PUNJ LLOYD

Edelweiss
Ideas create, values protect

Riding the infrastructure wave

September 2, 2009

Reuters : PUJL.BO *Bloomberg : PUNJ IN*

EDELWEISS 4D RATINGS	
Absolute Rating	BUY
Rating Relative to Sector	Outperformer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

Note:
Please refer last page of the report for rating explanation

MARKET DATA		
CMP	:	INR 258
52-week range (INR)	:	316 / 66
Share in issue (mn)	:	340
M cap (INR bn/USD mn)	:	87.6 / 1,788.2
Avg. Daily Vol. BSE ('000)	:	9,369.0

SHARE HOLDING PATTERN (%)		
Promoters*	:	41.3
MFs, FIs & Banks	:	20.9
FIIs	:	15.5
Others	:	22.3
* *Promoters pledged shares (% of share in issue)*	:	*Nil*

RELATIVE PERFORMANCE (%)	Sensex	Stock	Stock over Sensex
1 month	(2.3)	2.0	4.4
3 months	4.5	20.3	15.8
12 months	3.3	(16.8)	(20.2)

Play on global engineering and construction demand

Punj Lloyd (Punj) is one of the largest engineering and construction companies in India in terms of revenues and order backlog. Since its inception, the company has constructed more than 9,000 km of pipelines (up to 48" diameter) and 4 mn cubic meters of storage tanks and terminal capacity. Acquisition of SEC and its subsidiary Simon-Carves in June 2006 provided Punj the armory to become a large global EPC player and consolidate its position in the oil & gas space, along with opening doors to the fast growing urban infrastructure space.

Leading player in mid stream and down stream oil & gas sector

Punj is a leading player in mid stream and down stream oil & gas sector in India and abroad. In the down stream oil & gas space, India's refinery capacity is expected to increase from 155 MMTPA to 240 MMTPA by FY12E. Currently, around USD 40 bn projects in the refinery vertical have been announced. We believe, Punj will benefit with the sector's growth prospects looking bright.

Civil infrastructure and oil & gas segments to boost order inflows

On the back of strong economic growth (till FY08), especially in South East Asia, Asia Pacific, and India, coupled with high crude oil prices (till July 08), Punj experienced exponential growth in order intake, in excess of INR 100 bn in each year (during FY07-FY09). We believe such rapid scale up in order inflows, implies high growth over the long term.

Outlook and valuations: Bright prospects; initiating coverage with 'BUY'

We arrive at one-year fair price of INR 336/share for Punj, through the SOTP methodology (valuing the parent at INR 323/share and its holding in Pipavav Shipyard at INR 13/share). We have valued Punj using the DCF method, while its holding in Pipavav Shipyard is valued at FY09 P/B of 2.5x, in line with global peers in the ship building industry. Over its 3.5-year history since listing, it has traded at average one-year forward P/E of 44x. However, over the past one year, it has traded at 20x one-year forward. At current estimates, the stock is trading at P/E of 18.9x and 15.3x for FY10E and FY11E, respectively. We believe upsides exist from current levels and initiate coverage on the stock with **'BUY' recommendation.** On a relative return basis, the stock is rated as **'Sector Outperformer'**.

Financials

Year to March	FY08	FY09	FY10E	FY11E
Revenues (INR mn)	77,529	119,120	135,384	157,857
Rev. growth (%)	*51.2*	*53.6*	*13.7*	*16.6*
EBITDA (INR mn)	6,922	9,124	11,493	13,369
Net profit (INR mn)	3,229	2,473	4,700	5,785
Share outstanding (mn)	303	303	340	340
EPS (INR)	9.4	6.9	13.7	16.8
EPS growth (%)	*62.9*	*(27.0)*	*98.0*	*23.4*
P/E (x)	27.3	37.4	18.9	15.3
EV/EBITDA (x)	11.9	10.9	8.5	7.0
ROAE (%)	16.0	9.0	13.9	12.8

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Investment Rationale

■ Play on global engineering and construction demand

Punj is one of the largest engineering and construction companies in India in terms of revenues and order backlog. In over 20 years since its inception, the company has constructed more than 9,000 km of pipelines (up to 48" diameter) and 4 mn cubic meters of storage tanks and terminal capacity. It was involved in the construction of all the three LNG terminals in the country.

Further, Punj has presence across diverse industries like upstream, midstream, and downstream oil & gas, roads, highways, ports, process industries, and power sectors. In addition, presence in over 60 countries insulates the company from slowdown in a particular geography.

Table 1: Details of Punj Lloyd's offerings

Punj Lloyd	Sembawang E&C	Simon Carves
Oil & gas: Onshore & offshore pipelines, field development, gas processing	Master planning	Detail design
Process: Refineries, polymers & petrochemicals	Concept design	Procurement
Power: Thermal, nuclear	Detailed engineering design	Construction
Utilities: Water & sewage treatment facilities, reservoirs	Development management	Commissioning
Infrastructure: Subway & metro systems, airports, highways & expressways, bridges, flyovers	Construction management	
Buildings: Hospitality & leisure, commercial, industrial	Main contracting	

Source: Company, Edelweiss research

Presence in 60 geographies and 7 verticals

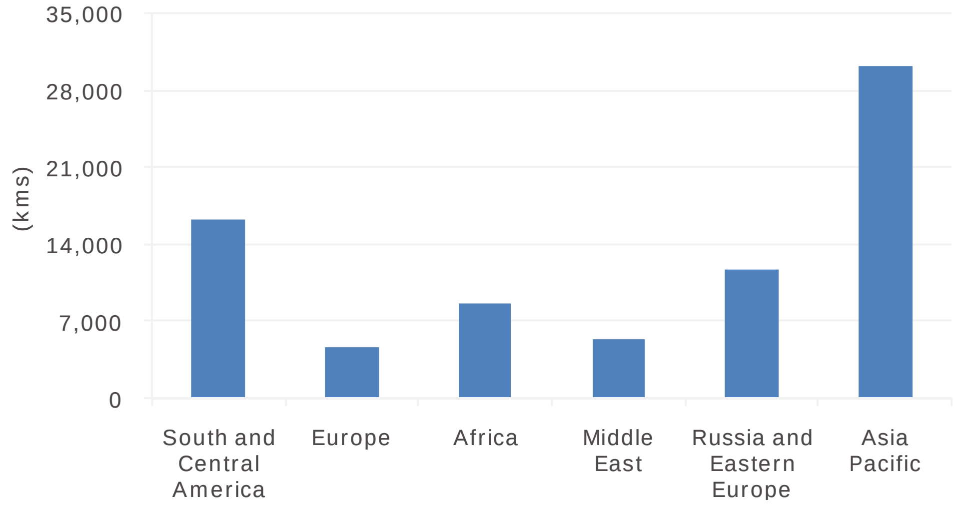
Acquisition of SEC and its subsidiary Simon-Carves provided Punj the armory to become a large global EPC player and has enabled it to consolidate its position in the oil & gas space along with opening doors to the fast growing urban infrastructure space. Encouragingly, the company's business model encompasses focus on key investment verticals like bio-fuels and emerging geographies like South East Asia (SEA) Middle East Asia (MEA), and the African continent.

