

Long term contracts shows business visibility.

CMP: INR 719

Rating: BUY

Target Price: INR 1,415

Stock Info

BSE	526807
NSE	SEAMECLTD
Bloomberg	SEAM:IN
Reuters	SEAM.NS
Sector	Shipping
Face Value (INR)	10
Equity Capital (INR mn)	254
Mkt Cap (INR mn)	18,260
52w H/L (INR)	1,097/576
Avg Yearly Volume (in 000')	35.7

Shareholding Pattern %

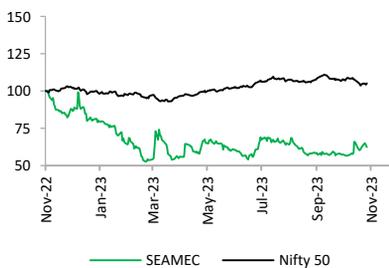
(As on Sep, 2023)

Promoters	72.05
DII	2.65
FII	0.00
Public & Others	25.31

Stock Performance (%)

	3m	6m	12m
SEAMEC	2.1	1.2	-34.4
NIFTY	-0.9	6.3	6.6

SEAMEC vs NIFTY



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In 1986, Peerless Leasing Pvt Ltd was incorporated and renamed to Seamec in 2001. Seamec was taken over by HAL Offshore Ltd in 2014 and HAL Offshore holds a 70% stake in Seamec Ltd. HAL Offshore is a leading end-to-end solution provider of underwater and EPC services to the Indian oil & gas industry. Seamec provides Diving Support Services to the offshore Oil & Gas Industry. The company also provides specialized services, covering inspection, maintenance repairs, operating remotely vehicles, etc. The company has long-term contracts with clients like ONGC, L&T Hydrocarbon, etc.

Investment rationale

Long-term contracts show business visibility: Seamec owns and operates 5 Diving Support Vessels (DSV) for facilitating complex subsea operations. Seamec has long-term contracts of 3 to 5 years with clients for DSV which shows business visibility. The company is participating in ONCG tenders and is getting the contracts. The global players are not interested in Indian markets. Seamec is the major listed player to get contracts from ONCG. Seamec Glorious got long-term contracts from ONCG. The contract days around 425 days. The contract starts from 15th Oct 2023 to 15th May 2025. It operates in fair weather season from 15th Oct to 15th May in a year. ONCG is expected to invest around \$4bn over the medium term and ONGC's new facilities will provide vessel deployment opportunities for Seamec. While bidding, the company factored inflation and other cost increases, because there is no incremental clause on contracts. The billing is in US dollars and the company is expected to take advantage of the strengthening of US dollars against Indian currency. Seamec offshore services revenue share stood at 85% and is expected to reach 90% backed by strengthened offshore vessel support systems.

Recovery in freight would improve dry-bulk carriers: Seamec has 3 bulk carriers and provides marine transportation services for dry-bulk materials such as food staples, commodities, and industrial products. Two bulk carriers are operating under Seamec subsidiary of Seamec International FZE and one bulk carrier operates under JV. The JV of Seamec International FZE – Arete Shipping DMCC has a bulk carrier "Asial Pearl" which strengthened the main fleet business. Fleet rates have corrected from \$20,000/day to \$8,000/day due to global geopolitical tensions and started recovery in fleet rates due to normalization. We believe the recovery in fleet rates would improve the business of dry-bulk carriers.

Capacity expansion and rationalization of assets would improve the business: Seamec III is expected to be scrapped in Jun-2024 and Seamec II is expected to be scrapped in Q4FY26E. The company is expected to replace the vessels of Seamec II and Seamec III and new vessels has higher charter rates which would improve the top line going forward. The replacement of assets would reduce the average life of assets and would improve the efficiency. The vessels will be depreciated over 20 years using a straight-line method. For Vessels, Dry-dock (major overhaul) should be done every 2.5 years and the cost is capitalized and depreciated over 2.5 years. The company recently acquired Swordfish for INR 2bn. The company is searching for new vessels and capex is expected around INR 4bn in the next 4 years and maintenance capex is expected around INR 300mn to INR 350mn every year. Seamec is expected to add one more vessel based on demand going forward. India imports around 85% of oil and 50% of gas consumptions and continuous demand leads to more exploration in oil fields. Seamec is the preferred partner for ONGC and other clients for maintaining the oil fields.

