Punj Lloyd

Getting stronger

Major investments in oil and gas infrastructure in India as well as overseas will keep the company on strong growth curve

Buy	Punj Lloyd
BSE Code	532693
NSE Code	PUNJLLOYD
Bloomberg	PUNJ@IN
Reuter	PUJL.BO
52-week High/Low	Rs 251 / Rs 109
Current Price	Rs 154 (as on 5th April 2007)

Related Tables
- Punj Lloyd: Consolidated financials
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Punj Lloyd (PLL) is one of the largest engineering construction companies in India. It offers integrated design, engineering, procurement, construction and project management services to the energy industry and infrastructure sectors. PLL also provides engineering construction services for onshore and offshore pipelines, gas gathering systems, oil and gas tanks and terminals including cryogenic LNG and LPG storage terminals, process facilities in the oil and gas industry including refineries and power plant projects. In the infrastructure sector, PLL has worked on various civil infrastructure projects like highways, flyovers, bridges and elevated railroads. In addition, it provides value added engineering services to the energy industry and infrastructure projects, apart from offering comprehensive plant and facility maintenance and management services.

The company is focussed on the energy industry, undertaking projects for Indian and international energy majors across diverse geographies. It has significant expertise in pipeline construction; this segment contributed around half of FY06 consolidated revenues and 37% of the current order book.

PLL's operations are spread across the Middle East, Caspian, Asia Pacific, Africa and South Asia.

With over 20 years experience in the field, PLL has constructed more than 8,000 km of pipelines and 6 million m^3 of tanks and terminals. It has also executed 11 refinery modernization and quality improvement projects. It has also worked on or is working on 18 highway projects.

Consolidated performance

Consolidated net profit after minority interest for the quarter-ended Dec '06 stood at Rs 48.29 crore, on an income from operation of Rs 1433.32 crore. Consolidated financials of the quarter ended Dec '06 reflects the second full quarter of contributions from Sembawang Engineers & Constructors (SEC) after its acquisition in Jun '06. Operating profit margin stood at 5.8% thus taking the operating profit to Rs 83.08 crore and the PAT before minority interest stood at Rs 47.72 crore. Finally the PAT after accounting for minority interest amounting Rs 55 lakh stood at Rs 48.28 crore.

For the nine-month ended December 2006 consolidated net revenue was at Rs 3423.03 crore. With OPM at 5.9% the operating profit stood at Rs 203.65 crore. After accounting for other income (Rs 63.03 crore), Interest cost (Rs 56.76 crore) and Depreciation (Rs 73.23 crore) the PBT stood at Rs 136.69 crore. After providing for taxation of Rs 29.14 crore the net profit stood at Rs 107.55 crore. The net profit after minority interest was at Rs 108.01 crore.

SEC acquisition will benefit immensely as synergies are numerous

In FY06, PLL acquired Singapore based SEC (S$ 1 bn in revenues) for a consideration of S$40 mn. SEC was a wholly owned subsidiary of SembCorp Industries (SCI), a leading utilities and marine group based out of Singapore.

The reasons for acquiring SEC were to:

- Create synergies between PLL and SEC,
- Help PLL to grow inorganically and attain a higher pre-qualification status, so that it could compete in the global arena.
- Enter new verticals of business, such as urban infrastructure (ports, jetties, SEZ's, airports etc) and petrochemicals (through Simon Carves, UK)

Prior to the acquisition, PLL had its presence only in the construction part of EPC contracts, while SEC was a dominant player in engineering and procurement (due to which it had low margins). Construction was outsourced. Hence post-acquisition, it made PLL a complete EPC service provider, and also gave it access to SEC's technology & customer base spread across countries, and its order book.

The acquisition will add airports, jetties, MRT/LRT (Mass Rapid Transit system/Light Rail Transit system), tunneling, and sewerage to PLL's capabilities in the infrastructure domain and in the petrochemical sector. The company can now leverage Simon Carves's EPC expertise in the LDPE, PVC, styrene and refinery processes space. The move will also expand PLL's presence in Europe, China, Iran and South-East Asia, enabling it to bid for more complex and larger projects.

Another major positive move was the acquisition of Simon Carves, UK (100% subsidiary of SEC). Simon Carves is a niche player in the petrochemical and process plant segment and enjoys minimum competition.

Currently, PLL is undergoing a consolidation phase, due to which, its top line growth is intact, but it has taken a hit on operating margins, due to lower margins of SEC. In the medium to longer-term perspective this acquisition will help PLL as the positives outweigh the negatives. The result can already be seen in the ONGC contract (Rs 1300 crore) that PLL secured post-acquisition. However, it will take until FY09E for margins to start recovering and come close to the 11%-12% mark.

Other JVs will also add muscle

During December 2006 quarter, the company incorporated two JV companies and a Wholly owned subsidiary. All three are yet to commence operations.

PLL incorporated a JV company i.e. 'Dayim Punj Lloyd Construction Contracting Company' in Saudi Arabia in which the company is a 49% JV partner.

