



Report Date	31 Aug 2009	
Company Name	Punj Lloyd	
Price / Recommendation	CMP 255 (FV 2)	Buy (Medium Risk- Medium Return)

Company Background

Gurgaon (Haryana) based Punj Lloyd Limited was started in 1988 as Private Limited company into infrastructure development for a host of industries. It started operations with pipelines, followed by tanks and terminals, refineries, power and civil infrastructure, the company has grown rapidly to augment its portfolio to include a whole gamut of services ranging from Upstream, Midstream to Downstream segments of the energy sector, petrochemicals, chemicals, Biofuels, utilities etc.

It ventured into Real Estate Development through a joint venture with Ramprastha Group and into offshore and shipbuilding through a joint venture with Pipavav Shipyard Ltd.

Today, Punj Lloyd, a US \$ 2.5 billion conglomerate, comprises Punj Lloyd in India, Sembawang E&C in Singapore and Simon Carves & Technodyne in UK etc.. Besides these, various subsidiaries of the Group, spread across the five continents, play an indispensable role in further strengthening the rich international presence of the Group, making it a strong service provider in the Oil & Gas, Petrochemical and Infrastructure domain.

Its operations are spread in countries like UK, Indonesia, Libya, Malaysia, Persian Gulf States, Central & Latin America China, Russia and Singapore besides providing infrastructure services to a host of industries in India.

Some Key Subsidiaries :

Subsidiaries	Country	% Holding
Sembawang E&C	Singapore	100
Technodyne International	UK	74
Simon Carves	UK	100
Punj Lloyd International	Virgin Islands(UK)	100
Punj Lloyd LLP	Khazakhstan	100
Punj Lloyd Aviation	India	100
PT Punj Lloyd	Indonesia	100
PT Sempec	Indonesia	100
Wuxi Sinlian Precast Mfg. Co.	China	85
Construction Technology (B) Sdn Bhd	Brunei	100
SembCorp (Hebei) Building Materials Co	China	75
Sembawang Infrastructure (Mauritius) Ltd	Mauritius	100
Jurubina Sembawang (M) Sdn Bhd	Malaysia	100
Sembawang Simon-Carves Limited De Mexico	Mexico	100
Sembawang Engineers and Constructors Middle	UAE	100

East FZE		
Sembawang Bahrain SPC	Bahrain	100
Punj Lloyd Oil & Gas Malaysia Sdn. Bhd	Malaysia	100

Some Major JVs:

Joint Ventures	Country	% Holding
Thiruvananthapuram Road Development Company	India	50
Asia Drilling Services Limited	Mauritus	50
Swissport Punj Lloyd India Private Limited	India	49
Dayim Punj Lloyd Construction Contracting Company	Saudi Arabia	49
SYNA Petrochemical Engineering Company	Iran	49
Ramprastha Punj Lloyd Developers Private Limited	India	50

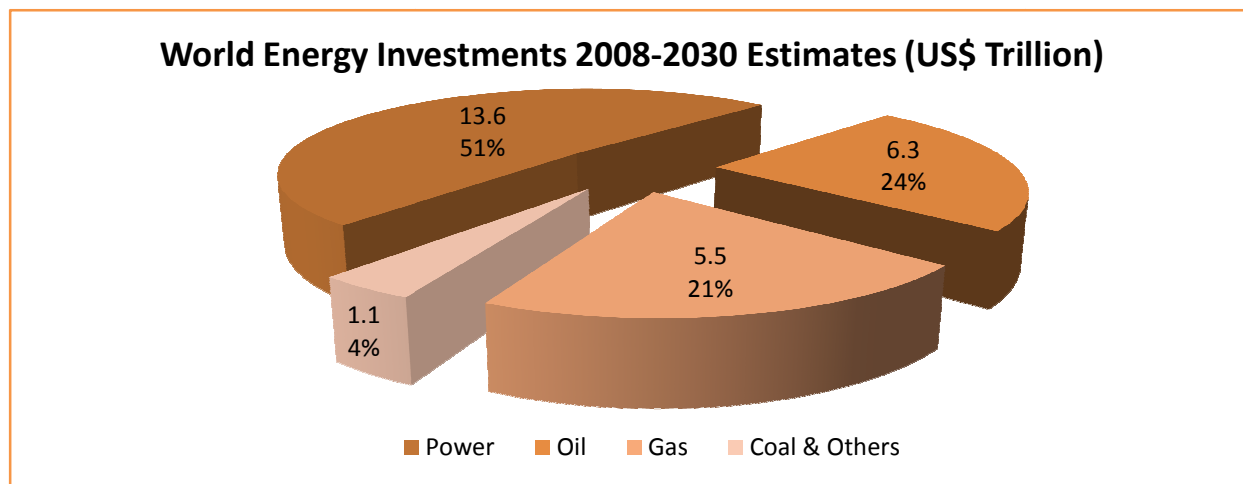
Some Major Associates:

