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Punj Lloyd

1QFY2010 Result Update

BUY

Price	**Rs240**
Target Price	**Rs299**
Investment Period	**12 months**

Stock Info

Sector	Infrastructure
Market Cap (Rs cr)	7,276
Beta	1.3
52 WK High / Low	317/67
Avg. Daily Volume	2302815
Face Value (Rs)	2
BSE Sensex	15,332
Nifty	4,565
BSE Code	532693
NSE Code	PUNJLLOYD
Reuters Code	PUJL.BO
Bloomberg Code	PUNJ@IN

Shareholding Pattern (%)

Promoters	41.3
MF/Banks/Indian FIs	24.3
FII/ NRIs/ OCBs	19.3
Indian Public/others	15.1

Abs.	3m	1yr	3yr
Sensex (%)	39.4	6.8	43.6
Punj (%)	112.8	(6.4)	93.6

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Performance Highlights

- **Top-line growth at 11.9%**: Punj Lloyd (Punj) reported a decent Top-line growth at Rs2,973cr (Rs2,656cr) for 1QFY2010. The major revenue drivers during the quarter were the pipeline segment (40%) and the process plant segment (33%). We are expecting the Top-line growth for FY2010E to be muted, at 9.5%, to Rs13,047cr, as the order inflow in FY2009 was low. However, the company witnessed a very good order inflow in 1QFY2010, which would ensure a Top-line growth of 27.4% in FY2011E to Rs16,629cr.

- **Operating Margins stand tall at 10.4%:** Margins for 1QFY2010 stood at 10.4% (8.2%), a 220bp yoy jump, in spite of the company booking losses due to retrenchment at Simon Carves, to the tune of 4mn Sterling Pounds. This performance can be primarily attributed to savings on the commodity front and operating leverage benefits. The Employee and Material Costs, as a percentage of sales, fell by 140bp and 210bp, respectively. We are expecting the margins to show a sharp improvement, going ahead, as most of the negatives have now been left behind.

- **Adjusted Bottom-line growth at 27.4%:** Punj posted an adjusted Bottom-line growth of 27.4% to Rs125cr (Rs98.1cr). Interest costs increased to Rs74.4cr (Rs36.8cr), which was in line with expectations. Going ahead, we are expecting a huge jump on the Bottom-line front, mainly on account of strong Top-line growth, sharp margin expansion and savings on interest costs. We are expecting a CAGR of 63.4% over FY2009-11E on the Bottom-line (after adjusting for losses to the tune of Rs473cr in FY2009).

- **Robust Order Book position:** Punj's outstanding Order Book position, as of 1QFY2010, stood at Rs27,889cr (the order backlog is the value of unexecuted orders as on 1st July, 2009, and of new orders received after that day). During the quarter under review, Punj secured three new contracts from the Housing and Infrastructure Board, Libya, worth Rs1,873cr. Moreover, Dayim Punj Lloyd, a JV between Punj Lloyd and Dayim Holdings (in the Kingdom of Saudi Arabia), won a contract worth Rs1,210cr. Sembawang (SEC), its wholly-owned subsidiary in Singapore, won a major contract of Rs1,263cr from the Land Transport Authority. Additionally, SEC has also won three projects to build commercial and residential developments in Libya. This contract of Rs5,904cr is awarded by the International Investment and Services Company (IISCO).

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)**	**371.2**	**644.8**
% chg	*62.9*	*-*	*-*	*73.7*
FDEPS (Rs)	**10.6**	**-**	**12.2**	**21.3**
EBITDA Margin (%)	8.9	3.7	8.4	9.1
P/E (x)	22.7	-	19.6	11.3
RoE (%)	15.8	-	13.9	20.5
RoCE (%)	14.5	4.9	13.2	16.8
P/BV (x)	2.6	2.9	2.6	2.1
EV/Sales (x)	1.1	0.8	0.8	0.7
EV/EBITDA (x)	11.8	22.8	9.9	7.6

Source: Company, Angel Research

Company's perspective on slow-moving orders

As on June 30, 2009, only the order for the Integrated Condensate Splitter Aromatics Complex at Jurong Island, Singapore, by Jurong Aromatics (order value of Rs 1,770 crore), falls under the slow-moving category. The project is awaiting financial closure. The Principal is presently exploring the possibility of relocating the project to a location where costs are lower. Should this not materialize, Punj Lloyd will omit the order from its order book. Further, the power project from GVK power has also been delayed by six months, and the management expects the order to be back on track very soon. But our talks with GVK's management indicate that the financial closure would be achieved by September 2009. However, it should be noted that these orders are not significant enough to hinder Top-line growth, going ahead.

