

Equities

8 November 2011 | 11 pages

Punj Lloyd (PUJL.BO)

Sell: WC + Leverage + Qualifications, Negate Strong Inflows

- [Company Update](#)
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- **2Q12 PAT 21% below expectations** — 2Q12 PAT at Rs247mn +3% YoY was 21% below CIRA at Rs314mn on the back of 1) 5% lower sales; 2) higher depreciation; 3) higher interest costs; and 4) higher tax. Margins were marginally ahead at 7.9%.
- **Strong inflows in a weak environment** — Punj Lloyd booked Rs56.3bn and Rs46.6bn of orders in 1Q12 and 2Q12 respectively. However, net addition to the backlog is Rs85.1bn in 1H12. The company ended 2Q12 with a backlog of Rs267bn +5% YoY. However, the backlog still contains Rs39bn (~15% of backlog) of orders from Libya, which face execution delays given political unrest in the country.
- **Stretched WC -> Increase in leverage** — Over the past five years there has been a steady deterioration in working capital (WC) intensity ((NCA – Cash)/ Sales) which has risen from 10% to 47%. There has been no improvement in 1H12 given significant delays for release of payments by PSU clients, which has led to net debt to equity deteriorating to 1.40x at the end of 2Q12 from 1.12x at the end of FY11.
- **Auditor qualifications - Still at elevated levels** — Though total auditor qualification have come down QoQ from Rs15.8bn to Rs14.2bn, it still at extremely high levels for comfort. It is pertinent that management settles the same one way or the other for investors to seriously consider the strong rebound in inflows in a weak environment
- **Maintain Sell (3H); Revising our target price to Rs54** — Revising our EPS estimates by -1 to +9% to factor in: 1) 2-9% higher sales; 2) 15-28bps higher EBITDA margins; and 3) higher interest costs. We increase our target price to Rs54 (from Rs52 earlier) to factor in: 1) our EPS revision; and 2) roll forward of target P/E of 9x from Dec12E to Mar13E. However, we maintain our Sell (3H) rating on the stock given: 1) Rs14.2bn of auditor qualifications; 2) stretched WC and high leverage; and 3) 15% of backlog composed of Libyan orders facing execution delays given political unrest in the country.

Sell/High Risk	3H
Price (08 Nov 11)	Rs58.70
Target price	Rs54.00
	<i>from Rs52.00</i>
Expected share price return	-8.0%
Expected dividend yield	0.3%
Expected total return	-7.8%
Market Cap	Rs19,494M
	US\$398M

Price Performance (RIC: PUJL.BO, BB: PUNJ IN)



Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2010A	-4,155	-12.51	na	-4.7	0.6	-15.1	0.3
2011A	-512	-1.54	87.7	nm	0.7	-1.7	0.3
2012E	1,737	5.23	439.5	11.2	0.6	5.7	0.3
2013E	2,005	6.04	15.4	9.7	0.6	6.2	0.3
2014E	2,725	8.21	36.0	7.2	0.5	7.8	0.3

