios are marginally poised. The interest bill is covered by 1.84 times over and cash coverage ratio is 2.16 times. This represents that the company needs to reduce debts and thus reducing the interest amount to strengthen the financial position.

Asset Utilization Ratios						
Particulars		Mar '12	Mar '11	Mar '10	Mar '09	Mar '08
Inventory Turnover Ratio Cost of Goods Sold / Inventory	Cost of Goods Sold	1,796.43	1,309.20	1,478.26	1,260.42	534.46
	Inventories	3,357.52	2,489.51	1,066.07	1,223.64	532.04
	Ratio	0.54	0.53	1.39	1.03	1.00
Day's Sales in Inventory 365 Days / Inventory Turnover	Total Days in a year	365	365	365	365	365
	Inv. Turnover	0.54	0.53	1.39	1.03	1.00
	In Days	682	694	263	354	363
Receivables Turnover Sales / Accounts Receivables	Sales Turnover	2,472.48	2,136.90	1,812.44	1,413.00	706.16
	Accounts Receivables	72.05	163.6	72.04	41.77	8.12
	Ratio	34.32	13.06	25.16	33.83	86.97
Days Sales in Receivables 365 Days / Receivables Turnover	Total Days in a year	365	365	365	365	365
	Rec. Turnover Ratio	34.32	13.06	25.16	33.83	86.97
	in Days	10.64	27.94	14.51	10.79	4.20
Total Asset Turnover Sales / Total Assets	Sales Turnover	2,472.48	2,136.90	1,812.44	1,413.00	706.16
	Total Assets	4,914.99	3,837.43	4,008.70	2,689.38	997.42
	Ratio	0.50	0.56	0.45	0.53	0.71
Capital Intensity Ratio Total Assets / Sales	Total Assets	4,914.99	3,837.43	4,008.70	2,689.38	997.42
	Sales Turnover	2,472.48	2,136.90	1,812.44	1,413.00	706.16
	Ratio	1.99	1.80	2.21	1.90	1.41

Observations:

The inventory is turned over in almost 1 year 10 months. The reason for the same could be nature of the business. As observed in quick ratio calculation (0.10 times), high inventory in manufacturing process affects the inventory turnover cycle. This indicates there is a high working capital block in manufacturing.

The receivables turnover ratio is 34.32 times. This indicates that the payment collection cycle is of 10.64 days. The receivables are collected and reinvested in the business 34 times during the year. And average outstanding of the organization is hardly 10 days of pending payments. The possible reason could be, as the business is of ship manufacturing, the company might be working on maximum advance processing hence leaving very less trade receivables.

The infrastructure of the company is huge and return on the assets utilization is 0.50 times. This means, the company is able to generate 50 paise for every one rupee spent in manufacturing.

The investment in the assets is almost double than the total sales of the year. The sales have increased over last five years and in 2012 it is almost 1.5 times than the average sales of last five years. The same way, sales has also increased. One interesting observation could be, along with the increased sales, Company has to invest more in the assets, leading to increased infrastructure along with sales. Return on investment can be a challenge for the company over long run.

Profitability Ratios						
Particulars		Mar '12	Mar '11	Mar '10	Mar '09	Mar '08
Profit Margin Net Income / Sales	Net Income	199.21	194.77	211.59	168	114.93
	Sales Turnover	2,472.48	2,136.90	1,812.44	1,413.00	706.16
	Ratio (in %ge)	8.06	9.11	11.67	11.89	16.28
Return on Assets Net Income / Total Assets	Net Income	199.21	194.77	211.59	168	114.93
	Total Assets	4,914.99	3,837.43	4,008.70	2,689.38	997.42
	Ratio (in %ge)	4.05	5.08	5.28	6.25	11.52
Return on Equity Net Income / Total Equity	Net Income	199.21	194.77	211.59	168	114.93
	Total Equity	1,503.64	1,290.72	1,111.26	886.62	587.84
	Ratio (in %ge)	13.25	15.09	19.04	18.95	19.55
Return on Equity (Net Income / Sales) x (sales / Assets) x (Assets / Equity)	Net Income	199.21	194.77	211.59	168	114.93
	Sales Turnover	2,472.48	2,136.90	1,812.44	1,413.00	706.16
	A	8.06	9.11	11.67	11.89	16.28
	Sales Turnover	2,472.48	2,136.90	1,812.44	1,413.00	706.16
	Total Assets	4,914.99	3,837.43	4,008.70	2,689.38	997.42
	B	0.50	0.56	0.45	0.53	0.71
	Total Assets	4,914.99	3,837.43	4,008.70	2,689.38	997.42
Total Equity	1,503.64	1,290.72	1,111.26	886.62	587.84	
C	3.27	2.97	3.61	3.03	1.70	
Ratio (AxBxC) (in %ge)	13.25	15.09	19.04	18.95	19.55	

Observations:

The profit margin stands as little above 8%. The margin is shrunk by almost 50% as compared to 2008, and there is a constant de-growth in profit margin over last several years. Despite increase in sales, profit margin is reducing. The reason could be increased investment in company's infrastructure (ref: asset turnover ratio @ 0.50 times). This is the reason ROA is also reducing over a period of time.

The same way, ROE is also reducing. An ideal ROE must be in range of 15 to 20%. Here is it strong till 2011. In 2012 ROE is affected. The reason could be increased investments in assets, as against marginal increase in sales as well as net income. Here, Company has to focus more on increasing the profitability of the company and thus increasing ROE.

