

## Punj Lloyd

### Q1 beats estimates, order inflows soar

**Modest topline growth of 12%:** Punj Lloyd's (PLL) Q1FY10 revenues rose 12% YoY to Rs 29.5bn, in line with our estimate. In terms of verticals, pipelines contributed 40%, while the infrastructure, process plant and tankage segments accounted for 21%, 33% and 4% respectively.

**EBITDA margin flat at 9.9% but above estimates:** EBITDA increased by 12% YoY to Rs 2.9bn while the margin was flat at 9.9%. This was still 190bps ahead of our estimate as PLL took steps to slash costs and tighten efficiencies at its subsidiary, Simon Carves. During the quarter, it downsized the subsidiary's UK staff count, relocated its headquarters from Manchester to Abu Dhabi and integrated Simon Carves' operations with those of its process business. The company booked £4mn on account of severance pay and relocation expenses in the quarter. It expects to incur similar costs in the next two quarters.

**Operating efficiency led to 14% bottomline growth:** Reported PAT registered a growth of 13.7% YoY to Rs 1.3bn. In Q1FY09, the company had reported profits of Rs 143mn from the sale of its ISP division (net of tax) and a forex loss of Rs 480mn. Adjusted for these two items, PAT has declined by 5% – this is still above our estimate by 21% mainly due to the above-expected margins.

**Phenomenal order booking in Q1 leads to higher estimates:** PLL has booked orders worth Rs 99bn in Q1FY10, which is nearly equivalent to its full-year order inflow of Rs 117bn for FY09. We have revised our order inflow estimate for FY10 from Rs 110bn to Rs 160bn and hence revised our earnings estimates upwards by 8% and 4% for FY10 and FY11 respectively. The order book at the end of June '09 stands at Rs 278bn which is 2.1x FY10E revenues.

**Variation claims of US\$ 117mn on ONGC Heera project:** Cost overruns from the ONGC Heera development project have already been provided for in FY09. PLL has filed variation claims amounting to US\$ 117mn which would be settled, if successfully contested, post completion of the contract.

**Upgrade to Buy:** The stock has been re-rated on the strength of record order inflows in Q1FY10 and the improved macro climate. It is currently trading at a P/E of 15.8x on FY10E earnings ~43% a discount of 28.0x to L&T. Excluding its stake in Pipavav Shipyard, PLL trades at 15x on FY10E earnings. We are increasing our target P/E multiple from 11 on FY10E to 15x on FY11E (discount of 32% to L&T) and upgrading the stock from Hold to Buy with a revised target price of Rs. 292.

#### What's New? Target Rating Estimates

CMP	TARGET	RATING	RISK
Rs 240	Rs 292	BUY	HIGH

BSE	NSE	BLOOMBERG
532693	PUNJLLOYD	PUNJ IN

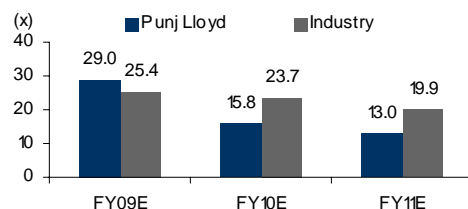
#### Company data

Market cap (Rs mn / US\$ mn)	72,835 / 1,511
Outstanding equity shares (mn)	303
Free float (%)	58.5
Dividend yield (%)	0.1
52-week high/low (Rs)	324 / 66
2-month average daily volume	9,918,880

#### Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Punj Lloyd	240	9.9	113.1	148.7
Sensex	15,332	3.8	39.4	65.6

#### P/E comparison



#### Valuation matrix

(x)	FY08	FY09	FY10E	FY11E
P/E @ CMP	21.2	29.0	15.8	13.0
P/E @ Target	25.8	35.3	19.2	15.8
EV/EBITDA @ CMP	14.5	11.5	8.9	7.6

#### Financial highlights

(Rs mn)	FY08	FY09	FY10E	FY11E
Revenue	77,530	119,120	132,234	154,470
Growth (%)	51.2	53.6	11.0	16.8
Adj net income	3,281	2,570	4,719	5,759
Growth (%)	66.9	(21.7)	83.6	22.0
FDEPS (Rs)	11.3	8.3	15.2	18.5
Growth (%)	59.0	(26.9)	83.6	22.0

