

Punj Lloyd Limited

INR:204



Reactions Overdone

BUY

Price Target (INR):240

Sales in line with our estimates: Results of the company were below our estimates. Punj Lloyd sales declined 1.7% y-o-y to Rs 2,876.4 crore led by contribution from pipelines (50.1%) process plants (29.2%), Infrastructure (18.5%) and the rest from tankages. During the quarter Punj Lloyd had cost overruns in Bio ethanol project being executed by Simon Carves Limited in UK which incurred a loss of Rs. 133.6 crore on revenues of Rs. 362.8 crore. Company's order book stood at ~Rs26, 800crore which is 2.0x its FY10E revenues.

Operating Margin surprise: Company's EBIDTA declined 20.4% y-o-y to Rs.216.8 crore while margin declined by 177bps y-o-y mainly on account of a)increase in material costs by (265 bps) b)increase in staff costs by (171 bps) partially offset by decline other expenses by (146 bps). EBITDA margins were down largely on account of cost over runs in the Enus biofuel project. Management has given maintained its guidance of ~9.5-10% of EBIDTA margin.

Profitability nose dives on account of poor operating performance: Company reported a net profit of Rs51.2 crore down by 64.0% y-o-y on losses booked on a bio-ethanol plant project in UK by Simon Carves. The company had to bear the costs overrun on account of poor quality and delays by sub contractor. Interest costs rose by 62.3% y-o-y to Rs.79.6 crore; however interest cost are expected to cool off going forward on account of the QIP and NCD effect. In August 2009, company raised Rs. 670 crore via the Qualified Institutional Placement (QIP) at Rs.240.20 per equity share and company also raised Rs 600 crore through private placement of Secured Redeemable Non Convertible Debentures (NCDs).

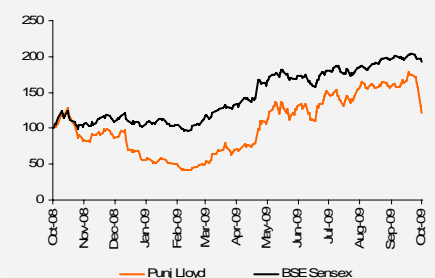
Our View - We believe majority of the negatives for the company are overdone and priced in especially from the view of its subsidiary, however a key concern despite strong order book is the shrinking EBIDTA margin of the company on account of its subsidiary; however management has indicated that company has completed executing majority of its legacy orders and hence margin are expected to improve going forward. We believe company's top-line will continue to grow at a healthy pace given the strong order book the company possesses while we expect the EBIDTA margin improve marginally form current levels, and profitability margin to improve on the back of repayment of high cost debt. At the CMP of Rs.204.5 the stock is trading at 13.5x its FY11E EPS of Rs15.1 and 6.3x its FY11E EV/EBIDTA. We believe reactions are overdone and negatives have been factored in and thus recommend a "Buy" on the stock with a SOTP target Price of Rs.239.7.

Market Data	Oct 28, 2009
Shares outs (Cr)	30.4
Equity Cap (Rs. Cr)	60.7
Mkt Cap (Rs. Cr)	6,205
52 Wk H/L (Rs)	355/67
Avg Vol (1yr avg)	22,81,396
Face Value (Rs)	2.0
Bloomberg Code	PUNJ IN

Market Info:

SENSEX	16,283
NIFTY	4,826

Price Performance



Share Holding pattern (%)

Particulars	30 Sep	31 Jun	Chg
Promoters	37.5	41.3	(3.7)
Institutions	23.7	20.9	2.8
FII	19.2	15.5	3.8
Public/Others	19.5	22.4	(2.9)
Total	100	100	

Analyst :

Shreyas Mehta

shreyas.mehta@krchoksey.com

91-22-6696 5518

www.krchoksey.com

91-22-6696 5555

91-22-6691 9569

Key Financials

Rs. Crore

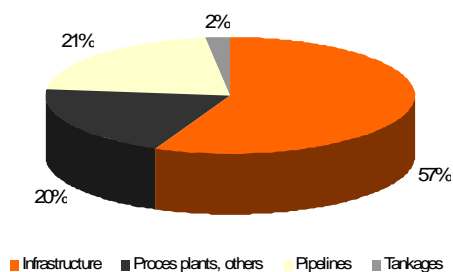
	FY08	FY09	FY010E	FY11E
Net Sales	7831.1	11986.1	12909.1	15490.9
EBITDA	718.9	383.4	1063.0	1412.0
Net Profit	358.4	(225.3)	360.2	458.1
EPS	11.8	(7.9)	11.9	15.1
P/E	17.3	N.a	17.2	13.5
P/BV	2.3	2.4	2.1	1.8
EV/EBITDA	12.3	23.1	8.3	6.3
RoE (%)	13.1	N.a	12.3	13.6
RoCE (%)	13.2	2.7	14.0	15.0