The working capital cycle remains robust backed by long-term relationships: Seamec has a long-term business relationship with clients and gets contracts regularly. In the contract period, revenues are billed on a daily basis, whether vessels are deployed or not and payments are in dollar terms. The customer billing cycle is around 45 days and creditors are generally paid in 30 days. The networking capital days stood around 15 days and are expected to maintain going forward.

Outlook & Valuation: Seamec is the major organized player for offshore oil field services and Diving Support Services in India. The company is expected to scrap and replace 2 vessels in the next 4 years. One more new vessel is expected to be deployed based on demand. All the vessels are completely deployed, payments are in dollar terms, and continuous business visibility from ONCG and others. We are estimating revenue is expected to grow at a CAGR of 17% over the period of FY23-26E, backed by long-term contracts. We are estimating EBITDA & PAT margins are expected to be 37.1% & 23.4% by FY26E, backed by cost rationalization and an increase in freight and charter rates. Reverse merger of Seamec and HAL Offshore is on Hold, if the merger happens it will be value accretive for Seamec. We initiate a "BUY" rating with a Target Price of INR 1,415 based on 22x of FY26E EPS of INR 64.3, an upside of 96.9%.

Revenue Model

Y/e 31 Mar (INR mn)	FY23	Q1FY24	Q2FY24	Q3FY24E	Q4FY24E	FY24E	FY25E	FY26E
Number of Vessels deployed	6	6	3	6	6	6	6	7
Total Number of days deployed	1,175	356	249	355	355	1,315	1,315	1,315
Deployment Rate (\$/day)	32,600	34,384	32,379	33,480	34,412	33,619	46,800	55,800
USD/INR	80	82	83	83	83	83	84	85
Revenue from Direct Deployment	3,072	1,003	665	986	1,014	3,669	5,170	6,237
Other Vessel Revenue	920	779	9	21	21	829	111	66
Standalone revenue	3,992	1,782	674	1,007	1,035	4,498	5,280	6,303
Subsidiary revenue	380	170	171	172	172	684	686	692
Revenue from Operations	4,372	1,952	844	1,179	1,207	5,182	5,966	6,995

Source: Company Reports, Arihant Capital Research

Income statement summary

Y/e 31 Mar (INR mn)	FY23	Q1FY24	Q2FY24	Q3FY24E	Q4FY24E	FY24E	FY25E	FY26E
Revenue	4,372	1,952	844	1,179	1,207	5,182	5,966	6,995
Operating expenses	2,046	1,142	297	576	561	2,576	2,792	3,239
Gross Profit	2,327	810	548	604	646	2,607	3,174	3,757
Gross Margin (%)	53.2%	41.5%	64.8%	51.2%	53.5%	50.3%	53.2%	53.7%
Employee Cost	761	213	198	124	118	653	585	693
Other Expenses	302	116	188	78	83	465	406	469
EBITDA	1,264	481	162	402	444	1,489	2,184	2,595
EBITDA Margin (%)	28.9%	24.6%	19.2%	34.1%	36.8%	28.7%	36.6%	37.1%
Depreciation	1,120	322	334	312	308	1,276	1,232	1,244
EBIT	144	158	(172)	90	136	213	952	1,351
EBIT Margin (%)	3.3%	8.1%	-20.4%	7.6%	11.3%	4.1%	15.9%	19.3%
Interest expense	68	25	109	26	27	186	185	224
Other income	200	128	138	98	97	461	436	525
Profit before tax	276	262	(143)	162	207	488	1,202	1,652
Taxes	(60)	2	2	4	4	12	13	16
PAT	336	260	(145)	158	203	476	1,189	1,636
PAT Margin (%)	7.7%	13.3%	-17.1%	13.4%	16.8%	9.2%	19.9%	23.4%
EPS (INR)	13.2	10.2	(5.7)	6.2	8.0	18.7	46.8	64.3

Source: 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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