

October 26, 2009

| Rating | Accumulate |
|----------------|------------|
| Price | Rs218 |
| Target Price | Rs237 |
| Implied Upside | 8.9% |
| Sensex | 16,741 |

(Prices as on October 26, 2009)

Trading Data

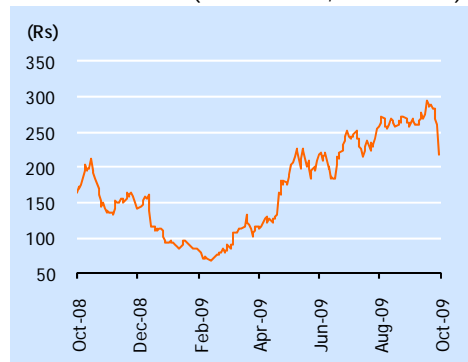
| | |
|----------------------------|---------|
| Market Cap. (Rs bn) | 76.1 |
| Shares o/s (m) | 349.4 |
| Free Float | 62.5% |
| 3M Avg. Daily Vol ('000) | 1,501.0 |
| 3M Avg. Daily Value (Rs m) | 380.9 |

Major Shareholders

| | |
|-----------------|-------|
| Promoters | 37.5% |
| Foreign | 19.2% |
| Domestic Inst. | 23.8% |
| Public & Others | 19.5% |

Stock Performance

| (%) | 1M | 6M | 12M |
|----------|--------|------|--------|
| Absolute | (16.0) | 87.5 | 44.9 |
| Relative | (16.3) | 39.7 | (47.5) |

Price Performance (RIC: PUJL.BO, BB: PUNJ IN)


Source: Bloomberg

- **Revenues below our expectations:** Punj Lloyd's (PLL's) consolidated revenue registered de-growth of 1.7% YoY on account of lower revenue booking on existing projects and absence of revenues from Libyan projects.
- **Bottom line plummets on account of loss on Simon Carves project:** PLL's PAT plunged by 63.3% (YoY) at Rs529m on account of loss booked on a bio-ethanol plant project in UK by Simon Carves. The company had to bear a cost overrun on account of poor quality and delays by sub contractor. On account of this the EBITDA margins also de-grew by 177bps to 7.5%. Adjusted to this event the EBITDA and PAT would stand at Rs3.2bn (11 % margins) and Rs1.5bn respectively.
- **Order inflow:** PLL's current order book stands at Rs268bn. Order inflow for Q2FY10 was rather slow at Rs15bn.
- **Valuations:** The company has guided for revenue inflow from Libyan orders (30% of the overall order book) from Q3FY10 which is expected to support the future performance. However EBIDTA margins on standalone basis also registered a 280bps reduction to 8.2% in Q2FY10 which indicates some concern on the overall quality and execution of the order book. We have also toned down the EBITDA margins for FY10E & FY11E. Thus, our revised EPS on account of margin reduction and dilution comes to Rs12.5 for FY10E and Rs13.9 for FY11E from our earlier estimates of Rs15.7 and Rs 17.4 respectively. At CMP of Rs218, the stock discounts FY010 earnings by 17.4x and FY11E earnings by 15.7x. We maintain our 'Accumulate' rating with a revised target price of Rs237.

| Key financials (Y/e March) | FY08 | FY09 | FY10E | FY11E |
|----------------------------|--------|---------|---------|---------|
| Revenues (Rs m) | 77,529 | 119,861 | 135,054 | 159,258 |
| Growth (%) | 51.2 | 54.6 | 12.7 | 17.9 |
| EBITDA (Rs m) | 6,922 | 3,834 | 11,874 | 14,231 |
| PAT (Rs m) | 3,584 | (2,251) | 4,375 | 4,846 |
| EPS (Rs) | 11.8 | (7.4) | 12.5 | 13.9 |
| Growth (%) | 56.7 | - | - | 10.8 |
| Net DPS (Rs) | 0.4 | 0.3 | 0.4 | 0.4 |

