Punj Lloyd

2QFY2010 Result Update

BUY

Price	**Rs218**
Target Price	**Rs271**
Investment Period	**12 Months**

Stock Info

Sector	Infrastructure
Market Cap (Rs cr)	7,220
Beta	1.3
52 WK High / Low	299 / 67
Avg Daily Volume	2218396
Face Value (Rs)	2
BSE Sensex	16,741
Nifty	4,971
BSE Code	532693
NSE Code	PUNJLLOYD
Reuters Code	PUJL.BO
Bloomberg Code	PUNJ@IN

Shareholding Pattern (%)

Promoters	37.5
MF/Banks/Indian FIs	22.9
FII/ NRIs/ OCBs	26.5
Indian Public	13.1

Abs.	**3m**	**1yr**	**3yr**
Sensex (%)	8.9	92.4	31.8
Punj (%)	(13.4)	44.9	46.7

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Performance Highlights

- **Subdued Top-line in line:** Punj Lloyd (Punj) reported a marginal de-growth in Top-line by 2.8% to Rs2,872cr (Rs2,953cr), which was in line with our estimate of Rs3,086cr. This came primarily on account of some projects not meeting the threshold limit for Revenue recognition. We expect the company to register a mere 9.5% growth in Revenues for FY2010 to Rs13,047cr primarily on account of the slowdown in Order inflow experienced in FY2009, change in Order Book composition with emphasis on the high-gestation Infra Segment and increased level of competition.

- **Losses in Simon Carves drags Margins:** EBITDA Margins for the quarter came in at 7.4% (10.1%) as against our estimate of 9.1%. This fall in EBITDA Margins was primarily on account of the losses of Rs104cr booked by Simon Carves on account of low productivity by the sub contractors. Material costs increased by 300bp, as a percentage of Sales. Employee costs also surged by 180bp yoy, as a percentage of Sales on account of the retrenchment benefits offered to the Employees of Simon Carves during the quarter. However, Employee count has reduced from 130 in 1QFY2010 to around 79 personnel in 2QFY2010.

- **High Interest cost impacts Profit:** Punj registered a 63.3% yoy decline in Bottom-line to Rs52.9cr (Rs144.1cr) as against our expectation of Rs114.4cr. Bottom-line de-grew owing to the dip in EBITDA Margins and high Interest costs, which surged 62.3% yoy and 7% qoq to Rs79.6cr. Debt increased in spite of money raised via QIP during the quarter.

- **Order flow the key trigger:** Punj's current outstanding Order Book stands at Rs25,037cr (excluding the Jurong island project order, which is awaiting financial closure). During 2QFY2010, Punj secured orders worth approximately Rs993cr, which was far below our estimates. We believe that apart from Margins, the other most important trigger for Punj is Order inflow, which will enable it to revert back on high growth trajectory and thereby fetch rich multiples.

Key Financials (Consolidated)

Y/E March (Rs cr)	**FY2008**	**FY2009**	**FY2010E**	**FY2011E**
Net Sales	**7,753**	**11,912**	**13,047**	**16,629**
% chg	*51.2*	*53.6*	*9.5*	*27.4*
Net Profit	**320.6**	**(250.3)**	**352.6**	**586.3**
% chg	*62.9*	-	-	*66.3*
FDEPS (Rs)	**10.6**	**(8.2)**	**10.6**	**17.7**
EBITDA Margin (%)	8.9	3.7	8.7	9.1
P/E (x)	20.6	-	20.5	12.3
RoE (%)	15.8	(9.5)	11.7	15.6
RoCE (%)	14.5	4.9	13.2	15.5
P/BV (x)	2.4	2.6	2.1	1.8
EV/Sales (x)	1.0	0.8	0.8	0.7
EV/EBITDA (x)	10.9	21.2	8.9	7.2

Source: Company, Angel Research

Exhibit 1: 2QFY2010 Quarterly Performance (Consolidated)						
Y/E March (Rs cr)	**2QFY2010**	**2QFY2009**	***% chg***	**1HFY2010**	**1HFY2009**	***% chg***
Net Sales	**2,871.7**	**2,953.0**	***(2.8)***	**5,844.4**	**5,611.2**	***4.2***
Total Expenditure	2,659.6	2654	*0.2*	5,323.0	5,090.7	*4.6*
Operating Profit	**212.0**	**299.4**	***(29.2)***	**521.4**	**520.4**	***0.2***
OPM (%)	7.4	10.1		8.9	9.3	*(3.8)*
Interest	79.6	49.0	*62.3*	153.9	85.9	*79.3*
Depreciation	51.4	43.9	*17.1*	105.5	83.0	*27.0*
Non Operating Income	0.5	1.1	*(53.2)*	6.8	1.1	*515.5*
Nonrecurring items			*0.0*	0.0	20.4	
Profit Before tax	81.6	207.6	*(60.7)*	268.8	373.0	*(28.0)*
Tax	30.1	64.7	*(53.4)*	92.3	117.7	*(21.6)*
Reported Profit After Tax	52.9	144.1	*(63.3)*	176.4	255.3	*(30.9)*
PAT (%)	1.8	4.9		3.0	4.6	
Adjusted Profit After Tax	52.9	144.1	*(63.3)*	176.4	255.3	*(30.9)*
Adj. PAT (%)	1.8	4.9		3.0	4.6	
FDEPS (Rs)	**1.6**	**4.7**	***(66.4)***	**5.3**	**8.4**	***(36.7)***

Source: Company, Angel Research

Change in Estimates

The current quarter's dismal performance came in primarily on account of the Rs104cr (total loss of Rs134cr for 1HFY2010) of losses booked by Punj's 100% subsidiary, Simon Carves. The losses came on the back of cost over-runs registered by the subsidiary in one of its projects on account low sub-contractor productivity. We have now factored in the loss of Rs134cr in our estimates as against expenses of Rs100cr assumed earlier for FY2010E. We maintain our assumption of Rs100cr losses in FY2011.

Another negative surprise were the high Interest costs (contrary to our assumption of Interest cost reducing with the company raising money via equity during the quarter) mainly on account of the increase in debt to supplement higher-than-expected working capital requirements. Accordingly, we have changed our Interest cost assumption to factor in the increased level of debt. However, we have not changed our Top-line estimate as we believe that Punj is well placed to register decent Top-line going ahead owing to its superior business model and on account of the positive outlook on the Infrastructure Sector. But, Bottom-line would decline by 9.5% and 13.7% for FY2010E and FY2011E, respectively.

Valuation

At Rs218, the stock is trading at 12.3x FY2011E EPS and 1.8.x FY2011E P/BV. For the core Construction Business, we have assigned a P/E of 15x. We have valued Punj's 19.4% investment in Pipavav Shipyard on current market cap basis by assigning 30% holding company discount. Based on the current market price and our Target Price, we do not expect the FCCBs to get converted and therefore have assumed a liability of Rs317cr in FY2011E. As a result, our revised SOTP Target Price is Rs271 (Rs310) based on revised FY2011 estimates, translating into a potential upside of 24.3% from current levels. However, we believe that the stock might see some downside from current levels in the short term on account of the disappointing 2QFY2010 performance. Nonetheless, **we recommend long-term investors to Buy the stock on declines considering the company's growth prospects and attractive relative valuations.**

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Ratings (Returns):	**Buy (> 15%)** **Reduce (-5% to -15%)**	**Accumulate (5% to 15%)** **Sell (< -15%)**	**Neutral (-5% to 5%)**