

Stable operating performance... But reiterate HOLD

November 8, 2011

Reco	Previous Reco
Hold	Hold
CMP	Target Price
Rs59	Rs63
EPS change FY12E/13E (%)	NA
Target Price change (%)	NA
Nifty	5,289
Sensex	17,570

Price Performance

(%)	1M	3M	6M	12M
Absolute	9	(4)	(6)	(55)
Rel. to Nifty	1	(7)	(2)	(46)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Engineering & Capital Goods
Bloomberg	PUNJ@IN
Equity Capital (Rs mn)	664
Face Value(Rs)	2
No of shares o/s (mn)	332
52 Week H/L	135/52
Market Cap (Rs bn/USD mn)	20/404
Daily Avg Volume (No of sh)	4237134
Daily Avg Turnover (US\$m)	5.0

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	37.2	37.2	37.1
FII/NRI	11.9	12.3	11.3
Institutions	13.4	12.7	13.5
Private Corp	7.1	7.4	8.4
Public	30.5	30.5	29.6

Source: Capitaline

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- **Punj reports net profit of Rs0.3 bn – Led by (1) healthy revenue growth at 20% yoy (2) EBITDA margins at +8% for 3rd consecutive quarter and (3) forex gains – above estimates**
- **YTD secures Rs103 bn orders – or 88% of FY12E target. Shares encouraging outlook for domestic offshore and international orders**
- **Debt rises 10% to Rs51.5 bn; DER up to 1.62X. Arbitrations remain unresolved – over-shadowing stable operating performance of past 3 quarters**
- **See no re-rating catalysts. Reiterate Hold rating with price target of Rs63 per share**

Punj reports net profit of Rs0.3 bn – Led by EBITDA margins at +8% for 3rd consecutive quarter and forex gains

Punj Lloyd posted net profit of Rs247 mn (ahead of estimates) led by (1) healthy revenue growth at 20% yoy and 6% qoq to Rs23.9 bn – on the back of robust order inflows over past 4 quarters and good execution (2) healthy EBITDA margins at 8.4% (up 40 bps qoq, down 80 bps yoy) – ahead estimates of 8.0% (EBITDA margins of +8% for 3rd consecutive quarter) (3) high other income (at Rs677 mn Vs Rs30 mn in Q1FY12 – mainly attributed to forex gains) – which partially offset high finance charges.

No respite - Debt climbs up to Rs51.5 bn, Arbitrations remain unresolved

Debt has climbed up to Rs51.5 bn in Sep'11 from Rs45.4 bn in Mar'11 (corresponding DER up from 1.5X to 1.6X). We believe that steady increase in debt has over-shadowed the steady improvement in operating performance – and remains an overhang on the stock given the strained cashflow position. Further, no headway has been made on ongoing arbitrations with Ensus and ONGC (however, post expiry of bank guarantee of Rs0.6 bn, auditors qualification stands reduced by similar amount to Rs1.8 bn) orders.

Robust order inflows at Rs46.6 bn – Secures 88% of FY12E target

Punj secured robust orders at Rs46.6 bn in Q2FY12 and Rs102.9 bn YTD. It has secured 88% of FY12E target orders – amongst the few companies in the ECG sector. Its order book also increased 12% qoq to Rs266.9 bn (this includes unexecuted orders worth Rs39 bn in Libya – Punj expects to commence work soon).

...Shares optimistic order inflow outlook

Punj expects to sustain order inflow momentum – (1) ONGC expected to finalise offshore orders worth Rs80 bn over the next 2-3 quarters (2) Investments in Middle East to pick-up – though with higher focus on social infrastructure development. However, it expects domestic orders from Process industries to remain muted in the near-to-medium term.