Source: Company Data; PL Research

| Profitability & valuation | FY08 | FY09 | FY10E | FY11E |
|---------------------------|------|---------|-------|-------|
| EBITDA margin (%) | 8.9 | 3.2 | 8.8 | 8.9 |
| RoE (%) | 17.8 | (8.6) | 14.2 | 12.4 |
| RoCE (%) | 13.2 | (695.6) | 9.4 | 8.7 |
| EV / sales (x) | 1.0 | 0.8 | 0.8 | 0.8 |
| EV / EBITDA (x) | 10.9 | 24.4 | 9.6 | 8.9 |
| PE (x) | 18.4 | (29.3) | 17.4 | 15.7 |
| P / BV (x) | 2.4 | 2.7 | 2.1 | 1.8 |
| Net dividend yield (%) | 0.2 | 0.1 | 0.2 | 0.2 |

Source: Company Data; PL Research

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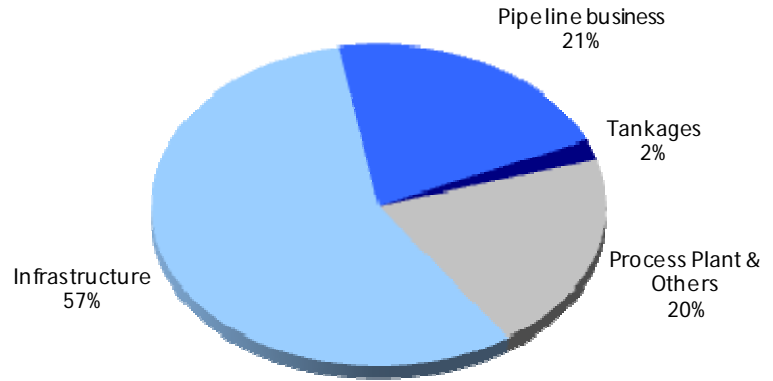
Q2FY10 Result Overview

(Rs m)

| Y/e March | Q2FY10 | Q2FY09 | YoY gr. (%) | Q1FY10 | H1FY10 | H1FY09 | YoY gr. (%) |
|-----------------------|--------------|--------------|----------------|--------------|--------------|--------------|---------------|
| Net Sales | 28,764 | 29,261 | (1.7) | 29,551 | 58,316 | 55,748 | 4.6 |
| Expenditure | | | | | | | |
| Contractor Charges | 7,954 | 8,420 | (5.5) | 9,346 | 17,300 | 17,010 | 1.7 |
| <i>% of Net Sales</i> | <i>27.7</i> | <i>28.8</i> | | <i>31.6</i> | <i>29.7</i> | <i>30.5</i> | |
| Material Consumed | 11,053 | 10,470 | 5.6 | 8,960 | 20,013 | 17,951 | 11.5 |
| <i>% of Net Sales</i> | <i>38.4</i> | <i>35.8</i> | | <i>30.3</i> | <i>34.3</i> | <i>32.2</i> | |
| Other Expenditure | 4,456 | 4,959 | (10.1) | 5,090 | 9,546 | 9,983 | (4.4) |
| <i>% of Net Sales</i> | <i>15.5</i> | <i>16.9</i> | | <i>17.2</i> | <i>16.4</i> | <i>17.9</i> | |
| Personnel Cost | 3,133 | 2,687 | 16.6 | 3,239 | 6,371 | 5,963 | 6.8 |
| <i>% of Net Sales</i> | <i>10.9</i> | <i>9.2</i> | | <i>11.0</i> | <i>10.9</i> | <i>10.7</i> | |
| Total Expenditure | 26,596 | 26,536 | 0.2 | 26,635 | 53,230 | 50,907 | 4.6 |
| EBIDTA | 2,168 | 2,725 | (20.4) | 2,916 | 5,086 | 4,841 | 5.1 |
| <i>Margin (%)</i> | <i>7.5</i> | <i>9.3</i> | <i>(177.4)</i> | <i>9.9</i> | <i>8.7</i> | <i>8.7</i> | <i>3.8</i> |
| Depreciation | 514 | 439 | 17.1 | 541 | 1,055 | 830 | 27.0 |
| EBIT | 1,654 | 2,286 | (27.6) | 2,375 | 4,031 | 4,010 | 0.5 |
| Interest | 796 | 490 | 62.3 | 744 | 1,539 | 859 | 79.3 |
| Other Income | (43) | 280 | (115.3) | 239 | 196 | 375 | |
| PBT | 816 | 2,076 | (60.7) | 1,872 | 2,688 | 3,526 | |
| Tax | 301 | 647 | (53.4) | 622 | 923 | 1,177 | (21.6) |
| <i>Tax Rate (%)</i> | <i>36.9</i> | <i>31.1</i> | | <i>33.2</i> | <i>-</i> | <i>-</i> | |
| Recurring Pat | 515 | 1,429 | (64.0) | 1,250 | 1,765 | 2,556 | (31.0) |
| Minority Interests | (13.8) | (12.3) | | (21.6) | 35.4 | 2.9 | |
| PAT | 529 | 1,442 | (63.3) | 1,272 | 1,800 | 2,559 | (29.7) |
| Adjusted PAT | 1,555 | 1,442 | 7.8 | 1,272 | 1,800 | 2,349 | (23.4) |

