UBS

Global Equity Research

India

Heavy Construction

UBS Investment Research

Punj Lloyd

12-month rating	Buy
	Prior: Not Rated
12m price target	Rs696.00/US$17.77
	-
Price	Rs537.90/US$13.74

RIC: PUJL.BO BBG: PUNJ IN

16 January 2008

Leveraging the oil cycle [EXTRACT]

■ Leveraged to oil capex

We initiate coverage of Punj Lloyd, India's second largest engineering and construction company, with a Buy rating and a 12-month price target of Rs696. We believe Punj Lloyd will benefit from significant global capex in the oil and gas sector over the next few years. Execution risks are high, however, as the company is expanding in many geographies and segments.

■ Sembawang margin improvement will drive earnings growth

We expect Sembawang E&C's EBITDA margins to increase from 0.9% in FY07 to 6.4% in FY09, as higher-margin orders come through. We expect consolidated EBITDA margins to improve from 8.0% in FY07 to 10.3% in FY09. This drives an EPS CAGR of 60% over FY07-09E.

■ Execution risk exists, but returns could be high

Punj Lloyd has possibly the highest execution risk among its peers given its rapid growth and wide geographical spread. Also, management has invested significantly in new ventures that carry investment risk; however, we believe returns could be high if these ventures go as planned.

■ Valuation: SOTP-based 12-month price target of Rs696

We value Punj Lloyd's core contracting business at Rs660 per share, implying a one-year forward EPS of 28x. This represents a 30% premium to the mid-cap engineering and construction (E&C) companies and a 20% discount to L&T. We value the Pipavav shipyard at Rs27 per share and the real estate business at Rs9 per share.

Highlights (Rsm)	03/06	03/07	03/08E	03/09E	03/10E
Revenues	16,846	51,266	80,482	104,883	124,337
EBIT (UBS)	1,138	3,041	5,708	8,997	11,563
Net Income (UBS)	555	1,969	3,580	6,176	8,151
EPS (UBS, Rs)	2.12	7.54	12.31	19.26	25.41
Net DPS (UBS, Rs)	0.23	0.35	0.62	0.96	1.27

Profitability & Valuation	5-yr hist av.	03/07	03/08E	03/09E	03/10E
EBIT margin %	-	5.9	7.1	8.6	9.3
ROIC (EBIT) %	-	15.6	21.2	26.4	28.8
EV/EBITDA (core) x	-	14.5	22.2	14.5	11.4
PE (UBS) x	-	23.1	43.7	27.9	21.2
Net dividend yield %	-	0.2	0.1	0.2	0.2

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs537.90 on 15 Jan 2008 23:37 HKT

Trading data (local/US$)	
52-wk range	Rs578.60-146.83/US$14.74-3.30
Market cap.	Rs156bn/US$4.00bn
Shares o/s	291m (ORD)
Free float	53%
Avg. daily volume ('000)	686
Avg. daily value (Rsm)	333.3

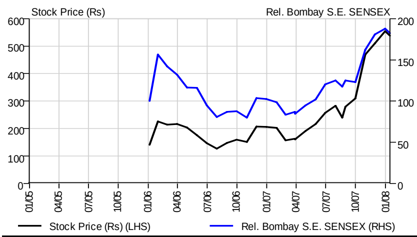
Balance sheet data 03/08E	
Shareholders' equity	Rs30.0bn
P/BV (UBS)	5.2x
Net Cash (debt)	(Rs6.97bn)

Forecast returns	
Forecast price appreciation	+29.4%
Forecast dividend yield	0.2%
Forecast stock return	+29.6%
Market return assumption	12.5%
Forecast excess return	+17.1%

EPS (UBS, Rs)

	03/08E			03/07
	From	To	Cons.	Actual
Q1E	-	-	-	-
Q2E	-	-	-	-
Q3E	-	-	-	-
Q4E	-	-	-	-
03/08E	-	12.31	-	
03/09E	-	19.26	-	

Performance (Rs)



Source: UBS

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This is an extract from our initiation of coverage report published on 16 January 2008. For more detail, please refer to the longer report.

