

VISIT UPDATE

MID CAP

Share Data

Reuters code	PUJL.BO
Bloomberg code	PUNJ IN
Market cap. (US\$ mn)	831
6M avg. daily turnover (US\$ mn)	13.4
Issued shares (mn)	332
Target price (Rs)	104

Performance (%)	1M	3M	12M
Absolute	(9)	4	(45)
Relative	(7)	(5)	(53)

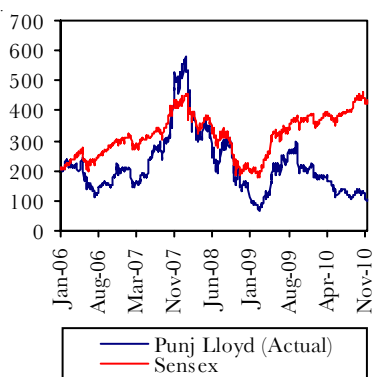
Valuation ratios

Yr to 31 Mar	FY11E	FY12E
EPS (Rs)	3.8	8.7
+/- (%)	-	130.0
PER (x)	29.9	13.0
PBV (x)	1.2	1.1
Dividend/Yield (%)	0.3	0.4
EV/Sales (x)	0.8	0.7
EV/EBITDA (x)	8.6	6.9

Major shareholders (%)

Promoters	37
FII's	13
DII's	15
Others	35

Relative performance



Punj Lloyd

Maintain Underperformer

Price: Rs 113

BSE Index: 19,993

02 December 2010

Growth visibility still away

B&K's view

Punj Lloyd's order book stands at Rs 271 bn (2.4x FY12E sales). Considering a subdued order book over the past five quarters and the slow-moving Libyan orders (~33% of order book), revenue visibility is not strong. Management indicated a strong bid pipeline of ~US\$ 38 bn and it expects order inflow to pick up. However, net order inflow of only ~Rs 29 bn YTD is a concern and lack of improvement in order inflow can be a risk to our estimates. ONGC Heera project has been completed and Punj Lloyd has filed for arbitration of Rs 13 bn to recover additional costs. Simon Carves' orders have ongoing litigations of GBP 17 mn with sub-contractors. The Ensus project is facing operational issues with the client and GBP 10 mn worth of retention money and bank guarantees could be at risk. However, management is confident that it will not lose any of these amounts. The stock is trading at 29.9x FY11E and 13.0x FY12E earnings. We maintain Underperformer.

Management meeting highlights

Order book and order inflow: The company's order book stands at Rs 271 bn (as on 30 September 2010 and orders received until date), which is 2.4x FY12E sales. Gross order inflow YTD has been Rs 65 bn; however, after considering order reduction (Ind Bharat project size reduced from Rs 9.5 bn to Rs 1.5 bn) and forex adjustments, net order inflow is ~Rs 29 bn. The company has a strong bidding pipeline of projects worth ~US\$ 38 bn. But, given the current order book and weak net order inflow YTD, we do not see good growth visibility.

Libyan projects: Punj Lloyd has orders of ~US\$ 2.0 bn from Libya for which execution has started on orders worth US\$ 883 mn (although partially and with extended execution period). Execution has not yet begun on orders worth ~US\$ 1.2 bn and it may not begin in FY11.

Orders from Libya

Project	Total project cost (US\$ mn)	Date of award	Commencement of execution
Souk Al Juma	276*	January 2009	2QFY11
Arada (4&5)	220*	January 2009	2QFY11
Zawara			2QFY11
Al Jamail	387	July 2009	3QFY11
Ragdaleen			4QFY11
Tripoli	1,200	July 2009	No clarity yet

Source: Company, B&K Research.

*Punj Lloyd has 85% share.

ONGC Heera project: ONGC's Heera project has been completed and Punj Lloyd has filed for arbitration of Rs 13 bn to recover additional costs. An auditor qualification remains with respect to accounting of claim of Rs 2.4 bn and non-accounting of liquidated damages of Rs 655 mn.

The Simon Carves and Ensus project: In the Simon Carves orders, there are ongoing litigations of ~GBP 17 mn with sub-contractors. On the Ensus project, the company faces issues raised by the client with regard to odour generated at the plant. Management clarified that the client had removed a thermal oxidiser to reduce project cost and it now wants Simon Carves to install this at its expense. This is under dispute and we believe GBP 10 mn of retention money/bank guarantees retained by the client could be at risk. However, management is confident that it will not lose any of these amounts.

