

**PUNJ LLOYD LTD.**
**AVOID**
**FROM DAWN TO DUSK!**
**CMP: 86**

BSE Code	532693
NSE Code	PUNJ LLOYD

**Key Data**

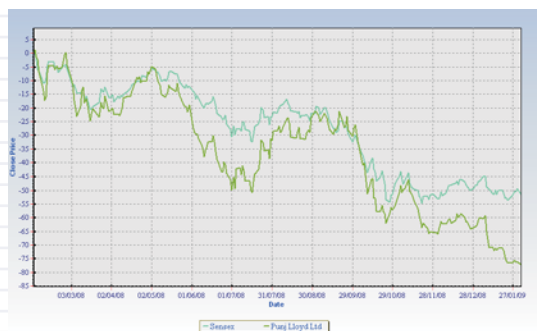
Sensex	9090
52 week H/L (Rs.)	405/83
Dec H/L (Rs.)	167/84
Market Cap (Rs cr)	2643.49
Avg. daily volume (6m)	2181670
Face Value	2

Source: Capitaline

**Shareholding Pattern (%)**

Promoters	44.25
Institution	16.24
Foreign holding	17.99
Non-promoter corporate holding	7.31
Public & Others	14.22

Source: Capitaline

**One-Year Performance (Rel. to Sensex)**


Source: Capitaline

**Result Highlights**

- Net sales (Consolidated) grew by 47% (YoY) basis, to Rs. 3120 crore, but company incurred losses of Rs. 220 crore on account of higher Interest cost, forex losses, booked overhead cost on some projects & provision made towards SABIC auditors qualification.
- On a standalone basis, Punj Lloyd reported a 128.10% (YoY) surge in net profit to Rs 89.33 crore and a 43.90% (YoY) increase in net sales to Rs 1810.68 crore.
- Margin Plunge (Cons): -EBIDTA Margin to (3.30) and ANPM to (7.10).
- Weak Order Inflow in Q3FY09, Order book stands at Rs. 21908 Crore.
- Working Capital had deteriorated which resulted into increase in gross debt.
- Company has signed a MOU with Thorium Power for the development of nuclear Power Generation.

**Financials Quarterly Results (Cons)**

Particulars	Q3FY09	Q3FY08	YoY	Q2FY08	QoQ
Net sales	3,120.0	2,117.0	47%	2,926.1	7%
Total Expenditure	3,223.5	2,012.6	60%	2,653.6	21%
Core EBIDTA	-103.5	104.5	-199%	272.4	-138%
EBIDTA Margin (%)	-3.3	4.9	-167%	9.3	-136%
Other income	25.1	83.0		28.9	
Interest	62.0	28.4	118%	49.0	26%
EBIT	-140.4	159.0	-188%	252.3	-156%
Depreciation	43.3	36.5	19%	43.9	-1%
Profit Before Tax	-183.7	122.5	-250%	208.5	-188%
Tax	41.6	30.8	35%	63.8	-35%
Net Profit	-225.2	91.7	-346%	144.7	-256%
Extra ordinary exp.	-4.4	28.1		0.3	
Adjusted Net Profit	-220.8	63.6	-447%	144.4	-253%
ANPM (%)	-7.1	3.0		4.9	

## Revenue Rise, But Incurred Losses

**PLL has made provision of Rs. 207.2 Crore in Q3FY09.**

Net Sales (Cons.) increased by 47% to Rs. 3120 Crore. PLL has incurred loss of Rs. 220 crore on back of higher interest rate, Provision in SABIC, forex Loss & Booked overhead cost on ongoing projects. EBIDTA Margin plunge to (3.30) and ANPM to (7.10) on account of: -

**Forex loss incurred on back of Devalue of pound against other Currency.**

➤ **SABIC Project: - Contact Termination** Punj Lloyd reported loss in 3QFY09 as company booked Rs210 of cost overruns in relation to SABIC contract. Punj has commenced adjudication proceedings against SABIC for invocation of GBP 28.5m bank guarantee.

