

August 16, 2011

Reco	Previous Reco
Hold	Hold
CMP	Target Price
Rs56	Rs76
EPS change FY12E/13E (%)	-67/-58
Target Price change (%)	-16
Nifty	5,036
Sensex	16,731

### Price Performance

(%)	1M	3M	6M	12M
Absolute	(25)	(8)	(23)	(52)
Rel. to Nifty	(17)	0	(16)	(48)

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	Engineering & Capital Goods
Bloomberg	PUNJ@IN
Equity Capital (Rs mn)	664
Face Value(Rs)	2
No of shares o/s (mn)	332
52 Week H/L	142/53
Market Cap (Rs bn/USD mn)	19/419
Daily Avg Volume (No of sh)	3384610
Daily Avg Turnover (US\$m)	5.1

### Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	37.2	37.1	37.2
FII/NRI	12.3	11.3	13.3
Institutions	12.7	13.5	14.5
Private Corp	7.4	8.4	9.8
Public	30.5	29.6	25.3

Source: Capitaline

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- Improved operational performance, But high financial leverage results in net loss of Rs123 mn – though better than estimates
- Commencement of winding-up proceedings in subsidiary Simon Carves – No immediate financial implications
- Status quo on pending arbitrations, further clarifies no one-offs in existing order backlog
- Still running a tight ship - leveraged balance sheet, high working capital cycle and arbitrations unresolved – Maintain HOLD with revised target price of Rs76/Share

### Improved operational performance, But high financial leverage results in net loss of Rs123 mn – Better than estimates

Punj Lloyd posted an improved operational performance on back of pick-up in revenue booking, resultant benefits of operating leverage and non-recurrence of one-offs (1) Revenues grew 31% yoy to Rs22.6 bn (2) EBITDA margins improved 30 bps yoy to 8.0% (3) EBITDA growth was robust at 35% yoy to Rs1.8 bn – ahead estimates. However, high interest costs (up 40% yoy to Rs1.1 bn) negated strong operational performance. Consequently, Punj Lloyd reported net loss of Rs123 mn – though better than our estimates of a loss of Rs333 mn.

### Commencement of winding-up proceedings in subsidiary Simon Carves – No immediate financial implications

Punj Lloyd has withdrawn financial support to step down subsidiary Simon Carves (SCL) and commenced winding-up proceedings by handing over to administrator. The balance sheet has outstanding loans worth GBP 240 mn (held for SABIC execution) and assets of Rs1.3 bn. Does not have immediate financial (P&L) implications, since being long drawn process.

### Status quo on pending arbitrations, further clarifies no one-offs in existing order backlog

Status quo remains on all pending arbitrations and auditors qualification on project execution. Obviously, NO progress recorded on key projects under arbitration i.e. ONGC Heera Project and Ensus order. Also, clarifies on current order backlog with LOW probability for abnormal cost over runs or arbitration at current juncture.

### Still running a tight ship - leveraged balance sheet, high working capital cycle and arbitrations unresolved

Though, Punj Lloyd has reported improvement in operational performance in last few quarters, the same fails to percolate down. It continues to run tight ship with NO improvement in balance sheet and working capital requirements. Infact, leverage has increased to Rs49.0 bn from Rs45.0 bn in FY11P. Also, inventory level remains high at Rs45.0 bn in the balance sheet with NWC requirement of Rs50.0 bn.

### Consolidated Financial Snapshot

YE- Mar	Rs Mn									
	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
FY10	104,733	3,441	3.3	-4,353	-12.9	-270.6	-14.4	-4.4	15.5	0.6
FY11P	81,663	6,212	7.6	-504	-1.5	-88.0	-1.7	-36.4	7.7	0.6
FY12E	104,697	8,354	8.0	497	1.5	-195.4	1.6	38.2	6.8	0.6
FY13E	118,162	9,422	8.0	919	2.7	86.1	3.0	20.5	6.4	0.6

