

November 07, 2008

Morning Note

	BSE	NIFTY
Close	9734	2893
Change	-385.79	-102.30
52 Week High / Low	21207/7697	6357/2253

Sectoral Indices	Days' close	Previous close	P/E
Automobiles	2446	2542	8.54
Capital Goods	9051	9135	17.85
Cement	4084	4186	4.65
FMCG	3117	3130	17.99
Infotech	2152	2248	10.45
Construction	9811	9806	17.64

Other Markets	Close	Change
Dow Jones	8696	-443.48
FTSE 100	4272	-258.32
Nasdaq	1609	-72.94

Trade Data 06/11	BSE	NSE
Turnover (Rs. bn)	40.11	108.95
Change	-9.73	-21.45
Adv/ Dec/ unchanged	11/22/1	12/35/1
	Buying	Selling
FII's (Rs. bn) 05/11	24.32	20.93
MF's (Rs. bn) 04/11	5.81	7.50

Interbank Closing	Close	Change
Rs/US \$	47.74	-0.30
Rs/UK £	75.91	-
Rs/EURO	61.43	0.09

Commodity Prices	Close	Change
Crude (\$/Bbl)	60.77	-4.53
Copper (\$/tn)	3880	-190
Gold Std (Rs/10GM)	11900	-100
Silver (Rs/Kg)	17100	100
Aluminium (\$/tn)	1975	-36
Zinc (\$/tn)	1102	-43

ADR / GDR	Latest	Previous	Change
Infosys	24.72	27.61	-2.89
ICICI Bank	16.68	17.14	-0.46
Wipro	7.37	8.06	-0.69
Tata Motors	4.50	4.68	-0.18
Satyam	13.81	14.88	-1.07
Dr. Reddy's	8.30	8.39	-0.09
HDFC Bank	62.90	66.08	-3.18

10 year G-Sec yield : 7.7%

FOCUS OF THE DAY:

PUNJ LLOYD

Q2FY09 Result Review

CMP (Rs): 195
Mkt Cap (Rs Bn): 62.3
Mkt Cap (\$ Mn): 1.32

BUY

Financial Highlights

- For Q2 FY09 PLL has achieved a net consolidated turnover of Rs. 29.53 bn, a growth of 56% over Q2 FY08.
- The operating profits during the quarter were up by 80% y-o-y at Rs. 2.99 bn and PAT showed an increase of 60% to Rs. 1.42 bn after taking into account forex loss of Rs.400 mn. OPMs of 10.14% was much higher than our expectation, mainly on account of a decline in contractor charges and staff costs as a percentage to sales.
- The company's Q2FY09 performance was much better than our expectations both at the topline and bottomline. There was significant expansion in EBIDTA margins as well, which was higher by 70 bps to 10.2%, compared to our expectation of 9.5%; however if we exclude the forex loss of Rs.400 mn then OPMs would have been even higher than our expectations.

Expected vs Actuals

(Rs.Mn)	Q209E	Q209A	% divergence
Sales	27,500	29,529.9	7.4%
EBIDTA	2,613	2,994	14.6%
% margin	9.5%	10.14%	(70) bps
PAT (Before EOI)	1,265	1,429	13.0%

Outlook & Valuation

We believe that company reported robust Q2FY09 numbers, which were far better than our expectations, answering medium term concerns on PLL's numbers. Also given that the overall business momentum is intact, we believe the margin for disappointment is minimal. Hence, we are keeping our estimates unchanged and are quite confident about its growth in FY09E and FY10E.

With the new orders, PLL's Book-to-Bill ratio stands at 2x FY09E revenues. We expect revenue growth of CAGR 29.4% over FY08-10E and a net profit growth of CAGR 37% for the same period. Presently, the stock trades at a PER of 12x & 9x our FY09E and FY10E EPS estimates respectively. With the historical overhang on provisions related to SEC and recent write-offs in Q4FY08 such incidents cannot be ruled out in future as these orders are yet to be completed. We are however cutting our target price to Rs.318 (from Rs.475 earlier) with a target P/E of 15x FY10E compared to 20x earlier and maintain our BUY rating on the stock. We are not valuing anything from its shipyard business as the chances of listing Pipapav Shipyard looks bleak given current bad market conditions.

Key Positives

- As per our discussion with the management, legacy orders to the tune of Rs. 5.9 bn (Rs. 6.4 bn on Q2FY09) are to be executed over a period of next six months with nil margins. Provisioning on these orders is not ruled out as the company is yet to finish these projects and determine whether any further provisions are required.