Summary and investment case

Beneficiary of the boom in oil and gas capex

India's second largest E&C company, with c75% of revenues coming from the oil and gas sector

Punj Lloyd is the second largest engineering and construction (E&C) company in India, and is an established player in the oil pipelines sector with many sizable completed projects in India, the Middle East and the Commonwealth of Independent States (CIS). Punj Lloyd is scaling up its existing pipelines and tankage business in a booming oil environment. We expect the oil-related business' revenue share to rise from 74% in FY07 to 81% in FY09. We estimate that pipeline capex will grow significantly over the next three to five years as a gas grid network is established in India, with almost 15,000km of pipeline network to be built during this period alone. We expect competition to increase with China and Russia entering the market and other Indian companies ramping up. However, strong demand should sustain Punj Lloyd's margins. Punj Lloyd also has a significant hydrocarbon business through its UK subsidiary Simon Carves Ltd, which accounted for 16% of consolidated revenues in FY07.

Table 1: Revenue breakdown

(%)	FY07	FY08E	FY09E	FY10E
Oil and gas	40.0	49.2	60.7	62.8
Pipelines	26.1	31.8	34.8	35.2
Storage tanks and terminals	4.0	8.2	4.9	7.1
Process plants	9.9	9.2	21.0	20.6
Infrastructure and others	18.0	10.5	7.1	5.0
Sembawang E&C	42.0	37.2	32.2	32.2
Total (in Rs m)	51,266	80,482	104,883	124,337

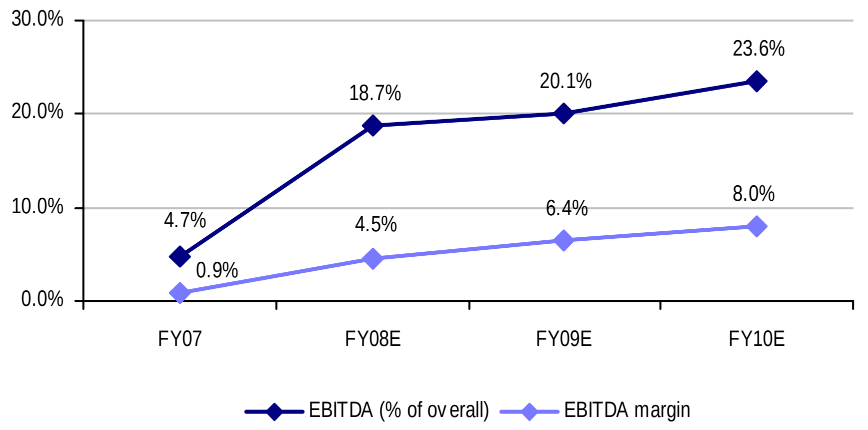
Source: Company data, UBS estimates

We believe Sembawang's turnaround will drive margins and better-than-peer earnings growth

We forecast Sembawang's EBITDA to expand to 6.4% in FY09 from 0.9% in FY07

In 2006 Punj Lloyd acquired Sembawang E&C, which at that time had a poor profitability record and a low-margin order backlog. Since then, margins have improved gradually as legacy orders were executed. A pick-up in infrastructure projects across Asia has also improved E&C company margins, and we expect Sembawang to benefit from that. We expect Sembawang to contribute c32% to revenues over the next two years, and EBITDA margins to expand from 0.9% in FY07 to 6.4% in FY09.

Chart 1: Sembawang – EBITDA contribution and margin



Source: Company data, UBS estimates

Management is aggressive and ambitious

Ventures into new areas – shipyard, hospital, real estate and aviation ground handling

Punj Lloyd aims to become a leading global E&C company. It has taken a few bold steps over the past two to three years, most notably acquiring Sembawang (a loss-making business), which has turned out well so far. It has also invested in a few new businesses, such as greenfield shipyard Pipavav, a large hospital project, a real estate joint venture, and an aviation ground handling venture. We see significant investment risks in these ventures, but a strong macro environment should enable them to be profitable.

Execution risks are possibly the highest in sector

We believe Punj Lloyd carries the most risk in the sector given its rapid growth, ongoing integration with Sembawang and Simon Carves, dependence on oil-related capex, and exchange rate risks. Execution risk is also high given Punj Lloyd's wider geographical spread than its peers.

Nevertheless, returns could also be significant

We expect an EPS CAGR of 60% over FY07-09E

We estimate that Punj Lloyd's revenue growth is among the fastest in the sector with an EPS CAGR of 60% over FY07-09E. Beyond that, growth could be above peers if the global environment remains strong given Punj Lloyd's wide presence and aggressive management style. If investments play out, significant shareholder value would be created through the new businesses.