Source: Powered by dataCentral

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Fiscal year end 31-Mar	2010	2011	2012E	2013E	2014E
Valuation Ratios					
P/E adjusted (x)	-4.7	nm	11.2	9.7	7.2
EV/EBITDA adjusted (x)	39.0	17.7	6.9	7.3	6.6
P/BV (x)	0.6	0.7	0.6	0.6	0.5
Dividend yield (%)	0.3	0.3	0.3	0.3	0.3
Per Share Data (Rs)					
EPS adjusted	-12.51	-1.54	5.23	6.04	8.21
EPS reported	-3.72	-1.54	5.23	6.04	8.21
BVPS	91.19	89.70	94.75	100.61	108.64
DPS	0.15	0.15	0.15	0.15	0.15
Profit & Loss (RsM)					
Net sales	104,478	78,496	109,465	114,766	130,185
Operating expenses	-105,475	-78,143	-103,894	-109,141	-123,716
EBIT	-996	353	5,571	5,625	6,469
Net interest expense	-3,063	-3,568	-5,030	-5,421	-5,522
Non-operating/exceptionals	4,059	3,397	2,444	2,705	2,991
Pre-tax profit	0	182	2,985	2,908	3,938
Tax	-1,220	-663	-1,265	-921	-1,230
Extraord./Min.Int./Pref.div.	-17	-30	17	17	17
Reported net income	-1,237	-512	1,737	2,005	2,725
Adjusted earnings	-4,155	-512	1,737	2,005	2,725
Adjusted EBITDA	1,274	3,045	8,520	8,932	10,133
Growth Rates (%)					
Sales	-12.3	-24.9	39.5	4.8	13.4
EBIT adjusted	-117.7	135.4	nm	1.0	15.0
EBITDA adjusted	-82.8	139.0	179.8	4.8	13.4
EPS adjusted	-293.5	87.7	439.5	15.4	36.0
Cash Flow (RsM)					
Operating cash flow	-16,495	8,834	-10,273	4,761	-80
Depreciation/amortization	2,270	2,692	2,949	3,307	3,663
Net working capital	-17,867	6,912	-15,006	-534	-6,451
Investing cash flow	-1,133	-3,980	-3,763	-4,000	-4,000
Capital expenditure	-3,925	-3,960	-4,000	-4,000	-4,000
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	15,485	886	8,942	-1,558	3,442
Borrowings	8,962	870	9,000	-1,500	3,500
Dividends paid	-58	-58	-58	-58	-58
Change in cash	-2,143	5,741	-5,094	-797	-638
Balance Sheet (RsM)					
Total assets	115,481	122,156	140,779	144,540	156,560
Cash & cash equivalent	6,110	12,150	7,073	6,293	5,672
Accounts receivable	21,847	22,038	29,196	30,610	34,723
Net fixed assets	21,410	22,563	23,624	24,326	24,673
Total liabilities	84,783	91,624	108,569	110,384	119,736
Accounts payable	22,045	21,714	27,253	28,001	31,128
Total Debt	44,554	45,425	54,425	52,925	56,425
Shareholders' funds	30,698	30,531	32,210	34,157	36,824
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	1.2	3.9	7.8	7.8	7.8
ROE adjusted	-15.1	-1.7	5.7	6.2	7.8
ROIC adjusted	-3.7	-0.5	6.0	5.9	6.2
Net debt to equity	125.2	109.0	147.0	136.5	137.8
Total debt to capital	59.2	59.8	62.8	60.8	60.5

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Figure 1. Punj Lloyd - 2Q12 Results Review

	1Q11	1Q12	YoY	2Q11	2Q12	YoY	2Q12E
Order Backlog	255,565	239,370	-6.3%	254,700	266,900	4.8%	
Net Sales	16,058	22,483	40.0%	19,580	23,769	21.4%	25,000
EBITDA	60	1,659	2645.9%	1,537	1,868	21.5%	1,950
EBITDA Margin	0.4%	7.4%		7.8%	7.9%		7.8%
Depreciation	(640)	(617)		(679)	(781)		(655)
EBIT	(580)	1,042	nm	858	1,087	26.6%	1,296
EBIT Margin	-3.6%	4.6%		4.4%	4.6%		5.2%
Interest	(810)	(1,133)		(924)	(1,299)		(1,180)
Other Income	1,321	181		328	825		328
PBT	(69)	89	nm	262	613	133.8%	443
Tax	(235)	(216)		(47)	(316)		(133)
Tax Rate %	-343%	242%		18%	52%		30%
Share of Profit of Associates	21	33		5	(65)		33
Share of loss transferred to Minority	(23)	(29)		20	15		(29)
PAT	(306)	(123)	nm	239	247	3.4%	314