## Quarterly Standalone Performance

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
<b>Revenue</b>	<b>17,339</b>	<b>19,876</b>	<b>21,189</b>	<b>23,260</b>	<b>22,634</b>	30.5	-2.7
<b>Expenditure</b>	<b>15,998</b>	<b>18,043</b>	<b>20,231</b>	<b>21,179</b>	<b>20,825</b>	<b>30.2</b>	<b>-1.7</b>
Consumption of RM	4,387	4,671	6,494	7,723	8,191	86.7	6.1
as % of sales	25.3	23.5	30.6	33.2	36.2		
Contractor Charges	4,617	6,447	6,195	6,133	4,906	6.3	-20.0
as % of sales	26.6	32.4	29.2	26.4	21.7		
Employee Cost	2,876	2,917	2,827	2,641	2,809	-2.3	6.4
as % of sales	16.6	14.7	13.3	11.4	12.4		
Other Expenditure	4,117	4,008	4,715	4,683	4,919	19.5	5.1
as % of sales	23.7	20.2	22.3	20.1	21.7		
<b>EBITDA</b>	<b>1,341</b>	<b>1,832</b>	<b>958</b>	<b>2,080</b>	<b>1,809</b>	<b>34.9</b>	<b>-13.0</b>
Depreciation	640	679	674	699	617	-3.7	-11.8
<b>EBIT</b>	<b>701</b>	<b>1,154</b>	<b>284</b>	<b>1,381</b>	<b>1,193</b>	<b>70.2</b>	<b>-13.7</b>
Other Income	41	32	78	57	30	-25.4	-47.0
Interest	810	924	845	989	1,133	39.9	14.6
<b>PBT</b>	<b>-69</b>	<b>262</b>	<b>-484</b>	<b>449</b>	<b>89</b>	<b>-230.1</b>	<b>-80.1</b>
Total Tax	235	47	116	265	216	-8.2	-18.3
<b>Adjusted PAT</b>	<b>-304</b>	<b>215</b>	<b>-599</b>	<b>185</b>	<b>-127</b>	<b>-58.4</b>	<b>-168.6</b>
Profit/loss from JV's/Ass/MI	-2	24	-22	-8	4	-327.8	-151.3
<b>Adjusted PAT (after MI)</b>	<b>-306</b>	<b>239</b>	<b>-621</b>	<b>177</b>	<b>-123</b>	<b>-60.0</b>	<b>-169.4</b>
Extra ordinary items	0	0	0	0	0	NA	NA
<b>Reported PAT</b>	<b>-306</b>	<b>239</b>	<b>-621</b>	<b>177</b>	<b>-123</b>	<b>-60.0</b>	<b>-169.4</b>
<b>Adjusted EPS (Rs)</b>	<b>-0.9</b>	<b>0.7</b>	<b>-1.9</b>	<b>0.5</b>	<b>-0.4</b>	<b>-60.0</b>	<b>-169.4</b>

Margins (%)						(bps)	(bps)
EBIDTA	7.7	9.2	4.5	8.9	8.0	30	-100
EBIT	4.0	5.8	1.3	5.9	5.3	120	-70
PBT	-0.4	1.3	-2.3	1.9	0.4	80	-150
PAT	-1.8	1.1	-2.8	0.8	-0.6	120	-140
Effective Tax rate	-342.6	18.1	-23.9	58.9	241.6	58430	18270

## Order Backlog Details

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
<b>Order Backlog</b>							
Order Inflows	32,840	16,440	44,289	33,510	33,944	3.4	1.3
Order Book	255,560	254,700	277,800	228,050	239,360	-6.3	5.0
<b>Order-book break-up</b>							
Pipelines	23,688	28,208	42,240	60,160	61,220	158.4	1.8
Tankages	4,863	4,228	7,660	5,750	9,000	85.1	56.5
Infrastructure	180,845	155,104	154,340	92,180	90,380	-50.0	-2.0
Process Plants, Others	46,169	67,162	73,560	69,960	78,760	70.6	12.6
<b>Total</b>	<b>255,565</b>	<b>254,702</b>	<b>277,800</b>	<b>228,050</b>	<b>239,360</b>	<b>-6.3</b>	<b>5.0</b>
<b>Order-book break-up (%)</b>						<b>(bps)</b>	<b>(bps)</b>
Pipelines	9.3	11.1	15.2	26.4	25.6	1630.0	-80.0
Tankages	1.9	1.7	2.8	2.5	3.8	190.0	120.0
Infrastructure	70.8	60.9	55.6	40.4	37.8	-3300.0	-270.0
Process Plants, Others	18.1	26.4	26.5	30.7	32.9	1480.0	220.0

