

## Punj Lloyd

### Simon Carves sinks the ship

Punj Lloyd's (PLL's) net sales for Q3FY10 dipped 7% YoY to Rs 29bn, 10% below our estimate mainly due to slow progress on orders from Libya. EBITDA margin too plunged 41bps YoY due to cost overruns of Rs 1.65bn pertaining to the Ensus project executed by Simon Carves. Due to the delayed completion of the project, the client has sought £ 25mn as liquidation damages; this could lead to further losses for PLL. Cost overruns, higher interest and taxes pulled down adj. PAT by a staggering 88.4% YoY to Rs 96mn. We maintain our Sell rating on the stock considering the company's recurring contractual losses and poor visibility of its order book.

**Topline slides 7% to Rs 29bn:** PLL's revenue for the quarter dropped 7% YoY to Rs 29bn, falling short of our estimate by 10% mainly due to slow progress on orders from Libya.

**Cost overruns pull down margins:** PLL's EBITDA margin came in at 7.2%, down 41bps YoY and 95bps below our estimate. The margin was adversely impacted by a loss of Rs 1.65 due to cost overruns in the bioethanol project (Ensus) executed by the company's UK subsidiary, Simon Carves. The losses came much above our estimates of ~Rs 700mn.

**Adj. PAT plunges 88.4% YoY to Rs 96mn:** During the quarter, interest cost increased by 49% YoY to Rs 923mn while depreciation rose 24% YoY to Rs 535mn. Consequently, adj. PAT down by 88.4% YoY to Rs 96mn, way below our estimate, due to higher than expected loss burden of Simon Carves. The tax rate stood higher as it did not include the losses incurred by Simon Carves.

**Ensus project drags down performance:** The Bioethanol project executed by Simon Carves for Ensus was finally completed in January '10 as against its extended deadline of 12 December '09. So far, PLL has booked losses of Rs 2.97bn in FY10 from the project; of these, losses of Rs 1.65bn were booked in Q3FY10. In view of the late completion of the project, the client has sought £ 25mn as liquidation damages; this could lead to further losses for PLL.

**Order book at Rs 234bn:** At the end of Q3FY10, PLL had an outstanding order book of Rs 234bn which is 1.7x FY10E revenues. During the quarter, Jurong Aromatics Corp., a key client, put an order worth Rs 17.7bn on hold till March '11. PLL has excluded this project from its order book as of now.

**Maintain Sell:** The stock is currently trading at 14.7x FY11E earnings; excluding subsidiaries, it trades at 13.3x FY11E. We maintain our sell rating on the stock with a target price of Rs 196, considering the company's recurring contractual losses and poor visibility of its order book.

#### Financial highlights

(Rs mn)	FY09	FY10E	FY11E	FY12E
Revenue	119,120	123,418	136,431	155,309
Growth (%)	53.6	3.6	10.5	13.8
Adj net income	2,348	2,883	4,305	5,128
Growth (%)	(28.4)	22.8	49.3	19.1
FDEPS (Rs)	7.5	8.7	12.7	15.2
Growth (%)	(33.2)	15.9	45.2	19.4

#### Profitability and return ratios

(%)	FY09	FY10E	FY11E	FY12E
EBITDA margin	7.3	8.1	8.7	8.7
EBIT margin	5.8	6.4	6.8	6.7
Adj PAT margin	2.0	2.3	3.2	3.3
ROE	9.0	9.9	12.2	13.0
ROIC	10.4	7.0	8.7	9.3
ROCE	8.5	7.4	9.1	9.6

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

CMP	TARGET	RATING	RISK
Rs 187	Rs 196	SELL	HIGH

BSE	NSE	BLOOMBERG
532693	PUNJLLOYD	PUNJ IN

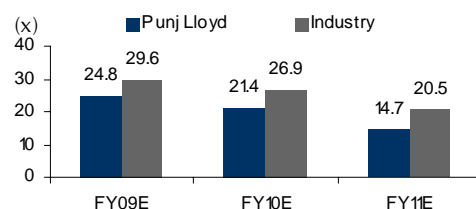
#### Company data

Market cap (Rs mn / US\$ mn)	62,096 / 1,345
Outstanding equity shares (mn)	332
Free float (%)	58.4
Dividend yield (%)	0.2
52-week high/low (Rs)	299 / 66
2-month average daily volume	5,059,757

#### Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Punj Lloyd	187	(8.9)	(7.3)	(22.8)
Sensex	16,358	(6.0)	1.9	7.8