Source: Company and Citi Investment Research and Analysis estimates

Figure 2. Punj Lloyd – Order Backlog Data

Year End Mar31 (Rsmn)	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12
OB b-o-y	208,033	278,893	268,075	234,314	277,695	255,565	254,700	277,800	228,050	239,370
Inflows Calculated	100,411	17,946	(4,721)	60,382	(6,072)	18,715	44,036	(27,829)	33,803	51,299
Sales	29,551	28,764	29,040	17,001	16,058	19,580	20,936	21,921	22,483	23,769
OB e-o-y	278,893	268,075	234,314	277,695	255,565	254,700	277,800	228,050	239,370	266,900
Execution Rate %	14.2%	10.3%	10.8%	7.3%	5.8%	7.7%	8.2%	7.9%	9.9%	11.4%
Inflows According To Company (Rsmn)	99,460	14,540	15,210	39,211	32,838	16,442	43,100	7,400	56,270	46,590
Inflows Calculated From Backlog	100,411	17,946	(4,721)	60,382	(6,072)	18,715	44,036	(27,829)	33,803	51,299
(Cancellations)/ Scope Changes	951	3,406	(19,931)	21,171	(38,910)	2,273	936	(35,229)	(22,467)	4,709
CIRA Bottoms Up Inflows (Rsmn)	99,462	14,205	15,210	38,482	19,027	16,130	40,087	29,630	33,400	58,210

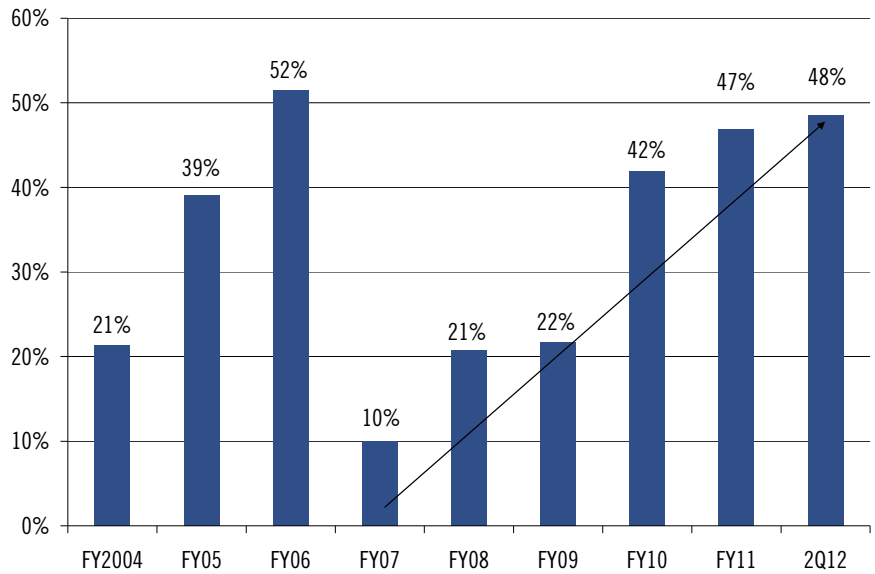
Source: Company and Citi Investment Research and Analysis

Figure 3. Punj Lloyd – Key Order Wins In 1H12

2Q12	Client	58,210	Details
25-Oct-11	Emirates National Oil Company (ENOC)	6,230	Falcon Jetfuel Pipeline & Bulk Terminal Facilities
5-Oct-11	Qatar Petroleum	21,140	EPIC of Strategic Gas Transmission Project
5-Oct-11	Qatar Solar Technologies	18,890	EPC contract for the first polysilicon plant of Qatar to be commissioned by mid-2013.
28-Sep-11	Haldia Energy, CESC	11,950	BOP for 2X300MW BOP and BTG erection
1Q12		33,400	
NA	PT Citra Kusuma Perdana	3,070	BOP of 3X18MW at Sangatta, East Kalimantan Indonesia
31-May-11	Abu Dhabi Company for Onshore Oil Operations (8,900	EPC for Tie-in Works at South East, Abu Dhabi.
13-Jun-11	NPCIL	6,780	Nuclear piping work at 4 PHWR of 700MW each
27-Jun-11	GSPC	8,260	Submarine pipeline project in an exploration block in the east coast
21-Jul-11	NTPC	2,100	Balance offload work for Bongaigon power plant
27-Jul-11	Indian Strategic Petroleum Reserves Limited	3,300	Building process facilities & utilities at crude oil storage cavern in Mangalore,
29-Jul-11	NA	990	194 villas at Kolkata West international City in West Bengal