**Revenue Break-up**

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY (%)	QoQ (%)
<b>Revenue Mix</b>							
Pipelines	5,583	6,639	5,160	4,608	5,640	1.0	22.4
Tankages	617	1,181	640	2,092	2,970	381.4	42.0
Infrastructure	4,840	6,840	6,510	8,810	6,570	35.7	-25.4
Process Plants, Others	6,299	5,216	8,879	7,966	7,570	20.2	-5.0
<b>Total</b>	<b>17,339</b>	<b>19,876</b>	<b>21,189</b>	<b>23,476</b>	<b>22,750</b>	<b>31.2</b>	<b>-3.1</b>
<b>Revenue Mix (%)</b>						<b>(bps)</b>	<b>(bps)</b>
Pipelines	32.2	33.4	24.4	19.6	24.8	-740	520
Tankages	3.6	5.9	3.0	8.9	13.1	950	410
Infrastructure	27.9	34.4	30.7	37.5	28.9	100	-860
Process Plants, Others	36.3	26.2	41.9	33.9	33.3	-310	-70

**Orders inflow momentum sustains – Secures Rs34 bn orders**

Punj Lloyd continued to report traction in order inflows – secured orders worth Rs34 bn (up 3% yoy, 1% qoq) – computed as per opening and closing unexecuted order backlog & revenues booked during the quarter and reconciled with orders declared during the quarter. However, it may be noted that the above figure is 40% lower than Rs56.3 bn mentioned in press release. The order book increased 5% qoq to Rs239.4 bn – equivalent to 2.9X FY11 revenues.

**Revise earnings by -67% and -58% for FY12E and FY13E – Attributed to high financial leverage**

We have revised our FY12E and FY13E earnings estimates to factor (1) no reprieve from high net-working capital cycle and resultant rise in debt (2) sharp rise in finance charges and (3) higher tax outgo. We have revised FY12E earnings by -67% (Rs1.5) and FY13E earnings by -59% (Rs2.7). Sharp cut in earnings is despite no change in operational performance and infact led by negative impact of financial leverage.

**Revision in Earning Estimates**

Y/E, Mar	FY12E			FY13E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	104,697	104,697	0.0	118,162	118,162	0.0
EBITDA	8,144	8,354	2.6	9,422	9,422	0.0
EBITDA Margin (%)	7.8	8.0	20 bps	8.0	8.0	0 bps
APAT	1,481	488	-67.0	2,186	908	-58.5
EPS (Rs)	4.5	1.5	-67.0	6.6	2.7	-58.5

**Retain HOLD rating; No Catalyst**

Punj Lloyd has delivered satisfactory operational performance in the past three quarters, exceeding our expectations. However, still running a tight ship with (1) high working capital (2) high financial & operating leverage and (3) unresolved arbitration. In absence of strong catalyst, we retain our HOLD rating with revised target price of Rs76 (@0.85X FY11 book value).