Outlook and Valuation

Punj has seen multiple re-ratings and de-ratings in its short trading history. The re-ratings and rich valuations were owing to its comparison with L&T, after its listing in FY2006 (commonly termed as the next L&T in the making), with strong Earnings growth, long-term potential and its entry into new markets and segments through acquisitions. However, the stock got de-rated owing to issues like high commodity prices, the SABIC (Saudi Basic Industries Conglomerate) episode and the overall downgrading of the Sector. In the last 12 to 18 months, the valuation gap between L&T and Punj has, however, been widening, and rightly so, due to litigation/order cancellation related issues dogging Punj. We believe that things have now changed and that there are significant chances of this steep valuation gap getting narrowed down, on the back of the Superior management (a qualitatively pivotal factor), an expanded addressable market, and a Superior Earnings growth.

At Rs240, the stock is trading at 11.3x FY2011E EPS and 2.1x FY2011E P/BV. For the core Construction Business, we have assigned a 14x P/E, similar to other mid-size construction companies like IVRCL Infra and Nagarjuna Construction. Although we believe that Punj deserves a premium over these mid-size companies, owing to its scale of operations and its diversified presence, we have assigned the same P/E multiple, on a conservative basis, since Punj has a history of litigations and its Top-line growth is expected to be subdued in the near future. Punj has invested Rs352cr in Pipavav Shipyard, which we have valued at 1x equity. Based on the current market price and our Target Price, we do not expect the FCCB to get converted. Therefore, we have assumed a liability of Rs317cr in FY2011. Our SOTP Target Price is Rs299, based on FY2011E numbers, translating into a potential upside of 24.7% from the current levels. **We maintain a Buy on the stock, with a Target Price of Rs299.**

Exhibit 1: 1QFY2010 Performance (Consolidated)

Y/E March (Rs cr)	1QFY2010	1QFY2009	% chg	FY2009	FY2008	% chg
Net Sales	**2,973**	**2,656**	***11.9***	**11,912**	**7,753**	***53.6***
Total Expenditure	**2,663**	**2,437**	***9.3***	**11,603**	**7,061**	***64.3***
Operating Profit	**309.4**	**218.7**	***41.5***	**309.3**	**692.2**	***(55.3)***
OPM (%)	10.4	8.2		2.6	8.9	
Interest	74.4	36.8	*102.0*	220.8	180.6	*22.2*
Depreciation	54.1	39.2	*38.2*	177.1	146.8	*20.6*
Non-operating Income	6.3	2.3	*167.5*	74.5	81.1	*(8.1)*
Non-recurring items	0.0	20.4	*0.0*	15.4	35.4	*0.0*
Profit Before tax	187.2	165.5	*13.1*	1.3	481.2	*(99.7)*
Tax	62.2	53.0	*17.3*	226.0	123.5	*83.0*
Reported Profit After Tax	125.0	112.4	*11.2*	(224.7)	357.7	*(162.8)*
PAT (%)	4.2	4.2		(1.9)	4.6	
Adjusted Profit After Tax	**125.0**	**98.1**	***27.4***	**(250.3)**	**320.6**	***(178.1)***
Adj. PAT (%)	4.2	3.7		(2.1)	4.1	
FDEPS	**4.1**	**3.2**	***27.4***	**-**	**10.6**	**-**

Source: Company, Angel Research

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Ratings (Returns) :	Buy (Upside > 15%)	Accumulate (Upside upto 15%)	Neutral (5 to -5%)
	Reduce (Downside upto 15%)	Sell (Downside > 15%)	