#### P/E comparison



#### Valuation matrix

(x)	FY09	FY10E	FY11E	FY12E
P/E @ CMP	24.8	21.4	14.7	12.3
P/E @ Target	26.0	22.4	15.4	12.9
EV/EBITDA @ CMP	11.5	10.1	8.5	7.4



## Result highlights

**Fig 1 - Actual vs estimated performance**

(Rs mn)	Actual	Estimate	% Variance
Revenue	29,040	32,285	(10.1)
EBITDA	2,105	2,647	(20.5)
Adj net income	96*	941	(89.8)
FDEPS (Rs)	0.3	2.8	(89.8)

Source: RHH

\*after providing Rs 1.65bn losses pertaining to the Ensus project executed by Simon Carves

Results fell short of estimates due to slow execution and cost overruns

**Fig 2 - Quarterly performance**

(Rs mn)	Q3FY10	Q3FY09	% Chg YoY	Q2FY10	% Chg QoQ
Net sales	29,040	31,200	(6.9)	28,764	1.0
Expenditure	26,935	28,811	(6.5)	26,596	1.3
EBITDA	2,105	2,389	(11.9)	2,168	(2.9)
Other income	221	237	(6.6)	(43)	(617.3)
Interest	923	620	48.9	796	16.0
Depreciation	535	433	23.7	514	4.2
PBT	867	1,573	(44.9)	816	6.3
Extraordinary (income)/loss	-	3,424	NA	-	NA
Tax	771	416	85.5	301	156.0
Reported PAT	96	(2,256)	(104.3)	529	(81.8)
Adjusted PAT	96	830	(88.4)	529	(81.8)
EBITDA margin (%) *	7.2	7.7	(41 bps)	7.5	(29 bps)
FDEPS (Rs)	0.3	2.7	(89.4)	1.6	(81.8)

Source: Company, RHH \* excluding forex loss

Net sales dipped 6.9% due to slow execution of orders from Libya

Adj. profit nosedived 88.4% YoY due higher losses booked in Ensus

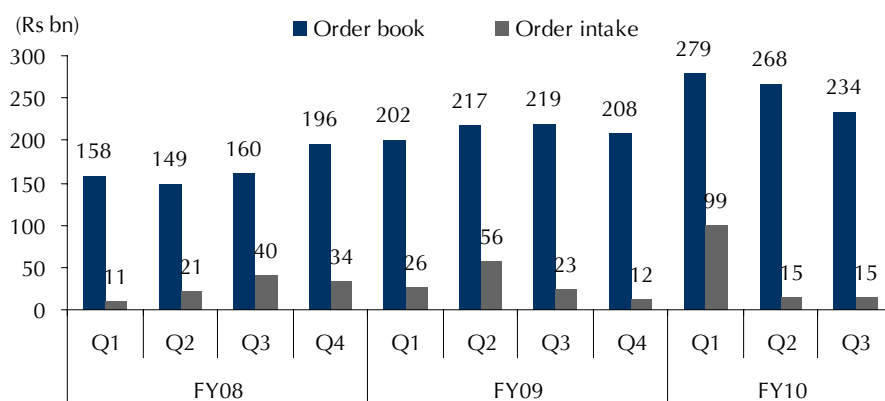
**Fig 3 - Revised estimates**

Key parameters (Rs mn)	FY10E			FY11E		
	Old	New	% Chg	Old	New	% Chg
Revenue	129,139	123,418	(4.4)	146,363	136,431	(6.8)
EBITDA margin (%)	8.4	8.1	(30 bps)	8.9	8.7	(20 bps)
Net profit	4,090	2,883	(29.5)	5,224	4,305	(17.6)
FDEPS (Rs)	12.4	8.7	(29.5)	15.4	12.7	(17.6)

Source: RHH

Estimates revised downward due to higher than expected losses booked in Ensus project and slower execution of projects in Libya

**Fig 4 - Order book at Rs 234bn**



Source: Company, RHH



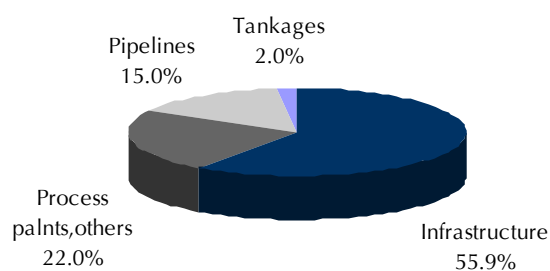
Fig 5 - Q3FY10 - Revenue break-up (sector-wise)