Some Major Associates	Country	% Holding
Pipavav Shipyard Limited	India	22.3
Ventura Development (Myanmar) Pte Ltd	Singapore	35
Realand Pte Ltd.	Singapore	20
Reco Sin Han Pte Ltd.	Singapore	20
System-Bilt (Myanmar) Limited	Mynmar	23.32
Ethanol Ventures	UK	22.9

Highlights

Global Energy Investments Potential

- World primary energy demand growth is likely to be 1.6% per year between 2008-2030. The total investment requirement for energy supply infrastructure worldwide over the period 2008–2030 is US\$26.5 trillion, or US\$1.2 Trillion a year. This investment is needed to replace existing and future supply facilities that will be exhausted or become obsolete during the projection period, as well as to expand supply cap.



Source: IEA World Energy Investment Outlook to 2030, Report 2008

Oil Investments	US\$ Billion	(%)
Exploration	5040	80.00
Refining	1008	16.00
Supply Chain/Storage	252	4.00
Total	6300	100

Gas Investments	US\$ Billion	(%)
Exploration	3355	61.00
Supply Chain	1760	32.00
LNG Chain	385	7.00
Total	5500	100

Coal Investments	US\$ Billion	(%)
Mining	810	81.00
Supply Chain	190	19.00
Total	1000	100

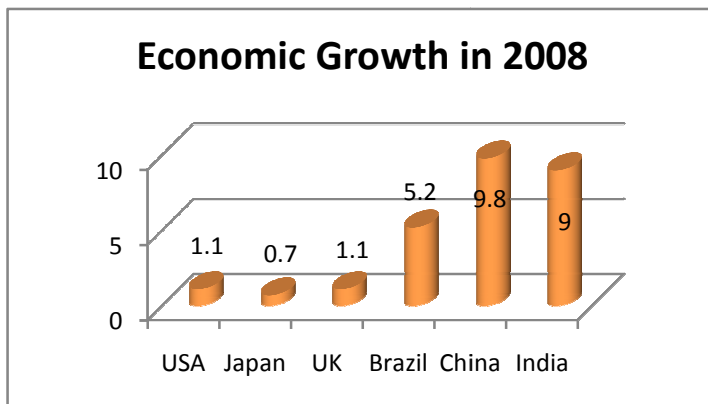
Power Investments	US\$ Billion	(%)
Generation	6800	50.00
T & D	6800	50.00
Total	13600	100

Infrastructure Investment Potential in India

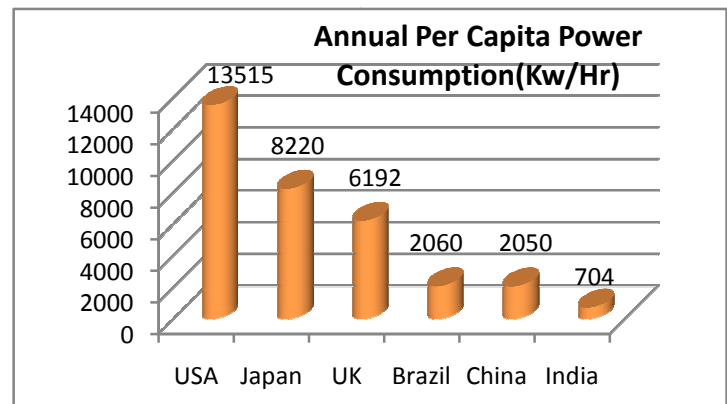
Indian economic growth has been well above 8% in past decade. Given the under-developed nature of the economy, there is likely to be sustained growth at around this level for next couple of years. There is constant demand for infrastructure as the purchasing power is on the rise. “PPP” (Private-Public Partnership) is being encouraged in developmental works.

