

ABG sets sail with yet another big-bang order

SHIPBUILDING seems to be staging a comeback in India, especially large ships, with smaller shipyards taking the lead. India's largest private sector yard, ABG Shipyard, announced an order for four bulk carriers of 54,000 dwt worth \$139 million. This is the second such order — ABG had received an order for three similar ships in January this year. In the same month, Bharati Shipyard — the other major private yard — had announced an order for six bulk carriers of 20,000 dwt. These orders will be executed at facilities currently under construction. Bharati had tapped the capital market in 2004 and ABG in 2005 to fund the shipyards.

Both the companies had started out building small vessels used for the oil & gas industry. ABG Shipyard has the largest order backlog globally in this segment. Eventually, these two companies also plan to move further up the value chain and build offshore drilling rigs. Bharati already has an order from Great Offshore, ABG is reportedly in negotiations with a few foreign companies. Engineering major L&T is also planning to get into shipping, but is yet to finalise the location.

The international shipbuilding industry is currently dominated by Chinese and Korean shipyards. Industry sources say 55-60% of a vessel's cost is equipment, including steel. This would largely be unchanged across countries. Labour costs are about 10-12% of the total cost, and Indian yards have an advantage here.

Answer's in the wind

SUZLON has finally placed a fresh bid for RE Power at e150/share, outbidding the other suitor — Areva, by e10. It has already acquired a 7.7% holding in the target company. This open offer is for 10 days only, which gives Suzlon a better chance of success, unless Areva makes a quick counter-offer. Suzlon is currently acting together with one of the shareholders of RE Power who owns 25% of the equity. Another 29% of RE Power



is owned by Areva. The value of 46% which Suzlon is bidding for works out to e626 million, funded mostly by debt. This additional debt will push up the gearing ratio for Suzlon in the medium term.

Unlike in the past, there hasn't been a corresponding fall in the stock price following the bid announcement. This is because a lot seems to have changed as far as RE Power is concerned. The company has declared full year results for 2006. Sales

were up 38% to e461.5 million and the company has recorded a profit of e7.1 million as against a loss last year. As per the guidance given by the company, sales may touch e650 million in 2007 and e900 million in 2008. Not counting synergy benefits if it is acquired by Suzlon, a research report has pegged RE Power's 2007 EBIT at e32 million. Clearly, it will be some time before the acquisition has a positive impact on the earnings. For the moment, all eyes are on Areva's next move.

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