Upside to our estimates – accelerated order inflow and higher margins

We expect fully diluted consolidated EPS to grow at 49% in FY08 and 72% in FY09 driven by a 43% CAGR in revenue and improvement in EBITDA from 8.0% in FY07 to 10.3% in FY09. We believe key upside risks to our estimates are higher margins in new projects and an accelerated order inflow, especially in pipelines, which have shorter execution cycles.

Stock has been re-rated as numbers have come through

Punj Lloyd's quarterly operating performance has improved significantly over the past four quarters with the Sembawang turnaround and the strong performance of the parent company. The stock has been re-rated over the past two years as the order book has grown significantly and earnings have come through.

SOTP-based value of Rs696 – 29% upside potential

We value Punj Lloyd at a premium to other mid-cap E&C stocks given its faster growth and capabilities. However, we believe it should trade at a discount to L&T given its higher execution risk, dependence on one sector and multi-country portfolio. We have set a fair value PE of 28x one-year forward EPS for the core business, added Rs27 for Pipavav and Rs9 for real estate to arrive at our SOTP-based price target of Rs696. Our DCF model for the core business gives a one-year forward value of Rs620 – in line with our 26.3x one-year forward EPS.

Table 2: SOTP-based price target of Rs696

	Rs/share	
Core business	660	28x one-year forward EPS
Pipavav shipyard	27	EV/ backlog of 1x
Real estate	9	NAV
Total	696	

Source: UBS

Table 3: Comparatives

	Core business value	PE (x)	
	Rs/share	+one year	+two year
IVRCL Infrastructure	354	18.5	14.6
Gammon India	508	29.7	24.4
Hindustan Construction Co (HCC)	139	23.8	16.2
Nagarjuna Construction Co (NCC)	228	21.4	17.3
Punj Lloyd	507	28.8	21.0
Larson & Toubro (L&T)	3238	37.0	27.0
Sensex	20,251	20.4	16.7

Priced as at 15 January 2008. Source: UBS

Risk analysis

Execution risk

Punj Lloyd has an extensive geographical presence, particularly in the Middle East, Asia Pacific, and Caspian region, where it faces the risk of uncertain political and economic environments. Thus, successful and timely execution is a key success variable. With the company scaling up rapidly over the next few years, execution risk will be significant, in our view.

Extensive geographical presence in the Middle East, Asia Pacific and Caspian region

Integration risk

Punj Lloyd faces the uphill task of integrating with Sembawang E&C and Simon Carves. We expect the integration process to take up significant management time over the next two years. Any slip-ups in the integration could hurt Punj Lloyd's overall expansion plans.

Smooth integration with Sembawang crucial for Punj Lloyd's long-term plans

Oil and gas capex risk

Punj Lloyd derives nearly 75% of overall revenue (including Simon Carves) from the oil and gas sector. As such, any decline in global oil and gas prices could lead to a decline in capital expenditure in the energy industry, which would in turn lower demand for construction services for pipelines, processing facilities and storage tanks and terminals.

Slowdown in oil and gas capex to lower demand for E&C activities

Rise in commodity and manpower costs

The majority of overseas engineering, procurement and construction (EPC) projects executed by Punj Lloyd are fixed-price contracts to which Punj Lloyd faces significant risk from an unanticipated rise in the cost of equipment such as process equipment, piping materials, vessels, etc, and raw materials such as steel, cement, and bitumen. Rising fuel costs also have an impact on margins, especially for infrastructure-related projects. Many domestic projects from private companies are also on a fixed-price basis.

Rise in commodity prices will impact on margins as most overseas projects are on a fixed-cost basis

With construction companies facing significant challenges in retaining talented and skilled personnel, Punj Lloyd faces the tough task of recruiting skilled engineers and managers as it continues to expand. This could lead to an increase in manpower costs.

Increasing competition

Punj Lloyd faces stiff competition in the oil and gas industry and infrastructure space from major US, European and East Asian E&C companies, their regional operating entities, and from smaller regional companies. In the pipelines segment, Punj Lloyd could face increasing competition in the larger diameter pipeline segment as new players enter this market.