With a presence across 60 geographies and seven verticals, Punj offers investors a play on the global infrastructure growth story, in addition to an opportunity to play India's infrastructure development growth. The wide range of offerings coupled with wide reach across various geographies throws open numerous high growth opportunities for the company in our view.

■ Leading player in mid stream and down stream oil & gas sector

The Pipeline and Gas Journal for CY10 *estimates n*ew capacity addition in pipelines at 77,314 km*;* of these, 66,642 km of pipeline projects are in the planning stage. Significantly, Asia Pacific is expected to contribute 39.3% of the total capacity expansion detailed above.

Chart 1: Asia pacific to witness huge pipelines capex

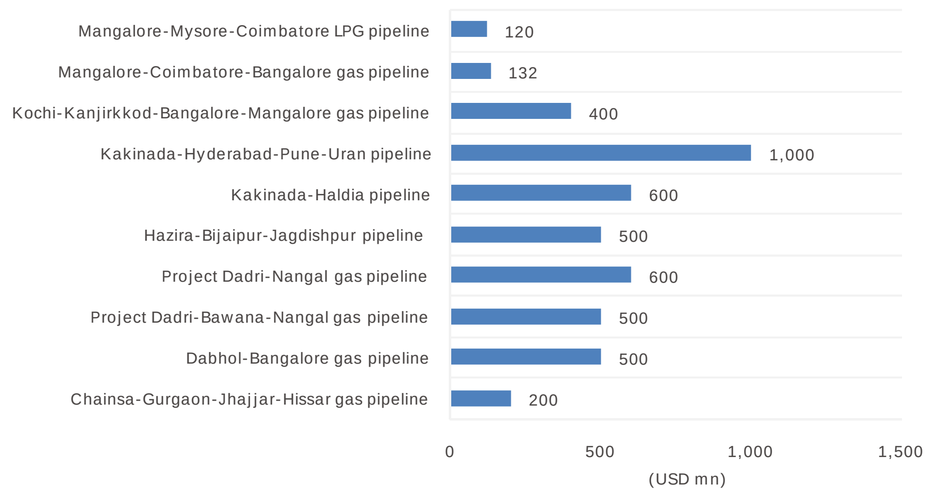


Source: Edelweiss research

Further, increase in China's and India's energy consumption is likely to lead to growth in transportation infrastructure in Asia Pacific. Significantly, India's energy consumption grew by 6.8% Y-o-Y in FY09. Gas Authority of India has planned gas pipeline additions worth USD 5 bn over the next two-three years.

GAIL has planned pipe line additions worth USD 5 bn over the next 2-3 years

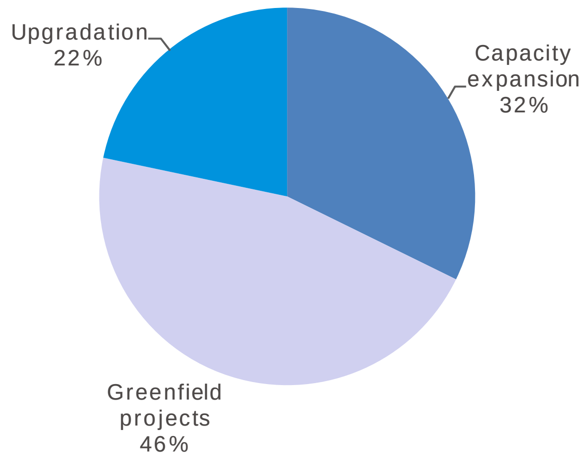
Chart 2: Pipeline projects by GAIL



Source: Edelweiss research

On the down stream oil & gas end, India's refinery capacity is expected to increase from 155 MMTPA to 240 MMTPA by FY12E. Further, refinery upgradation driven by requirement of Euro 3 & 4 compliant fuel is likely to result in incremental capacity addition. Currently, around USD 40 bn projects in the refinery verticals have been announced.

Chart 3: USD 40 bn worth of refinery projects likely by 2012



Source: Edelweiss research

Punj is a leading player in mid stream and down stream oil & gas sector in India and abroad. We believe, with the sector's growth prospects looking bright, Punj is likely to benefit from the same.

- **Power generation EPC: ~183% growth in addressable market likely**

Punj has expertise to cater to EPC and BoP segments of power plants

Power crisis has long been the bane of India and the current situation of power deficit of ~10% and peak power deficit of ~14% merits serious attention. We believe lack of growth in generation and transmission capacities in previous Five Year Plan periods is likely to result in higher growth in capacities in future plan periods as capacity addition plans get grouped in Eleventh and Twelfth Plans. We believe, in the Eleventh Plan alone India is expected to add ~ 55,000 MW generation capacity, which is more than what was added in the past 15 years. This target is achievable, as ~65,000 MW of capacity is already under construction in various stages. Further, we expect ~80,000 MW of capacity addition in the Twelfth Plan, which implies doubling of India's power generation capacity from the current.

Table 2: Projected power generation market size for EPC companies

Projected power generation market for EPC players	1992-1997 Eighth Plan	1997-2002 Ninth Plan	2002-2007 Tenth Plan	2007-2012E Eleventh Plan
Generation capacity added (MW)	16,423	19,015	21,180	55,000
Total spend/MW (INR mn)	50	50	50	50
Addresable market (INR bn)	821	951	1,059	2,750

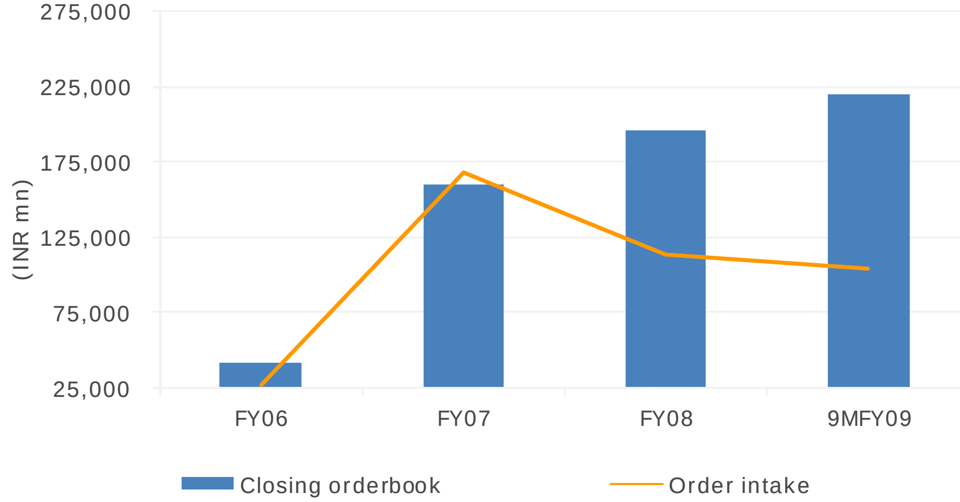
Source: Edelweiss research

Punj has expertise to cater to EPC and BoP segments of power plants, which implies a substantial increase in the potential addressable market over the Eleventh Plan period. The company is currently executing the EPC for BoP for GVK Power's 2X 270 MW power plant. Further, due to lack of pre-qualified and experienced EPC players, the company's market share is also likely to increase, giving additional visibility to revenue growth over the long term.