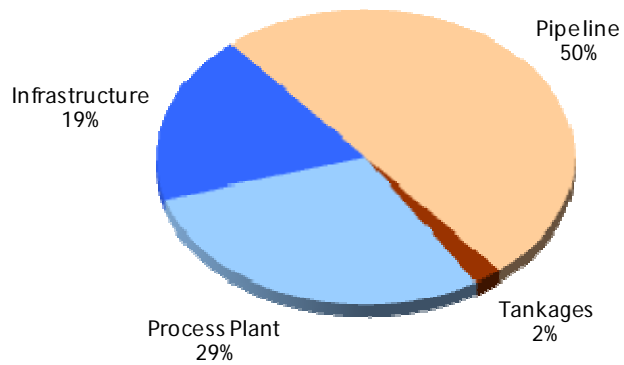
Highlights

Order book break-up



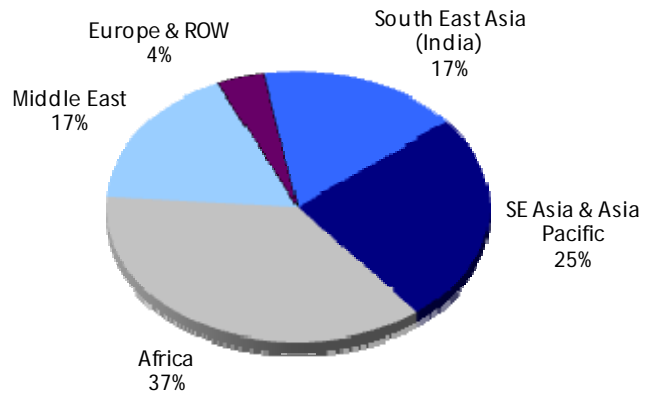
Source: Company Data, PL Research

H1FY10 Revenue break-up



Source: Company Data, PL Research

By Geographies...



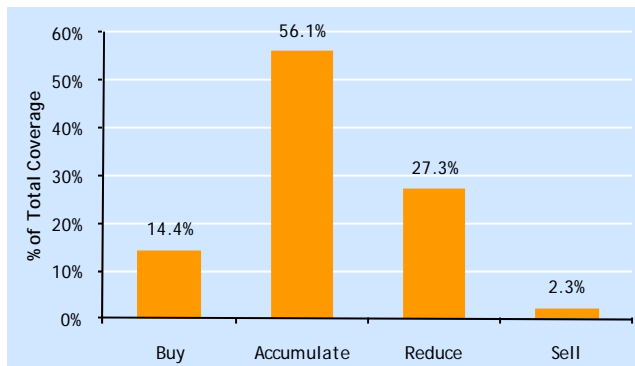
Source: Company Data, PL Research

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

| | | | |
|-----------------------|--|--------------------------|--|
| BUY | : Over 15% Outperformance to Sensex over 12-months | Accumulate | : Outperformance to Sensex over 12-months |
| Reduce | : Underperformance to Sensex over 12-months | Sell | : Over 15% underperformance to Sensex over 12-months |
| Trading Buy | : Over 10% absolute upside in 1-month | Trading Sell | : Over 10% absolute decline in 1-month |
| Not Rated (NR) | : No specific call on the stock | Under Review (UR) | : Rating likely to change shortly |

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