Continuing high debt levels: Management indicated that the high debt level is expected to continue in the medium term.

Debt level

(Rs mn)	4QFY09	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11
Gross debt	35,592	38,932	43,495	47,644	44,554	44,594	44,469
Net debt	27,470	31,808	37,790	40,384	38,444	33,130	32,620
Shareholders fund	25,265	25,158	32,929	32,721	30,698	31,092	30,920
Debt/Equity (x)	1.4	1.5	1.3	1.5	1.5	1.4	1.4
Net debt/equity (x)	1.1	1.3	1.1	1.2	1.3	1.1	1.1

Source: Company, B&K Research

Ventures in solar power and defense sectors: Punj Lloyd recently won a solar power project worth Rs 800 mn from NTPC, which marks its entry into the solar power segment. It also plans to incur capex of Rs 2 bn for setting up a plant in the defense sector.

Outstanding FCCBs: Punj Lloyd has outstanding FCCBs worth US\$ 49 mn due April 2011, which are unlikely to be converted. The company plans to either repay or roll over the FCCBs.

Bid for stake in Bharti Hexacom: Punj Lloyd has bid for Telecom Consultants of India's 30% stake in Bharti Hexacom, which has telecom operations in north east and Rajasthan circles; Bharti Airtel currently owns 70% stake in this company. The Punj Lloyd management highlighted that the key attraction is that this business generates free cash flow, but it is not serious about the bid. Although probability of Punj Lloyd winning is not high, a successful bid can strain its already leveraged balance sheet as the floor price is Rs 18 bn.

Income Statement

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Net sales	118,761	104,478	92,171	114,664
<i>Growth (%)</i>	53.2	(12.0)	(11.8)	24.4
Operating expenses	(114,716)	(100,833)	(83,783)	(103,656)
Operating profit	4,044	3,645	8,388	11,008
EBITDA	4,044	3,645	8,388	11,008
<i>Growth (%)</i>	(41.6)	(9.9)	130.1	31.2
Depreciation	(1,771)	(2,270)	(2,454)	(2,699)
Other income	1,259	4,269	1,500	1,500
EBIT	3,532	5,645	7,433	9,808
Interest paid	(3,519)	(5,435)	(5,552)	(5,781)
Pre-tax profit	13	210	1,881	4,027
(before non-recurring items)				
Pre-tax profit	13	210	1,881	4,027
(after non-recurring items)				
Tax (current + deferred)	(2,260)	(1,372)	(621)	(1,128)
Net profit	(2,247)	(1,163)	1,261	2,899
Adjusted net profit	(2,253)	(1,084)	1,261	2,899
<i>Growth (%)</i>	(170.1)	–	–	130.0
Minority interests	(6)	78	–	–
Net income	(2,253)	(1,084)	1,261	2,899

Balance Sheet

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Current assets	82,955	88,282	83,519	96,837
Investments	6,609	3,818	4,318	4,818
Net fixed assets	21,653	23,382	24,428	24,228
Other non-current assets	334	38	38	38
Total assets	111,551	115,519	112,302	125,921
Current liabilities	48,952	38,424	33,665	43,040
Total debt	35,592	44,554	45,553	47,053
Other non-current liabilities	1,742	1,842	1,842	1,842
Total liabilities	86,286	84,821	81,060	91,935
Share capital	607	664	664	664
Reserves & surplus	24,238	29,619	30,163	32,907
Shareholders' funds	24,845	30,283	30,827	33,571
Minorities interests	420	415	415	415
Total equity & liab.	111,551	115,519	112,302	125,921

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY09	FY10	FY11E	FY12E
Pre-tax profit	13	210	1,881	4,027
Depreciation	1,048	1,651	2,454	2,699
Chg in working capital	(10,801)	(18,014)	4,587	(5,820)
Total tax paid	(695)	(781)	(621)	(1,128)
Cash flow from oper. (a)	(10,434)	(16,934)	8,302	(221)
Capital expenditure	(6,532)	(3,380)	(3,500)	(2,500)
Chg in investments	(1,151)	2,792	(500)	(500)
Cash flow from inv. (b)	(7,684)	(588)	(4,000)	(3,000)
Free cash flow (a+b)	(18,118)	(17,522)	4,302	(3,221)
Equity raised/(repaid)	(619)	6,475	–	–
Chg in minorities	192	74	–	–
Debt raised/(repaid)	19,520	8,962	999	1,500
Dividend (incl. tax)	(142)	(107)	(75)	(122)
Other financing activities	391	105	(600)	–
Cash flow from fin. (c)	19,342	15,510	323	1,378
Net chg in cash (a+b+c)	1,224	(2,012)	4,625	(1,843)

