

## Punj Lloyd Ltd

### More pain from Simon Carves - ALERT

## Underweight

PUJL.BO, PUNJ IN

Price: Rs181.75

03 March 2010

- **Liquidated damages (LDs) of Rs1.6B have been levied on Punj Lloyd by Ensus Limited (UK) due to delays in achieving project completion.** Punj Lloyd's 100% subsidiary Simon Carves was executing a bio ethanol project for Ensus which was completed and commissioned in Dec-q.
- **Post Dec-q conference call we had alerted against the possibility of an LD levy.** The write-off of Rs1.6B will now come in Mar-q results, in our view. During the last fiscal and YTD, Punj Lloyd's financials have been adversely impacted by one-off losses on Simon Carves legacy OB. Till Dec-09 Rs 2.7B losses on account of cost overruns have been booked on the bio-ethanol contract from Ensus (UK).
- **2 more orders remain in Simon Carves legacy OB.** A petrochemical order in Thailand (Rs.5.76B) is delayed by ~2 months on account of design changes and is expected to be complete around Jun-10. Another process order in Abu Dhabi (~Rs2B) is due for completion in Apr-10. Given past experience of delays in execution by Simon Carves, the Punj Lloyd team had taken over work for these contracts. We expect weak margins/ potential losses on unexecuted portion of SC OB (~Rs1.5-2B, in our estimate) to be reflected over the next 1-2 quarters. This is in addition to the Rs1.6B liquidated damage on the Ensus contract of Simon Carves to be incurred in Mar-q FY10.
- **Bad news (of LD) clubbed with good news (Rs10.23B order).** In the same filing to the exchange, Punj Lloyd reported that it has received a LoI of Rs10.23B for an EPC project from Dhariwal Infrastructure, an RPG Group company. The scope of work involves EPC of complete BOP including civil and structural works for entire plant, erection, testing and commissioning services for BTG on a 2x300MW thermal power plant, near Chandrapur, in Maharashtra. According to press reports (ET), the project has secured debt funding, land and coal linkage.
- **The order value of Rs17MM/MW is slightly below the BOP order received by Punj Lloyd from GVK,** for Goindwal Sahib Project (2x270MW) in Punjab (at Rs18.6MM/MW). We observe that the scope of work on the Chandrapur order includes an additional item pertaining to erection, testing and commissioning of BTG.

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### Engineering

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Table 1: 9M PAT performance: Riddled with exceptionals pertaining to Simon Carves

Rs. in millions, year-end March

	9MFY10	9MFY09	% YoY
<b>Reported PAT</b>	1,925	304	534
<b>Exceptional item</b>			
Cost overrun (loss) on Simon Carves- Ensus proj. in Sep-q 2009	1,040		
Cost overrun (loss) on Simon Carves- Ensus proj. in Dec-q 2009	1,650		
Provision made for SABIC order of Simon Carves in Sep-q 2008		2,072	
Forex loss on loans taken by Simon Carves in Sep-q		779	
Others		(132)	
<b>Adjusted PAT</b>	4,615	3,023	53

Source: J.P. Morgan estimates, Company data

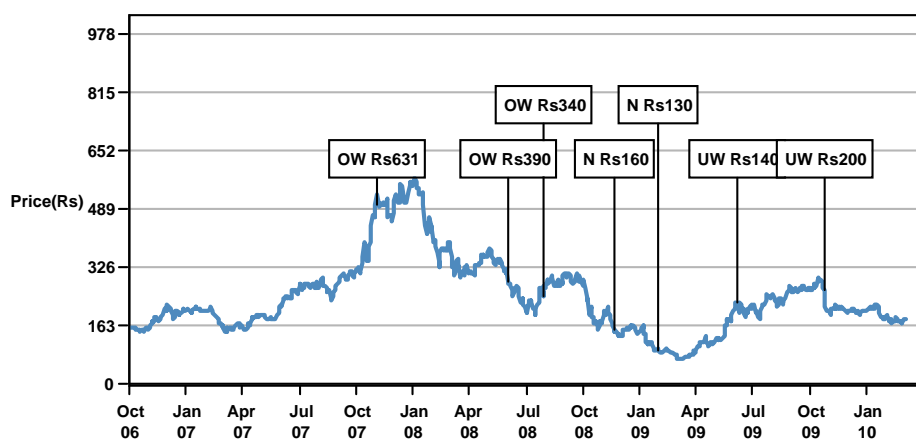
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**Punj Lloyd Ltd (PUJL.BO) Price Chart**



Date	Rating	Share Price (Rs)	Price Target (Rs)
03-Nov-07	OW	498.40	631.00
03-Jun-08	OW	287.05	390.00
30-Jul-08	OW	242.40	340.00
20-Nov-08	N	153.95	160.00
28-Jan-09	N	93.30	130.00
05-Jun-09	UW	226.65	140.00
26-Oct-09	UW	260.25	200.00

Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends. This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period. J.P. Morgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

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