Source: Company data, KRC Research

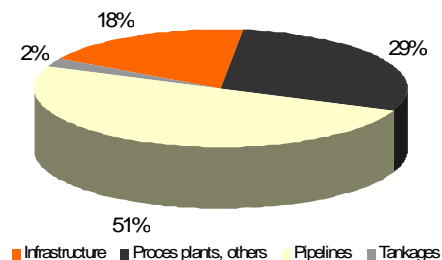
Order Book & Revenue Contribution Analysis

Infrastructure segment to contribute going forward.

Order Book Break up



Revenue Break up



Source: Company data, KRC Research

Other key highlights:

- Revenues from Libya project are expected to be booked from Q3FY10 onwards and hence overall margin are set to improve.
- Company still has pending legacy orders to the tune of Rs200-250 crore; however no overruns are expected from the same.
- Company's capex plan for FY10 is -Rs. 300-350 crore.
- Company's debt stood at Rs 4,349.5 crore with a debt-equity ratio of 1.34:1.

SOTP VALUATION

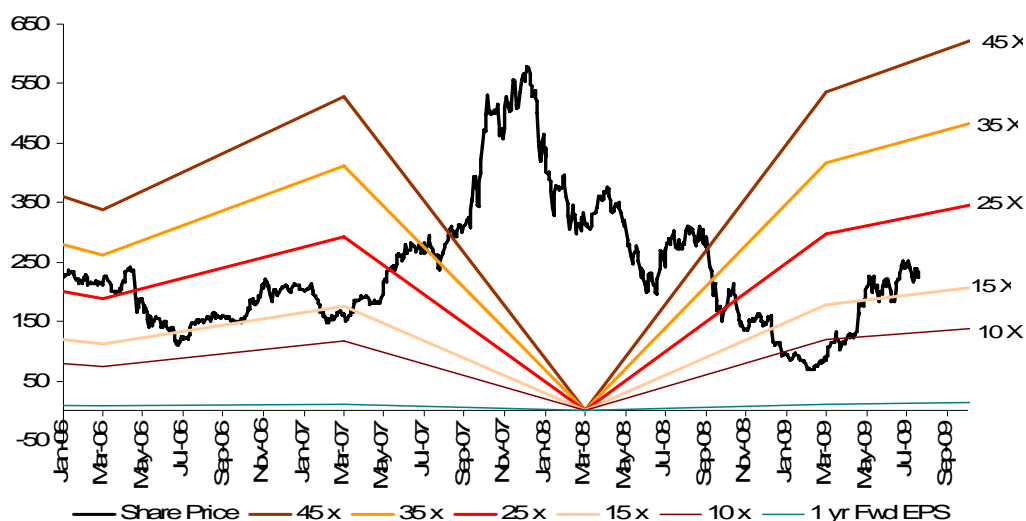
Particulars	Method	Per Share(Rs)
Core Construction	15x FY11 EPS	226.4
Investments in Pipavav Shipyard	1.1x Book Value	13.3
Total		239.7

Source: Company data, KRC Research

Q2FY10 Result Analysis

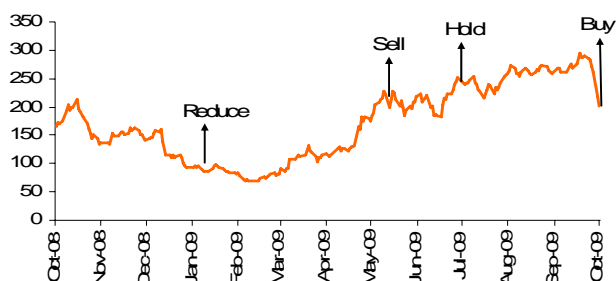
(Rs In Crore)