#### Profitability and return ratios

(%)	FY08	FY09	FY10E	FY11E
EBITDA margin	8.9	7.3	8.5	8.5
EBIT margin	7.0	5.8	6.9	6.9
Adj PAT margin	4.2	2.2	3.6	3.7
ROE	16.4	9.9	17.6	18.5
ROIC	13.6	10.4	11.1	11.3
ROCE	12.9	(42.4)	11.7	12.5





## Result highlights

**Fig 1 - Actual vs estimated performance**

(Rs mn)	Actual	Estimate	% Variance
Revenue	29,551	30,414	(2.8)
EBITDA	2,918	2,433	19.9
Adj net income	1,272	1,077	18.1
FDEPS (Rs)	4.1	3.5	18.1

Source: RHH

**Fig 2 - Quarterly performance**

(Rs mn)	Q1FY10	Q1FY09	% Chg YoY	Q4FY09	% Chg QoQ
Net sales	29,551	26,488	11.6	32,173	(8.1)
Expenditure	26,634	23,891	11.5	30,723	(13.3)
Operating profit	2,918	2,596	12.4	1,450	101.2
Other income	239	94	154.0	134	78.8
Interest	744	368	102.0	729	2.0
Depreciation	541	392	38.2	508	6.7
PBT	1,872	1,931	(3.0)	347	439.5
Extraordinary (income)/loss	-	337	-	2,213	-
Tax	622	469	32.6	667	(6.8)
Reported PAT	1,272	1,119	13.7	(2,556)	(149.7)
Adjusted PAT	1,272	1,336	(4.8)	(343)	(470.7)
EBITDA margin (%) *	9.9	9.8	7 bps	4.5	537 bps
EPS (Rs)	4.1	4.3	(4.8)	(1.1)	(470.7)

Source: Company, RHH \*excluding forex loss

**Fig 3 - Revised estimates**

Key parameters (Rs mn)	FY10E			FY11E		
	Old	New	% Chg	Old	New	% Chg
Revenue	128,668	132,234	2.8	149,122	154,470	3.6
EBITDA margin (%)	8.3	8.5	(20 bps)	8.4	8.5	(10 bps)
Net profit	4,364	4,719	8.1	5,569	5,759	3.4
FDEPS (Rs)	14.0	15.2	8.1	17.9	18.5	3.4

Source: RHH

**Fig 4 - Sector-wise revenue break-up**

Revenues	Q1FY10	%share	Q1FY09	%share
Pipelines	11,966	40.2	7,749	29.2
Tankages	768	2.6	1,387	5.2
Infrastructure	6,370	21.4	7,352	27.7
Process palnts	9,811	32.9	9,619	36.2
Others	875	2.9	475	1.8
<b>Total</b>	<b>29,790</b>	<b>100.0</b>	<b>26,582</b>	<b>100.0</b>

Source: Company, RHH

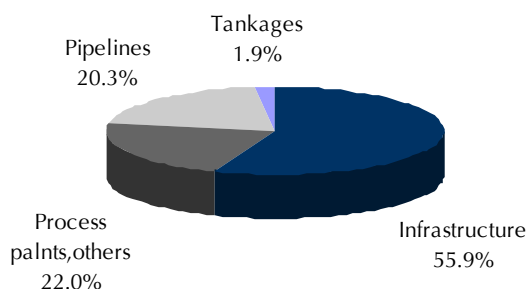
**Fig 5 - Geographical break-up of revenue**

Revenues	Q1FY10	%share	Q1FY09	%share
South Asia	7,697	25.8	9,493	35.7
SE Asia & Asia pacific	6,739	22.6	7,137	26.8
Caspian	1,307	4.4	1,289	4.8
middle east	11,294	37.9	5,428	20.4
Europe / Africa	2,753	9.2	3,235	12.2
<b>Total</b>	<b>29,790</b>	<b>100.0</b>	<b>26,582</b>	<b>100.0</b>