## Key Financials

## Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
<b>Net sales</b>	<b>104,733</b>	<b>81,663</b>	<b>104,697</b>	<b>118,162</b>
<i>Growth (%)</i>	-12.1	-22.0	28.2	12.9
<b>Expenditure</b>	<b>101,291</b>	<b>75,451</b>	<b>96,343</b>	<b>108,740</b>
Materials consumed	37,701	23,276	30,469	34,624
Employee cost	13,452	11,260	14,227	16,057
Manufacturing exp	43,782	33,598	43,599	49,206
Other exp	6,356	7,317	8,048	8,853
<b>EBITDA</b>	<b>3,441</b>	<b>6,212</b>	<b>8,354</b>	<b>9,422</b>
<i>Growth (%)</i>	-59.9	80.5	34.5	12.8
<b>EBITDA margin (%)</b>	<b>3.3</b>	<b>7.6</b>	<b>8.0</b>	<b>8.0</b>
Depreciation	2,270	2,692	3,053	3,346
<b>EBIT</b>	<b>1,171</b>	<b>3,520</b>	<b>5,300</b>	<b>6,076</b>
<b>EBIT margin (%)</b>	<b>1.1</b>	<b>4.3</b>	<b>5.1</b>	<b>5.1</b>
Other income	-910	208	311	311
Interest expenses	3,241	3,568	4,459	4,660
<b>PBT</b>	<b>-2,980</b>	<b>159</b>	<b>1,152</b>	<b>1,728</b>
Tax	1,372	663	655	810
<i>Effective tax rate (%)</i>	-46.0	416.8	56.8	46.8
<b>Adjusted PAT</b>	<b>-4,353</b>	<b>-504</b>	<b>497</b>	<b>919</b>
<i>Growth (%)</i>	-289.6	-88.4	-198.6	84.7
<b>Net Margin (%)</b>	<b>-4.2</b>	<b>-0.6</b>	<b>0.5</b>	<b>0.8</b>
(Profit)/loss from JVs/Ass/MI	-78	7	9	11
<b>Adj. PAT after JVs/Ass/MI</b>	<b>-4,274</b>	<b>-511</b>	<b>488</b>	<b>908</b>
E/O items	3,190	0	0	0
<b>Reported PAT</b>	<b>-1,084</b>	<b>-511</b>	<b>488</b>	<b>908</b>
<i>Growth (%)</i>	-51.9	-52.8	-195.4	86.1

## Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
<b>PBT (Ex-Other income)</b>	210	159	1,152	1,728
Depreciation	2,270	2,692	3,053	3,346
Interest Provided	3,063	3,568	4,459	4,660
Other Non-Cash items	-3,101	-7	-9	-11
Chg in working cap	-16,181	7,249	-10,463	-6,037
Tax paid	-1,617	-663	-655	-810
<b>Operating Cashflow</b>	<b>-15,356</b>	<b>12,998</b>	<b>-2,462</b>	<b>2,876</b>
Capital expenditure	-3,153	-4,000	-2,000	-2,000
<b>Free Cash Flow</b>	<b>-18,509</b>	<b>8,998</b>	<b>-4,462</b>	<b>876</b>
Other income	140	0	0	0
Investments	3,905	0	0	0
<b>Investing Cashflow</b>	<b>4,045</b>	<b>0</b>	<b>0</b>	<b>0</b>
Equity Capital Raised	6,556	0	0	0
Loans Taken / (Repaid)	9,939	0	0	2,000
Interest Paid	-2,690	-3,568	-4,459	-4,660
Dividend paid (incl tax)	-106	-50	-50	-50
Income from investments	0	0	0	0
Others	0	0	0	0
<b>Financing Cashflow</b>	<b>13,698</b>	<b>-3,618</b>	<b>-4,509</b>	<b>-2,709</b>
<b>Net chg in cash</b>	<b>-766</b>	<b>5,380</b>	<b>-8,971</b>	<b>-1,833</b>
Opening cash position	6,992	6,110	11,490	2,519
<b>Closing cash position</b>	<b>5,266</b>	<b>11,490</b>	<b>2,519</b>	<b>686</b>

## Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Equity share capital	664	664	664	664
Reserves & surplus	29,619	29,058	29,496	30,354
<b>Net worth</b>	<b>30,283</b>	<b>29,722</b>	<b>30,160</b>	<b>31,019</b>
<b>Minority interest</b>	<b>415</b>	<b>415</b>	<b>415</b>	<b>415</b>
Secured loans	39,828	39,828	39,828	41,828
Unsecured loans	4,727	4,727	4,727	4,727
<b>Loan Funds</b>	<b>44,554</b>	<b>44,554</b>	<b>44,554</b>	<b>46,554</b>
Net deferred tax liability	1,804	1,804	1,804	1,804
<b>Total liabilities</b>	<b>77,057</b>	<b>76,496</b>	<b>76,934</b>	<b>79,792</b>
Gross Block	31,203	35,203	37,203	39,203
Less: Depreciation	9,426	12,117	15,171	18,517
<b>Net block</b>	<b>21,777</b>	<b>23,085</b>	<b>22,032</b>	<b>20,686</b>
Capital work in progress	1,605	1,605	1,605	1,605
<b>Investment</b>	<b>3,818</b>	<b>3,818</b>	<b>3,818</b>	<b>3,818</b>
<b>Current assets</b>	<b>88,282</b>	<b>80,531</b>	<b>91,034</b>	<b>100,584</b>
Inventories	46,496	40,260	51,616	58,254
Sundry debtors	21,847	18,921	24,258	27,378
Cash & bank balance	6,110	11,490	2,519	686
Loans & advances	10,417	8,168	10,473	11,819
Other current assets	3,412	1,691	2,168	2,447
<b>Current lia &amp; prov</b>	<b>38,424</b>	<b>32,543</b>	<b>41,554</b>	<b>46,901</b>
Current liabilities	36,338	31,075	39,680	44,786
Provisions	2,087	1,467	1,874	2,115
<b>Net current assets</b>	<b>49,857</b>	<b>47,988</b>	<b>49,480</b>	<b>53,683</b>
Misc. exp	0	0	0	0
<b>Total assets</b>	<b>77,057</b>	<b>76,496</b>	<b>76,934</b>	<b>79,792</b>

## Key Ratios

Y/E, Mar	FY10	FY11P	FY12E	FY13E
<b>Profitability (%)</b>				
EBITDA Margin	3.3	7.6	8.0	8.0
Net Margin	-4.2	-0.6	0.5	0.8
ROCE	0.3	4.9	7.3	8.0
ROE	-14.4	-1.7	1.6	3.0
RoIC	2.5	-18.2	3.2	4.3
<b>Per Share Data (Rs)</b>				
EPS	-12.9	-1.5	1.5	2.7
CEPS	-6.0	6.6	10.7	12.8
BVPS	91.2	89.5	90.8	93.4
DPS	0.4	0.2	0.2	0.2
<b>Valuations (x)</b>				
PER	-4.4	-36.4	38.2	20.5
P/CEPS	-9.3	8.5	5.3	4.4
P/BV	0.6	0.6	0.6	0.6
EV / Sales	0.5	0.6	0.5	0.5
EV / EBITDA	15.5	7.7	6.8	6.4
Dividend Yield (%)	0.3	0.1	0.1	0.1
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	1.3	1.1	1.4	1.5
Net Debt/EBITDA	11.2	5.3	5.0	4.9
Working Cap Cycle (days)	111.5	125.6	126.2	126.2

**Recommendation History: Punj Lloyd – PUNJ IN**

Date	Reports	Reco	CMP	Target
01/06/2011	<a href="#">Punj Lloyd Q4FY11 Result Update</a>	Hold	65	91
28/02/2011	<a href="#">Punj Lloyd Event Update</a>	Hold	62	91
08/02/2011	<a href="#">Punj Lloyd Q3FY11 Result Update</a>	Hold	78	91
02/11/2010	<a href="#">Punj Lloyd Q2FY11 Result Update</a>	Hold	125	132

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
08/08/2011	<a href="#">Larsen and Toubro Q1FY12 Result Update</a>	Buy	1,630	1,936
05/08/2011	<a href="#">Cummins India Q1FY12 Result Update</a>	Buy	614	687
03/08/2011	<a href="#">Blue Star Q1FY12 Result Update</a>	Hold	265	280
03/08/2011	<a href="#">Voltas Q1FY12 Result Update</a>	Accumulate	134	165

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