(Rs mn)	Q3FY10	%share	Q3FY09	%share
Pipelines	13,041	45	13,027	41
Tankages	537	2	797	3
Infrastructure	5,861	20	8,051	26
Process plants	9,739	33	9,559	30
<b>Total</b>	<b>29,178</b>	<b>100</b>	<b>31,434</b>	<b>100</b>

Fig 6 - Q3FY10 - Revenue break-up (by geography)

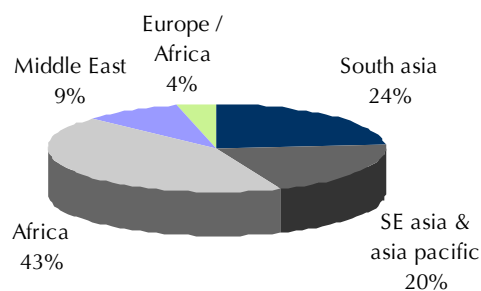
(Rs mn)	Q3FY10	%share	Q3FY09	%share
South Asia	10,738	37	10,832	34
SE Asia & Asia Pacific	5,892	20	8,387	27
Africa	2,077	7	760	2
middle east	9,595	33	6,783	22
Rest of the world	876	3	4,672	15
<b>Total</b>	<b>29,178</b>	<b>100</b>	<b>31,434</b>	<b>100</b>

Fig 7 - Order book break-up (sector-wise)



Source: Company, RHH

Fig 8 - Order Book break-up (by geography)



Source: Company, RHH


**Fig 9 - Summary of key orders bagged during 9MFY10**

Contract	Contract description	Customers	Contract value (Rs mn)
EPC	First offshore project in Thailand for platform compression facilities	PTT Public Company	5,740
EPC	To execute partial Balance of Plant (BOP) and civil work on a 2X350 MW thermal power plant project	Ind-Barath Energy (Utkal), Orissa	9,470
EPC	EPC of Propane/ Butane/ LPG Import Terminal at Ennore, Tamil Nadu	Indian Oil Petronas	2,758
EPC	EPC of Coke Drum Structure Package of Delayed Coker Unit for Phase III Refinery Project	Mangalore Refinery and Petrochemicals Ltd.	5,505
EPC	For laying, testing and commissioning of 145.43 km pipeline for Dahej Vijaipur Pipeline Upgradation project	GAIL (India)	1,675
Infrastructure	For designing, procurement, installation and commissioning of utilities for three towns of Libya	Housing and Infrastructure Board	18,732
Infrastructure	Commercial and residential developments in Libya	International Investment and Services Company (IISCO)	59,040
EPC	Port tank farm of the Jubail Export Refinery Project in Saudi Arabia (PLL's share)	Aramco Total Refinery & Petrochemical Company (SATORP)	5,927
Construction	Construction of MRT stations in Singapore	Land Transport Authority (LTA) of Singapore	12,630
Infrastructure	Construction of three elevated metro stations	Bangalore Metro Rail Corporation	1,181
EPC	EPC for Jurong strategic study project at Jurong Lubes Terminal, Singapore	Exxon-Mobile	1,512
<b>Total</b>			<b>124,170</b>

Source: Company, RHH

**Fig 10 - Status of slow moving orders**

Client	Project	Value (Rs mn)	Status
Jurong Aeromatics	Integrated condensate Splitter Aromatics Complex at Jurong Island	17,700	The project has been kept on hold by the client till March '11. It faced a setback due to the global financial slowdown. PLL has accordingly decided to remove the project from its order backlog as of now.

Source: Company, RHH

**Fig 11 - Update on Libya orders (~42% of its current order book)**

Project	mn \$	Status
Project - 1	550-600	Project work has been started
Project - 2	375	Expects mobilisation advances from client shortly and would start work thereafter
Project - 3	1200	Expects to start work by Q1FY11

Source: Company, RHH

## Brief history of the Ensus contract/ ONGC dispute

### The Ensus contract – Bioethanol project – FY10

Simon Carves had entered into a contract with Ensus to set up bioethanol project production facilities at the Wilton International site in Teesside.

The project entailed an initial cost of £ 161mn. Work on the project started in Q1FY08 and is scheduled to complete by early 2009. The order was booked after PLL's acquisition of Simon Carves.