Source: Company, RHH

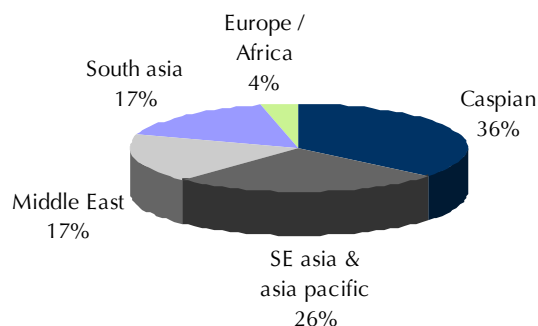


Fig 6 - Sector-wise order book break-up



Source: Company, RHH

Fig 7 - Order Book break-up by Geographically



Source: Company, RHH

## Other highlights

Fig 8 - Summary of orders bagged during the quarter

Contract (Rs mn)	Contract description	Customers	Contract value
Infrastructure	Construction of 3 elevated metro stations	Bangalore Metro Rail Corporation	1,181
Infrastructure	Integrated infrastructure development of schools	Delhi govt	438
EPC	Hurong strategic study at Jurong Singapore	Exxon Mobil	1,512
Infrastructure	Designing, procurement, installation and commissioning of utilities for three towns of Libya	Housing and Infrastructure Board, Libya	18,732
Infrastructure	Commercial and residence development in Libya	International Investment and Service Company	59,040
EPC	Port tank farm of the Jubail Export refinery project in Saudi Arabia	Amarco Total refinery and Petrochemical company	5,927
Construction	MRT stations in Singapore	Land transport Authority of Singapore	12,630
<b>Total</b>			<b>99,460</b>

Source: Company, RHH

Fig 9 - Status of slow moving orders

Client	Project	At the end of Q4FY09	At the end of Q1FY10	Comments
Jurong Aeromatics	Integrated condensate Splitter Aromatics Complex at Jurong Island	17,700	17,700	Project still awaiting financial closure. The Client is presently exploring the possibility of relocating the project to a location wherein costs are lower.
Dighi Port	Construction of multi purpose berth at Dighi Port, Maharashtra	8,000	-	Management expect to start work very soon.
GVK Power (Govindwal Sahib) Limited	2 X 270 MW Coal Fired Thermal Power Project in Taran Taran District, Punjab	9,550	-	Management expect to start work very soon.
<b>Total</b>		<b>35,250</b>	<b>17,700</b>	

Source: Company, RHH

## Valuation summary

Fig 10 - SOTP - Valuation summary

Sum of the parts	Business	Method	Multiple	Value (Rs mn)	Per share value (Rs)
PLL Consolidated	Construction	P/E 2 year forward	15	86,380	278
Pipavav Shipyard	Shipyard	BV	1	3,500	11
Real estate ventures	Real estate	BV	0.5	900	3
<b>Total</b>				<b>96,538</b>	<b>292</b>

Source: RHH



## Consolidated financials

### Profit and Loss statement

Y/E March (Rs mn)	FY08	FY09	FY10E	FY11E
<b>Revenues</b>	<b>77,530</b>	<b>119,120</b>	<b>132,234</b>	<b>154,470</b>
Growth (%)	51.2	53.6	11.0	16.8
<b>EBITDA</b>	<b>6,922</b>	<b>8,710</b>	<b>11,240</b>	<b>13,130</b>
Growth (%)	68.7	25.8	29.0	16.8
Depreciation & amortisation	1,462	1,771	2,111	2,532
EBIT	5,460	6,939	9,129	10,598
Growth (%)	79.5	27.1	31.6	16.1
Interest	1,806	3,070	3,673	3,877
Other income	811	5,501	1,190	1,390
EBT	4,836	166	6,646	8,111
Income taxes	1,235	2,260	1,927	2,352
Effective tax rate (%)	25.5	1,358.8	29.0	29.0
Extraordinary items	-	-	-	-
Min into / inc from associates	(18)	(62)	-	-
Reported net income	3,585	(2,032)	4,719	5,759
Adjustments	(304)	4,602	-	-
<b>Adjusted net income</b>	<b>3,281</b>	<b>2,570</b>	<b>4,719</b>	<b>5,759</b>
Growth (%)	66.9	(21.7)	83.6	22.0
Shares outstanding (mn)	303.0	303.0	303.0	303.0
<b>FDEPS (Rs) (adj)</b>	<b>11.3</b>	<b>8.3</b>	<b>15.2</b>	<b>18.5</b>
Growth (%)	59.0	(26.9)	83.6	22.0
DPS (Rs)	0.4	0.3	0.7	0.8