Competition is intense overseas, but light domestically

Foreign exchange risk

Following the Sembawang acquisition, Punj Lloyd derives c70% of revenues from overseas operations and has operations in many countries, which means a significant portion of its revenues and expenses are denominated in currencies other than the Indian Rupee. In most cases, sales booked and expenses incurred are denominated in the same currency resulting in only translational gains/losses to Punj Lloyd. In a few cases where revenues and expenses are denominated in different currencies, any appreciation in the Rupee could negatively affect the company.

New business risk

Punj Lloyd is venturing into new areas such as a 50:50 JV with Ramprastha Group to develop real estate, a 24% stake in Pipavav Shipyard and a 33% stake in aircraft maintenance and repair company, Airworks India. The company's track record has been mixed so far with some ventures such as Spectranet facing execution problems. The company could become exposed to unknown and new risks.

Punj Lloyd

Income statement (Rsm)	-	03/04	03/05	03/07	03/07	03/08E	% ch	03/09E	% ch	03/10E	% ch
Revenues	-	15,943	17,900	16,846	51,266	80,482	57.0	104,883	30.3	124,337	18.5
Operating expenses (ex depn)	-	(13,004)	(15,788)	(15,104)	(47,163)	(73,292)	55.4	(94,133)	28.4	(110,797)	17.7
EBITDA (UBS)	-	2,939	2,112	1,742	4,103	7,190	75.2	10,751	49.5	13,540	25.9
Depreciation	-	(666)	(839)	(604)	(1,062)	(1,482)	39.6	(1,753)	18.3	(1,977)	12.8
Operating income (EBIT, UBS)	-	2,273	1,273	1,138	3,041	5,708	87.7	8,997	57.6	11,563	28.5
Other income & associates	-	237	1,200	277	497	0	-	0	-	0	-
Net interest	-	(1,170)	(1,228)	(577)	(879)	(805)	-8.5	(536)	-33.3	(397)	-25.9
Abnormal items (pre-tax)	-	(23)	(48)	0	0	0	-	0	-	0	-
Profit before tax	-	1,317	1,198	839	2,660	4,904	84.4	8,461	72.5	11,166	32.0
Tax	-	(256)	(194)	(291)	(690)	(1,324)	92.0	(2,284)	72.5	(3,015)	32.0
Profit after tax	-	1,061	1,004	547	1,970	3,580	81.7	6,176	72.5	8,151	32.0
Abnormal items (post-tax)	-	0	0	0	0	0	-	0	-	0	-
Minorities / pref dividends	-	2	2	7	(1)	0	-	0	-	0	-
Net income (local GAAP)	-	1,063	1,006	555	1,969	3,580	81.8	6,176	72.5	8,151	32.0
Net Income (UBS)	-	1,086	1,054	555	1,969	3,580	81.8	6,176	72.5	8,151	32.0
Tax rate (%)	-	19	16	35	26	27	4.1	27	0.0	27	0.0
Pre-abnormal tax rate (%)	-	19	16	35	26	27	3.8	27	0.0	27	0.0

Per share (Rs)	-	03/04	03/05	03/06	03/07	03/08E	% ch	03/09E	% ch	03/10E	% ch
EPS (local GAAP)	-	10.30	7.98	2.12	7.54	12.31	48.1	19.26	72.5	25.41	32.0
EPS (UBS)	-	10.52	8.36	2.12	7.54	12.31	63.3	19.26	56.5	25.41	32.0
Net DPS	-	0.28	0.16	0.23	0.35	0.62	75.3	0.96	56.5	1.27	32.0
Cash EPS	-	16.97	15.01	4.44	11.60	17.40	50.0	24.72	42.1	31.58	27.7
BVPS	-	7.33	19.54	42.95	48.95	103.21	110.8	118.97	15.3	143.11	20.3