The primary investment idea behind this venture is to be a part of the US$ 33 bn King Abdullah Economic City (KAEC) being built in Saudi Arabia. Opportunities in KAEC are immense in terms of onshore and offshore projects for oil and gas sectors, power, petrochemicals, civil infrastructure and industrial projects etc. The prince will be the liaison between PLL and the local authorities, and will help PLL gain a foothold in the Saudi market. Orders from KAEC is expected to start flowing in from second half of FY 2008 and investments of this kind will help PLL attain a global face and help the company to enter newer territories.

It also incorporated a JV company i.e. Swissport Punj Lloyd India Private Limited', where the company holds 49% stake and the balance being with JV partner. The JV will handle projects in ground handling space in domestic Aviation sector.

Simon Carves India Limited, a wholly owned subsidiary has been incorporated with a purpose to handle the back office engineering operations of group companies, which is currently done in high cost locations such as UK. Simon Carves India will integrate the engineering expertise of Punj Lloyd with its two recent acquisitions - Sembawang Engineers & Constructors and Simon Carves, UK and work on several verticals such as process engineering, pipeline, refinery etc.

Bulging order book

Order backlog of Punj Lloyd Group as on December 31, 2006, stood at Rs 14357.9 crore compared to Rs 4626.8 crore as on December 31, 2005.

The expansion in order book has been led by multiple contracts won by the Group over the past few months. The average ticket size of the orders now stands at Rs 256.5 crore as against Rs 152.1 crore a year ago. In terms of geographical contribution, the Company's current order backlog comprises of 45% domestic contracts and 55% international contracts, with 68% of the backlog being related to projects to be executed in South/ South East Asia, 26% in the Middle East and Africa and 6% in the rest of the World. From the application perspective, of the Company's total backlog on 31 December 2006, 15% represents petrochemicals; 54% represents oil and gas and 31% represents civil, infrastructure and power.

During quarter ended December 2006, the company procured several new contracts including Heera Redevelopment Project on an EPC basis from Oil & Natural Gas Corporation (ONGC) for an approx consideration of Rs 1288.7 crore, contract by Horizon Terminals, U.A.E., a large contract for construction of a LDPE plant in Thailand, an EPC order worth Rs 803 crore for the Doha Urban Pipeline Relocations Projects (DUPRP) from Qatar Petroleum and contracts for IOC's Refinery project valued at Rs 1343.2 crore.

Recently, Sembawang Engineers and Constructors, a subsidiary of PLL entered into agreement with Riffa Golf and Residential Development Company of Kingdom of Bahrain to construct 325 villas of a residential community, Riffa Views, adjacent to the existing Riffa Golf Club. Sembawang along with its Joint Venture partner, G.P. Zachariades, a prominent local contractor, will build 325 villas under the Lagoons package. The value of construction cost is Bahraini Dinar 45 million (Rs 542 crore). This will reinforce Sembawang's success in similar logistically challenging projects in the Middle East region, after having successfully completed the Jumeirah Islands development for Nakheel in Dubai. The order received by Sembawang is the largest single package in the development of the three estates. Riffa Views is the result of the vision of Arcapita.

Also very recently, PLL secured the Uran Trombay Gas Pipeline project on an EPC basis from ONGC. The contract has been bagged in consortium with its wholly owned subsidiary P.T. Punj Lloyd Indonesia. The value of the contract is Rs 242 crore.

PLL also won a Rs 258-crore order to expand the fuel supply system at New Doha International Airport in Qatar. It had earlier bagged a contract worth Rs 618 crore for the expansion of the airport.

Currently, the group's total order book stands at Rs 17000 crore.

PLL owns and manages a large fleet of construction and pipeline equipment, helping it to execute projects on a timely basis. The company has built up a large pool of talent to execute the work efficiently. Attrition rate is observed at 12%, which seems reasonably low in the current high growth scenario in the EPC space.

Diversified order book

To de-risk itself in case of a slowdown in any of the verticals or geographies, PLL has made a conscious effort to diversify its order book. However, it is tilted towards the oil and gas sectors and South Asia, because of brisk activity in the domestic as well as international markets.

Going forward, the management indicates it will continue to concentrate on oil and gas sectors, but in terms of geography, it could look to newer regions like Africa and Russia. The company entered the African market of Libya for a pipeline contract worth US$290 mn (Rs 1300 crore) only in FY06-07 (after US sanctions were lifted). Hence, oil and gas sector is expected to contribute to both fresh order inflows and revenues. Post-acquisition of SEC, newer businesses will be added, including urban infrastructure and petrochemicals. Newer territories could include Europe and China.

Overseas orders constitute 40% of PLL's revenues, which will insulate the company from the risk of slowdown in capital expenditure in India. Revenue contribution from overseas is expected to increase in the coming years following the newly acquired subsidiary Sembawang Engineers & Construction (SEC) and joint venture with Khalid Bin Bandar Bin Sultan

Increasing the average ticket size orders

PLL's average order ticket size has improved dramatically. It started out with orders worth US$~30 mn, then moved up to ~US$100mn and now it is above US$200 mn. The ONGC order (Rs. 13 bn) and orders in Africa (Rs. 13 bn) are examples. The company hopes to achieve an average ticket size of US$300 mn soon. With the acquisition of SembCorp, PLL has gained a higher pre-qualification status and also an entry into niche businesses with minimum competition.