**Order book to sales is 1.94 x FY09E**

➤ **Forex Loss:** -During the quarter, Simon carves Ltd. (wholly owned subsidiary at UK) has incurred loss of Rs. 77.9 crore on loan taken by them in currencies other than Sterling pounds.

**Delay in four projects (17% of Order backlog-Rs. 3800 Crore)**

➤ PLL also **incurred losses on account of rising interest rates & booked overhead cost on ongoing** projects.

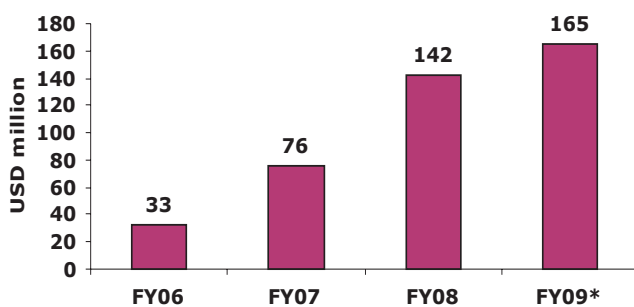
➤ Deteriorated **Working capital** has resulted into increase in gross debt by Rs. 930 crore in Q3FY09. Total Gross debt is Rs. 2405.3 crore.

## Strong Order backlog, but weak inflow

Total order backlog for the company is Rs. 21908 Crore, which is executable over 18-24 months. But due to global mayhem, new order inflow (disclosed) were down, 56% YoY at approximately Rs. 1880 Crore. Additionally, international orders too declined by 57% YoY.

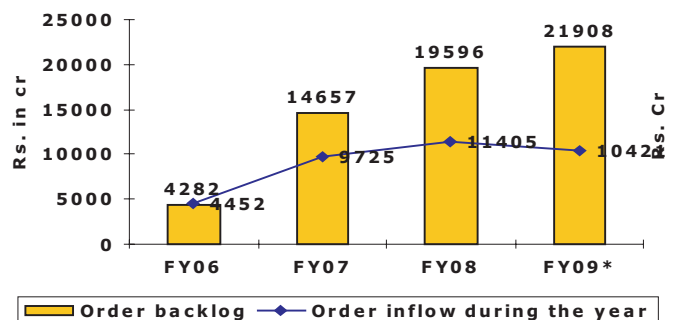
Management indicated that they have put bids for USD 9.3 bn worth of orders in Dec 2008.

**Increase in Average Order Size**

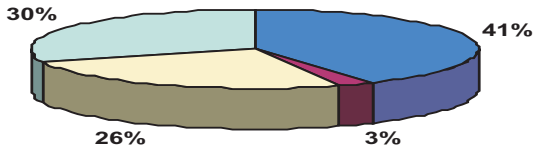


Note\*FY09:-Nos. Till date

**Orderbacklog & order inflow**

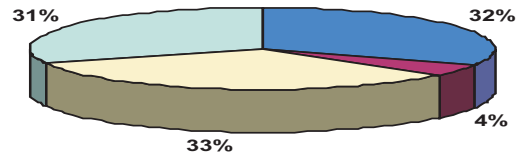


**Sector wise revenue break up**



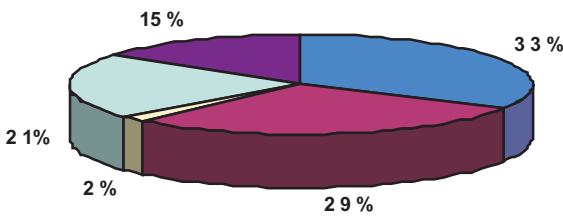
■ Pipeline ■ Tankages □ Infra □ Process Plants

