



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

Shailesh Kanani

Tel: 022 – 4040 3800 Ext: 321
E-mail: shailesh.kanani@angeltrade.com

Aniruddha Mate

Tel: 022 – 4040 3800 Ext: 335
E-mail: aniruddha.mate@angeltrade.com

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 1.8x 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.**



Research Team Tel: 4040 3800

E-mail: research@angeltrade.com

Website: www.angeltrade.com

DISCLAIMER: This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions.

Opinion expressed is our current opinion as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true and are for general guidance only. While every effort is made to ensure the accuracy and completeness of information contained, the company takes no guarantee and assumes no liability for any errors or omissions of the information. No one can use the information as the basis for any claim, demand or cause of action.

Recipients of this material should rely on their own investigations and take their own professional advice. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. Certain transactions - futures, options and other derivatives as well as non-investment grade securities - involve substantial risks and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

We do not undertake to advise you as to any change of our views expressed in this document. While we would endeavor to update the information herein on a reasonable basis, Angel Broking, its subsidiaries and associated companies, their directors and employees are under no obligation to update or keep the information current. Also there may be regulatory, compliance, or other reasons that may prevent Angel Broking and affiliates from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

Angel Broking Limited and affiliates, including the analyst who has issued this report, may, on the date of this report, and from time to time, have long or short positions in, and buy or sell the securities of the companies mentioned herein or engage in any other transaction involving such securities and earn brokerage or compensation or act as advisor or have other potential conflict of interest with respect to company/ies mentioned herein or inconsistent with any recommendation and related information and opinions.

Angel Broking Limited and affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.

Sebi Registration No : INB 010996539

Ratings (Returns): Buy (> 15%)
Reduce (-5% to -15%)

Accumulate (5% to 15%)
Sell (< -15%)

Neutral (-5% to 5%)