

**Rating: Subscribe for Long Term**

**Issue Offer**

**Fresh Issue of 65,50,000 equity shares up to INR 962.8 Mn**

**Issue Summary**

Price Band (INR)	140-147
Face Value (INR)	10
Implied Market Cap (INR Mn)	3,609
Market Lot	1000
Issue Opens on	May, 10, 2024
Issue Close on	May, 15, 2024
No. of share pre-issue	1,80,00,000
No. of share post issue	24,45,50,000
Listing	NSE - SME

**Issue Break-up (%)**

QIB Portion	≥50
NIB Portion	≤35
Retail Portion	≤15

**Book Running Lead Managers**

GYR Capital Advisors Pvt Ltd

**Registrar**

Purva Sharegistry India Pvt Ltd

**Shareholding Pattern**

	Pre-Issue	Post-Issue
Promoters	86.50%	63.42%
Public & Others	13.50%	36.58%

**Objects of the issue**

- Acquisition of off shore vessel (57.1%)
- Funding the working capital requirements of the Company (26%)
- General corporate purposes. (16.9%)

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**ABS Marine Services Ltd** is specialized in Ship Management, Vessel Ownership, Marine Services, and Project Management. The company has 5 owned ships, 1 Long-term chartered-in ship, and 36 vessels under management. The major revenue comes from Ship ownership (~71%) and management (~20%) and the remaining from marines and port services. The Government contract revenue share stood at ~58%, PSU – 34% and the remaining from others as of 7MFY24. The top 10 clients account for 90% of the revenue and the company serves to government organizations, shipping companies, port authorities, marine contractors, and oil & gas firms.

**Investment Rationale**

**Offshore Support Vessels (OSV) would lead to business visibility:** The company has intended to acquire an Offshore support vessel for INR 1,272mn from the secondary market. The funding is expected to be through internal accruals (INR 122mn; 9.6%), Debt (INR 600mn; 47.2%), and IPO proceeds (INR 550mn; 43.2%). The majority of IPO proceeds (INR 550mn) will be used for funding Offshore vessel acquisitions and the remaining for working capital (INR 250mn) and general corporate purposes. The vessel is a ~10 years old vessel and able to operate for another 20 years (Total life of vessel = 30 years). The charter rates are around \$10,000/day and vary based on demand & supply and the size of the vessels. The company is focused on long-term contracts (3 years) and the payback period is expected less than 5 years. The vessels can able to operate 340-350 days a year and major dry-dock happens once every 3 years for old vessels and 5 years for new vessels. The average age of the vessels is around 7-8 years and the company is focused on maintaining a maximum of 10-15 years. So, there is no replacement capex is required for vessels. In the industry, around 100-150 vessels are there and demand is picking up due to tailwinds in the maritime sector. ONGC has started exploration on the East Coast showing demand visibility for OSVs.

**Revenue visibility through contracts:** The vessel contracts are long-term (3 years) and dollar-denominated. The company has to bid for the tenders and has an advantage due to the Indian flag and being able to match and secure the contract over international peers. We are estimating the revenue of INR 1,700mn in FY25E. The offshore support revenue is expected to come from Q3FY25E onwards. PAT margin is expected to maintain above 20% going forward.

**In-house management leads to better cost controls:** In-house management enables understanding the vessel's requirements and helps to resolve issues without dealing with third-parties which leads to lower costs, lower maintenance, and lesser repair downtime.

**Focused on government-related contracts and Contract & customer diversification:** The company is looking for opportunities to bid for contracts for the management of ships owned by various Govt entities. The company has a contract tenure of 1-5 years and a maximum of 9 years. The top 10 customers' revenue accounts for 90% and the company is focused on employee vessels into short, medium, and long-term contracts which helps to reduce the exposure in any one customer in the charter market cycle.

**Valuation and View:** ABS marine services is expected to grow at ~26% YoY to INR 1,700mn and EBITDA and PAT margins are expected around ~30% & ~20% in FY25E. The acquisition of OSV is expected to bring revenue from Q3FY25E onwards. The focus on Ship ownership business (~60% margin), government-related ship management contracts, in-house management for better cost controls, and maritime sector tailwind would lead to business visibility. At the upper band of INR 147, the issue is valued at a PE of 14.2x based on FY24 EPS of INR 10.4 on consolidated level post-issue valuations. We are recommending “Subscribe for Long Term” for this issue due to attractive valuations.

