Indiabulls

PUNJ LLOYD LIMITED RESEARCH

EQUITY RESEARCH | March 17, 2008

RESULTS REVIEW

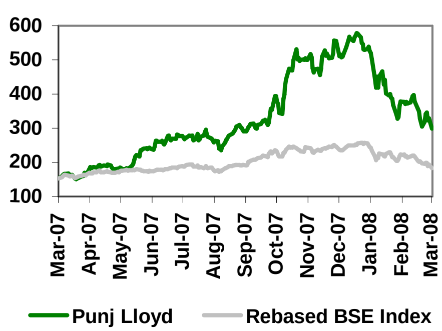
Share Data	
Market Cap	Rs. 90.4 bn
Price	Rs. 297.85
BSE Sensex	14,809.49
Reuters	PUJL.BO
Bloomberg	PUNJ IN
Avg. Volume (52 Week)	0.8 mn
52-Week High/Low	Rs. 589.1/147.75
Shares Outstanding	303.4 mn

Valuation Ratios (Consolidated)

Year to 31 March	2008E	2009E
EPS (Rs.)	10.5	17.0
+/- (%)	66.4%	61.8%
PER (x)	28.4x	17.6x
EV/ Sales (x)	1.3x	0.9x
EV/ EBITDA (x)	15.1x	10.4x

Shareholding Pattern (%)	
Promoters	45
FIIs	27
Institutions	13
Public & Others	15

Relative Performance



Punj Lloyd Limited — Buy

Legacy orders depress operating margin

One-time write off of Rs. 679.6 mn for the legacy orders of subsidiary Sembawang E&C (SEC) stole the shine away from the Q3 results of the Company as it reported a 47.7% yoy growth in revenue to Rs. 21.1 bn. Reported net profit, hit by the provisioning, showed a rise of just 13.1% yoy with the corresponding margin at 2.6%.

However, despite the legacy orders scare, the strong order inflow of Rs. 40 bn during the quarter indicates a robust business momentum. Most of these orders have been bagged by SEC at an EBIDTA margin of 7% - 8% against the legacy orders that were booked at break-even margin. With the share of legacy orders expected to decline substantially in H1'09, we believe Punj Lloyd is well poised to reap the benefits of improvement in operating efficiency of its subsidiaries.

The steady increase of the average order size to USD 250 mn, entry into newer segments like hydro-power and nuclear power plants, and tie-ups with other players for infrastructure development opportunities reinforce the management vision to be among the top engineering and construction players globally in the next five years. The acquisition of new capabilities, ramping up of the subsidiaries, and the continued traction in the oil & gas sector globally further strengthen the outlook for the Company.

We have revised our FY08E and FY09E EBITDA estimates downwards by 5.6% and 9.9% to reflect the growing contribution of SEC in the order book which has comparatively lower operating margin than that of the standalone business. The Company is currently trading at a P/E of 28.4x for FY08E and 17.6x for FY09E. We maintain our Buy rating with a target price of Rs. 550, based on DCF valuation.

Key Figures (Consolidated)

Quarterly Data	Q3'07	Q2'08	Q3'08*	YoY%	QoQ%	9M'07	9M'08*	YoY%
(Figures in Rs. mn, except per share data)								
Net Sales	14,333	18,942	21,170	47.7%	11.8%	34,230	54,062	57.9%
EBITDA	831	1,666	1,742	109.7%	4.6%	2,037	4,619	126.8%
Net Profit	483	895	1,244	157.6%	39.0%	1,080	2,733	153.1%
Margins (%)								
EBITDA	5.8%	8.8%	8.2%			5.9%	8.5%	
NPM	3.4%	4.7%	5.9%			3.2%	5.1%	
Per Share Data (Rs.)								
EPS	1.8	3.0	3.0	62.1%	(2.6)%	4.1	8.1	98.8%

**Q3'08 and 9M'08 numbers are adjusted for one-time provisioning for SEC legacy orders*

Result Highlights

Punj Lloyd reported net sales at Rs. 21.1 bn, an increase of 47.7% yoy, in line with our expectations. The rise in the revenue is attributable to a robust performance across key verticals in domestic as well as international operations.

Cost overruns, rework due to design changes, and acceleration costs on legacy orders take their toll on operating margin

Reported EBITDA at Rs. 1.04 bn was up 25.7% yoy. The underperformance at the EBITDA level was due to provisioning of Rs. 679.6 mn for legacy orders of SEC, which have been plagued with cost overruns, rework due to design changes, and acceleration costs. The current order book comprises Rs. 10.4 bn of legacy orders, which would be executed in the next three quarters. However, the management is hopeful that some of the cost overruns can be recovered from the clients.