- **High growth in order inflows driven by civil infrastructure and oil & gas**

On the back of strong economic growth (till FY08), especially in South East Asia, Asia Pacific, and India coupled with high crude oil prices (till July 08), Punj experienced exponential growth in order intake. Order intake has been in excess of INR 100 bn in each year (during FY07-FY09), propelled by a few large orders in pipelines, process, and urban infrastructure. In fact, the growth trajectory has been so strong that order backlog at March 2009 end was at INR 206 bn, 5x FY06 order backlog of INR 42 bn.

Chart 4: Exponential growth in order intake



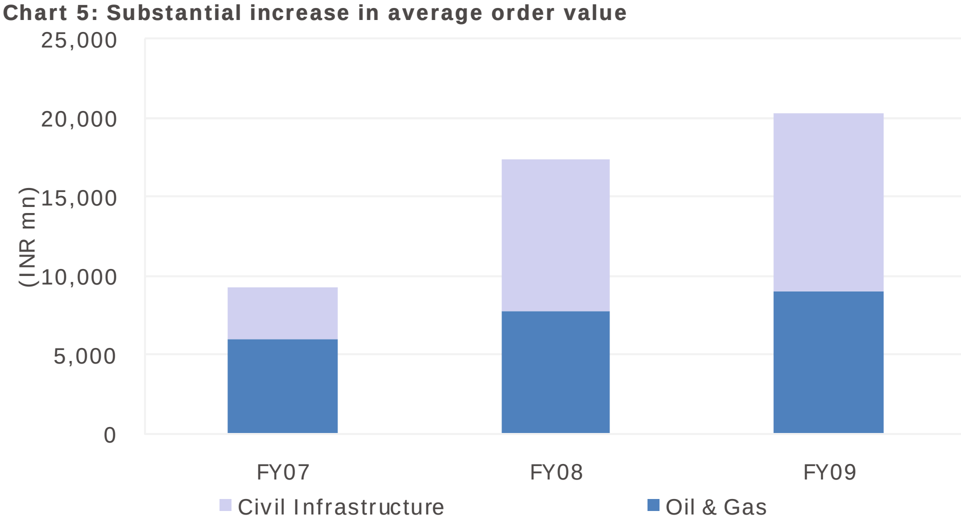
Source: Company, Edelweiss research

We believe such high growth in order intake is a lead indicator of revenue and earnings growth in future years. It also implies that Punj is one of the few EPC companies in India to have managed to scale up at a faster pace and assume leadership position in key infrastructure verticals like the mid stream oil & gas sector.

- **Increase in ticket size of orders**

The average ticket size of Punj's orders has increased across the oil & gas and civil infrastructure verticals. While this is likely to improve the company's margin profile over the long term, we believe it also implies the company's increasing bargaining power, as typically higher ticket size orders imply improvement in order profiles. We believe this is a structural positive which signifies improvement in Punj's position in the industry.

Chart 5: Substantial increase in average order value



Source: Company, Edelweiss research

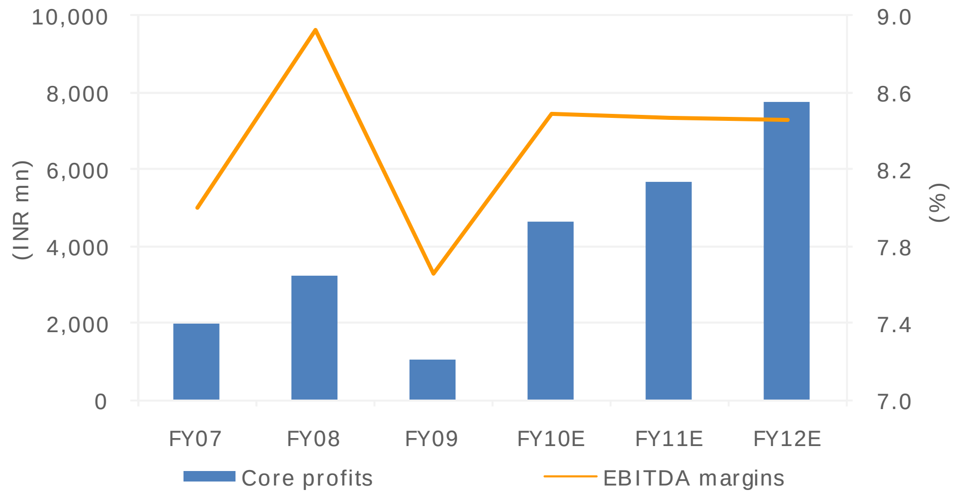
Valuation

- **One-offs unlikely in future; order book, profitability to drive earnings**

1 year target price of INR 336; target FY11E P/E of 19.0x

Punj's earnings grew a meager 18.7% (CAGR) over FY06-09, marred by litigations related to the Sabic order. We expect the company's earnings to post 100% plus CAGR over FY09-12E on strong order book, improving profitability (more so in subsidiaries), and absence of one-offs going forward. With improving global macro environment and increasing ticket size of orders, Punj is likely to book INR 724 bn worth of orders over FY10-12E, largely from the oil & gas segment—its forte. Strong order backlog, likely to be ~ INR 300 bn by FY10E-end and INR 360 bn by FY11E, will drive revenue growth over the next two years. With renewed management focus on improving the bottomline, we believe Punj's EBITDA margins will improve 80bps in FY10E to 8.5% (against management guidance of 9.5%) and stabilise around those levels.

Chart 6: 100 *plus* earnings growth likely, 80bps margin improvement



Source: Edelweiss research

- **Re-rating will follow profitable execution**

We arrive at one-year fair price of INR 336/share for Punj, through the SOTP methodology (valuing the parent at INR 323/share and its holding in Pipavav Shipyard at INR 13/share). We have valued Punj though the DCF method, while its holding in Pipavav Shipyard is valued at FY09 P/B of 2.5x, in line with global peers in the ship building industry. Over its 3.5-year history, since listing in January 2006, Punj has traded at average one-year forward P/E of 44x. However, over the past one year, which coincides with the economic downturn, it has traded at 20x one-year forward.