Delays in project execution lead to several challenges for the company; this included extremely low productivity from UK labourers and sub-contractors and adverse weather conditions. Though the timeline for completing the project was extended to 12 December '09, the company failed to conform; the project was finally completed in January '10. In view of the delayed execution, Ensus has sought £ 25mn as liquidation damages; this could result in further losses for PLL.


**Fig 12 - Summary of the losses booked in recent past**

Rs mn	Amount W/off
<b>Losses booked in FY10 (Ensus contract)</b>	
Q2FY10 – losses written-off due to delay in completion of projects	1,322
Q3FY10 – losses written-off on further delay in completion of project (completed in Jan 2010)	1,650
<b>Total</b>	<b>2,972</b>
Liquidation charges may result in more losses	£25mn
<b>Losses booked in FY09 (SABIC contract)</b>	
Q3FY09 – losses written-off on the back of auditor's qualification	2,072
Q4FY09 - performance guarantee encashed by SABIC written-off	2,235
<b>Total</b>	<b>4,307</b>

Source: Company, RHH

### The ONGC - Heera redevelopment project

In January 2007, Punj Lloyd-PT Sempec Indonesia, a wholly owned subsidiary, bagged the Heera Redevelopment Project (offshore platform project) worth US\$ 266mn on EPC basis from ONGC. The work was scheduled to be completed within 16 months.

The project has recorded cost overruns due to design changes, significant increase in the scope of work, and delay in approving the revised design (by the customer). As work on the project is currently in progress, the company has prepared only part of these claims; the claims were assessed by an independent quantity surveyor and a legal expert.

PLL has recognised revenues of Rs 12bn from this project till September '09; during Q3FY10, the company has further recognised revenues of Rs 2.43bn (which is not yet approved by ONGC and qualified by the auditors). The company has incurred a cost of Rs 17bn on the project. The balance Rs 2.57bn is standing in WIP as on date. If the case goes against PLL, its earnings will be impacted further, going ahead.

**Fig 13 - SOTP – Valuation summary**

Sum of the parts	Business	Method	Multiple	Value (Rs mn)	Per share value (Rs)
PLL Consolidated	Construction	P/E on FY11E earnings	14x	60,275	178
Pipavav Shipyard	Shipyard	BV	1.25x	4,375	13
Real estate ventures	Real estate	BV	1x	1800	5
<b>Total</b>				<b>66,450</b>	<b>196</b>

Source: RHH



## Consolidated financials

### Profit and Loss statement

Y/E March (Rs mn)	FY09	FY10E	FY11E	FY12E
<b>Revenues</b>	<b>119,120</b>	<b>123,418</b>	<b>136,431</b>	<b>155,309</b>
Growth (%)	53.6	3.6	10.5	13.8
<b>EBITDA</b>	<b>8,710</b>	<b>9,997</b>	<b>11,870</b>	<b>13,512</b>
Growth (%)	25.8	14.8	18.7	13.8
Depreciation & amortisation	1,771	2,151	2,614	3,080
EBIT	6,939	7,846	9,255	10,432
Growth (%)	27.1	13.1	18.0	12.7
Interest	3,070	3,800	4,147	4,297
Other income	5,347	864	955	1,087
EBT	13	4,910	6,064	7,223
Income taxes	2,260	2,062	1,759	2,095
Effective tax rate (%)	17,960.3	42.0	29.0	29.0
Extraordinary items	-	-	-	-
Min into / inc from associates	(130)	35	-	-
Reported net income	(2,254)	2,883	4,305	5,128
Adjustments	4,602	-	-	-
<b>Adjusted net income</b>	<b>2,348</b>	<b>2,883</b>	<b>4,305</b>	<b>5,128</b>
Growth (%)	(28.4)	22.8	49.3	19.1
Shares outstanding (mn)	303.0	330.9	330.9	330.9
<b>FDEPS (Rs) (adj)</b>	<b>7.5</b>	<b>8.7</b>	<b>12.7</b>	<b>15.2</b>
Growth (%)	(33.2)	15.9	45.2	19.4
DPS (Rs)	0.3	0.7	0.8	0.8