Reasonable valuation

In FY 2007 we expect PLL to register consolidated sales and net profit of Rs 4856.35 crore and Rs 156.30 crore respectively. On equity of Rs 52.24 crore and face value of Rs 2 per share, EPS works out to Rs 6.0. The share price trades at Rs 154. P/E works out to 25.7. In FY 2008 we expect PLL to register sales and net profit of Rs 7012.57 crore and Rs 243.02 crore respectively. EPS works out to Rs 9.3. P/E works out to just 16.6.

Punj Lloyd: Consolidated financials

	0503 (12)	0603(12)	0703 (12P)	0803 (12P)
Sales	1790.01	1684.65	4856.35	7012.57
OPM (%)	9.5	10.3	5.9	6.2
OP	169.72	174.19	286.73	437.58
Other inc.	72.33	31.94	93.21	111.85
PBIDT	242.05	206.13	379.94	549.44
Interest	96.65	62.67	84.68	88.91
PBDT	145.40	143.46	295.26	460.52
Dep.	83.91	60.37	102.83	125.45
PBT before EO	61.49	83.09	192.43	335.07
EO	58.00	0.00	0.00	0.00
PBT after EO	119.49	83.09	192.43	335.07
Current Tax	19.38	29.14	37.16	93.82
PAT	100.11	53.95	155.27	241.25

Share of Profit of Associates	0.26	0.78	0.04	0.86
Minority interest	0.24	0.73	0.99	0.91
PAT after Minority Interest & Share of profit of Associates	100.61	55.46	156.30	243.02
EPS (Rs)*	2.0	2.1	6.0	9.3

* Annualised on Current equity of Rs 52.24 crore; Face Value: Rs 2
(P): Projections
Figures in Rs crore
Source: Capitaline Corporate Databases

Punj Lloyd: Consolidated results

	0612 (3)**	0612(9)**	0603(12)	0503 (12)
Sales	1433.32	3423.03	1684.65	1790.01
OPM (%)	5.8	5.9	10.3	9.5
OP	83.08	203.65	174.19	169.72
Other inc.	30.18	63.03	31.94	72.33
PBIDT	113.26	266.68	206.13	242.05
Interest	27.92	56.76	62.67	96.65
PBDT	85.34	209.92	143.46	145.40
Dep.	29.60	73.23	60.37	83.91
PBT before EO	55.74	136.69	83.09	61.49
EO	0.00	0.00	0.00	58.00
PBT after EO	55.74	136.69	83.09	119.49
Current Tax	8.02	29.14	29.14	19.38
PAT	47.72	107.55	53.95	100.11
Share of Profit of Associates	0.02	0.02	0.78	0.26
Minority interest	0.55	0.44	0.73	0.24
PAT after Minority Interest & Share of profit of Associates	48.29	108.01	55.46	100.61
EPS (Rs)*	#	#	2.1	2.0

* Annualised on Current equity of Rs 52.24 crore; Face Value: Rs 2
Var. (%) exceeding 999 has been truncated to 999
Engineering and Construction activity being substantially seasonal EPS for quarter/ nine month was not calculated
LP: Loss to Profit PL: Profit to Loss
** This being first year of listing no comparative figures have been given
Figures in Rs crore
Source: Capitaline Corporate Databases

Punj Lloyd: Consolidated segment results

Segment	0612 (3)**	% to total	0612(9)	% to total	0603(12)	0503(12)	% to total	Var.(%)

Sales								
Engineering & Construction	1431.3	98	3404.91	98	1654.39	1779.44	96	-7
Internet Services	9.98	1	31.56	1	32.95	41.87	2	-21
Unallocable	22.23	2	49.58	1	29.25	106.65	2	-73
Total sales	1463.51	100	3486.05	100	1716.59	1927.96	100	-11
Inter segment						7.63		
Total Sales	1463.51		3486.05		1716.59	1920.33		
PBIT								
Engineering & Construction	54.6	102	151.68	102	144.6	181.26	105	-20
Internet Services	-0.81	-2	-3.69	-2	-7.38	-10.33	-5	-29
Total PBIT	53.79	100	147.99	100	137.22	170.93	100	-20
Less: interest exp.	27.92		56.76		79.31	133.33		
Other unallocable expenses	-29.87		-45.45		-25.19	-81.89		
PBT	55.74		136.68		83.1	119.49		-30
Capital Employed								
Engineering & Construction	1801.7	95	1801.7	95	1472.04	1077.24	94	37
Internet Services	101.66	5	101.66	5	86.59	132.24	6	-35
Total Capital Employed	1903.36	100	1903.36	100	1558.63	1209.48	100	29
Figures in Rs crore Source: Capitaline Corporate Databases Capital Employed excludes Assets & Liabilities not allocable to specific segment								

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