Order Book Details

(Rs.Mn)	H1FY09	H1FY08	% chg
Pipelines	71,394	36,059	98.0%
Tankages	11,202	8,381	33.7%
Infrastructure	73,025	39,377	85.5%
Process Plants	61,126	64,703	-5.5%
Total	216,747	148,520	45.9%

- The overall business momentum of the company is intact with healthy order book growth and stable margins. However, we believe that the growth in H1FY09 was very robust and repeating this performance looks challenging. But, given the healthy order book position of more than 2x its expected FY09E sales, this cannot be ruled out.
- Moreover, 80% of PLL's order book has a cost escalation clause and 95% of its orders are from government owned companies with marginal exposure to real estate sector. This makes us more confident about its sustainable growth and margins in the long run.
- The consolidated order backlog of the company in Q2FY09 is at Rs.216.75 bn, of which 30% (Rs.60 bn) is contributed by SEC. From the application perspective, pipeline order backlog is at 32.94% (Rs.71.39 bn), infrastructure 33.69% (Rs.73.05 bn), process plants 28.2% (Rs.61.12 bn), and the balance 5.17% (Rs.11.2 bn) is from Tankages.

What has changed between Q1FY09 and Q2FY09

- We believe that the overall results were pretty robust and also concerns over provisioning and write offs in future seem to have come down significantly during the quarter. Auditor's qualification towards losses expected on a long-term contract in UK by Simon Carves of Rs. 3.05 bn in Q4FY08 now stands revised downwards to Rs. 2.21 bn. This order will be completed by Dec 08. The management is very confident of recovering this money once the project is completed as the escalation was on account of a change in the scope of work.
- Order book to sales has been maintained in excess of 2x FY09E turnover despite robust revenue growth during the quarter. This gives us more clarity on its long-term growth.
- The overall order book addition has grown by 45.9% y-o-y, which we believe is healthy, given the high base in H1FY08. The current order book and order inflow will translate into a revenue growth of 29.4% CAGR over FY08-10E from Rs.77.53 bn to Rs.129.86 bn. We have assumed an order book CAGR of 20% between FY08-10E.
- Margins for the quarter in excess of 10% (incl. forex loss) are very robust according to us, beating our optimistic estimate of 9.5%. We believe that maintaining such margins will be a challenge, though given the sharp decline in commodity prices, it may not be so.
- PLL's average order ticket size has grown dramatically. It started out with orders worth US\$~30 mn, then moved up to ~US\$100mn and now it is around US\$200 mn. During the current quarter, the company got 5 big orders totaling Rs.54.6 bn. The average ticket size of these orders was in excess of US\$ 200 mn. The company hopes to continue the trend going forward. With the acquisition of SEC, PLL has gained a higher pre-qualification status and also an entry into niche businesses with minimum competition.

Quarterly Financials

Year End March 31 (Rs.Mn)	Q209	Q208	Y-o-Y	FY08	FY09E	FY10E
Net Sales	29530	18942	55.9%	77529.2	108036.6	129866.4
Total Income	29541	19247	53.5%	78339.9	109086.6	130895.4
Total Expenditure	26536	17277	53.6%	71121.9	97632.1	116407.0
Operating Profit	2993.6	1665.5	79.7%	6407.3	10404.6	13459.5
EBIDTA	3004.5	1970.5	52.5%	7218.0	11454.6	14488.5
Interest	490	394	24.6%	1292.1	2414.8	2592.6
PBDT	2514.2	1576.9	59.4%	5925.9	9039.8	11895.8
Depreciation	439	334	31.5%	1462.3	1422.2	1604.2
PBT	2075.5	1243.4	66.9%	4463.6	7617.6	10291.6
Tax	647	349	85.3%	1234.9	2590.0	3499.2
EOI	0	0		-371.2	0.0	0.0
PAT	1428.9	894.4	59.8%	3599.9	5027.6	6792.5
Equity (FV = 2)	607	582		606.9	640.0	640.0
Ratios						
OPM	10.14%	8.8%	134.5	8.3%	9.6%	10.4%
Tax / PBT	31.2%	28.1%	308.6	27.7%	34.0%	34.0%
NPM (Before EOI)	4.8%	4.6%	19.0	4.6%	4.6%	5.2%
Cash EPS	6.2	4.2	46.7%	16.6	20.2	26.2
EPS	4.7	3.1	54.4%	11.8	15.7	21.2

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