Punj Lloyd – MP

CMP Rs161, Target Rs155

Sector: Capital Goods	
Sensex:	14,302
CMP (Rs):	161
Target price (Rs):	155
Downside (%):	3.9
52 Week h/l (Rs):	355 / 67
Market cap (Rscr) :	4,895
6m Avg vol ('000Nos):	9,685
No of o/s shares (mn):	303
FV (Rs):	2
Bloomberg code:	PUNJ IB
Reuters code:	PUJL.BO
BSE code:	532693
NSE code:	PUNJLLOYD

Prices as on 19 May, 2009

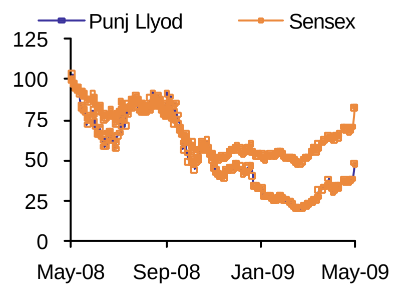
Shareholding pattern

March '09	(%)
Promoters	41.5
Institutions	30.6
Non promoter corp hold	7.8
Public & others	20.1

Performance rel. to sensex

(%)	1m	3m	1yr
Punj Llyod	5.4	28.8	(36.3)
L&T	25.6	51.9	7.3
IVRCL	35.1	71.6	(24.7)
Nagarjuna Const	26.7	82.9	(26.4)

Share price trend



- Revenues grow by healthy 39% yoy to Rs32bn against Rs23bn in the corresponding period last year
- Negative surprise on operating margin despite adjusting for SABIC, OPM contracts 497bps yoy
- High interest expense, 124% higher yoy, also drags earnings
- PBT depressed due to one off items, reports net loss of Rs2.5bn
- Order backlog stands at Rs208bn, order intake of Rs12bn is lower both yoy and sequentially

Result table

(Rs m)	Q4 FY09	Q4 FY08	% yoy	Q3 FY09	% qoq
Net sales	**32,306**	**23,278**	38.8	**31,434**	2.8
Material cost	(11,101)	(7,478)	48.4	(8,453)	31.3
Personnel cost	(3,783)	(2,889)	31.0	(3,176)	19.1
Other overheads	(5,729)	(4,648)	23.3	(4,672)	22.6
Contractor charges	(10,109)	(5,966)	69.4	(13,011)	(22.3)
Operating profit	**1,583**	**2,297**	(31.1)	**2,123**	(25.4)
OPM (%)	***4.9***	***9.9***	***(497) bps***	***6.8***	***(185) bps***
Depreciation	(508)	(409)	24.1	(433)	17.3
Interest	(729)	(326)	124.0	(620)	17.6
Other income	1	6	(90.5)	3	(76.0)
PBT	**347**	**1,568**	(77.9)	**1,072**	(67.6)
Tax	(667)	(374)	78.3	(416)	60.5
Effective tax rate (%)	***-***	***(23.9)***		***(38.8)***	
Minority interest	(23)	(17)	36.1	10	(323.8)
Adjusted PAT	**(343)**	**1,177**	-	**667**	-
Adj. PAT margin (%)	***(1.1)***	***5.1***	***(612) bps***	***2.1***	***(318) bps***
Extra ordinary items	(2,213)	-	-	(2,923)	(24.3)
Reported PAT	**(2,556)**	**1,177**	-	**(2,256)**	13.3
EPS (Rs)	(4.5)	15.5	-	8.8	-

Source: Company, India Infoline Research

One timers result into negative earnings

Punj Lloyd's strong revenue growth of 39% yoy was muted by negative earnings arising out of few one time items. It reported a net loss of Rs2.5bn against a profit of Rs1.2bn in the corresponding period last year, primarily on account of Rs2.2bn provisioning towards SABIC case. In addition to this, loss at Simon Carves due to higher cost added further pressure on the overall margin.

Operating margins deteriorate, negative surprise in the result

Even after adjusting for the Rs2.2bn provisioning towards SABIC case, Punj Lloyd's operating margin was lower by 497bps yoy to 4.9% during the quarter. Higher contractor charges by 69% yoy coupled with 48% higher material costs pressurized margin. Consolidated margins were also lower due to higher costs at Simon Carves. However the management is confident that the current order backlog should allow them to witness higher margins going forward.

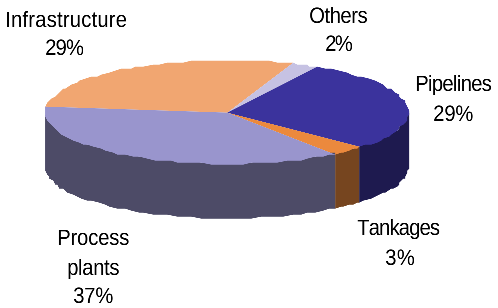
Margins have been partially cushioned due to the reversal in accounting for foreign exchange differences and change in accounting policy of recognizing Middle East branches as non-integral.