### Cash flow statement

Y/E March (Rs mn)	FY09	FY10E	FY11E	FY12E
Net income + Depreciation	(5,085)	5,034	6,919	8,208
Non-cash adjustments	4,932	(35)	-	-
Changes in working capital	(9,640)	(18,864)	101	(6,349)
Cash flow from operations	(9,792)	(13,866)	7,020	1,859
Capital expenditure	(6,364)	(3,775)	(4,586)	(4,386)
Change in investments	(1,296)	-	-	-
Other investing cash flow	(151)	-	-	-
Cash flow from investing	(7,810)	(3,775)	(4,586)	(4,386)
Issue of equity	(365)	6,752	-	-
Issue/repay debt	19,520	7,645	1,500	1,500
Dividends paid	(107)	(264)	(302)	(302)
Other financing cash flow	392	-	-	-
Change in cash & cash eq	1,838	(3,508)	3,632	(1,330)
Closing cash & cash eq	8,122	4,614	8,246	6,917

### Economic Value Added (EVA) analysis

Y/E March	FY09	FY10E	FY11E	FY12E
WACC (%)	14.9	14.9	14.9	14.9
ROIC (%)	10.4	7.0	8.7	9.3
Invested capital (Rs mn)	54,590	74,538	76,047	83,802
EVA (Rs mn)	(2,426)	(5,847)	(4,688)	(4,714)
EVA spread (%)	(4.4)	(7.8)	(6.2)	(5.6)

### Balance sheet

Y/E March (Rs mn)	FY09	FY10E	FY11E	FY12E
Cash and cash eq	8,122	4,614	8,246	6,917
Accounts receivable	26,686	37,195	39,247	44,678
Inventories	36,686	43,957	44,854	51,060
Other current assets	11,461	11,496	10,840	12,340
Investments	6,609	6,609	6,609	6,609
Gross fixed assets	26,529	30,328	34,913	39,498
Net fixed assets	18,754	20,452	22,424	23,930
CWIP	2,973	2,899	2,900	2,700
Intangible assets	-	-	-	-
Deferred tax assets, net	(1,482)	(1,549)	(1,549)	(1,549)
Other assets	-	(572)	(947)	(947)
<b>Total assets</b>	<b>109,810</b>	<b>125,103</b>	<b>132,625</b>	<b>145,738</b>
Accounts payable	28,836	30,155	32,751	37,283
Other current liabilities	18,263	15,796	15,581	17,737
Provisions	1,853	1,953	1,966	2,066
Debt funds	35,592	43,237	44,737	46,237
Other liabilities	446	446	437	437
Equity capital	607	663	663	663
Reserves & surplus	24,238	32,879	36,508	41,333
Shareholder's funds	24,845	33,542	37,170	41,996
<b>Total liabilities</b>	<b>109,810</b>	<b>125,103</b>	<b>132,625</b>	<b>145,738</b>
BVPS (Rs)	82.0	101.4	112.3	126.9

### Financial ratios

Y/E March	FY09	FY10E	FY11E	FY12E
<b>Profitability &amp; Return ratios (%)</b>				
EBITDA margin	7.3	8.1	8.7	8.7
EBIT margin	5.8	6.4	6.8	6.7
Net profit margin	2.0	2.3	3.2	3.3
ROE	9.0	9.9	12.2	13.0
ROCE	8.5	7.4	9.1	9.6
<b>Working Capital &amp; Liquidity ratios</b>				
Receivables (days)	73	94	102	99
Inventory (days)	279	348	353	334
Payables (days)	234	254	250	244
Current ratio (x)	1.8	2.1	2.1	2.1
Quick ratio (x)	0.7	0.9	0.8	0.8
<b>Turnover &amp; Leverage ratios (x)</b>				
Gross asset turnover	5.0	4.3	4.2	4.2
Total asset turnover	1.3	1.1	1.1	1.1
Interest coverage ratio	2.3	2.1	2.2	2.4
Adjusted debt/equity	1.2	1.1	1.1	1.0
<b>Valuation ratios (x)</b>				
EV/Sales	0.8	0.8	0.7	0.6
EV/EBITDA	11.5	10.1	8.5	7.4
P/E	24.8	21.4	14.7	12.3
P/BV	2.3	1.8	1.7	1.5



### Quarterly trend

Particulars	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10
Revenue (Rs mn)	31,200	32,173	29,551	28,764	29,040
YoY growth (%)	47.4	37.1	11.6	(1.7)	(6.9)
QoQ growth (%)	6.6	3.1	(8.1)	(2.7)	1.0
EBITDA (Rs mn)	2,389	1,450	2,918	2,168	2,105
EBITDA margin (%)	7.7	4.5	9.9	7.5	7.2
Adj net income (Rs mn)	830	(343)	1,272	529	96
YoY growth (%)	35	(129)	(5)	(70)	(88)
QoQ growth (%)	(52)	(141)	(471)	(58)	(82)