Balance sheet (Rsm)	-	03/04	03/05	03/06	03/07	03/08E	% ch	03/09E	% ch	03/10E	% ch
Net tangible fixed assets	-	8,373	5,231	7,176	13,329	16,848	26.4	20,094	19.3	21,617	7.6
Net intangible fixed assets	-	0	0	0	0	0	-	0	-	0	-
Net working capital (incl. other assets)	-	3,107	6,746	8,925	11,445	15,486	35.3	18,979	22.6	22,816	20.2
Other liabilities	-	(44)	(147)	(288)	(1,647)	(1,647)	0.0	(1,647)	0.0	(1,647)	0.0
Operating invested capital	-	11,435	11,830	15,813	23,128	30,687	32.7	37,426	22.0	42,786	14.3
Investments	-	94	259	416	1,698	6,368	275.0	6,868	7.9	7,368	7.3
Total capital employed	-	11,529	12,089	16,228	24,826	37,055	49.3	44,295	19.5	50,154	13.2
Shareholders' equity	-	1,914	5,102	11,215	12,789	30,023	134.8	38,159	27.1	45,903	20.3
Minority interests	-	19	17	9	59	59	0.0	59	0.0	59	0.0
Total equity	-	1,933	5,118	11,224	12,847	30,082	134.1	38,218	27.0	45,961	20.3
Net debt / (cash)	-	9,596	6,971	5,004	11,979	6,973	-41.8	6,077	-12.9	4,193	-31.0
Debt deemed provisions	-	0	0	0	0	0	-	0	-	0	-
Total capital employed	-	11,529	12,089	16,228	24,826	37,055	49.3	44,295	19.5	50,154	13.2

Cash flow (Rsm)	-	03/04	03/05	03/06	03/07	03/08E	% ch	03/09E	% ch	03/10E	% ch
Operating income (EBIT, UBS)	-	2,273	1,273	1,138	3,041	5,708	87.7	8,997	57.6	11,563	28.5
Depreciation	-	666	839	604	1,062	1,482	39.6	1,753	18.3	1,977	12.8
Net change in working capital	-	-	(3,510)	(2,346)	(7,660)	(9,728)	27.0	(7,159)	-26.4	(5,710)	-20.2
Other (operating)	-	-	(190)	523	9,838	5,189	-47.3	4,334	-16.5	3,455	-20.3
Operating cash flow	-	-	(1,588)	(80)	6,281	2,652	-57.8	7,926	198.9	11,286	42.4
Net interest received / (paid)	-	(1,170)	(1,228)	(577)	(879)	(805)	-8.5	(536)	-33.3	(397)	-25.9
Dividends paid	-	(29)	(21)	(60)	(92)	(179)	95.2	(309)	72.5	(408)	32.0
Tax paid	-	(192)	(194)	(304)	(553)	(1,192)	115.7	(2,056)	72.5	(2,713)	32.0
Capital expenditure	-	-	(422)	(2,462)	(9,072)	(5,000)	-44.9	(5,000)	0.0	(3,500)	-30.0
Net (acquisitions) / disposals	-	-	0	0	0	0	-	0	-	0	-
Other	-	-	3,844	169	1,602	(4,802)	-	(728)	-84.8	(801)	10.0
Share issues	-	-	2,246	5,708	20	13,834	69128.9	2,268	-83.6	0	-
Cash flow (inc)/dec in net debt	-	-	2,638	2,394	(2,692)	4,508	-	1,564	-65.3	3,466	121.6
FX / non cash items	-	-	(13)	(427)	(4,283)	497	-	(668)	-	(1,582)	136.9
Balance sheet (inc)/dec in net debt	-	-	2,626	1,967	(6,975)	5,005	-	896	-82.1	1,884	110.1
Core EBITDA	-	2,709	915	1,473	3,615	7,190	98.9	10,751	49.5	13,540	25.9
Maintenance capital expenditure	-	-	(422)	(2,462)	(9,072)	(5,000)	-44.9	(5,000)	0.0	(3,500)	-30.0
Maintenance net working capital	-	-	(3,510)	(2,346)	(7,660)	(9,728)	27.0	(7,159)	-26.4	(5,710)	-20.2
Operating free cash flow, pre-tax	-	-	(3,018)	(3,335)	(13,117)	(7,538)	-42.5	(1,408)	-81.3	4,330	-