In our view, historical forward P/E multiples look attractive over a three-year period, as: (1) the first half included the euphoric period till January 2008, when Indian markets reached the peak of 21000 and infrastructure stocks were trading at a significant premium to broader markets; and (2) forward earnings expectations, which: (a) factored in higher operating margins that did not come through; and (b) did not factor in any litigation/cost overrun damages related to the Sabic order.

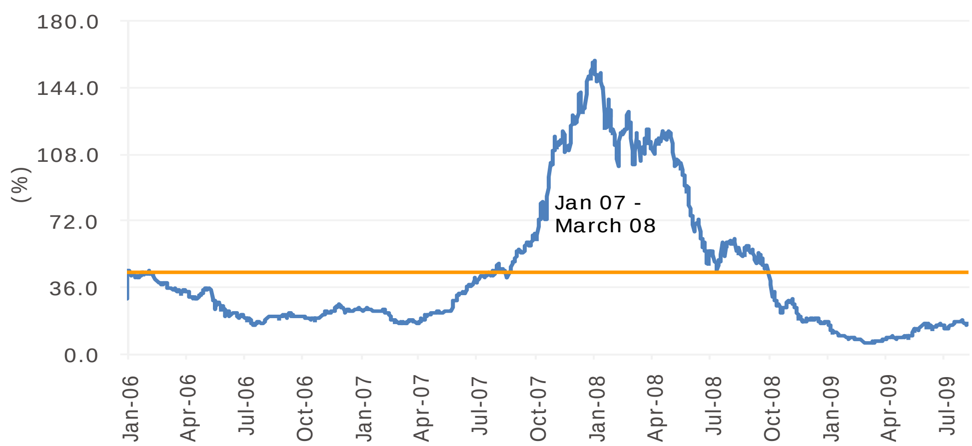
Table 3: DCF in brief

DCF for Punj Lloyd (in INR mn)	
WACC (%)	10.8
Stable growth rate (%)	5.0
Sum of discounted FCF	38,435
PV of terminal vlaue	80,558
Firm value	118,993
Less: Net financial obligations	9,341
Equity value	109,652
Value per share (INR)	**323**
Pipavav Shipyard holding (in INR mn)	
at FY09 P/B=2.5x	31,368
Punj Lloyd's holding in PSL post dilution (%)	19.4
Value ascribed to Punj Lloyd	6,095
Holding company discount (%)	25.0
Value ascribed to Punj Lloyd after discount	4,571
Value per share (INR)	**13**
SOTP value per share (INR)	**336**

Source: Edelweiss research

Historically, Punj has traded at an average 40% premium to L&T's one-year forward P/E, factoring in faster growth and improvement in execution. In our view, although the faster growth argument has played out (both in revenues and order intake) due to lower base, profitability on Punj's execution remains a concern. We believe, going forward, Punj will continue to trade at a discount to L&T (as seen over the past six months, traded at 40% discount to L&T's forward P/E), owing to L&T's proven execution capabilities, larger scale conglomerate, higher RoAEs and diversified business portfolio.

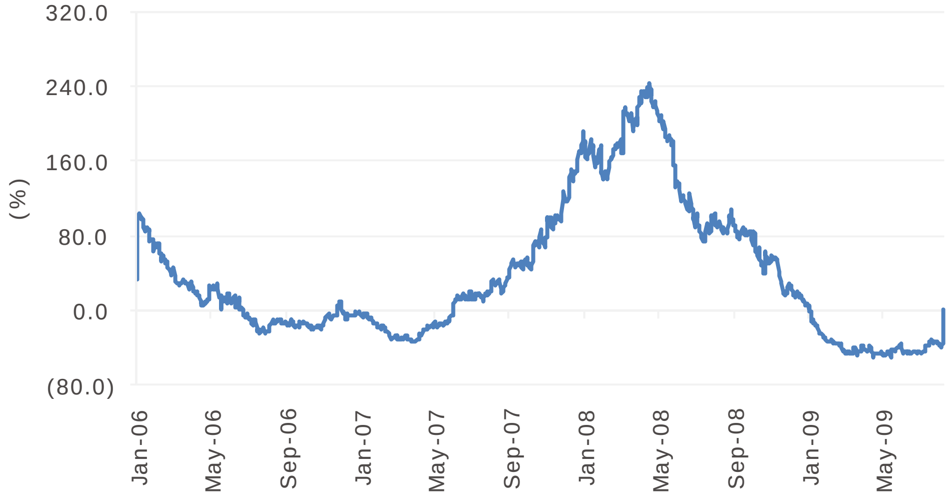
Chart 7: 44x one-year forward, largely due to premium during Jan 07-Mar 08



Source: Edelweiss research

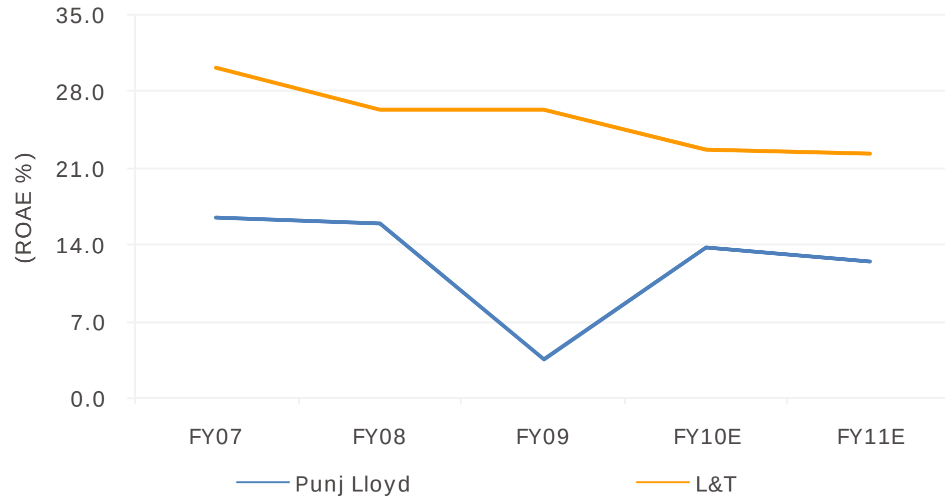
Chart 8: Discount relative to L&T to continue

