

EARNINGS REVIEW

Punj Lloyd (PUJL.BO)

Neutral

Equity Research

Above expectation EBITDA counterbalanced by high finance cost

What surprised us

Punj Lloyd reported 4QFY12 revenues of Rs 30.4bn, above Street estimate of Rs 27.2bn, but in-line with our estimate. EBITDA came in 24%/32% above GS/Bloomberg consensus, as the company reported improvement in EBITDA margin (260 bps qoq) due to lower contractor charges and forex gains. Higher interest expenses in the quarter (up 15% qoq) resulted in net income of Rs 90mn, down 49% yoy. Weak order inflow in 4Q (Rs 10.5bn, 67% below GS estimate) resulted in closing order book declining by 4% qoq to Rs 273bn.

What to do with the stock

Punj Lloyd has now shown a better execution pace compared to the last two years, while also improving order backlog coverage (2.6X on FY12 revenues). However we continue to be concerned on low and volatile margins, high leverage (1.54X Net Debt to Equity as of FY12) and decline in order inflows in Q4. The mix of inflows for the company has also improved recently with 38% from pipeline segment over the last 12m but margins on these highly competitively bid orders could be low compared to history. We retain our Neutral rating for the stock and raise our FY13/14E EPS by 11/5% based on slightly better margins and execution rate. Consequently our P/B based 12m TP increases to Rs 58 (from Rs 57 earlier) which implies 10X multiple on FY13E earnings. The stock trades at 12-m fwd P/B of 0.5X which in our view is justified by the 6% ROE we expect it to generate in FY13E. Key risks: upside: higher than expected order inflow; downside: higher commodity prices, delay in pick-up of capex.

Punj Lloyd Q4FY12 results

in Rs mn	Q4FY12	YoY growth	Variance vs	
			consensus	vs GSE
Sales	30,380	31%	12%	4%
EBITDA	2,550	23%	32%	24%
Net Income	90	-49%	-52%	-25%

INVESTMENT LIST MEMBERSHIP

Neutral

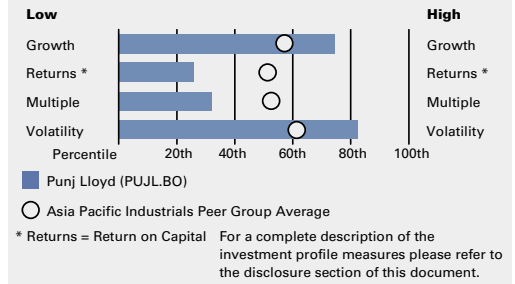
Coverage View: Neutral

Ishan Sethi
+91(22)6616-9048 ishan.sethi@gs.com Goldman Sachs India SPL

Pulkit Patni
+91(22)6616-9044 pulkit.patni@gs.com Goldman Sachs India SPL

Mukul Garg
+91(80)6637-8622 mukul.garg@gs.com Goldman Sachs India SPL

Investment Profile

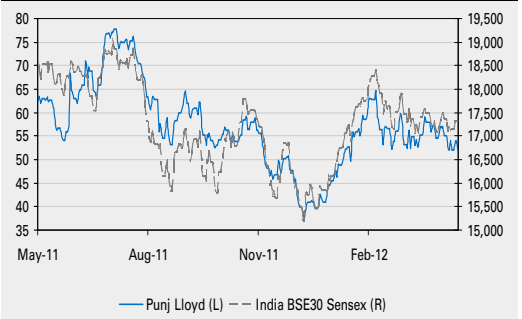


Key data

Key data	Current
Price (Rs)	52.20
12 month price target (Rs)	58.00
Market cap (Rs mn / US\$ mn)	17,335.6 / 328.9
Foreign ownership (%)	15.0

	3/11	3/12E	3/13E	3/14E
EPS (Rs) New	(1.79)	2.77	5.76	7.52
EPS revision (%)	0.0	(30.1)	11.2	5.4
EPS growth (%)	46.8	254.3	108.1	30.7
EPS (dil) (Rs) New	(1.79)	2.77	5.76	7.52
P/E (X)	NM	18.9	9.1	6.9
P/B (X)	0.6	0.6	0.5	0.5
EV/EBITDA (X)	17.2	9.2	7.2	6.7
Dividend yield (%)	0.3	0.3	0.3	0.3
ROE (%)	(2.0)	3.0	6.0	7.4
CROCI (%)	7.5	11.3	12.2	11.7

Price performance chart



Share price performance (%)

	3 month	6 month	12 month
Absolute	(4.8)	(7.7)	(20.5)
Rel. to India BSE30 Sensex	(4.1)	(6.8)	(12.8)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 5/02/2012 close.