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

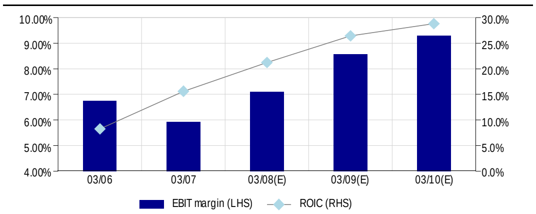
Punj Lloyd

12-month rating	Buy
12m price target	Rs696.00

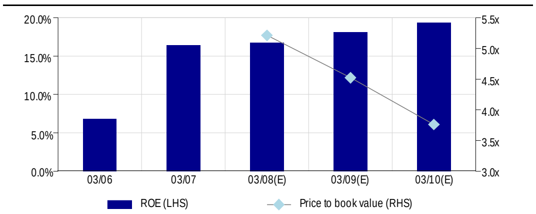
Company profile

Punj Lloyd is the second largest company in the E&C space in India, specialising in laying pipelines, building oil & gas storage tanks, terminals and process facilities. It has an extensive geographical presence, having executed projects in the Middle East, Asia Pacific, and the Caspian region. In 2006, Punj acquired Singapore-based Sembawang E&C and its UK-based subsidiary, Simon Carves. This acquisition enables the company to acquire pre-qualification in new verticals of infrastructure such as airports, jetties, MRT/LRT, tunnelling and EPC capabilities in the petrochemical domain.

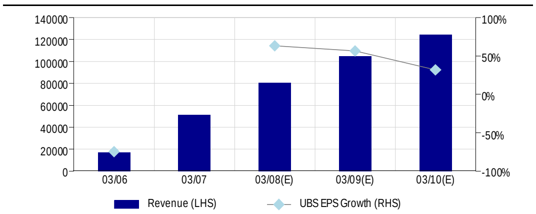
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
P/E (local GAAP)	-	NM	23.1	48.2	27.9	21.2
P/E (UBS)	-	>100	23.1	43.7	27.9	21.2
P/CEPS	-	48.8	15.0	30.9	21.8	17.0
Net dividend yield (%)	-	0.1	0.2	0.1	0.2	0.2
P/BV	-	5.0	3.6	5.2	4.5	3.8
EV/revenue (core)	-	3.7	1.0	2.0	1.5	1.2
EV/EBITDA (core)	-	42.2	14.5	22.2	14.5	11.4
EV/EBIT (core)	-	NM	20.5	28.0	17.4	13.3
EV/OpFCF (core)	-	NM	NM	NM	NM	NM
EV/op. invested capital	-	4.5	2.7	5.9	4.6	3.8

Enterprise value (Rsm)	03/06	03/07	03/08E	03/09E	03/10E
Average market cap	56,526	45,524	156,454	156,454	156,454
+ minority interests	9	59	59	59	59
+ average net debt (cash)	5,987	8,491	9,476	6,525	5,135
+ pension obligations and other	0	0	0	0	0
- non-core asset value	(416)	(1,698)	(6,368)	(6,868)	(7,368)
Core enterprise value	62,107	52,375	159,620	156,169	154,279

Growth (%)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
Revenue	-	-5.9	NM	57.0	30.3	18.5
EBITDA (UBS)	-	-17.5	135.5	75.2	49.5	25.9
EBIT (UBS)	-	-10.6	167.2	87.7	57.6	28.5
EPS (UBS)	-	-74.6	NM	63.3	56.5	32.0
Cash EPS	-	-70.4	161.5	50.0	42.1	27.7
Net DPS	-	38.4	53.9	75.3	56.5	32.0
BVPS	-	119.8	14.0	110.8	15.3	20.3

Margins (%)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
EBITDA / revenue	-	10.3	8.0	8.9	10.3	10.9
EBIT / revenue	-	6.8	5.9	7.1	8.6	9.3
Net profit (UBS) / revenue	-	3.3	3.8	4.4	5.9	6.6

Return on capital (%)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
EBIT ROIC (UBS)	-	8.2	15.6	21.2	26.4	28.8
ROIC post tax	-	5.3	11.6	15.5	19.3	21.0
Net ROE	-	6.8	16.4	16.7	18.1	19.4

Coverage ratios (x)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
EBIT / net interest	-	2.0	3.5	7.1	16.8	29.1
Dividend cover (UBS EPS)	-	9.3	21.5	20.0	20.0	20.0
Div. payout ratio (%, UBS EPS)	-	10.7	4.7	5.0	5.0	5.0
Net debt / EBITDA	-	2.9	2.9	1.0	0.6	0.3

Efficiency ratios (x)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
Revenue / op. invested capital	-	1.2	2.6	3.0	3.1	3.1
Revenue / fixed assets	-	2.7	5.0	5.3	5.7	6.0
Revenue / net working capital	-	2.2	5.0	6.0	6.1	5.9

Investment ratios (x)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
OpFCF / EBIT	-	NM	NM	NM	NM	0.4
Capex / revenue (%)	-	14.6	17.7	6.2	4.8	2.8
Capex / depreciation	-	4.1	8.5	3.4	2.9	1.8

Capital structure (%)	5Yr Avg	03/06	03/07	03/08E	03/09E	03/10E
Net debt / total equity	-	44.6	93.7	23.2	15.9	9.1
Net debt / (net debt + equity)	-	30.9	48.4	18.8	13.7	8.4
Net debt (core) / EV	-	9.6	16.2	5.9	4.2	3.3

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of Rs537.90 on 15 Jan 2008 23:37 HKT Market cap(E) may include forecast share issues/buybacks.