Consolidated Financial Snapshot

Rs Mn

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
Mar										
FY10	104,733	3,441	3.3	-4,353	-12.9	-270.6	-14.4	-4.6	15.8	0.6
FY11	78,750	3,977	5.1	-381	-1.4	-89.0	-1.3	-41.5	12.3	0.7
FY12E	98,691	7,311	7.4	487	1.4	-201.4	1.6	40.9	8.2	0.6
FY13E	109,222	8,144	7.5	857	2.5	77.1	2.8	23.1	7.3	0.6

Quarterly Standalone Performance

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTD'12	YTD'11	Gr (%)
Revenue	19,876	21,189	23,260	22,634	23,917	20.3	5.7	46,550	37,214	25.1
Expenditure	18,043	20,231	21,179	20,825	21,902	21.4	5.2	42,726	34,041	25.5
Consumption of RM as % of sales	4,671 23.5	6,494 30.6	7,723 33.2	8,191 36.2	7,679 32.1	64.4	-6.2	15,870 34.1	9,058 24.3	75.2
Contractor Charges as % of sales	6,447 32.4	6,195 29.2	6,133 26.4	4,906 21.7	6,054 25.3	-6.1	23.4	10,960 23.5	11,064 29.7	-0.9
Employee Cost as % of sales	2,917 14.7	2,827 13.3	2,641 11.4	2,809 12.4	3,351 14.0	14.9	19.3	6,159 13.2	5,793 15.6	6.3
Other Expenditure as % of sales	4,008 20.2	4,715 22.3	4,683 20.1	4,919 21.7	4,817 20.1	20.2	-2.1	9,736 20.9	8,125 21.8	19.8
EBITDA	1,832	958	2,080	1,809	2,015	10.0	11.4	3,824	3,174	20.5
Depreciation	679	674	699	617	781	15.0	26.6	1,397	1,319	5.9
EBIT	1,154	284	1,381	1,193	1,235	7.0	3.5	2,427	1,855	30.9
Other Income	32	78	57	30	677	2009.3	2134.7	707	73	873.0
Interest	924	845	989	1,133	1,299	40.6	14.6	2,432	1,734	40.3
PBT	262	-484	449	89	613	133.8	585.6	702	193	262.9
Total Tax	47	116	265	216	316	566.7	46.3	532	283	88.1
Adjusted PAT	215	-599	185	-127	297	38.2	-334.5	170	-89	-290.7
Profit/loss from JV's/Ass/MI	24	-22	-8	4	-50	-302.9	-1307.3	-45	23	-300.9
Adjusted PAT (after MI)	239	-642	177	-123	247	3.4	-302.0	125	-88	-242.6
Extra ordinary items	0	0	0	0	0	NA	NA	0	0	NA
Reported PAT	239	-642	177	-123	247	3.4	-302.0	125	-88	-242.6
Adjusted EPS (Rs)	0.7	-1.9	0.5	-0.4	0.7	3.4	-302.0	0.4	-0.3	-242.6

Margins (%)						(bps)	(bps)				(bps)
EBIDTA	9.2	4.5	8.9	8.0	8.4	-80	40	8.2	8.5	360	
EBIT	5.8	1.3	5.9	5.3	5.2	-60	-10	5.2	5.0	420	
PBT	1.3	-2.3	1.9	0.4	2.6	120	220	1.5	0.5	340	
PAT	1.1	-2.8	0.8	-0.6	1.2	20	180	0.4	-0.2	180	
Effective Tax rate	18.1	-23.9	58.9	241.6	51.6	3350	-19010	75.8	146.1	610	

No catalysts in sight, reiterate Hold rating

We believe that concerns on high DER, no improvement in working capital situation and unresolved arbitrations to over-shadow steady operating performance delivered over the past 3 quarters. With no catalysts in sight, we reiterate our Hold rating on the stock with price target of Rs63 per share. Clarity on arbitration proceedings or improvement of cash flows will act as re-rating catalysts.

