

Punj Lloyd

HOLD

Price Rs 182

Target Price % **Upside**
Rs 210 15%↑

Market Capitalisation
Rs60,290mn (US\$1,317mn)

52 wk range H/L (Rs) 299/67

Shares o/s (mn) **Daily vol (mn shares)**
332.08 1.80

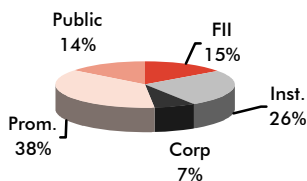
Reuters **Bloomberg**
PUJL.BO PUNJ IN

Performance (%)

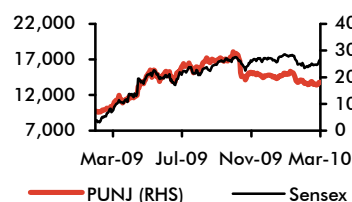
	1M	3M	12M	YTD
Absolute	(2.1)	(12.9)	146.2	(12.9)
Sensex	(6.3)	(12.0)	22.8	(10.2)

Source: Bloomberg

Shareholding pattern



Price performance



Source: Capitaline

Event: Liquidation damages claim

- Ensus UK has issued a 'Take Over' certificate to Simon Carves on account of liquidated damages amounting to Gbp 23.1mn. With this the total write off on Ensus UK project has reached to Gbp 58.6mn. The break up includes cost overruns of Gbp 13.5mn during Q2FY10, cost overruns of Gbp 22mn during Q3FY10 and Gbp 23.1mn liquidation damages claim during Q4FY10.
- Punj Lloyd (PLL) shall be contesting the liquidation damages claim as delay is attributed to subcontractors, including certain contractors nominated by client.
- Management re-iterated that this was the last project being executed by Simon Carves and the site is already handed over to client. Other projects of Simon Carves are being executed by PLL and are on track with high visibility of timely completion.
- We had factored in this write off in our Q3FY10 result update and retain a 'HOLD' with a Rs210 target price. We believe that profitable growth in coming quarters would be key trigger for stock re-rating.

The following are the key takeaways on our PLL visit:

- Power to be key driver of order book going forward. During Q4FY10, PLL has bagged project worth Rs19.7bn. PLL is L1 in another Rs15bn of power orders, these are mix of civil and BOP.
- Earlier PLL had won Rs8,230mn Power civil BOP order from Rajasthan Vidhyut Utapadan Nigam, Jaipur for building 2x250MW Chhabra Thermal Power station. The project is to be handed over by Mar-10 and is on track
- Second order on Power civil BOP side was from GVK Power for 2x270MW Govindwal Sahib Coal fired Thermal power project. Earlier there were delays in the project due to land acquisition. The work has started since past 3 months.
- Libya first set of order USD 550mn will see revenue booking from Q4FY10.

We Maintain 'HOLD' with a Rs210 target on PLL

We retain 'HOLD' on the stock with a SOTP-based target price of Rs210 (PLL valued at Rs193 based on 12x FY11E earnings (a discount to large & mid-tier construction companies forward multiple), Pipavav Shipyard at Rs17 (20% discount to market cap for Punj Lloyd stake). We believe that better execution and steady financial performance for next few quarters would be the key trigger for re-rating on the stock.

Exhibit 1: Key Financials

YE March (Rs mn)	FY07	FY08	FY09	FY10E	FY11E
Operating income	51,265	77,529	119,120	122,283	139,648
EBITDA	4,103	6,923	3,093	8,143	13,303
Net profit	1,971	3,583	(2,377)	730	5,328
EPS (Rs)	7.5	10.6	(8.3)	2.2	16.1
RoE (%)	16.4	16.1	(9.7)	2.6	15.3
RoCE (%)	13.0	14.8	2.5	9.3	15.1
P/E (x)	24.0	17.1	-21.7	82.2	11.3

Source: Company, Ambit Capital Research Estimates

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Other project of Simon Carves

Simon Carves balance two projects are being executed by PLL. Thailand plant is delayed by 2 months on account of design changes & delay in other contractors handing site to PLL. Gulf Flour contract is on schedule and PLL is expecting margin improvement in this project.

Exhibit 2: Simon Carves balance orders

Simon Carves remaining orders	Amount (Rs mn)	Announcement date	Expected completion	Delay	Reasons	Handled by
(i) Contract for 300ktpa LDPE plant in thailand	5600	1-Dec-06	Apr-June'10	2 months	design changes, delay by other contractor	PLL South Asia
(ii) Contract by Abu Dhabi based Gulf Flour to provide a new Anhydrous Hydrofluoric Acid (AHF) / Aluminium Fluoride (AlF3) Plant incorporating a new Sulphuric Acid / Oleum Plant as part of a Dh2 billion Fluorides Complex to be built in UAE.	5000	17-Jul-07		work progressing on schedule, margins improved in the project		PLL Energy

Source: Company, Ambit Capital Research

Progress on Libyan orders

There has been slower execution in Libya contract worth about US\$ 2.12bn, there were some department relocation for the first set as this is being done in JV with Public works department. Revenue booking should start during Q4FY10.