### Cash flow statement

Y/E March (Rs mn)	FY08	FY09	FY10E	FY11E
Net income + Depreciation	5,418	(4,863)	6,829	8,291
Non-cash adjustments	(450)	4,710	(0)	-
Changes in working capital	(11,133)	(9,640)	(7,996)	(6,013)
Cash flow from operations	(6,164)	(9,792)	(1,167)	2,278
Capital expenditure	(4,208)	(6,364)	(2,775)	(4,586)
Change in investments	(3,429)	(1,296)	-	-
Other investing cash flow	-	(151)	-	-
Cash flow from investing	(7,637)	(7,810)	(2,775)	(4,586)
Issue of equity	11,300	(365)	-	-
Issue/repay debt	(920)	19,520	645	1,193
Dividends paid	(92)	(107)	(242)	(277)
Other financing cash flow	-	392	-	-
Change in cash & cash eq	(3,512)	1,838	(3,539)	(1,392)
Closing cash & cash eq	6,898	8,122	4,583	3,191

### Economic Value Added (EVA) analysis

Y/E March	FY08	FY09	FY10E	FY11E
WACC (%)	14.8	14.9	14.9	14.9
ROIC (%)	13.6	(187.9)	11.1	11.3
Invested capital (Rs mn)	38,388	54,590	62,675	70,379
EVA (Rs mn)	(477)	(110,707)	(2,405)	(2,521)
EVA spread (%)	(1.2)	(202.8)	(3.8)	(3.6)

### Balance sheet

Y/E March (Rs mn)	FY08	FY09	FY10E	FY11E
Cash and cash eq	6,898	8,122	4,583	3,191
Accounts receivable	20,901	26,686	38,040	44,437
Inventories	20,592	36,686	36,228	42,321
Other current assets	7,429	11,461	10,506	12,273
Investments	5,458	6,609	6,609	6,609
Gross fixed assets	20,835	26,529	29,328	33,913
Net fixed assets	14,110	18,754	19,492	21,546
CWIP	2,124	2,973	2,899	2,900
Intangible assets	-	-	-	-
Deferred tax assets, net	(748)	(1,482)	(1,549)	(1,549)
Other assets	-	-	(608)	(983)
<b>Total assets</b>	<b>76,765</b>	<b>109,810</b>	<b>116,202</b>	<b>130,745</b>
Accounts payable	19,284	28,836	32,026	37,411
Other current liabilities	12,195	18,263	16,919	19,764
Provisions	1,558	1,853	1,953	1,966
Debt funds	16,072	35,592	36,237	37,430
Other liabilities	224	446	446	437
Equity capital	607	607	607	607
Reserves & surplus	26,826	24,238	28,041	33,148
Shareholder's funds	27,432	24,845	28,648	33,755
<b>Total liabilities</b>	<b>76,765</b>	<b>109,810</b>	<b>116,202</b>	<b>130,745</b>
BVPS (Rs)	89.7	82.0	94.6	111.4

### Financial ratios

Y/E March	FY08	FY09	FY10E	FY11E
<b>Profitability &amp; Return ratios (%)</b>				
EBITDA margin	8.9	7.3	8.5	8.5
EBIT margin	7.0	5.8	6.9	6.9
Net profit margin	4.2	2.2	3.6	3.7
ROE	16.4	9.9	17.6	18.5
ROCE	12.9	(42.4)	11.7	12.5
<b>Working Capital &amp; Liquidity ratios</b>				
Receivables (days)	78	73	89	97
Inventory (days)	242	279	296	273
Payables (days)	213	234	247	241
Current ratio (x)	1.8	1.8	1.8	1.8
Quick ratio (x)	0.9	0.7	0.9	0.8
<b>Turnover &amp; Leverage ratios (x)</b>				
Gross asset turnover	3.9	5.0	4.7	4.9
Total asset turnover	1.1	1.3	1.2	1.3
Interest coverage ratio	3.0	2.3	2.5	2.7
Adjusted debt/equity	0.5	1.2	1.1	1.0
<b>Valuation ratios (x)</b>				
EV/Sales	1.3	0.8	0.8	0.6
EV/EBITDA	14.5	11.5	8.9	7.6
P/E	21.2	29.0	15.8	13.0
P/BV	2.7	2.9	2.5	2.2