Cost analysis

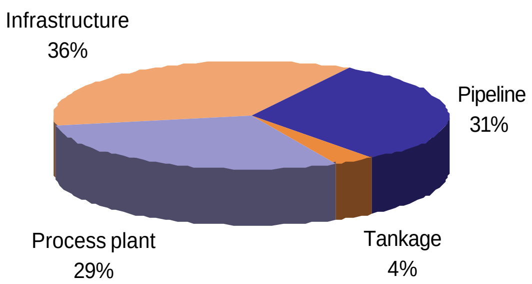
As a % of net sales	Q4 FY09	Q4 FY08	bps yoy	Q3 FY09	bps qoq
Material costs	34.4	32.1	224	26.9	747
Personnel Costs	11.7	12.4	(70)	10.1	161
Other overheads	17.7	20.0	(223)	14.9	287
Contractor charges	31.3	25.6	566	41.4	(1,010)
Total costs	**95.1**	**90.1**	**497**	**93.2**	**185**

Source: Company, India Infoline Research

Hydrocarbons drive largest share in FY09 revenues



Infra and pipeline accounts for 67% of order backlog



Source: Company, India Infoline Research

Rs208bn order backlog executable over the next 24 months

The management expects to execute its Rs208bn order backlog over the next 24 months. They indicated that the margins on these orders were in line with that of Punj Lloyd standalone entity, i.e. 9%. The management expects the company to maintain its growth momentum; and operating margin for FY10 will be close to 9%. The Jurong Island project is yet to achieve financial closure. Dialogue with the clients have indicated that this will be achieved over the next 3 months, failing which Punj Lloyd will exclude the project from its order book. Apart from this, the Dighi project and the GVK Power project are slow moving. The management has indicated that the GVK project will cleared over the next couple of days, thus will begin execution in full swing then.

Rs38bn worth of orders presently facing delays

Project details	Client	Country	Project cost (Rs mn)	Comments
Integrated condensate splitter aromatics complex at Jurong Island	Jurong Aromatics	Singapore	17,700	Awaiting financial closure
Construction of multi purpose berth at Dighi port		India	8,000	3% of payment received, not committing any further resources
2x270MW coal fired TPP in Punjab	GVK Power	India	9,550	Project awaiting land acquisition
Ador power plant		Indonesia	3,300	Kept on hold for six months
Total			**38,550**	

Source: Company, India Infoline Research

Some of the key orders received by Punj Lloyd during the year

Project details	Client	Cost (Rs mn)
Motor Spirit Quality upgradation project	Indian Oil Corporation	6,490
Civil, mechanical, electrical and instrumental work	Exxon Mobil	3,310
Mechanical works for Borouge project	Tecnicas Reunidas	4,610
2 X 270 MW Govindwal Sahib coal fired TPP in Taran Taran District, Punjab. The scope of the project involves the BoP work	GVK Power	9,550
Mechanical works on Jurong Island	FWP JV, Singapore	1,670
Drilling exploratory wells in the Gialo oilfield of the prolific Sirte Basin; deploying two onshore rigs	Waha Oil Company	2,600
Laying 211 km of pipeline with associated stations and infrastructure	Qatar Petroleum	36,360
New fuel terminal	PT Shell	1,010
Development of parking facility for forthcoming Commonwealth Games '10	Municipal Corporation of Delhi	3,040
Sikkim's first Greenfield airport project in Pakyong	Airport Authority of India	2,640
Jurong Strategic Study at Jurong Lubes Terminal, order received by Simon Carves	Exxon Mobil Asia Pacific Pte	1,520
EPC for laying a 56.5km long pipeline	Cairn Energy India	1,410
Upgrade the infrastructure of Arada, an existing township in Tripoli	Housing & Infrastructure Board, Libya	8,930
EPC and project management, commissioning of infrastructure networking	Libya	11,660

Source: Company, India Infoline Research

Higher interest cost puts further pressure on earnings

Punj Lloyd reported net pre-exceptional loss of Rs343mn during the quarter against a profit of Rs1.2bn. This was due to a sharp decline in operating margin coupled with high interest expense. Interest expense during the quarter was higher by 124% yoy to Rs729mn. This increase was due to a rise in debt to Rs33bn at the end of FY09 from Rs16bn at the end of FY08. Accounting for the provisions, reported net loss during the quarter stood at Rs2.5bn.

Execution of higher margin orders should translate into 26% earnings CAGR over FY09-11E

A slowing book-to-bill ratio has continued to remain one of our key concerns for the company. Despite the management hinting at increasing order backlog position during the Q3 analyst meet, this has actually shrunk sequentially. We do not expect the order backlog to grow rapidly especially given the current global economic scenario. However, as the high margins orders will be executed over the next year the company's operating margins will improve materially from FY09 levels. We expect the company witness 26% earnings CAGR over FY09-11E. The stock has run up 32% over the past few trading sessions, thus leaving no room for further appreciation. We upgrade the target price in line with improving margin and bottomline growth to Rs155/share, but continue to rate it as Market Performer.

Financial summary

Y/e 31 Mar (Rs m)	FY08	FY09E	FY10E	FY11E
Revenues	77,529	119,120	123,931	129,508
yoy growth (%)	51.2	53.6	4.0	4.5
Operating profit	6,922	8,179	10,171	11,046
OPM (%)	8.9	6.9	8.2	8.5
Pre-exceptional PAT	3,116	2,679	3,827	4,270
Reported PAT	3,584	(2,253)	3,827	4,270
yoy growth (%)	82.0	-	-	11.6
EPS (Rs)	10.3	8.8	12.6	14.1
P/E (x)	15.7	18.3	12.8	11.5
Price/Book (x)	1.8	1.9	1.7	1.5
EV/EBITDA (x)	8.4	9.6	7.6	6.8
Debt/Equity (x)	0.6	1.3	1.1	0.9
RoE (%)	15.6	10.2	14.1	13.8
RoCE (%)	16.5	13.9	14.7	15.0

Source: Company, India Infoline Research

Recommendation parameters for fundamental reports:

Buy – Absolute return of over +10%

Market Performer – Absolute return between -10% to +10%

Sell – Absolute return below -10%

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