Trading at 40% discount to Larsen & Toubro



Source: Edelweiss research

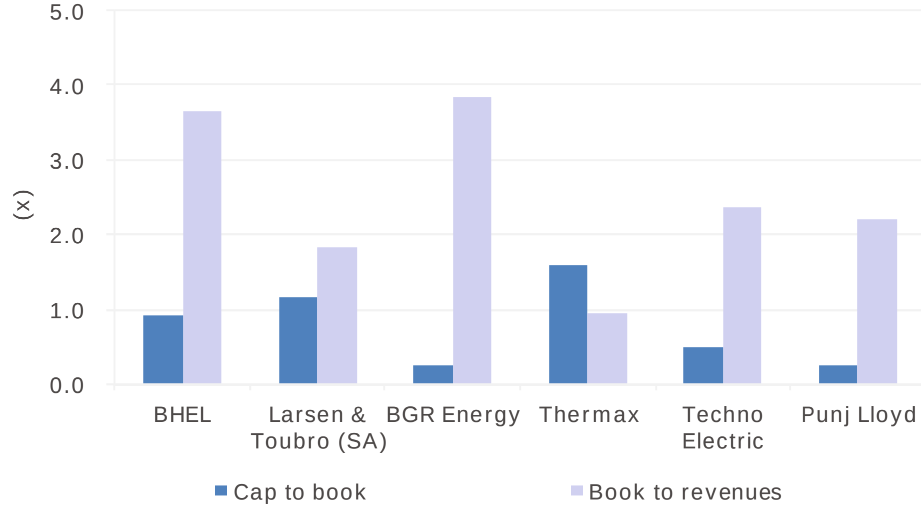
Chart 9: L&T's long-term RoAE superior to Punj



Source: Edelweiss research

However, in our view, the discount (currently at ~40%) will narrow, going forward, as: (1) overhang on stock price related to the Sabic order is unlikely, going forward, as the company has already provided for the damages. In fact, judgement in favour of Punj will be a positive for the stock price; (2) Punj holds ~ 19.4% in Pipavav Shipyard; its listing will further act as a trigger; and (3) in our view, improvement in profitability and maintaining sustainable margins in ensuing years will make Punj the best proxy to oil & gas and civil infrastructure in South East Asia, second only to L&T. Currently, both coverage ratios cap to book and book to revenues for Punj are better than L&T.

Chart 10: Coverage ratios amongst the best in industry



Source: Edelweiss research

We are initiating coverage on Punj with a **'BUY'** recommendation, ascribing a one-year target price of INR 336/share, implying a target FY11E P/E of 19.0x. On a relative return basis, the stock is rated as **'Sector Outperformer'**.

Table 4: Sector valuation snapshot

	CMP	Revenues (INR mn)		EBITDA margins (%)		EPS (INR)		P/E (x)		EV/EBITDA (x)		ROAE (%)	
Company	(INR)	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E
BHEL	2,201	320,220	401,299	19.1	20.3	85.1	112.0	25.9	19.6	15.6	11.3	28.8	30.3
Larsen & Toubro	1,532	391,973	475,376	12.7	12.7	62.2	75.3	24.7	20.4	16.1	13.6	22.6	22.3
BGR Energy	451	28,253	42,507	11.4	11.5	22.8	33.0	19.8	13.7	10.4	8.0	25.2	28.4
Thermax	455	33,966	44,441	12.2	12.2	22.8	30.5	20.0	14.9	10.7	7.7	24.8	27.1
Techno Electric	153	6,777	8,472	11.5	11.5	14.4	17.4	10.7	8.8	6.0	4.0	33.5	32.2
Punj Lloyd	258	135,384	157,857	8.5	8.5	13.5	16.5	19.1	15.7	7.7	6.3	13.7	12.5
Avg - Large caps								**25.3**	**20.0**	**15.9**	**12.5**	**25.7**	**26.3**

Source: Edelweiss research

Key Risks

- **Order concentration risk**

  Punj currently has two large orders worth INR 59 bn from International Investment and Services Company (IISCO) and INR 18.7 bn from Housing and Infrastructure Board, Libya. Together these orders constitute ~23% of the order backlog. We believe, any significant delay or cost overruns in these projects can delay revenue accretion.

- **Geographical and political risk**

  With ~60% of operations overseas and continuous entry in to unknown geological and political terrains, we believe Punj is more susceptible to risks arising out of delays in project execution, delays/ failures in client payments and currency fluctuations vis-à-vis peers.

Company Description

Punj Lloyd (Punj) started as the pipeline division of Punj Sons in 1982 led by Mr. Atul Punj, which was incorporated as Punj Lloyd Engineering in 1988. Punj, today, is a leading engineering procurement and construction (EPC) company in India, with capabilities spanning verticals like oil & gas, infrastructure, and power.

In 2006, the company acquired SEC and Simon Carves to expand its business portfolio and leverage on the urban infrastructure and process verticals capabilities, respectively, of the acquired companies. Punj's business operations span continents with presence in South-East Asia, Middle-East, Caspian, and Asia–Pacific regions. The Punj Lloyd Group today has a diversified presence, both in terms of geography and business. Additionally, in August 2007, the company also picked up 29% stake in Pipavav Shipyard for INR 3.5 bn.

In FY09, oil & gas and petrochemicals verticals contributed 70.4% to sales, while civil infrastructure contributed 25.7%

Table 5: Capability set

Oil & gas	Process	Utilities
Offshore	Refineries	Water & sewage treatment
Onshore & offshore pipelines	Polymers & petrochem	Reserviors
Onshore field development	Chemicals	Centralised utilities
Tankage & terminals		
Infrastructure	**Buildings**	**Power**
Subway & metro systems	Hospitality & leisure	Thermal
Airports	Healthcare	Nuclear
Highways & expressways	Industrial & resedential	
Bridges & flyovers	Townships & industrial parks	
Seaports & terminals		

Source: Company, Edelweiss research

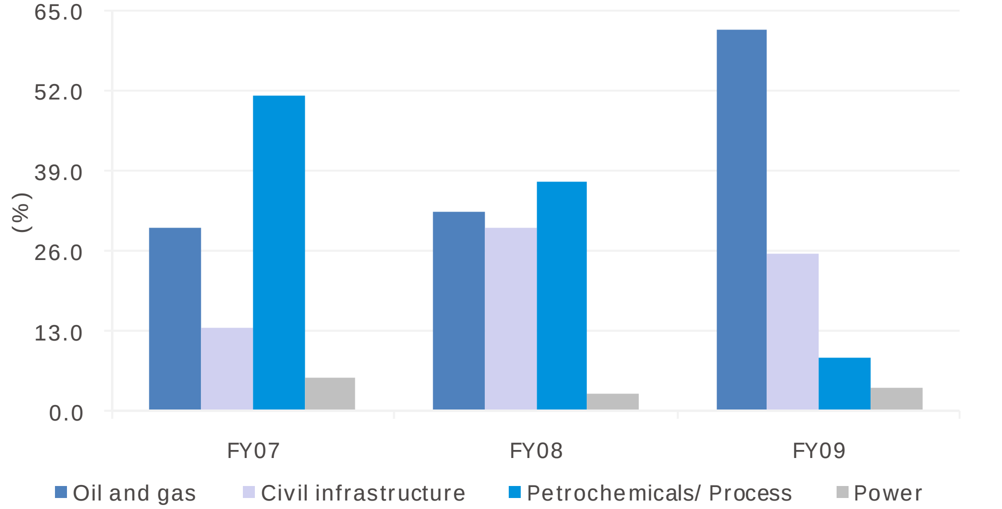
Table 6: In-brief overview of companies

	Punj Lloyd	Sembawang	Simon Carves
	Founded 1989	1982	1881
Key segments	Hydro-carbons and Infrastructure	Transportation, infrastructure, buildings, utilities, power, environmental industries	Polymers & petrochemicals, chemicals, engineering outsourcing, power, nuclear
Revenues (INR mn)	78,710	26,690	14,580
Orderbacklog (INR mn)	165,120	40,930	13,020
% of Group	*75.4*	*18.7*	*5.9*
Employees	12,266	1,305	581
% of Group	*86.7*	*9.2*	*4.1*