Power

- Indian economy is growing at brisk pace, which is resulting in widening power deficit in the country. Government is boosting the power generation capacity but supply is continuously falling short of demand. The situation is unlikely to improve even in next 8-10 years.
- The country has high growth but the lowest per capita power consumption among top 10 world economies:

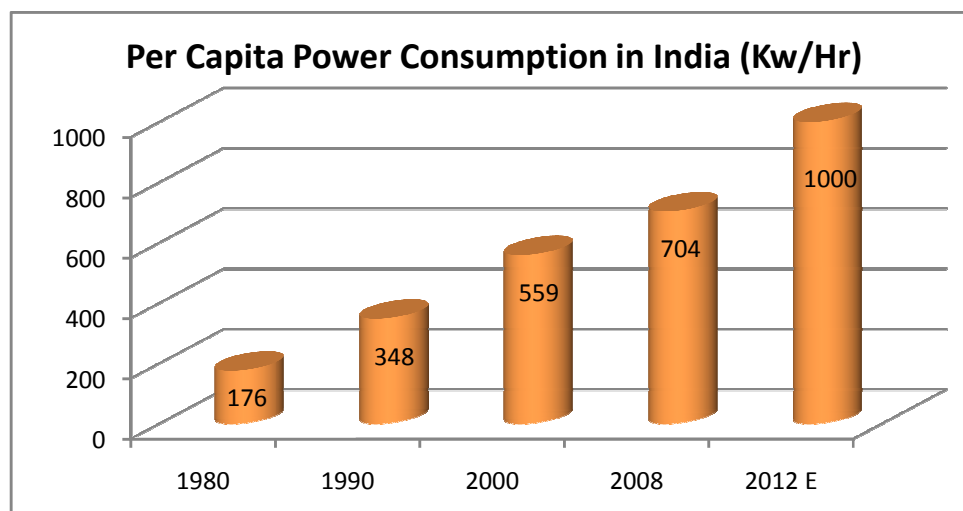


Source: CIA World Fact Sheet



Source: IEA, Key World Energy Statistics 2008

- There is constant rise in Per Capita Power consumption in India:



Source: Hydro Power Policy, MoP, 2008 and Monthly Review of the Power Sector, (Executive Summary), CEA, May 2009

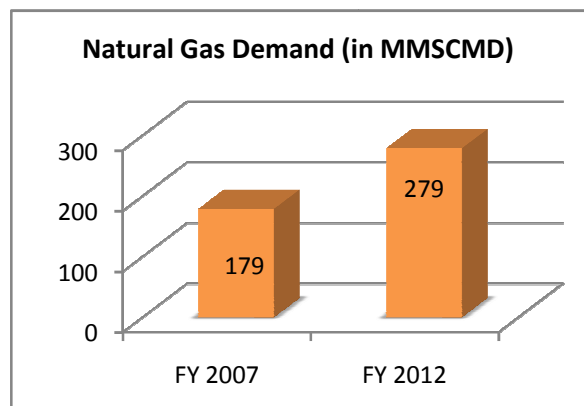
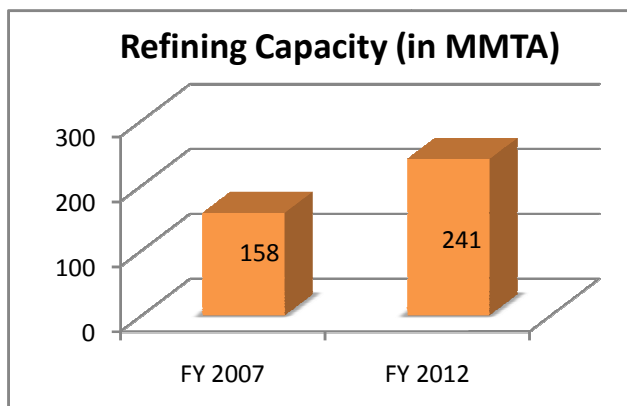
- Indian Power Demand-Supply situation stands as:

	Peak		Deficit		Energy		Energy Gap	
	Requirement	Avialability	MW	%	Required (MU)	Avialable (MU)	Million Units	%
North	32223	28075	-4148	-12.9	38704	35535	-3169	-8.2
West	35992	30273	-5719	-15.9	44696	39254	-5442	-12.2
South	29216	26369	-2847	-9.7	36146	33626	-2520	-7.0
East	12913	11610	-1303	-10.1	14816	14036	-780	-5.3
North East	1569	1342	-227	-14.5	1450	1248	-202	-13.9
All India	111913	97669	-14244	-12.7	135812	123699	-12113	-8.9

Source: CEA, "Power Scenario at a Glance", May 2009

- According to the 17th Electric Power Survey, India's peak demand will reach approximately 152,746 MW with an energy requirement of approximately 968 billion units by fiscal year 2012. By the fiscal year 2017, peak demand is expected to reach 218,209 MW with an energy requirement of 1,392 billion units.
- Presently, the country has about 1.5 Lakh MW of capacity, with an expected addition of about 70000 MW addition coming by 2012, terminal year of 11th 5-year plan.
- Total Investment in Indian Power sector (including generation, transmission and distribution) is estimated to be Rs 8500 Billion (US\$ 170 Billion).

OIL & GAS:



Source: Investment Commission of India

Total Investments in Oil & Gas infrastructure is estimated to be about Rs.2000 Billion (US\$ 40 Billion) during 11th 5-year plan.

ROAD:

There is massive infrastructure expenditure going on in the fast growing Indian economy. A network of over 33000 Km. Of roads in under development during 11th 5-year plan Investments on Roads during the 11th 5-year plan ending 2012 are estimated to be around Rs.366 Billion.

Road Projects	Rs. Billion
National Highways	181.5
State Roads	136.5
Rural roads	43
North-East Roads	5.6
Total	366.6

Country's present Road network is over 3.3 Million Kms that requires frequent maintenance (Source: NHA)

Road Network	Kilometers
Expressways	200
National Highways	66590
State Highways	131900
Major District Roads	467760
Rural & Other roads	2650000
Total (In Km)	3316450

New Opportunities

METRO RAIL NETWORKS:

There is growing demand in India for fast urban transportation. The success of Delhi Metro rail (DMRC) has opened new opportunities for capital goods and infrastructure development companies in form of Metro Rail Infrastructure. Total Metro Rail Development across India in major Metro Cities (Delhi 2nd & 3rd phase, Hyderabad, Bangalore, Mumbai & Chennai) is estimated to be over Rs.50000 Crore in next 5 years.

INDIAN DEFENSE:

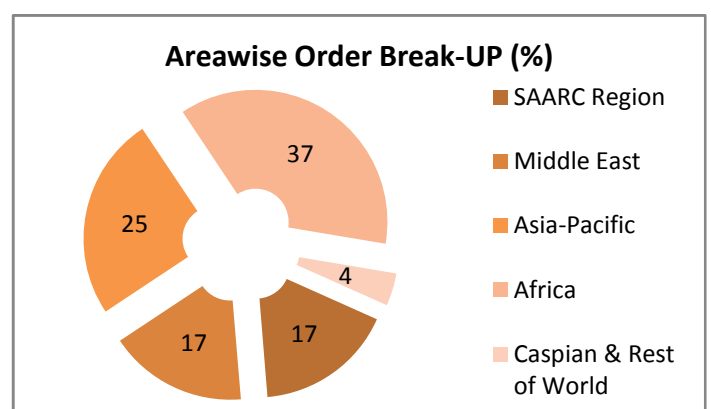
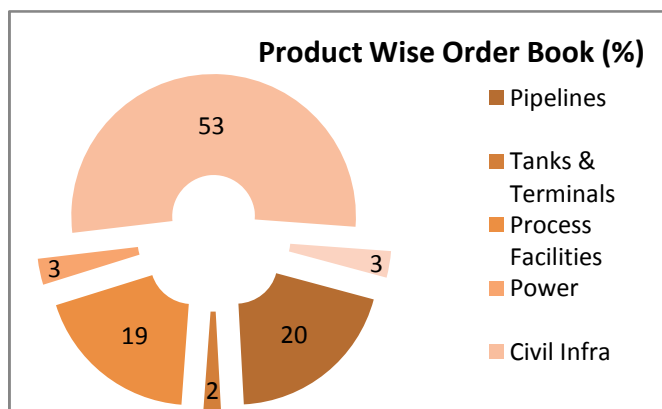
India's defence expenditure has been growing over the past couple of years, and, given the geo- political realities of the region, defence expenditure is expected to grow further. Allocated defence capital expenditure for 2008-09 and 2009-10 stood at Rs. 419 billion and Rs. 548 billion respectively.