Order Backlog Details

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)
Order Backlog							
Order Inflows	16,440	44,289	33,510	56,300	46,560	183.2	-17.3
Order Book	254,700	277,800	228,050	239,360	266,900	4.8	11.5
Order-book break-up							
Pipelines	28,208	42,240	60,160	61,220	54,210	92.2	-11.5
Tankages	4,228	7,660	5,750	9,000	19,940	371.6	121.6
Infrastructure	155,104	154,340	92,180	90,380	91,390	-41.1	1.1
Process Plants, Others	67,162	73,560	69,960	78,760	101,360	50.9	28.7
Total	254,702	277,800	228,050	239,360	266,900	4.8	11.5
Order-book break-up (%)						(bps)	(bps)
Pipelines	11.1	15.2	26.4	25.6	20.3	920.0	-530.0
Tankages	1.7	2.8	2.5	3.8	7.5	580.0	370.0
Infrastructure	60.9	55.6	40.4	37.8	34.2	-2670.0	-350.0
Process Plants, Others	26.4	26.5	30.7	32.9	38.0	1160.0	510.0

Revenue Break-up

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)
Revenue Mix							
Pipelines	6,639	5,160	4,608	5,640	6,080	-8.4	7.8
Tankages	1,181	640	2,092	2,970	0	-100.0	-100.0
Infrastructure	6,840	6,510	8,810	6,570	8,260	20.8	25.7
Process Plants, Others	5,216	8,879	7,966	7,570	10,260	96.7	35.5
Total	19,876	21,189	23,476	22,750	24,600	23.8	8.1
Revenue Mix (%)						(bps)	(bps)
Pipelines	33.4	24.4	19.6	24.8	24.7	-870	-10
Tankages	5.9	3.0	8.9	13.1	0.0	-590	-1310
Infrastructure	34.4	30.7	37.5	28.9	33.6	-80	470
Process Plants, Others	26.2	41.9	33.9	33.3	41.7	1550	840

Key Consolidated Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	104,733	78,750	98,691	109,222
Growth (%)	-12.1	-24.8	25.3	10.7
Expenditure	101,291	74,773	91,380	101,078
Materials Consumed	37,701	23,276	29,170	32,282
Employee Cost	13,452	11,260	13,914	15,399
Manufacturing Exp	43,782	33,141	40,490	44,810
Other Exp	6,356	7,096	7,806	8,587
EBITDA	3,441	3,977	7,311	8,144
Growth (%)	-59.9	15.6	83.8	11.4
EBITDA margin (%)	3.3	5.1	7.4	7.5
Depreciation	2,270	2,692	2,969	3,303
EBIT	1,171	1,285	4,343	4,841
EBIT margin (%)	1.1	1.6	4.4	4.4
Other Income	-910	2,654	1,252	1,252
Interest expenses	3,241	3,656	4,517	4,542
PBT	-2,980	282	1,078	1,552
Tax	1,372	663	590	695
Effective tax rate (%)	-46.0	234.8	54.8	44.8
Adjusted PAT	-4,353	-381	487	857
Growth (%)	-289.6	-91.3	-228.0	75.8
Net Margin (%)	-4.2	-0.5	0.5	0.8
(Profit)/loss from JVs/Ass/MI	-78	91	9	10
Adjusted PAT After JVs/Ass/MI	-4,274	-472	478	847
E/O items	3,190	-124	0	0
Reported PAT	-1,084	-595	478	847
Growth (%)	-51.9	-45.1	-180.3	77.1

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT	210	159	1,078	1,552
Depreciation	2,270	2,692	2,969	3,303
Interest Provided	3,063	3,568	4,517	4,542
Other Non-Cash items	-3,101	-817	-9	-10
Chg in working cap	-16,181	8,018	-10,896	-2,130
Tax paid	-1,617	-1,207	-590	-695
Operating Cashflow	-15,356	12,413	-2,932	6,561
Capital expenditure	-3,153	-3,094	-3,000	-2,000
Free Cash Flow	-18,509	9,320	-5,932	4,561
Other income	140	0	0	0
Investments	3,905	124	0	0
Investing Cashflow	4,045	124	0	0
Equity Capital Raised	6,556	190	0	0
Loans Taken / (Repaid)	9,939	870	1,500	2,000
Interest Paid	-2,690	-3,331	-4,517	-4,542
Dividend paid (incl tax)	-106	-58	-133	-133
Income from investments	0	-116	0	0
Others	0	0	0	0
Financing Cashflow	13,698	-2,444	-3,150	-2,675
Net change in cash	-766	6,999	-9,082	1,887
Opening cash position	6,992	5,266	12,150	3,068
Closing cash position	5,266	11,477	3,068	4,954