**Order book break up**



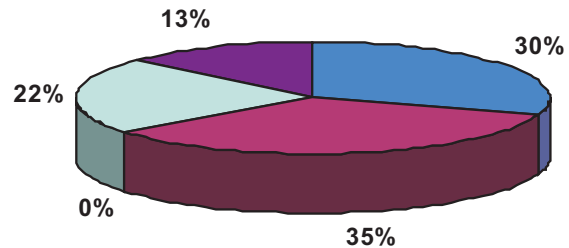
■ Pipeline ■ Tankages □ Infra □ Process Plants

**Geographical Wise revenue break up**



■ South Asia ■ SE Asia-Asia -Pac □ Caspain □ Middle East ■ Europe/Africa

**Geog. Order Break up**



■ South Asia ■ SE Asia-Asia -Pac □ Caspain □ Middle East ■ Europe/Africa

**Strategic Diversification**

**Opportunity for Indian private Players through mandatory "OFFSET" requirement**

**Defense foray:** - PLL is aiming to be one of leading player in defense sector in India. PLL plans to straddle all the three-defense arms-Army, navy & Air force. It has received license for infantry weapons, guns, rockets, Fire control system, electro optical system & missile artillery. It has also submitted bids for Ultra Light Howitzer Program with ST Kinetic (Singapore).

**Order book around USD1.1 bn**

**Shipbuilding:** - Company is developing a shipyard in Gujarat of over 782 acres through its investment subsidiary Pipavav shipyard Ltd. Total capital investment is more than 0.5 bn \$.

**Capacity Addition of 55GW over Next 20 years.**

**Nuclear Power:** - On Nuclear Power front, PLL has signed JV with Thorium power to provide thorium fuel technology for LWRs and Nuclear advisory services.

**Entry Into Conflict Zone:** - Punj Lloyd to set up a Singapore based holding company for doing business in Conflict Zones (Iran, Iraq Etc).

## Valuation

We reduce our EPS from Rs. 19.1 to Rs.4.73 for FY09E earnings due to losses suffered & delay in project execution. Stock is trading at 18.17 FY09E earnings, which is at a significant premium to L&T (11.8x FY09E). We Downgrade our rating from BUY to **AVOID**.

(Rs. Crore)	FY05	FY06	FY07	FY08	FY09E
Net Sales	1,790.0	1,684.7	5,123.8	7,752.9	11,241.7
Total Expenditure	1,620.3	1,510.5	4,749.4	7,113.9	10,601.0
Core EBIDTA	169.73	174.2	374.35	639.03	640.779
<i>EBIDTA Margin (%)</i>	<i>9.48</i>	<i>10.34</i>	<i>7.31</i>	<i>8.24</i>	<i>5.70</i>
Other Income	130.6	32.7	80.0	118.2	171.4
Depreciation	83.9	60.4	106.2	146.2	210.0
EBIT	216.41	146.55	348.16	610.99	602.154
Interest	96.7	62.7	82.5	129.2	197.0
Profit Before Tax	119.75	83.88	265.62	481.78	405.154
Tax	19.4	29.2	69.0	123.5	216.0
Net Profit	100.37	54.73	196.66	358.29	189.154
Extraordinary Items	0	0	0	0	45.23
Minority Interest	0	0	0	0	0.3
Adjusted Net Profit	100.37	54.73	196.66	358.29	143.624
<i>ANPM (%)</i>	<i>5.61</i>	<i>3.25</i>	<i>3.84</i>	<i>4.62</i>	<i>1.28</i>
Equity	60.69	60.69	60.69	60.69	60.69
EPS	3.31	1.80	6.48	11.81	4.73

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### RATING INTERPRETATION

**Buy** Expected to appreciate more than 20% over a 12-month period

**Accumulate** Expected to appreciate up to 20% over a 12-month period

**Hold** Expected to remain in a narrow range

**Avoid** Expected to depreciate up to 10% over a 12-month period

**Exit** Expected to depreciate more than 10% over a 12-month period

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