PORTS & MARINE:

India has 12 Major ports and 200 non-major ports. India is among the 20 leading merchant fleets all over the world. A total of 387 schemes/projects in major ports, shipping and IWT sector have been identified under the NMDP (National Maritime Development Programme). The total investment envisaged is Rs. 1,003 billion out of which Rs. 558 billion is for major ports and Rs. 445 billion is for shipping and IWT sectors. In the port sector, a total of 276 projects have been identified under the NMDP for implementation by 2011-12. Out of these about Rs. 345 billion is expected from private sector, Rs. 36 billion is expected to be provided through budgetary support and Rs. 138 billion is proposed to be financed through internal resources of the major ports and the balance from other sources. The objective is to upgrade and modernize the port infrastructure in India and benchmark its performance against global standards.

Advantage Punj Lloyd

- Punj Lloyd is a fast growing Capital Goods and Infrastructure development organization in India.
- The Company is among the top 100 Global Contractors (At No.55 "The Top 225 International Contractors for Year 2008" Award, Source: Company Website).
- The company has operations well diversified across categories, also across various Geographies. Its robust order book stands at over Rs.28000 Crore.
- The Order Book break-up is as:

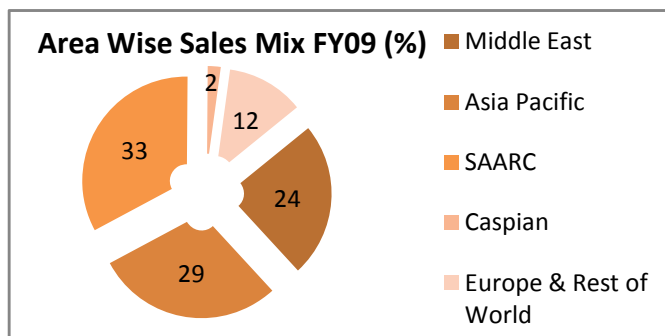
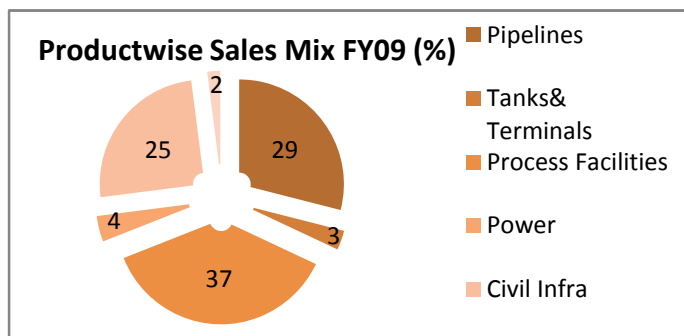