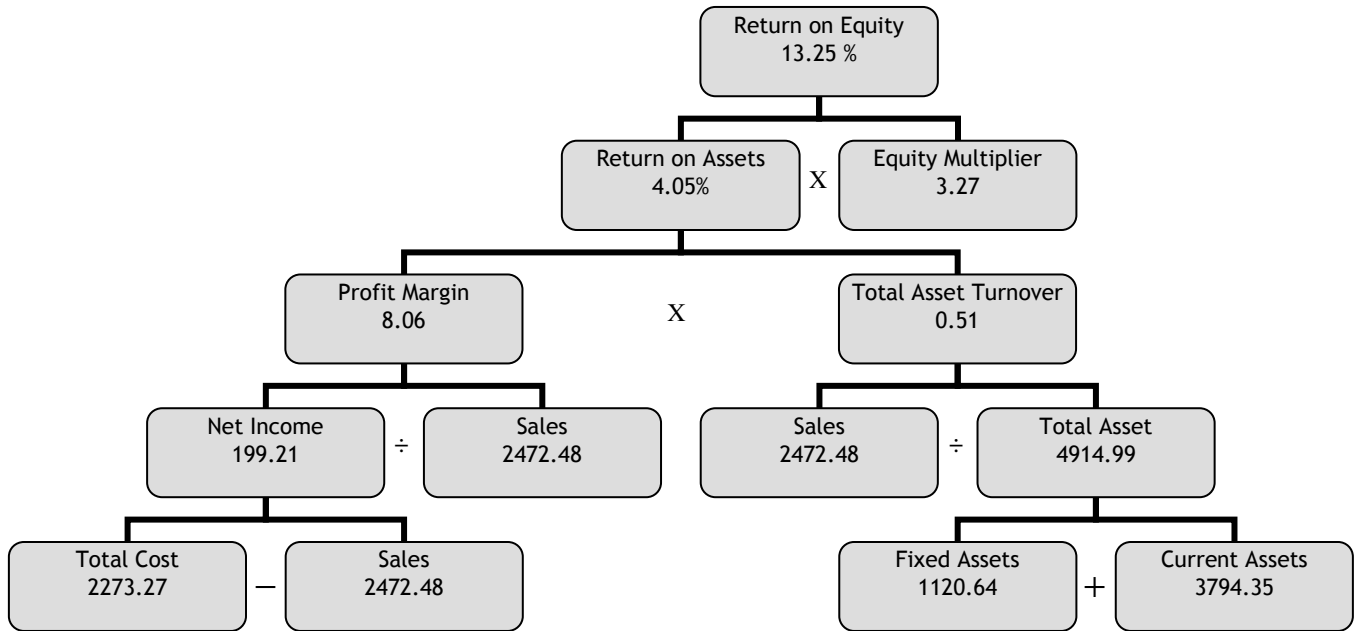
Market Value Ratios						
Particulars		Mar '12	Mar '11	Mar '10	Mar '09	Mar '08
Earnings Per Share = Net Income / Shares Outstanding	Net Income	199.21	194.77	211.59	168	114.93
	No. of Shares Outstanding	509.22	509.22	509.22	509.22	509.22
	EPS (in Rs.)	39.12	38.25	41.55	32.99	22.57
Price - Earning Ratio = Price Per Share / Earning Per Share	Market Price on year end	375.05	366.9	253.35	79.2	685
	EPS	39.12	38.25	41.55	32.99	22.57
	PE Ratio	9.59	9.59	6.10	2.40	30.35
Market to Book Ratio = Market Value Per Share / Book Value Per Share	Market Price on year end	375.05	366.9	253.35	79.2	685
	Book Value	295.28	244.66	209.13	164.72	105.31
	Ratio	1.27	1.50	1.21	0.48	6.50

Observations:

Earning per share is Rs. 39.12 and PE ratio is 9.59 times. This reflects market price of share is almost 9.5 times higher than what it earns. This reflects that market will be keen to pay higher for the shares. Still looking into the trend over last few years, EPS is decreasing marginally and PE ratio is also stable since last two years.

Looking into market to book ratio, it is 1.27 meaning compared to book value market value is higher. Looking into last five years figures, it is difficult to draw any inferences. Mainly it seems that the share is volatile in market and does not represent any set trend on the basis of which investor can make a decision.

Du Pont Analysis for the year ended on 31st March, 2012:



The Du pont diagram is a graphical representation of the key ratios that are calculated in above tables. It mainly emphasize on cascading ROE into three components,

- a. Profit Margin
- b. Total Asset Turnover, and
- c. Financial Leverage.

Du pont can increase its ROE by increasing the sales or reducing the expenses. From the above chart, we can clearly understand that as compared to net income and sales total assets are very high and hence total asset turnover comes to 0.51 times. By leveraging the assets, taking out non performing assets and increasing the utilization of assets, the Company can enhance its ROE.

Share Valuation

Use of Constant Growth Model

$$IV = \frac{Div_1}{i - g}$$

Div_1 = Dividend in the Next Year
 $Div_1 = Do (1 + g)$
 i = Expected Rate of Return
 g = Growth Rate

Assumptions:

- Do is considered as 20.37 (dividend given in 2011). It is taken as in 2012 there is no dividend
- Expected rate of return is expected at 15%
- Growth Rate of the economy = 8%

$$IV = \frac{20.37 (1 + 0.08)}{0.15 - 0.08}$$

$$Div_1 = 21.99$$

$$IV = \frac{21.98}{0.15 - 0.08}$$

$$IV = \text{Rs. 314/-}$$

The intrinsic value of the share is marginally less than current market price. Hence for long term investor it is advisable to hold the shares. In case of short term investor they can look at the trend over few days and then take a decision.

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