Source: Company, Edelweiss research

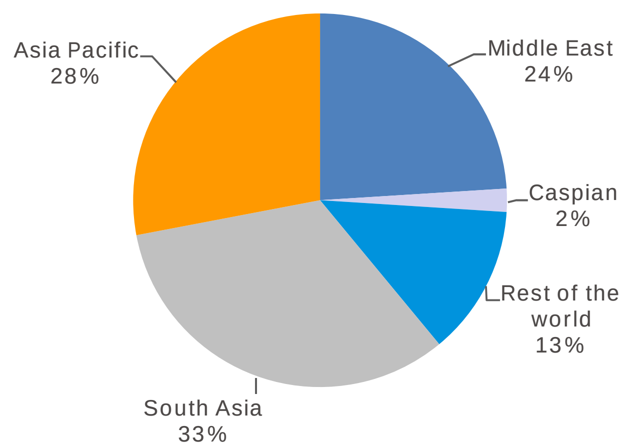
In terms of revenues, oil & gas and petrochemicals verticals together contributed 70.4% in FY09. In the former, the company caters to pipelines and tankage orders, while in the latter it has a more complex profile of orders. Over FY07-09, contribution from the civil infrastructure vertical has increased from 13.7% to 25.7%. We believe this can be attributed to the acquisition of SEC, which has superior capabilities and prequalification in the civil infrastructure space. However, it needs to be noted that margins in this vertical are likely to be lower than those in the petrochemicals vertical, on account of the company's vast experience in pipeline construction and lower competition. The consolidated revenues break up in terms of end user verticals and geographies for FY09 is given in the chart 11.

Chart 11: Consolidated revenue break up—End user vertical



Source: Company, Edelweiss research

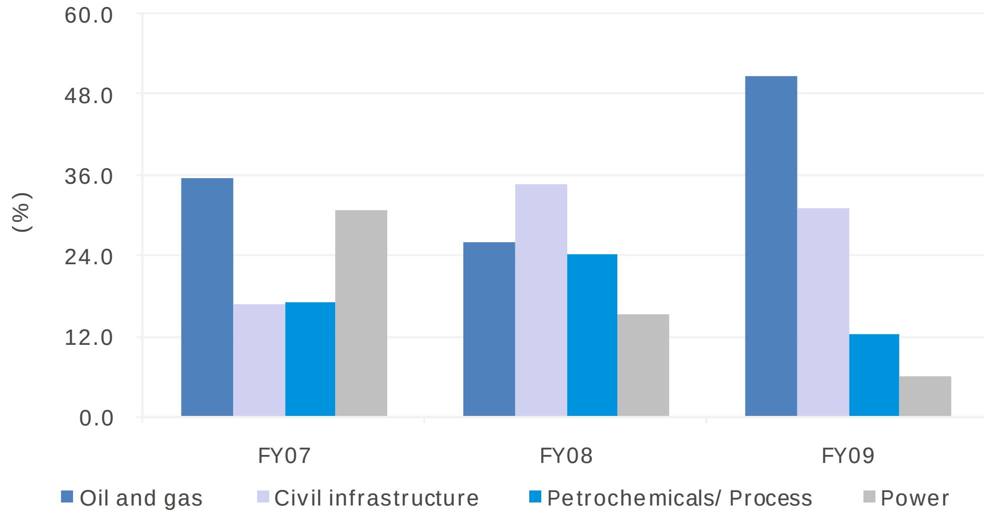
Chart 12: Consolidated revenue break up—Geography



Source: Company, Edelweiss research

The company's consolidated order backlog at FY09 end was INR 206. 8 bn, implying a coverage ratio of 1.8x on FY09 revenues.

Chart 13: Consolidated order backlog break up—End user vertical



Source:Company, Edelweiss research

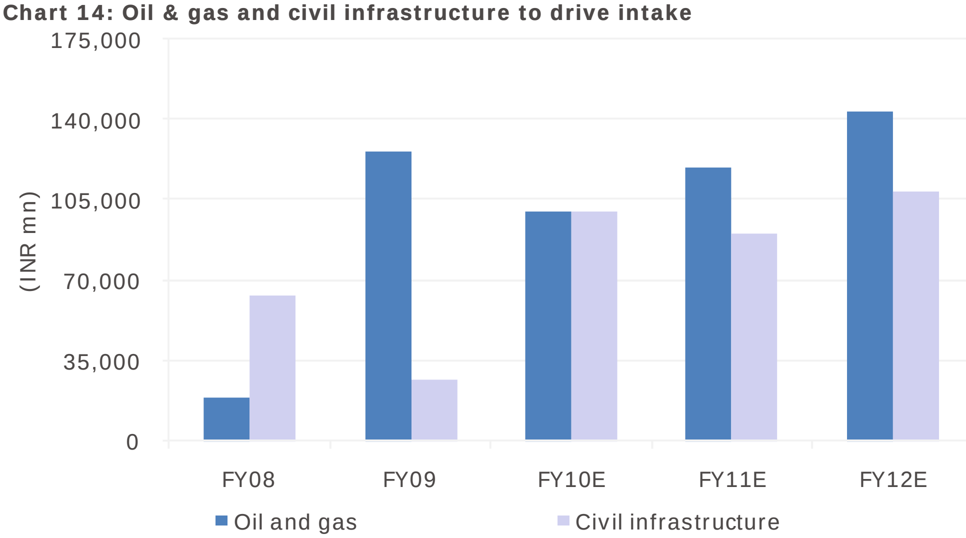
Financial Outlook

We assume an order accretion growth of 68.9% Y-o-Y in FY10 driven by higher inflows in civil infrastructure

- **Order inflows in FY10 to be driven by civil infrastructure**

  Even as consolidated order inflows increased significantly in the oil & gas segment in FY09 (6x), Y-o-Y consolidated order backlog at FY09 end grew only 5.6% Y-o-Y to INR 206.8 bn due to decline in order inflows in the civil infrastructure vertical. Further, the revenue growth in FY09 was high at 52.6% due to a shorter execution period, primarily driven by compression of execution period in the oil & gas segment. Going ahead, we have assumed an order accretion growth of 68.9% Y-o-Y in FY10E at INR 216.2 bn. The growth in order accretion is primarily driven by higher order inflows in the civil infrastructure vertical. The company has already bagged orders worth more than INR 83.3 bn in the space driven by large ticket size orders from Libya.

