

## Equities

11 January 2012 | 7 pages

# Punj Lloyd (PUJL.BO)

## Alert: Takeaways from India Infrastructure Conference – Tough Times Likely Nearing an End

- Company Update
- Event

- **Takeaways from Mumbai** – Punj Lloyd presented at our India Infrastructure and Industrials Conference in Mumbai on 10-11 Jan. Below we highlight key takeaways.
- **Steady improvement in operations** – Company has gone through a rough patch over the past one year, but says things are under control and improving. No new issues (auditor qualifications / customer disputes) have emerged in recent times, and losses in Simon Carves are over.
- **Libyan orders set to start execution in 1-2 months** – Based on the situation on the ground, company believes that it will be able to start execution of Libyan orders in 1-2 months. PLL has ~Rs39bn worth of orders from Libya.
- **Orders and margins** – PLL has won Rs120bn of orders in YTD FY12. Current order backlog at similar to those reported in 1HFY12 numbers. Company targets >10% margin at project level. 30% of projects have price variation clause for raw materials.
- **Outlook on different sectors** – (1) **Power BOP** – Company has won orders from GVK, CESC and KSK, but order inflow is now slow given problems in the power sector. (2) **Pipeline** – Average annual market size is Rs25bn, of which PLL has 25% share. This market is likely to increase to Rs40bn/yr. (3) **Oil and gas onshore EPC** – Slow as of now, but some projects which had been deferred are now being revived. The addressable market size is Rs40-50bn/yr. (4) **Tanks and Terminals** – There is substantial activity in tanks and terminal space. Over next two years, 8-10 strategic oil reserves projects (each of Rs8-10bn) are likely to be given out. There are a number of LNG terminals and tanks orders from these which could be in the Rs2-4bn range each.
- **Balance sheet and working capital** – Current debt is ~Rs51.5bn with average interest cost of ~11%. ~29% of debt is denominated in foreign currency compared to ~70% of revenues in foreign currency. As a result, company is looking to substitute high-cost INR debt with foreign currency debt to reduce interest cost. Currently company has ~Rs15bn receivables pending due to various reasons (~Rs4.9bn from ONGC + Rs3bn in India from OMCs and others). Oil marketing companies (OMCs) have delayed payment due to stress on their financials, which has resulted in some pressure on working capital.

<b>Sell/High Risk</b>	<b>3H</b>
Price (11 Jan 12)	Rs44.80
Target price	Rs54.00
Expected share price return	20.5%
Expected dividend yield	0.3%
<b>Expected total return</b>	<b>20.9%</b>
Market Cap	Rs14,878M US\$288M

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



**Venkatesh Balasubramaniam**  
 +91-22-6631-9864  
 venkatesh.balasubramaniam@citi.com

**Atul Tiwari, CFA**  
 +91-22-6631-9866  
 atul.tiwari@citi.com

**Deepal Delivala**  
 +91-22-6631-9857  
 deepal.delivala@citi.com

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## Punj Lloyd

### Valuation

Our Rs54 target price for Punj Lloyd is based on a target P/E multiple of 9x Mar13E. Our target multiple is at a premium to mid-cap construction peers (like IVRCL at 6x and Nagarjuna at 6x) and is set at a ~ 40% discount to L&T, given L&T's superior skill sets, backlog and execution track record.

### Risks

We assign a High risk rating to Punj Lloyd shares because of continuing auditor qualifications, uncertainty in Libya and higher competitive intensity. Key upside risks to our target price include: 1) Favorable settlement with ONGC; 2) Positive change in macro-economic variables; and 3) Better-than-expected order inflows and sales execution.

## Appendix A-1

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#### Punj Lloyd (PUJL.BO)

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Analyst: Venkatesh Balasubramaniam



Date	Rating	Target Price	Closing Price
1 13-Jan-09	*2H	*142.00	109.80
2 25-Jan-09	*3H	*85.00	92.30
3 12-Jun-09	*3M	*217.00	212.50
4 21-Jul-09	*1M	*263.00	231.15
5 27-Aug-09	1M	*311.00	264.00
6 29-Oct-09	*2M	*228.00	202.90

Date	Rating	Target Price	Closing Price
7 14-Jan-10	*3M	*197.00	222.45
8 3-Feb-10	3M	*191.00	188.55
9 30-Mar-10	3M	*179.00	175.45
10 6-Jun-10	3M	*115.00	118.65
11 12-Oct-10	3M	*111.00	134.15
12 31-May-11	3M	*60.00	68.15

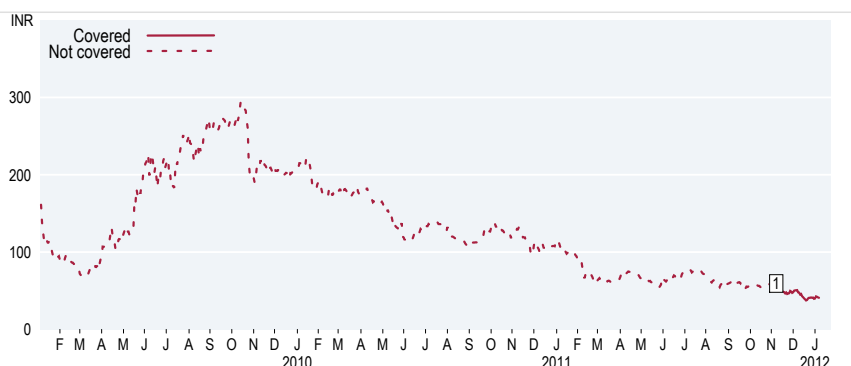
Date	Rating	Target Price	Closing Price
13 21-Sep-11	3M	*52.00	62.10
14 7-Oct-11	Stock rating system changed		
15 7-Oct-11	*3H	52.00	54.20
16 8-Nov-11	3H	*54.00	58.95

\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

**Punj Lloyd (PUJL.BO)**  
**Ratings and Target Price History**  
**Best Ideas Research**  
**Relative Call (3 Month)**

Analyst: Venkatesh Balasubramaniam



	Date	Rating	Target Price	Closing Price
1	8-Nov-11	*ADD LP	-	58.95

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Data current as of 31 Dec 2011

Citi Investment Research & Analysis Global Fundamental Coverage	12 Month Rating			Relative Rating		
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	45%	41%	40%	49%	43%	41%

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Venkatesh Balasubramaniam; Atul Tiwari, CFA; Deepal Delivala

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