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity share capital	664	664	664	664
Reserves & surplus	29,619	29,124	29,469	30,183
Net worth	30,283	29,788	30,133	30,847
Minority Interest	415	744	744	744
Secured Loans	39,828	41,948	43,448	45,448
Unsecured Loans	4,727	3,477	3,477	3,477
Loan Funds	44,554	45,425	46,925	48,925
Net deferred tax liability	1,804	1,516	1,516	1,516
Total Liabilities	77,057	77,472	79,317	82,031
Gross Block	31,203	33,650	36,650	38,650
Less: Depreciation	9,426	11,129	14,098	17,400
Net block	21,777	22,521	22,552	21,249
Capital work in progress	1,605	2,129	2,129	2,129
Investment	3,818	3,837	3,837	3,837
Current Assets	88,282	93,668	101,581	110,988
Inventories	46,496	48,425	56,774	59,840
Sundry debtors	21,847	22,038	26,147	28,937
Cash & bank balance	6,110	12,150	3,068	4,954
Loans & advances	10,417	10,131	12,876	14,250
Other current assets	3,412	924	2,717	3,007
Current lia & Prov	38,424	44,684	50,783	56,172
Current liabilities	36,338	42,905	48,421	53,560
Provisions	2,087	1,779	2,362	2,613
Net current assets	49,857	48,985	50,799	54,815
Misc. exp	0	0	0	0
Total Assets	77,057	77,472	79,317	82,031

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	3.3	5.1	7.4	7.5
Net Margin	-4.2	-0.5	0.5	0.8
ROCE	0.3	5.1	7.1	7.4
ROE	-14.4	-1.3	1.6	2.8
RoIC	2.5	-2.8	2.7	3.7
Per Share Data (Rs)				
EPS	-12.9	-1.4	1.4	2.5
CEPS	-6.0	6.7	10.4	12.5
BVPS	91.2	89.7	90.7	92.9
DPS	0.4	0.4	0.4	0.4
Valuations (x)				
PER	-4.6	-41.5	40.9	23.1
P/CEPS	-9.8	8.8	5.7	4.7
P/BV	0.6	0.7	0.6	0.6
EV / Sales	0.5	0.6	0.6	0.5
EV / EBITDA	15.8	12.3	8.2	7.3
Dividend Yield (%)	0.3	0.3	0.3	0.3
Gearing Ratio (x)				
Net Debt/ Equity	1.3	1.1	1.5	1.4
Net Debt/EBITDA	11.2	8.4	6.0	5.4
Working Cap Cycle (days)	111.5	127.7	127.6	117.7

Recommendation History: Punj Lloyd – PUNJ IN

Date	Reports	Reco	CMP	Target
19/10/2011	Engineering and Capital Goods Sector Update			
16/08/2011	Punj Lloyd Q1FY12 Result Update	Hold	56	76
01/06/2011	Punj Lloyd Q4FY11 Result Update	Hold	65	91
28/02/2011	Punj Lloyd Event Update	Hold	62	91

Recent Research Reports

Date	Reports	Reco	CMP	Target
03/11/2011	TRF Q2FY12 Result Update	Hold	353	282
24/10/2011	Greaves Cotton Q2FY12 Result Update	Buy	89	103
24/10/2011	Blue Star Q2FY12 Result Update	Hold	197	185
21/10/2011	Larsen and Toubro Q2FY12 Result Update	Accumulate	1,336	1,603

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