Key Ratios

Yr end 31 Mar (%)	FY09	FY10	FY11E	FY12E
EPS (Rs)	(7.2)	(3.3)	3.8	8.7
EPS growth	–	–	–	130.0
EBITDA margin	3.4	3.5	9.1	9.6
EBIT margin	3.0	5.4	8.1	8.6
RoCE	6.6	8.1	9.5	12.1
Net debt/Equity	108.7	125.2	111.4	112.3

Valuations

Yr end 31 Mar (x)	FY09	FY10	FY11E	FY12E
PER	–	–	29.9	13.0
PCE	–	31.7	10.1	6.7
Price/Book	1.4	1.2	1.2	1.1
Yield (%)	0.3	0.1	0.3	0.4
EV/Net sales	0.5	0.7	0.8	0.7
EV/EBITDA	15.3	20.9	8.6	6.9

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY09	FY10	FY11E	FY12E
Net margin (%)	(1.9)	(1.0)	1.4	2.5
Asset turnover	1.3	0.9	0.8	1.0
Leverage factor	3.6	4.1	3.7	3.7
Return on equity (%)	(8.5)	(3.9)	4.1	8.9

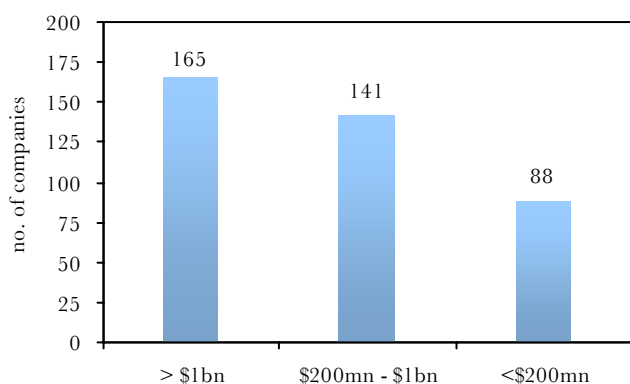
Gautam Bafna
gautam.bafna@bksec.com
+91-120-460 5616

Hiten Momaya
hiten.momaya@bksec.com
+91-120-460 5618

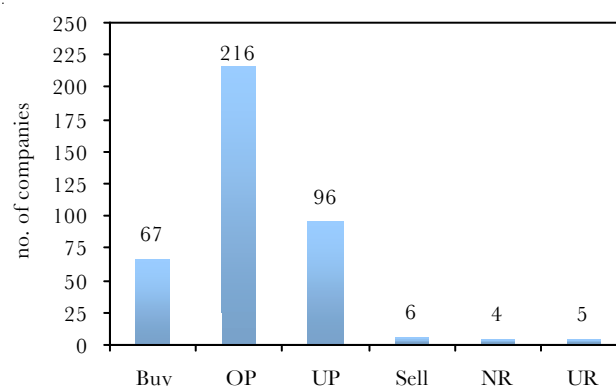
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B&K Universe Profile

By Market Cap (US\$ mn)



By Recommendation



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B&K Investment Ratings:

1. **BUY:** Potential upside of > +25% (absolute returns)
2. **OUTPERFORMER:** 0 to +25%
3. **UNDERPERFORMER:** 0 to -25%
4. **SELL:** Potential downside of < -25% (absolute returns)

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B & K SECURITIES INDIA PRIVATE LTD.

Equity Research Division: City Ice Bldg., 298, Ground/1st Floor, Perin Nariman Street, Behind RBI, Fort, Mumbai - 400 001, India. Tel.: 91-22-4031 7000, Fax: 91-22-2263 5020/30.
Registered Office: Room No. 3/4, 7 Lyons Range, Kolkata - 700 001. Tel.: 91-33-2243 7902.

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