### DuPont analysis

(%)	FY08	FY09E	FY10E	FY11E	FY12E
Tax burden (Net income/PBT)	67.8	18,656.5	58.7	71.0	71.0
Interest burden (PBT/EBIT)	88.6	0.2	62.6	65.5	69.2
EBIT margin (EBIT/Revenues)	7.0	5.8	6.4	6.8	6.7
Asset turnover (Revenues/Avg TA)	114.4	127.7	105.1	105.9	111.6
Leverage (Avg TA/Avg equity)	337.0	356.9	402.3	364.5	351.6
<b>Return on equity</b>	<b>16.3</b>	<b>9.0</b>	<b>9.9</b>	<b>12.2</b>	<b>13.0</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.

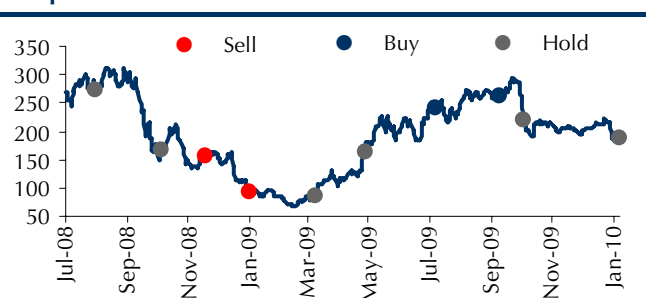
### Shareholding pattern

(%)	Jun-09	Sep-09	Dec-09
Promoters	41.3	37.5	37.4
FIs	19.3	20.6	14.9
Banks & FIs	17.7	22.9	26.1
Public	21.7	19.0	21.7

### Recommendation history

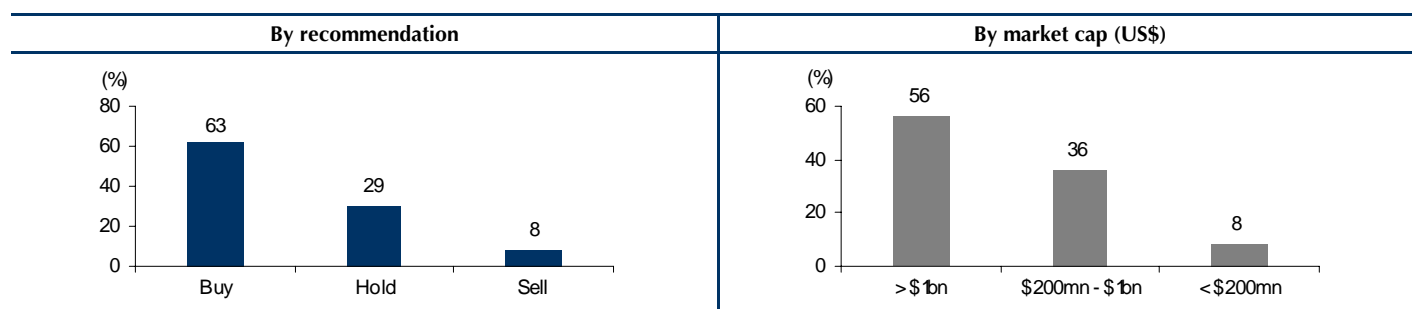
Date	Event	Reco price	Tgt price	Reco
21-Aug-08	RHH Compendium	272	320	Hold
29-Oct-08	Results Review	165	208	Hold
11-Dec-08	Company Update	156	166	Sell
25-Jan-09	Results Review	92	93	Sell
6-Apr-09	Quarterly Preview	87	93	Hold
20-May-09	Results Review	161	165	Hold
28-Jul-09	Results Review	240	292	Buy
5-Oct-09	Sector Report	262	306	Buy
26-Oct-09	Results Review	218	237	Hold
30-Jan-10	Results Review	187	196	Sell

### 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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*"Religare Enterprises Limited proposes, subject to receipt of requisite approvals, market conditions and other considerations, to make a rights issue of its equity shares to its existing shareholders and has filed a draft letter of offer ("DLOF") with the Securities and Exchange Board of India ("SEBI"). The DLOF is available on the website of SEBI at [www.sebi.gov.in](http://www.sebi.gov.in) as well as on the websites of the lead manager at [www.enam.com](http://www.enam.com). Investment in equity shares involves a high degree of risk and for details relating to the same, please refer to the section titled "Risk Factors" of the DLOF."*