Particulars	Q2FY10	Q2FY09	y-o-y	Q1FY10	q-o-q	Comment
Sales	2876.4	2926.1	(1.7)	2972.8	(3.2)	Sales impacted due to cost overruns
Material Consumed	1105.3	1047	5.6	896	23.4	
as a % of sales	38.4%	35.8%	265 bps	30.1%	829 bps	
Contractor Charges	795.4	842.0	(5.5)	934.6	(14.9)	
as a % of sales	27.7%	28.8%	(113 bps)	31.4%	(379 bps)	
Staff Costs	313.3	268.7	16.6	323.8	(3.2)	
as a % of sales	10.9%	9.2%	171 bps	10.9%	0 bps	
Other Exp	445.6	495.9	(10.1)	509	(12.5)	
as a % of sales	15.5%	16.9%	(146 bps)	17.1	(163 bps)	
EBIDTA (excl OI)	216.8	272.4	-20.4	309.4	(29.9)	
EBIDTA margin	7.5%	9.3%	(177 bps)	10.4%	(287 bps)	EBITDA margins were down largely on account of cost over runs in the Enus biofuel project.
Other Income	-4.28	28.0		6.3		
EBIDTA (incl OI)	212.5	300.5	(29.3)	315.7	(32.7)	
Depreciation	51.4	43.9	17.1	54.1	(5.1)	
EBIT	161.2	256.6	(37.2)	261.6	(38.4)	
Interest	79.6	49.03	62.3	74.4	6.9	Company's Debt stands at Rs.4,349.5crore, while Debt to Equity at 1.3:1
PBT	81.6	207.6	(60.7)	187.2	(56.4)	
Tax	30.12	64.7	(53.4)	62.2	(51.6)	
PAT (before EI)	51.5	142.9	(64.0)	125.1	(58.9)	
Extraordinary Items	0	1.23		0		
PAT (after EI)	51.5	141.7	(63.7)	125.1	(58.9)	
Share of profits & MI	1.4	0		2.2		
PAT	52.8	141.7	(63.7)	127.2	(58.5)	PAT impacted due to losses booked on a bio-ethanol plant project in UK by Simon Carves.



Source: Company data, KRC Research

Rajiv Choksey	Co-Head Institutional Equities	rajiv.choksey@krchoksey.com	+91-22-6653 5135
Anuj Choksey	Co-Head Institutional Equities	anuj.choksey@krchoksey.com	+91-22-6696 5500
Maulik Patel	Head Research	maulik_patel@krchoksey.com	+91-22-6696 5574

Punj Lloyd Limited

Rating Legend

Our Rating	Upside
Strong Buy	More than 25%
Buy	15% - 25%
Hold	10% - 15%
Reduce	Nil - 10%
Sell	Less than 0%

Other Stocks in the sector under our active coverage: Infrastructure

Ticker	Company	Recommendation	As of	Return	Bmk	Outper	BARR
Summary	Coverage 6	Avg Rating: 3.5		-14.03%	42.20%	-56.22	
JMCP	IN JMC Projects (India)	buy	08/12/09	9.87%	9.87%	0.00%	1st
IVRC	IN IVRCL Infrastructures & Projects Ltd	buy	08/10/09	27.95%	108.15%	-80.20%	
JPA	IN Jaiprakash Associates Ltd	hold	08/10/09	-2.81%	80.85%	-83.66%	
PEC	IN Patel Engineering Ltd	hold	07/31/09	197.04%	95.90%	101.14%	
PUNJ	IN Punj Lloyd Ltd	hold	07/28/09	-158.17%	-24.63%	-133.54%	
CCON	IN C&C Constructions Ltd	reduce	05/08/09	-158.03%	-16.95%	-141.08%	

Disclaimer:

This publication has been prepared solely for information purpose and does not constitute a solicitation to any person to buy or sell a security. While the information contained therein has been obtained from sources believed to be reliable, investors are advised to satisfy themselves before making any investments. Kisan Ratilal Choksey Shares & Sec Pvt Ltd., does not bear any responsibility for the authentication of the information contained in the reports and consequently, is not liable for any decisions taken based on the same. Further, KRC Research Reports only provide information updates and analysis. All opinion for buying and selling are available to investors when they are registered clients of KRC Investment Advisory Services. As per SEBI requirements it is stated that, Kisan Ratilal Choksey Shares & Sec Pvt Ltd., and/or individuals thereof may have positions in securities referred herein and may make purchases or sale thereof while this report is in circulation.

Please send your feedback to krc.research@krchoksey.com

Visit us at www.krchoksey.com

Kisan Ratilal Choksey Shares and Securities Pvt. Ltd.

Registered Office:

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai - 400 001.
Phone: 91-22-6633 5000; Fax: 91-22-6633 8060.

Branch Office:

ABHISHEK, 5th Floor, Link Road, Dalia Industrial Estate, Andheri (W), Mumbai - 400 058.
Phone: 91-22-6696 5555; Fax: 91-22-6691 9576.