

Punj Lloyd Ltd

2Q FY09 results: Execution, operating margins stronger than expected - ALERT

- Punj Lloyd reported PAT of Rs1.4B (up 60%), substantially ahead of estimate** of Rs962Mm. OPM at 10.1% (up 130bps) beat our forecast of 8%, which we had based on potential input cost pressures. If the mark-to-market hit of Rs400mM on outstanding FCCBs is excluded, operating margins were even stronger at 11.5% (up 270bps) Revenue at Rs28.5B (up 56%) was ahead of our estimate of Rs26.5B, suggesting execution remains strong.
- As expected, OB at Rs217B is strong** and covers our revenue estimates for the remainder of FY09 and the whole of FY10 comfortably. Order flows at Rs44.6B (up 288% YoY) have been exceptionally strong in the September quarter, led by 1) a Rs36.4B pipeline order from Qatar Petroleum; and 2) a Rs10B order from GVK for construction of the 2x270MW Goindwal Saheb power plant.
- From a business-as-usual perspective, there appears to be upside risk to our FY09 revenue and EBITDA estimates**, given the asking rate of 17.5% revenue growth and 16% EBITDA growth in 2H, compared to growth of 70% and 77% in revenue and EBITDA respectively, in 1H FY09. We recall that 3Q FY08 witnessed weak margins on the back of one-off cost overruns on legacy projects. However, the key risk to the company beating (or meeting) our forecast is the potential hit on the onerous overseas contract. Further cost overruns and scope changes have now pushed up the remaining value of the auditor qualification to Rs2.2B, compared to Rs1.9B earlier. Management has maintained that these overruns are recoverable from the client, SABIC, but this status would be clear only between Dec-08 to Mar-09. The company had already reached an interim settlement for Rs1.1B during 1Q FY09.

Punj Lloyd: Asking growth for 2H FY09

Rs in millions, year-end March

	1H FY08		2H FY08		FY08	1H FY09		2H FY09E		FY09E	%YoY	
	Mar07-Sep07	Oct07-Mar08	Mar-08	Mar-08	Mar-08	Mar08-Sep08	Oct08-Mar09	Mar-09	Mar08-Sep08	Oct08-Mar09	Mar-09	Mar-09
Revenue	32,892	44,637	77,529		77,529	56,017	52,471	108,488	70.3	17.5	39.9	
EBITDA	2,880	4,042	6,922		6,922	5,110	4,693	9,803	77.4	16.1	41.6	
PAT	1,490	1,723	3,213		3,213	2,410	2,432	4,842	61.8	41.1	50.7	
Margin (%)	8.8	9.1	8.9		8.9	9.1	8.9	9.0				

Source: Company data, J.P. Morgan estimates.

Overweight

PUJL.BO, PUNJ IN

Price: Rs164.15

23 October 2008

Engineering

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Punj Lloyd: Actual vs. estimates

Rs in millions, year-end March

	2Q09A	2Q09E	%
Net sales	29,530	26,471	11.6
EBITDA	2,994	2,118	41.4
Net profit	1,429	962	48.5

Source: Company reports, J.P. Morgan estimates.

See page 3 for analyst certification and important disclosures, including non-US analyst disclosures.

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Table 1: Punj Lloyd: 2Q FY09 and 1H FY09 results

Rs in millions, year-end March

	2QFY09	2QFY08	YoY (%)	1QFY09	QoQ (%)	1HFY09	1HFY08	% YoY	FY09E	FY08	% YoY
Net Sales	29,530	18,942	55.9	26,488	11.5	56,017	32,892	70.3	108,488	77,529	39.9
Consumption of RM	10,470	7,996	30.9	7,028	49.0	17,498	13,192	32.6	35,705	28,285	26.2
Contractor Charges	8,420	5,034	67.3	9,043	(6.9)	17,464	8,626	102.5	30,377	21,339	42.4
Staff Cost	2,687	1,998	34.5	3,276	(18.0)	5,963	3,643	63.7	13,019	8,924	45.9
Other Expenditure	4,959	2,248	120.6	5,024	(1.3)	9,983	4,551	119.4	20,482	12,571	62.9
Total Expenditure	26,536	17,277	53.6	24,371	8.9	50,907	30,012	69.6	99,582	71,118	40.0
EBITDA	2,994	1,666	79.7	2,116	41.4	5,110	2,880	77.4	8,906	6,411	38.9
Other Income	11	305	(96.4)	94	(88.4)	105	535	(80.4)	760	811	(6.3)
Depreciation	439	334	31.5	392	12.0	830	688	20.8	1,691	1,462	15.7
Interest	490	394	24.6	368	33.2	859	682	25.8	1,904	1,292	47.3
PBT	2,076	1,243	66.9	1,451	43.1	3,526	2,045	72.4	6,071	4,468	35.9
Tax	647	349	85.3	469	37.8	1,116	555	101.0	2,128	1,238	72.0
Adjusted PAT	1,429	894	59.8	982	45.6	2,410	1,490	61.8	3,943	3,230	22.1
Exceptional	0	0		143		0	0		0	371	
Rep PAT	1,429	894	59.8	1,124	27.1	2,410	1,490	61.8	3,943	3,602	9.5
EBITDA Margin	10.1%	8.8%		8.0%		9.1%	8.8%		8.2%	8.3%	
Net margin	4.8%	4.7%		3.7%		4.3%	4.5%		3.6%	4.2%	
Tax Rate	31%	28%		32%		32%	27%		31%	28%	