Chart 14: Oil & gas and civil infrastructure to drive intake

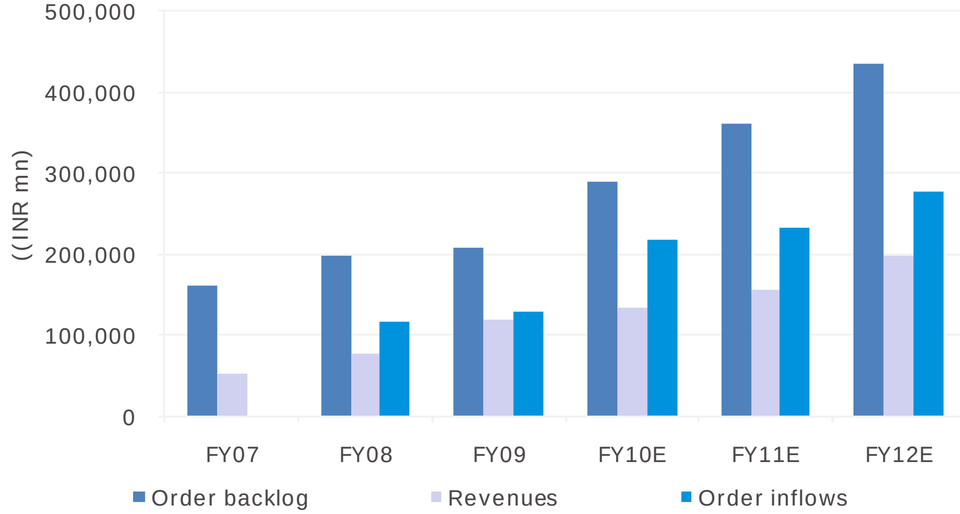


Source: Edelweiss research

- **Spike in order inflows to boost revenue growth**

  We expect the spike in order inflows in FY10 to lead to higher revenue growth in FY11 and FY12, due to lag effect of order inflows on revenues. Consequently, we expect revenues to post a 21% CAGR from FY10-12E, while we expect the order backlog to post a 22.4% CAGR from FY10-12E.

Chart 15: High revenue growth on the back of strong order book



Source: Edelweiss research

- **30% PAT CAGR on back of jump in operating margins, higher capital efficiency**

  Driven by expansion in operating margins and higher capital efficiency, we expect Punj's PAT to post a 29.8% CAGR from FY10-12E. However, in the current phase of high growth, the capital required in the business continues to remain high, thereby depressing return ratios. But, going ahead we expect marginal jump in RoACEs on the back of improvement in asset turnover ratios and operating margins.

Table 7: RoACEs expected to improve FY10 onwards

Year to March	FY04	FY05	FY06	FY07	FY08	FY09	FY10E	FY11E	FY12E
Adjusted net profit (INR mn)	1,063	1,006	555	1,971	3,210	927	4,578	5,596	7,709
Interest expenditure (%)	7.4	7.4	4.7	2.3	2.3	3.0	2.8	2.6	2.3
EBITDA margins (%)	18.3	11.5	11.3	8.0	8.9	7.7	8.5	8.5	8.5
NP margin (%)	6.7	5.6	3.3	3.8	4.1	0.8	3.4	3.5	3.9
Total assets turnover (%)	2.7	1.5	1.2	2.2	2.1	2.3	1.9	1.8	2.0
Leverage multiplier (x)	6.2	3.4	1.8	1.9	1.8	2.0	2.1	1.9	1.9
ROAE (%)	111.1	28.7	6.8	16.4	16.0	3.5	13.7	12.5	15.0

Source: Edelweiss research

Financial Statements

Income statement **(INR mn)**

Year to March	FY07	FY08	FY09	FY10E	FY11E
Income from operations	51,266	77,529	119,120	135,384	157,857
Direct costs	31,769	28,285	37,505	44,402	51,516
Employee costs	6,369	8,924	12,922	15,322	18,202
Other expenses	9,025	33,399	59,569	64,168	74,770
Total operating expenses	47,163	70,608	109,996	123,891	144,488
EBITDA	4,103	6,922	9,124	11,493	13,369
Depreciation and amortisation	1,062	1,462	1,771	2,191	2,482
EBIT	3,041	5,459	7,353	9,301	10,887
Interest expenses	1,185	1,806	3,519	3,825	4,129
Other income	794	811	899	1,069	1,241
Profit before tax	2,650	4,464	4,733	6,545	7,998
Provision for tax	690	1,235	2,260	1,845	2,213
Core profit	1,960	3,229	2,473	4,700	5,785
Extraordinary items	0	(371)	4,720	0	0
PAT before min. int.	1,960	3,600	(2,247)	4,700	5,785
Less: Minority interests	(1)	1	62	62	62
Add: Share in profits of associates	10	(17)	(68)	0	0
PAT after minority interest	1,971	3,582	(2,377)	4,638	5,723
Adjusted net profit	1,971	3,210	2,343	4,638	5,723
Basic shares outstanding (mn)	261	303	303	340	340
EPS (INR) basic	5.8	9.4	6.9	13.7	16.8
Diluted equity shares (mn)	261	303	303	340	340
EPS (INR) fully diluted	5.8	9.4	6.9	13.7	16.8
CEPS (INR)	11.7	16.3	14.1	20.1	24.2
Dividend per share	0.2	0.4	0.3	0.3	0.3
Dividend payout (%)	4.0	3.8	3.7	1.9	1.6

Common size metrics- as % of net revenues

Year to March	FY07	FY08	FY09	FY10E	FY11E
Direct cost	62.0	36.5	31.5	32.8	32.6
Employee expenses	12.4	11.5	10.8	11.3	11.5
S G & A expenses	17.6	43.1	50.0	47.4	47.4
Operating expenses	92.0	91.1	92.3	91.5	91.5
Depreciation and Amortization	2.1	1.9	1.5	1.6	1.6
Interest expenditure	2.3	2.3	3.0	2.8	2.6
EBITDA margins	8.0	8.9	7.7	8.5	8.5
EBIT margins	5.9	7.0	6.2	6.9	6.9
Net profit margins (adjusted)	3.8	4.2	2.1	3.5	3.7

Growth metrics (%)

Year to March	FY07	FY08	FY09	FY10E	FY11E
Revenues	204.3	51.2	53.6	13.7	16.6
EBITDA	114.9	68.7	31.8	26.0	16.3
PBT	218.9	68.4	6.0	38.3	22.2
Net profit	263.3	64.7	(23.4)	90.1	23.1
EPS	255.3	62.9	(27.0)	98.0	23.4

Balance sheet (INR mn)