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■ Punj Lloyd

Punj Lloyd is the second largest company in the E&C space in India, specialising in laying pipelines, building oil & gas storage tanks, terminals and process facilities. It has an extensive geographical presence, having executed projects in the Middle East, Asia Pacific, and the Caspian region. In 2006, Punj acquired Singapore-based Sembawang E&C and its UK-based subsidiary, Simon Carves. This acquisition enables the company to acquire pre-qualification in new verticals of infrastructure such as airports, jetties, MRT/LRT, tunnelling and EPC capabilities in the petrochemical domain.

■ Statement of Risk

The company faces numerous risks which include: 1) execution risks – with c70% of operations being executed overseas, the company is subject to the political and regulatory environment in those countries; 2) slowdown in the integration with Sembawang would affect the company's long-term plans; 3) slowdown in the oil and gas sector capex plans could lead to less demand for E&C activities; 4) rising commodity and manpower costs; 5) increasing competition, both domestic and overseas; 6) foreign exchange risk; and 7) new business risk – Punj Lloyd could be exposed to unknown and new risks.

■ Analyst Certification

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage[1]	IB Services[2]
Buy	**Buy**	55%	39%
Neutral	**Hold/Neutral**	36%	36%
Sell	**Sell**	8%	20%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	**Buy**	less than 1%	25%
Sell	**Sell**	less than 1%	50%

1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 December 2007.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	**Definition**
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.
Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).
Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.
Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

EXCEPTIONS AND SPECIAL CASES

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Core Banding Exceptions (CBE) : Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

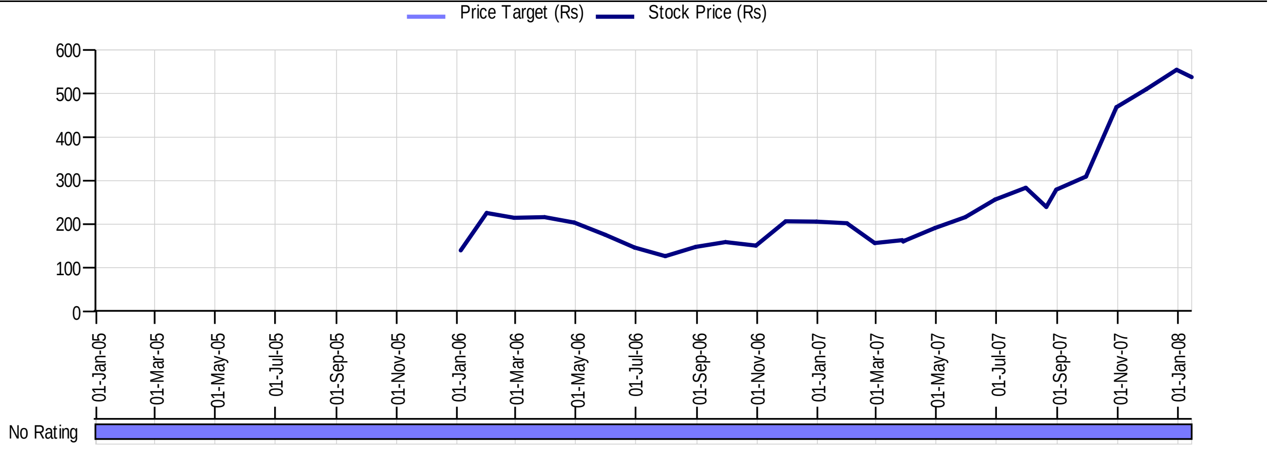
Company Disclosures

Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Punj Lloyd	PUJL.BO	Not Rated	N/A	Rs537.90	15 Jan 2008

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Punj Lloyd (Rs)



Source: UBS; as of 15 Jan 2008

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