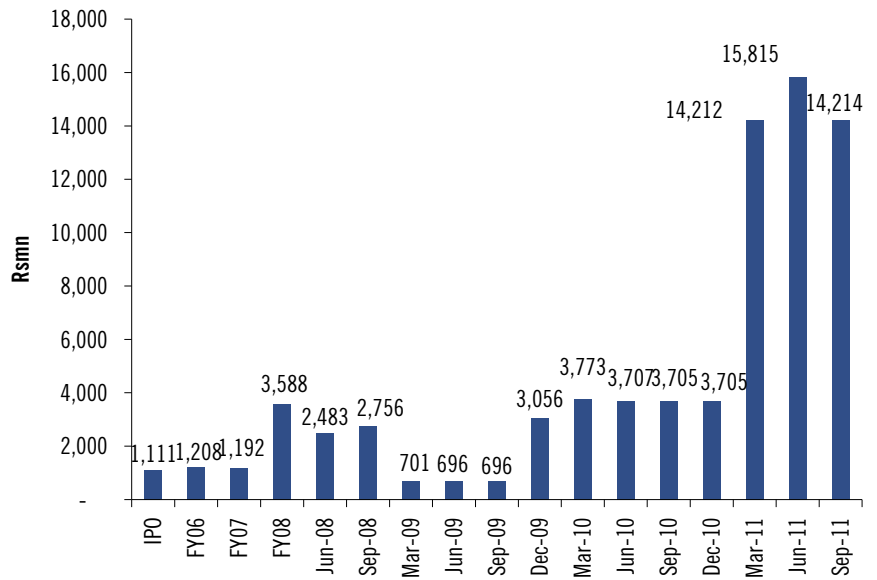
Source: Company and Citi Investment Research and Analysis

Figure 4. Punj Lloyd - Working Capital Intensity (NCA-Cash)/ Sales



Source: Citi Investment Research and Analysis

Figure 5. Punj Lloyd – Auditor Qualifications



Source: Company and Citi Investment Research and Analysis

Figure 6. Punj Lloyd – EPS Revision Tables

Year End Mar31	FY12E	FY13E	FY14E
Inflows			
Old	120,000	132,000	145,200
New	135,102	148,612	163,473
% Chg	12.6%	12.6%	12.6%
Sales			
Old	106,857	109,144	119,618
New	109,465	114,766	130,185
% Chg	2.4%	5.2%	8.8%
EBITDA			
Old	8,154	8,186	8,971
New	8,520	8,932	10,133
bps	4.5%	9.1%	12.9%
EBITDA Margins			
Old	7.6%	7.5%	7.5%
New	7.8%	7.8%	7.8%
bps	15	28	28
Recurring PAT			
Old	1,600	2,020	2,539
New	1,737	2,005	2,725
% Chg	8.5%	-0.8%	7.3%
FD EPS			
Old	4.82	6.08	7.65
New	5.23	6.04	8.21
% Chg	8.5%	-0.8%	7.3%

Source: Citi Investment Research and Analysis estimates

Figure 7. Punj Lloyd EPS – CIRA v/s Consensus

	FY12E	FY13E	FY14E
Consensus Estimates	2.66	5.26	7.71
CIR Estimates	5.23	6.04	8.21
Difference	96.7%	14.8%	6.4%

Source: Bloomberg and Citi Investment Research and Analysis estimates

Punj Lloyd

Company description

Punj Lloyd is an Indian Engineering & Construction (E&C) major catering to the hydrocarbon and civil construction sectors across India, Asia and the Middle East. Services include laying pipelines, building roads, and constructing refineries and tankages, power plants, and other infrastructure facilities. In FY07 Punj Lloyd acquired Semb, which helped it scale up its expertise to upstream oil & gas, airports, jetties, MRT/LRT and tunnelling, among others, in the infrastructure domain. Enabled by the extended capabilities accruing from this acquisition, Punj Lloyd is now also pre-qualified for larger and more complex project bids.