- Company is focusing on African, SAARC and Central Asian markets, with high potential.
- It has executed projects in Energy (Pipelines, Storage Tanks, Terminals, Process Facilities etc.), Power (Coal & Thermal Plants), Civil Infrastructure (Roads, highways, flyovers, bridges, tunnels, jetties, ports and port related infrastructure, water, sewerage and other utilities projects, elevated railroads, mass rapid transit projects, light rapid transit projects, telecommunications, retail sector projects as well as commercial and residential projects)
- Execution time ranges from 2 months (Roads maintenance) to 4-5 years (for Energy and Power sectors). Average execution period is about 2 years.
- Recently, Punj Lloyd has signed an agreement with US nuclear energy company Thorium Power to establish a framework to explore and identify the strengths of Thorium in the areas of deployment of its nuclear fuel designs in India, Southeast Asia and other territories. This will enhance Engineering abilities in nuclear technology, as opportunities arise in future.
- Company holds about 22.3% stake in Pipavav Shipyard, with initial investments of Rs.352 Crore. The company is likely to be listed in next few weeks; Pipavav is valued at Rs.5000 by analysts. Punj's stake is thus valued at about Rs.1100 Crore.
- Company has recently raised Rs.670 Crore through QIP, it plans to meet expansion retire costly Debt. It plans to further raise about Rs.900 Crore more, as part of its total Rs.1500 Crore fund raising plans.
- Company is restructuring UK subsidiary SIMON CARVES to turn it into profitable organization.
- It sacrificed margins in past for growth. The management has stated that margins would also be important consideration in the future bidding.

Financial Highlights (Consolidated)

Rs. Crore	Q1 FY09	Q1 FY10	% Y-o-Y	Q4 FY09*	% Q-o-Q	FY09*	FY10E	% Change
Net Sales	2647	2955	11.6	3217	-8.1	11912	14294	20.0
Other Income	32	24	-25.0	15	60.0	90	85	-5.6
Total Sales	2679	2979	11.2	3232	-7.8	12002	14379	19.8
Raw Material	748	896	19.8	1110	-19.3	3751	4617	21.9
Employee	328	324	-1.2	378	-14.3	1291	1310	1.5
Other Expenses	1362	1445	6.1	1815	-20.4	6567	6994	6.5
Total Expenses	2438	2665	9.3	3303	-19.3	11609	12921	10.9
PBDIT	241	314	30.3	-71		393	1458	282.0
Interest	37	74	100.0	73	1.4	221	250	31.2
Depreciation	39	54	38.5	50	8.0	177	225	27.1
PBT	165	186	12.7	-194		-5	983	
Tax	53	63	18.9	62	1.6	225	325	44.7
Net Profit	112	123	9.8	-256		-230	659	
Equity (FV 2)	61	61		61		61	66	8.20
EPS Rs.	3.67	4.03	9.8	-8.39		-7.54	19.97	
CMP Rs.	255	255		255		255	255	
PE (X)	69.44	63.23					12.77	
PBDIT (%)	9.10	10.63		-2.21		3.30	10.20	
NPM(%)	4.18	4.13		-7.92		-1.92	4.58	

Note: FY10 Estimates are taken on diluted Equity post QIP.



*Note on significant consolidated losses in Q4 FY09 and FY 2008-09:

Punj Lloyd reported standalone profit of Rs.60 Crore in Q4 FY09 and Rs.321 Crore in FY2009. But on consolidated basis there was Net Loss of Rs. 256 Crore in Q4 FY09 and Rs.230 Crore in FY2008-09. These losses were due to:

- UK subsidiary SIMON CARVES Suffered Losses of GBP 108 Million in FY09 (GBP 0.6 Million Loss in FY2008). Company considers these to be non-recurring.
- SABIC encashed Bank guarantees worth Rs.217 Crore, Company lost the case. This hit was part of SIMON CARVES.
- Company has made provisions of GBP 28.5 Million towards the performance and advance payment guarantees /bonds encashed by SABIC for the LDPE project that was being executed by Simon Carves UK.
- All this resulted in Net Loss being added to Rs.321 standalone profits for FY 2008-09 and Company showed consolidated losses of Rs.230 Crore.
- During the execution of project at Heera Platform of ONGC, there was escalation of work, resulting in higher costs for the company. The amount is yet to be settled with ONGC.