Source: Company data, J.P. Morgan estimates.

Table 2: Punj Lloyd: Segment-wise results and order book

Rs in millions, year-end March

	2QFY09	2QFY08	YoY (%)	1QFY09	QoQ (%)	1HFY09	1HFY08	% YoY
Segment wise results								
Revenues								
Pipelines	7,159	6,476	10.5	7,749	(7.6)	14,908	8,738	70.6
Storage Tanks and terminals	776	1,444	(46.3)	1,387	(44.1)	2,163	3,247	(33.4)
Infrastructure	11,478	6,672	72.0	7,352	56.1	18,830	11,279	66.9
Process plants, others	10,128	4,656	117.5	9,619	5.3	19,747	10,006	97.4
Revenue composition (%)								
Pipelines	26.7	33.6		28.9		26.5	26.1	
Storage Tanks and terminals	2.9	7.5		5.2		3.8	9.7	
Infrastructure	42.9	34.7		27.4		33.4	33.7	
Process plants, others	37.8	24.2		35.9		35.1	29.9	
Others	-10.3	0.0		2.5		1.2	0.5	
Order Book	216,747	148,520	45.9	201,621	7.5			
Pipelines	71,394	36,059	98.0	38,725	84.4			
Storage Tanks and terminals	11,202	8,381	33.7	3,838	191.9			
Infrastructure	73,025	39,377	85.5	73,734	(1.0)			
Process plants, others	61,126	64,703	(5.5)	85,324	(28.4)			
Order book composition (%)								
Pipelines	32.9	24.3		19.2				
Storage Tanks and terminals	5.2	5.6		1.9				
Infrastructure	33.7	26.5		36.6				
Process plants, others	28.2	43.6		42.3				
Others	0.0	0.0		0.0				
Order Inflow (Derived)	44,667	11,526	287.5	31,772	40.6	76,439		
Pipelines	39,828	960	4,048.8	1,404	2,736.5	41,232		
Storage Tanks and terminals	8,140	333	2,344.4	(654)	(1,345.3)	7,486		
Infrastructure	10,769	8,661	24.3	12,501	(13.9)	23,270		
Process plants, others	(14,070)	1,572	(995.0)	18,520	(176.0)	4,450		

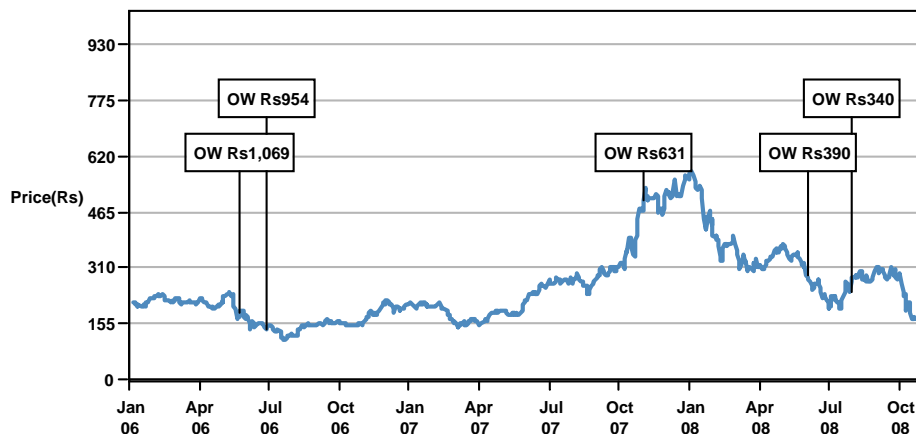
Source: Company reports.

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Punj Lloyd Ltd (PUJL.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
24-May-06	OW	187.75	1069.00
29-Jun-06	OW	138.99	954.00
03-Nov-07	OW	498.40	631.00
03-Jun-08	OW	287.05	390.00
30-Jul-08	OW	242.40	340.00

Source: Reuters and J.P. Morgan; price data adjusted for stock splits and dividends.
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