## Financial Statements

## Income statement summary

Y/e 31 Mar (INR mn)	FY22	FY23	FY24
Revenue	716	1,116	1,352
Operating expenses	416	739	779
<b>Gross Profit</b>	<b>300</b>	<b>377</b>	<b>573</b>
<b>Gross Margin (%)</b>	<b>41.9%</b>	<b>33.8%</b>	<b>42.4%</b>
Employee Cost	57	63	62
Other Expenses	46	33	92
<b>EBITDA</b>	<b>198</b>	<b>281</b>	<b>418</b>
<b>EBITDA Margin (%)</b>	<b>27.6%</b>	<b>25.2%</b>	<b>30.9%</b>
Depreciation	(163)	(133)	(135)
Interest expense	(45)	(47)	(48)
Other income	112	22	29
Share of profits associate & JV	-	-	-
<b>Profit before tax</b>	<b>102</b>	<b>123</b>	<b>263</b>
Taxes	(18)	(21)	(9)
Minorities and other			
<b>PAT</b>	<b>84</b>	<b>102</b>	<b>254</b>
<b>PAT Margin (%)</b>	<b>11.7%</b>	<b>9.2%</b>	<b>18.8%</b>

Source: Company Reports, Arihant Capital Research

## Balance sheet summary

Y/e 31 Mar (INR mn)	FY22	FY23	FY24
Equity capital	0.1	0.1	180
Reserves	837	935	992
<b>Net worth</b>	<b>837</b>	<b>935</b>	<b>1,172</b>
Minority Interest	71	78	96
Provisions	9	11	41
Debt	611	487	457
Other non-current liabilities	0	0	0
<b>Total Liabilities</b>	<b>1,528</b>	<b>1,511</b>	<b>1,766</b>
Fixed assets	913	858	818
Capital Work In Progress	-	-	-
Other Intangible assets	1	1	0
Goodwill	0	0	0
Investments	156	118	194
Other non current assets	2	237	207
<b>Net working capital</b>	<b>340</b>	<b>115</b>	<b>477</b>
Inventories	-	-	-
Sundry debtors	127	242	321
Loans & Advances	43	64	133
Other current assets	308	53	106
Sundry creditors	(90)	(169)	(50)
Other current liabilities & Prov	(48)	(75)	(32)
Cash	116	182	71
Other Financial Assets	-	-	-
<b>Total Assets</b>	<b>1,528</b>	<b>1,511</b>	<b>1,766</b>

Source: Company Reports, Arihant Capital Research

## Cashflow summary

Y/e 31 Mar (INR mn)	FY22	FY23	FY24
Profit before tax	102	123	263
Depreciation	163	133	135
Tax paid	(18)	(21)	(9)
Working capital Δ	(340)	225	(362)
Change in Goodwill	(0)	-	-
<b>Operating cashflow</b>	<b>(94)</b>	<b>460</b>	<b>28</b>
Capital expenditure	(1,076)	(77)	(95)
<b>Free cash flow</b>	<b>(1,170)</b>	<b>383</b>	<b>(67)</b>
Equity raised	824	3	1
Investments	(156)	39	(76)
Others	(3)	(235)	30
Debt financing/disposal	611	(125)	(30)
Dividends paid	-	-	-
Other items	9	2	30
<b>Net Δ in cash</b>	<b>116</b>	<b>67</b>	<b>(112)</b>
<b>Opening Cash Flow</b>	<b>-</b>	<b>116</b>	<b>182</b>
<b>Closing Cash Flow</b>	<b>116</b>	<b>182</b>	<b>71</b>

Source: Company Reports, Arihant Capital Research

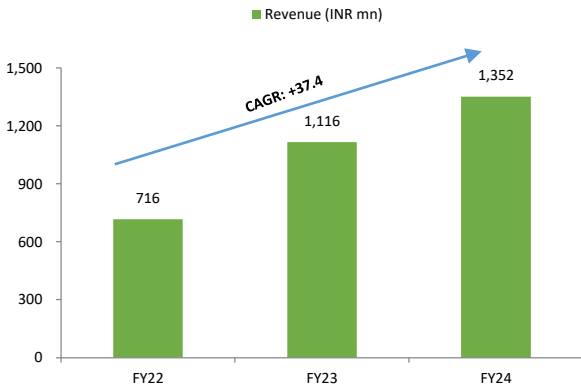
## Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24
<b>Growth matrix (%)</b>			
Revenue growth		55.8%	21.1%
Op profit growth		42.0%	49.0%
<b>Profitability ratios (%)</b>			
OPM	27.6%	25.2%	30.9%
Net profit margin	11.7%	9.2%	18.8%
RoCE	8.3%	9.8%	19.4%
RoNW	10.0%	11.5%	24.1%
RoA	5.5%	6.8%	14.4%
<b>Per share ratios (INR)</b>			
EPS	-	-	14.1
Cash EPS	-	-	21.6
Book value per share	-	-	65.1
<b>Valuation ratios (x)</b>			
P/E	-	-	10.4
P/CEPS	-	-	6.8
P/B	-	-	2.3
EV/EBITDA	1.7	0.7	6.8
<b>Payout (%)</b>			
Dividend payout	0.0%	0.0%	0.0%
Tax payout	18.0%	16.8%	3.5%
<b>Liquidity ratios</b>			
Debtor days	65	60	76
Inventory days	-	-	-
Creditor days	63	57	43
WC Days	1	4	33