### Quarterly trend

Particulars	Q1FY09	Q2FY09	Q3FY09	Q4FY09	Q1FY10
Revenue (Rs mn)	26,488	29,261	31,200	32,173	29,551
YoY growth (%)	89.9	54.5	47.4	37.1	11.6
QoQ growth (%)	12.9	10.5	6.6	3.1	(8.1)
EBITDA (Rs mn)	2,596	3,124	2,389	1,450	2,918
EBITDA margin (%)	9.8	10.7	7.7	4.5	9.9
Adj net income (Rs mn)	1,336	1,741	830	(343)	1,272
YoY growth (%)	125	95	35	(129)	(5)
QoQ growth (%)	13	30	(52)	(141)	(471)

### DuPont analysis

(%)	FY07	FY08	FY09	FY10E	FY11E
Tax burden (Net income/PBT)	74.2	67.8	1,544.9	71.0	71.0
Interest burden (PBT/EBIT)	87.1	88.6	2.4	72.8	76.5
EBIT margin (EBIT/Revenues)	5.9	7.0	5.8	6.9	6.9
Asset turnover (Revenues/Avg TA)	126.2	114.4	127.7	117.0	125.1
Leverage (Avg TA/Avg equitiy)	338.4	337.0	356.9	422.5	395.7
<b>Return on equity</b>	<b>16.4</b>	<b>16.3</b>	<b>9.8</b>	<b>17.6</b>	<b>18.5</b>

### Company profile

Punj Lloyd, a US\$ 2bn conglomerate, comprises Punj Lloyd in India, Sembawang E&C in Singapore and Simon Carves in the UK. Besides these, various subsidiaries of the group spread across the world further strengthen its rich international presence, making it a strong service provider in the oil & gas, infrastructure and petrochemical domains.

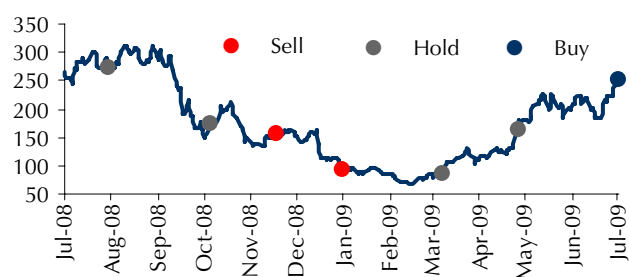
### Shareholding pattern

(%)	Dec-08	Mar-08	Jul-09
Promoters	44.3	41.5	41.3
FII's	18.0	19.0	19.3
Banks & FI's	16.2	12.5	17.7
Public	21.5	27.0	21.7

### Recommendation history

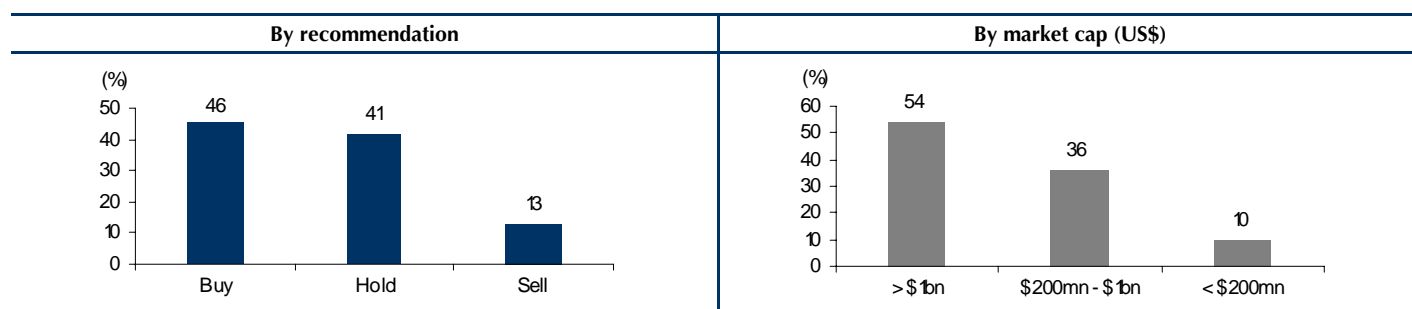
Date	Event	Reco price	Tgt price	Reco
21-Aug-08	RHH Compendium	272	320	Hold
29-Oct-08	Results Review	165	208	Hold
11-Dec-08	Company Update	156	166	Sell
25-Jan-09	Results Review	92	93	Sell
6-Apr-09	Quarterly Preview	87	93	Hold
20-May-09	Results Review	161	165	Hold
28-Jul-09	Results Review	240	292	Buy

### Stock performance





### Coverage Profile



### Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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