Investment strategy

We rate Punj Lloyd shares Sell/High Risk given: 1) auditor qualification are at elevated levels of Rs14.2bn; 2) significant deterioration in working capital over the past 5 years; and 3) 15% of its backlog is composed of Libyan orders facing execution delays given political unrest in the country.

Valuation

Our Rs54 target price for Punj Lloyd is based on a target P/E multiple of 9x Mar13E. Our target multiple is at a premium to mid-cap construction peers (like IVRCL at 6x and Nagarjuna at 6x) and is set at a ~ 40% discount to L&T, given L&T's superior skill sets, backlog and execution track record.

Risks

We assign a High risk rating to Punj Lloyd because of continuing auditor qualifications, uncertainty in Libya and higher competitive intensity. Key upside risks to our target price include: 1) Favorable settlement with ONGC; 2) Positive change in macro-economic variables; and 3) Better-than-expected order inflows and sales execution.

Appendix A-1

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IMPORTANT DISCLOSURES

Punj Lloyd (PUJL.BO) Ratings and Target Price History Fundamental Research

Analyst: Venkatesh Balasubramaniam



Chart current as of 5 November 2011

	Date	Rating	Target Price	Closing Price
1	13-Jan-09	*2H	*142.00	109.80
2	25-Jan-09	*3H	*85.00	92.30
3	12-Jun-09	*3M	*217.00	212.50
4	21-Jul-09	*1M	*263.00	231.15
5	27-Aug-09	1M	*311.00	264.00

* Indicates change

	Date	Rating	Target Price	Closing Price
6	29-Oct-09	*2M	*228.00	202.90
7	14-Jan-10	*3M	*197.00	222.45
8	3-Feb-10	3M	*191.00	188.55
9	30-Mar-10	3M	*179.00	175.45
10	6-Jun-10	3M	*115.00	118.65

	Date	Rating	Target Price	Closing Price
11	12-Oct-10	3M	*111.00	134.15
12	31-May-11	3M	*60.00	68.15
13	21-Sep-11	3M	*52.00	62.10
14	7-Oct-11	Stock rating system changed		
15	7-Oct-11	*3H	52.00	54.20

Rating/target price changes above reflect Eastern Standard Time

Punj Lloyd (PUJL.BO) Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Venkatesh Balasubramaniam

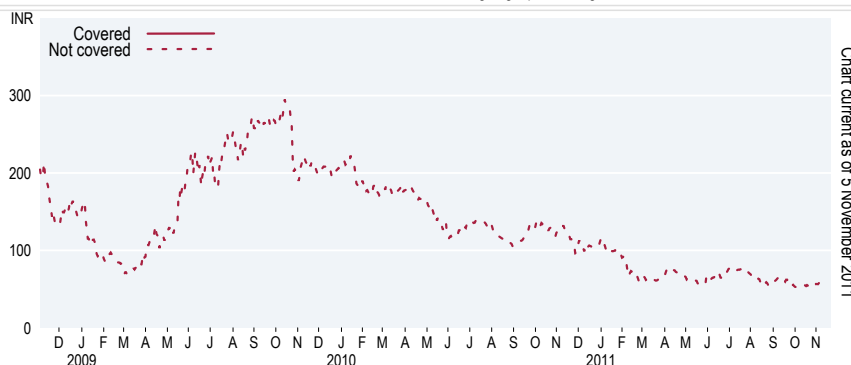


Chart current as of 5 November 2011

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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% of companies in each rating category that are investment banking clients

12 Month Rating			Relative Rating		
Buy	Hold	Sell	Buy	Hold	Sell
59%	34%	7%	10%	79%	10%
45%	42%	37%	50%	43%	46%

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