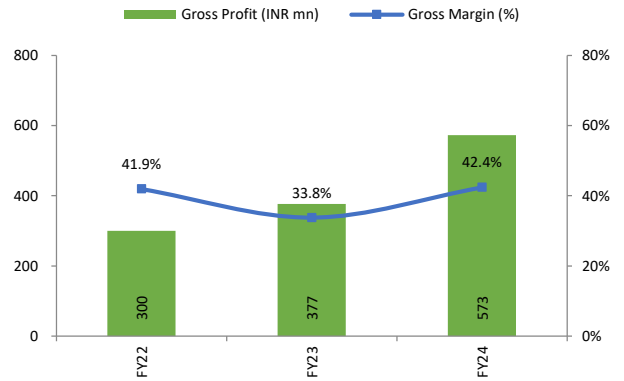
Source: Company Reports, Arihant Capital Research

Story in Charts

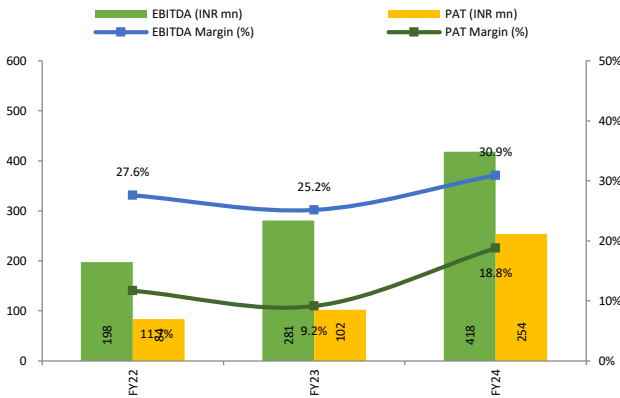
**Exhibit 1: ABS Marine Services revenue grew at a CAGR of 37.4% over the period of FY22-FY24. The revised rates and Offshore vessel addition will lead to additional revenue going forward. The East Coast will provide opportunity to increase the vessels.**



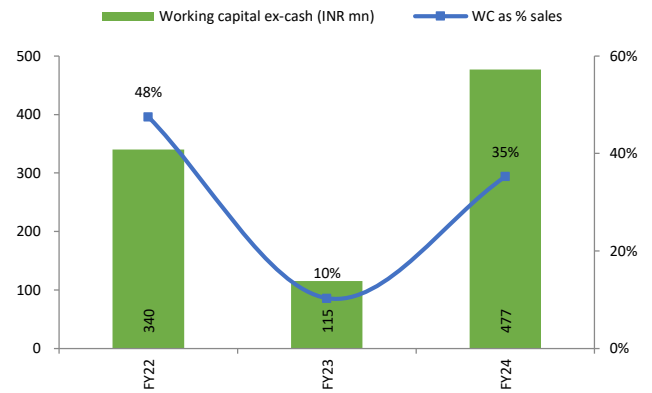
**Exhibit 2: Gross margins were improved due to lower direct expenses. The company is focused on ship ownership and margins are around 60%.**



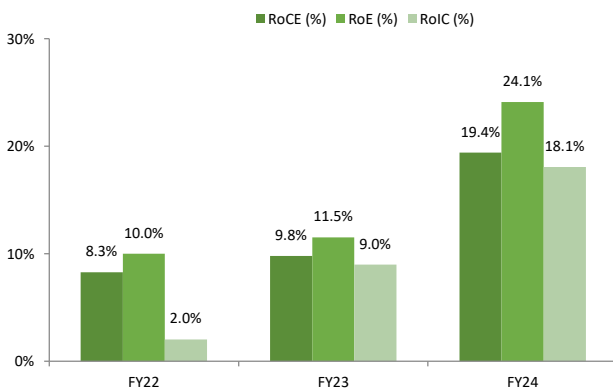
**Exhibit 3: EBITDA margin reached to 30.9% in FY24. The in-house management will lead to better cost controls. EBITDA & PAT margins are expected to maintain above 30% & 20% going forward.**



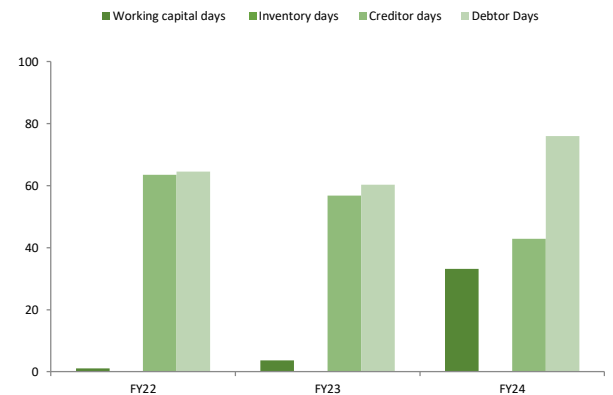
**Exhibit 4: Working capital has increased in terms of sales in FY24. The company is focused to reduce to holding levels to less than 40 days will improve working capital levels.**



**Exhibit 5: Return ratios were improved in FY24. The growth in profitability will improve the ratios further going forward.**



**Exhibit 6: Working capital days stood at 33days in FY24. the company is getting payments within 30-60days from government contracts.**



Source: RHP, Company Reports, Arihant Capital Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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