As on 31st March	FY07	FY08	FY09	FY10E	FY11E
Equity capital	523	607	607	679	679
Share warrants / Advances	0	254	0	0	0
Reserves & surplus	12,267	26,572	24,238	41,309	46,988
Shareholders funds	12,789	27,433	24,845	41,988	47,667
Minority interest	59	222	420	482	544
Secured loans	11,232	13,507	29,889	33,036	35,658
Unsecured loans	5,760	2,564	5,703	6,430	6,680
Borrowings	16,992	16,072	35,592	39,467	42,339
Sources of funds	**29,840**	**43,727**	**60,857**	**81,937**	**90,550**
Gross block	18,962	20,834	26,527	32,578	34,378
Depreciation	6,198	6,726	7,774	9,966	12,448
Net block	12,764	14,108	18,753	22,612	21,930
Capital work in progress	858	2,125	2,974	0	0
Total fixed assets	13,622	16,233	21,727	22,612	21,930
Investments	1,698	5,458	6,609	6,609	6,609
Inventories	16,863	20,592	36,686	41,131	46,481
Sundry debtors	12,234	20,901	26,686	31,479	36,833
Cash and equivalents	10,027	6,898	8,122	23,516	30,108
Loans and advances	4,972	7,429	11,461	12,941	14,214
Total current assets	44,096	55,820	82,955	109,068	127,636
Sundry creditors and others	27,276	31,479	47,099	53,218	62,265
Provisions	1,647	1,558	1,853	1,652	1,878
Total CL & provisions	28,923	33,036	48,952	54,870	64,143
Net current assets	15,172	22,784	34,002	54,198	63,493
Net deferred tax	(654)	(748)	(1,482)	(1,482)	(1,482)
Uses of funds	**29,840**	**43,727**	**60,857**	**81,937**	**90,550**
Adjusted BV per share (INR)	38	81	73	124	140

Free cash flow

Year to March	FY07	FY08	FY09	FY10E	FY11E
Net profit	1,970	3,212	2,405	4,700	5,785
Depreciation	1,062	1,462	1,771	2,191	2,482
Deferred tax	17	287	176	0	0
Gross cash flow	3,049	4,961	4,351	6,892	8,268
Less:Changes in WC	(3,536)	10,740	9,995	4,801	2,703
Operating cash flow	6,585	(5,779)	(5,643)	2,090	5,565
Less: Capex	9,364	3,139	6,543	3,076	1,800
Free cash flow	**(2,779)**	**(8,918)**	**(12,186)**	**(986)**	**3,765**

Cash flow metrices

Year to March	FY07	FY08	FY09	FY10E	FY11E
Capex	(9,364)	(3,139)	(6,543)	(3,076)	(1,800)

Profitability & liquidity ratios

Year to March	FY07	FY08	FY09	FY10E	FY11E
ROAE (%) (on adjusted profits)	16.4	16.0	9.0	13.9	12.8
ROACE (%)	13.0	14.8	14.1	13.0	12.6
Debtors days	58	78	73	78	79
Inventory days	143	242	279	320	310
Fixed assets t/o (x)	5.5	5.8	7.2	6.5	7.1
Debt/equity	1.3	0.6	1.4	0.9	0.9
Interest coverage	2.6	3.0	2.1	2.4	2.6
Payable days	188	216	180	201	196
Cash conversion cycle	13	104	172	198	193
Current ratio	1.5	1.7	1.7	2.0	2.0
Debt/EBITDA	4.1	2.3	3.9	3.4	3.2
Adjusted debt/Equity	1.3	0.6	1.4	0.9	0.9

Operating ratios

Year to March	FY07	FY08	FY09	FY10E	FY11E
Total asset turnover	2.2	2.1	2.3	1.9	1.8
Fixed asset turnover	5.5	5.8	7.2	6.5	7.1
Equity turnover	4.3	3.9	4.6	4.1	3.5

Du pont Analysis

Year to March	FY07	FY08	FY09	FY10E	FY11E
NP margin (%)	3.8	4.1	2.0	3.4	3.6
Total assets turnover	2.2	2.1	2.3	1.9	1.8
Leverage multiplier	1.9	1.8	2.0	2.1	1.9
ROAE (%)	16.4	16.0	9.0	13.9	12.8

Valuation parameters

Year to March	FY07	FY08	FY09	FY10E	FY11E
EPS (INR) fully diluted	5.8	9.4	6.9	13.7	16.8
Y-o-Y growth (%)	*255.3*	*62.9*	*(27.0)*	*98.0*	*23.4*
CEPS	11.7	16.3	14.1	20.1	24.2
Diluted P/E (x)	44.5	27.3	37.4	18.9	15.3
Price/BV (x)	6.9	3.2	3.5	2.1	1.8
EV/Sales (x)	1.4	1.1	0.8	0.7	0.6
EV/EBITDA (X)	17.7	11.9	10.9	8.5	7.0
Dividend yield (%)	0.1	0.1	0.1	0.1	0.1
FCFPS (INR)	(10.6)	(29.4)	(40.2)	(2.9)	11.1
Y-o-Y growth (%)	*81.6*	*(176.3)*	*(36.6)*	*92.8*	*482.0*
FCFPE (*x*)	(24.2)	(8.8)	(6.4)	(88.9)	23.3

RATING & INTERPRETATION

Company	Absolute reco	Relative reco	Relative risk
Thermax	Buy	SO	L
Voltas	Buy	SO	L
AIA Engineering	Buy	SO	M
Crompton Greaves	Buy	SO	L
Sanghvi Movers	Buy	SO	H
Suzlon Energy	Hold	SO	H
Techno Electric & Engg.	Buy	SO	M
Larsen & Toubro	Hold	SU	L
Cummins India	Hold	SP	M

Company	Absolute reco	Relative reco	Relative risk
Jyoti Structures	Hold	SP	M
Voltamp Transformers	Hold	SP	M
Texmaco	Buy	SP	H
Siemens	Hold	SU	L
Bharat Heavy Electricals	Hold	SU	L
ABB India	Hold	SU	L
KEC International	Buy	SO	M
Kalpataru Power Transmission	Hold	SP	M

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Coverage group(s) of stocks by primary analyst(s): Engineering and Capital Goods

ABB, BHEL, Crompton Greaves, Cummins India, Emco, Jyoti Structures, Kalpataru Power Transmission, KEC International, L & T, Siemens, Techno Electric, Thermax, Transformer and Rectifier, Voltamp Transformers and Voltas.

Punj Lloyd

Recent Research

Date	Company	Title	Price (INR)	Recos
25-Aug-09	**Thermax**	Raising a toast to a bright future; *Company Update*	421	Buy
04-Aug-09	**AIA Engineering**	On track; *Result Update*	238	Buy
03-Aug-09	**BGR Energy**	Gaining muscle and strength; *Result Update*	347	Buy
03-Aug-09	**Voltamp Transformers**	The worst is over; *Result Update*	735	Hold

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	53	43	29	128

* 3 stocks under review

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	72	41	15

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