Exhibit 3: Libya orders

Libya orders	"Value " (USD Mn)"	Vehicle	Status
First set	550	PLL - Public works dept	reaching revenue hurdle rate
Second set	374	PLL	advance to be received next week
Third set	1200	Sembawang	Q1FY11 work to start

Source: Company, Ambit Capital Research

Exhibit 4: Balance Sheet

Year to March (Rs mn)	FY08	FY09	FY10E	FY11E
Cash & equivalents	6,898	8,122	4,020	8,129
Debtors	20,901	26,686	40,203	45,912
Inventory	20,592	36,686	36,852	42,086
Loans & advances	7,429	11,461	10,434	11,916
Investments	5,458	6,609	6,609	6,609
Fixed assets	16,233	21,727	22,633	24,020
Other assets	(915)	(1,482)	(848)	(848)
Total assets	76,596	109,809	119,903	137,823
Current liabilities & provisions	32,869	48,952	51,345	58,091
Debt	16,326	35,592	35,900	42,000
Minority Interest	222	420	420	420
Total liabilities	49,417	84,964	87,664	100,511
Shareholders' equity	607	607	663	663
Reserves & surpluses	26,572	24,238	31,576	36,649
Total networth	27,179	24,845	32,238	37,312
Net working capital	9,875	9,828	10,264	5,678
Net debt (cash)	9,428	27,470	31,880	33,871
Total liabilities & equities	76,596	109,809	119,903	137,823

Exhibit 5: Income Statement

Year to March (Rs mn)	FY08	FY09	FY10E	FY11E
Operating income	77,529	119,120	122,283	139,648
% growth	51.2%	53.6%	2.7%	14.2%
Operating expenditure	70,606	116,028	114,141	126,346
EBITDA	6,923	3,093	8,143	13,303
% growth	68.7%	-55.3%	163.3%	63.4%
Depreciation	1,462	1,771	2,095	2,113
EBIT	5,461	1,322	6,048	11,190
Interest expenditure	1,806	2,208	3,345	3,926
Non-operational income	1,182	899	250	450
PBT	4,836	13	2,953	7,714
Tax	1,235	2,260	2,227	2,391
Minority/profit assc.	18.3	(130.3)	4.0	5.0
PAT / Net profit	3,583	(2,377)	730	5,328
% growth	81.8%	-166.3%	-130.7%	630.3%

Source: Company, Ambit Capital Research estimates

Exhibit 6: Cash Flow Statement

Year to March (Rs mn)	FY08	FY09	FY10E	FY11E
EBIT	5,461	1,322	6,048	11,190
Other income (expenditure)	811	745	250	450
Depreciation	1,462	1,771	2,095	2,113
Interest	1,806	2,208	3,345	3,926
Tax	1,235	2,260	2,227	2,391
Others	1,032			
Net working capital	9,875	9,828	10,264	5,678
Cash flow from operating activities	(5,183)	(10,458)	(7,444)	1,758
Capital expenditure	3,139	6,543	3,000	3,500
Others	449	629	0	0
Investments	3,759	1,151	0	0
Cash flow from investing activities	(7,348)	(8,323)	(3,000)	(3,500)
Incr (decr) in borrowings	(242)	19,900	(326)	6,100
Issuance of equity	11,046	0	6,702	0
Net dividends	142	(105)	34	249
Others	(1,261)			
Cash flow from financing activities	9,402	20,005	6,342	5,851
Net change in cash	(3,129)	1,224	(4,102)	4,109
Closing cash balance	6,898	8,122	4,020	8,129

Exhibit 7: Ratio Analysis

Year to March (%)	FY08	FY09	FY10E	FY11E
EBITDA margin (%)	8.9	2.6	6.7	9.5
EBIT margin	7.0	1.1	4.9	8.0
PAT Margin (%)	4.6	(2.0)	0.6	3.8
Return on capital employed	14.8	2.5	9.3	15.1
Return on equity	16.1	(9.7)	2.6	15.3
Current ratio (x)	1.7	1.7	1.8	1.9

Exhibit 8: Valuation Parameters

Year to March (%)	FY08	FY09	FY10E	FY11E
EPS (Rs)	10.6	(8.3)	2.2	16.1
Diluted EPS (Rs)	10.6	(8.3)	2.2	16.1
Book value per share (Rs)	89.6	81.9	106.2	122.9
P/E (x)	17.1	(21.7)	82.2	11.3
P/BV (x)	2.0	2.2	1.7	1.5
EV/EBITDA (x)	16.4	36.6	13.9	8.5
EV/Sales (x)	1.3	0.8	0.9	0.8

Source: Company, Ambit Capital research estimates

Explanation of Investment Rating

Investment Rating	Expected return (over 12-Month period from date of initial rating)
Buy	>15%
Hold	5% to 15%
Sell	<5%

Disclaimer

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