Punj Lloyd vs Peerset

Rs. Crore (FY 09)	Punj	IVRCL	HCC	L&T
Total Income	12002	5105	3572	42082
PBDIT	393	523	511	6374
Net Profit	-225	247	59	3758
Equity	61	27	30	117
Face Value (Rs.)	2	2	1	2
EPS (Rs.)	-7.38	18.30	1.97	64.24
CMP Rs./Sh	255	370	110	1540
PE (X)	-34.57	20.22	55.93	23.97
PBDIT (%)	3.27	10.24	14.31	15.15
NPM (%)	-1.87	4.84	1.65	8.93
Div. Rs./Share	0.3	1.4	0.8	12.5
Current Order Book	28000	15000	16000	72000
Market Cap	7777.5	4995	3300	90090
M Cap/Sales	0.65	0.98	0.92	2.14

Risks

- Slow down in Infrastructure spending can adversely impact the sector as a whole.
- Projects are acquired after competitive bidding. There may be impact on margins, if projects are acquired after very aggressive bidding.
- There is lumpiness in order inflows.
- Company is exposed to risks related to Forex volatility, as it operates in many countries.
- Company has been operating at lower margins than peers in past.

- Financial constraints faced by clients, lead to project delays and cost escalations, affecting the company adversely.
- There are risks related with local issues, working environment etc. in different Geographies.
- Company's Debt-Equity ratio is likely to remain on higher side.

Valuation & Recommendation

Punj Lloyd provides services to develop infrastructure for a host of industries. It lays down pipelines, tanks and terminals, refineries, power and civil infrastructure projects etc. The company had tough period in later half of FY2009. As global sentiments have turned positive, better performance is expected in FY10. It is likely to report a consolidated EPS of Rs.20/Share. At CMP Rs.255, it trades at 12.6 PE on forward earnings. Investors may BUY in range of Rs.245-255 for a target of Rs.300 i.e. about 15PE on FY 10 estimates.

Financial Projections (Consolidated)

P&L A/C Rs. Cr.	FY 08	FY09	FY 10E	FY11E
Net Sales	7752	11912	14294	17868
% Change	50.17	53.66	20.00	25.00
Other Income	119	90	85	85
Total Sales	7871	12002	14379	17953
Raw Material	2828	3751	4617	6611
Employee	893	1291	1310	1697
Other Expenses	3393	6567	6994	7763
Total Expenses	7114	11609	12921	16072
PBDIT	757	393	1458	1881
Interest	129	221	250	275
Depreciation	146	177	225	250
PBT	482	-5	983	1356
Tax	124	225	325	448
Net Profit	358	-230	659	909
% Change	82.65			37.90

Bal Sheet Rs. Cr.	FY 08	FY 09	FY 10E	FY11E
Share Capital	61	61	66	68
Reserves	2684	2424	3697	4850
Net worth	2745	2485	3763	4918
Minority Interest	22	42	45	50
Debt	1607	3559	3250	3650
Total Liabilities	4374	6086	7058	8618
Fixed Assets	1411	1875	2263	2860
Capital WIP	213	297	329	380
Investments	546	662	680	762
Net Currnt Assets	2278	3400	3934	4764
Defrd Tax(Less)	-74	-148	-148	-148
Total Assets	4374	6086	7058	8618

Key Ratio (%)	FY 08	FY09	FY 10E	FY11E
PBDIT	9.77	3.30	10.20	10.53
NPM	4.55	-1.92	4.58	5.06
EPS Rs.	11.74	-7.54	19.97	26.73
Cash EPS Rs.	16.52	-1.74	26.79	34.08
CMP Rs.	255	255	255	255
PE (X)	21.30		12.52	9.35
Cash PE (X)	15.13		9.33	7.34

Key Ratio (%)	FY 08	FY 09	FY 10E	FY11E
ROCE	17.31	6.46	20.66	21.83
RONW	13.04	-9.26	17.51	18.48
M.Cap/Sales	0.98	0.64	0.58	0.48
Div/Share	0.4	0.3	0.5	1.0
Payout (%)	3.4		2.5	3.7
Book Value/Share	90.0	81.5	114.0	144.6
Debt/Equity	0.59	1.43	0.86	0.74

Note: We assume further fund raising of Rs.900 Crore in FY11, a part of this amount is likely to retire Old Costly debt. Besides, FCCB 493 Units of US\$100000 each @ Rs. 265/Share is converted in FY11

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