Though the management has made all provisions based on the current assessment of legacy projects in SEC, a further possibility of cost overruns cannot be ruled out.

Adjusting for the one-off provisioning, EBITDA showed an improvement of 109.7% yoy and EBIDTA margin accordingly improved by 243 bps yoy to 8.2%. Similarly, net profit scaled up by 157.6% to Rs. 1.2 bn.

Sembawang E&C bagged bulk of the orders received during the quarter

Punj Lloyd reported an order backlog of Rs. 160 bn at the end of January 2008. Out of the Rs. 40.2 bn orders received during the quarter, Sembawang E&C's share constituted 76%. Though the proportion declines to 59% if we include the recent order inflows (14 February '08 – 10 March '08), it is important to note here is that margins in these SEC projects are lower at around 7% - 8%, and as a result can be a drag on the consolidated margins. We have accounted for this dominance of the order inflow by SEC and have accordingly adjusted our EBITDA margin estimates.

Order Inflow in FY08 till date

Segment	Client	Details	Punj Lloyd Rs. in bn	SEC
Infrastructure	Lanco Infratech Ltd	Execution of structural work of Tower 9 for the SEZ IT Park at Hyderabad		0.5
Pipeline	PETRONAS Carigali Sdn Bhd	EPC and commissioning of a onshore natural gas pipeline from the proposed Sabah Oil and Gas Teminal to Petronas LNG complex, Sarawak State	20	
Infrastructure	Marina Bay Sands Pte Ltd	Construct and build the North Podium of Marina Bay Sands integrated resort		11.2
Process	Indian Oil Corporation Ltd	Building delayed Coker unit and Coker LPG Merpx Block at the Vadodara Refinery in Gujarat	5.9	
Infrastructure	Land Transport Authority of Singapore	Architectural, civic, and structural works at the roposed Bayfront MRT Station in Singapore		12.7
Aromatics	Jurong Aromatics Corporation pte Ltd	EPC work at the new mega aromatics plant in Jurong Island, Singapore		17.7
Pipeline	Qatar Petroleum	Multi-product pipeline	3.9	
Total			29.8	42.1

Source: Company data, Indiabulls Research

Key Events

- Punj sold its equity interest in a hotel in Indonesia, resulting in a gain of Rs. 371.2 mn, which was shown in the books as an extraordinary item.

- Out of total outstanding FCCB of USD 125 mn, FCCBs worth USD 63.2 mn were converted into equity shares in December '07, and FCCBs worth USD 12.1 mn were converted in January '08.

Key Risks

Delay in execution or cancellation of projects, escalation in raw material prices, appreciation of the rupee, decline in oil & gas capex, dilution of mangement focus, and financial constraints are the key risks.

Outlook

The steady increase of the average order size to about USD 250 mn, entry into newer segments like hydro-power and nuclear power plant construction, and increased activity in the oil & gas sector on the global and the domestic front speaks of the continued traction Punj Lloyd is witnessing. Punj has recently tied up with other players for infrastructure development opportunities, like GMR Infrastructure for roads. The Company intends to leverage the fabrication facilities in Pipavav Shipyard for its oil and gas stream efforts as well as to support the group's downstream business, besides ramping up Simon Carves India and increasing presence in oil field development services. The robust spending in geographies such as Middle East on oil & gas and in South-East Asia on leisure infrastructure reiterates the strong business environment.

Moreover, the robust order inflow to SEC at an EBIDTA margin of 7% - 8% against the legacy orders that were booked at break-even margin reflects an improvement in the operating efficiency of SEC. However, we have revised our FY08E and FY09E EBITDA estimates downwards by 5.6% and 9.9% to reflect the greater order flow to SEC.

At the current market price, the stock is trading at a forward P/E of 28.4x FY08E and 17.6x FY09E. We reiterate our Buy rating with a target price of Rs. 550, based on DCF valuation.

Key Figures (Consolidated)

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs. mn, except per share data)						(FY07-09E)
Net Sales	17,900	16,888	51,266	76,480	101,521	40.7%
EBITDA	2,173	1,986	4,103	6,348	9,238	50.1%
Net Profit	356	569	1,771	3,259	5,274	72.6%
Margins(%)						
EBITDA	12.1%	11.8%	8.0%	8.3%	9.1%	
NPM	2.0%	3.4%	3.5%	4.3%	5.2%	
Per Share Data (Rs.)						
Adj. EPS	2.0	2.5	6.3	10.5	17.0	64.1%
PER (x)	104.9x	87.5x	26.5x	28.4x	17.6x	

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