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Punj Lloyd: Summary Financials

Profit model (Rs mn)	3/11	3/12E	3/13E	3/14E	Balance sheet (Rs mn)	3/11	3/12E	3/13E	3/14E
Total revenue	78,495.8	103,129.2	120,119.0	140,010.3	Cash & equivalents	12,149.5	9,425.7	2,831.2	1,172.2
Cost of goods sold	(25,967.9)	(33,985.0)	(45,871.0)	(53,677.0)	Accounts receivable	22,038.2	27,689.5	32,251.1	36,441.0
SG&A	(51,108.4)	(65,599.3)	(67,845.8)	(79,080.8)	Inventory	48,425.1	48,550.0	53,965.8	59,641.2
R&D	--	--	--	--	Other current assets	11,055.6	19,055.6	21,055.6	21,055.6
Other operating profit/(expense)	0.0	0.0	0.0	0.0	Total current assets	93,668.3	104,720.7	110,103.8	118,309.9
EBITDA	4,111.4	6,781.0	9,631.0	10,945.8	Net PP&E	22,562.9	25,365.9	26,982.7	31,782.7
Depreciation & amortization	(2,691.9)	(3,236.1)	(3,228.7)	(3,693.4)	Net intangibles	2,087.2	2,048.1	2,002.5	2,002.5
EBIT	1,419.5	3,544.9	6,402.3	7,252.4	Total investments	3,881.1	3,881.1	3,881.1	3,881.1
Interest income	200.4	--	754.1	226.5	Other long-term assets	0.0	0.0	0.0	0.0
Interest expense	(4,634.8)	(6,325.0)	(5,904.4)	(5,355.2)	Total assets	122,199.6	136,015.8	142,970.2	155,976.3
Income/(loss) from uncons. subs.	23.0	0.0	0.0	0.0	Accounts payable	21,713.8	29,667.3	34,554.8	40,276.9
Others	3,173.9	4,711.2	2,157.1	2,330.6	Short-term debt	14,872.4	14,872.4	14,872.4	14,872.4
Pretax profits	181.9	1,931.1	3,409.0	4,454.4	Other current liabilities	21,190.8	19,390.8	19,390.8	19,390.8
Income tax	(663.2)	(807.3)	(1,135.2)	(1,483.3)	Total current liabilities	57,777.1	63,930.5	68,818.0	74,540.2
Minorities	(30.3)	(205.3)	(362.4)	(473.6)	Long-term debt	30,552.5	40,052.5	40,052.5	43,052.5
Net income pre-preferred dividends	(511.6)	918.5	1,911.4	2,497.5	Other long-term liabilities	3,294.7	383.5	226.3	1,589.1
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	33,847.2	40,436.0	40,278.8	44,641.5
Net income (pre-exceptionals)	(511.6)	918.5	1,911.4	2,497.5	Total liabilities	91,624.2	104,366.5	109,096.8	119,181.7
Post-tax exceptionals	0.0	0.0	0.0	0.0	Preferred shares	0.0	0.0	0.0	0.0
Net income	(595.2)	918.5	1,911.4	2,497.5	Total common equity	29,831.6	30,700.3	32,561.9	35,009.6
EPS (basic, pre-exception) (Rs)	(1.85)	2.86	5.94	7.76	Minority interest	743.7	949.0	1,311.4	1,785.0
EPS (basic, post-exception) (Rs)	(1.85)	2.86	5.94	7.76	Total liabilities & equity	122,199.6	136,015.8	142,970.2	155,976.3
EPS (diluted, post-exception) (Rs)	(1.79)	2.77	5.76	7.52	BVPS (Rs)	89.83	92.44	98.05	105.42
DPS (Rs)	0.15	0.15	0.15	0.15					
Dividend payout ratio (%)	(8.4)	5.4	2.6	2.0					
Free cash flow yield (%)	22.7	(33.0)	(7.7)	2.8					
Growth & margins (%)	3/11	3/12E	3/13E	3/14E	Ratios	3/11	3/12E	3/13E	3/14E
Sales growth	(24.9)	31.4	16.5	16.6	CROCI (%)	7.5	11.3	12.2	11.7
EBITDA growth	12.8	64.9	42.0	13.7	ROE (%)	(2.0)	3.0	6.0	7.4
EBIT growth	3.4	149.7	80.6	13.3	ROA (%)	(0.5)	0.7	1.4	1.7
Net income growth	45.1	254.3	108.1	30.7	ROACE (%)	3.9	6.8	7.0	7.1
EPS growth	45.1	254.3	108.1	30.7	Inventory days	667.1	520.8	407.9	386.3
Gross margin	66.9	67.0	61.8	61.7	Receivables days	102.0	88.0	91.1	89.5
EBITDA margin	5.2	6.6	8.0	7.8	Payable days	307.5	275.9	255.5	254.4
EBIT margin	1.8	3.4	5.3	5.2	Net debt/equity (%)	108.8	143.8	153.8	154.2
					Interest cover - EBIT (X)	0.3	0.6	1.2	1.4
Cash flow statement (Rs mn)	3/11	3/12E	3/13E	3/14E	Valuation	3/11	3/12E	3/13E	3/14E
Net income pre-preferred dividends	(511.6)	918.5	1,911.4	2,497.5	P/E (analyst) (X)	NM	18.9	9.1	6.9
D&A add-back	2,691.9	3,236.1	3,228.7	3,693.4	P/B (X)	0.6	0.6	0.5	0.5
Minorities interests add-back	(0.7)	(0.7)	(0.7)	(0.7)	EV/EBITDA (X)	17.2	9.2	7.2	6.7
Net (inc)/dec working capital	9,349.1	(5,822.8)	(5,090.0)	(4,143.1)	EV/GCI (X)	0.9	0.7	0.7	0.6
Other operating cash flow	724.9	1,819.8	3,356.4	3,272.3	Dividend yield (%)	0.3	0.3	0.3	0.3
Cash flow from operations	12,253.6	151.0	3,405.8	5,319.4					
Capital expenditures	(3,544.6)	(6,000.0)	(4,800.0)	(4,800.0)					
Acquisitions	(499.5)	0.0	0.0	0.0					
Divestitures	1,146.7	0.0	0.0	0.0					
Others	84.4	0.0	754.1	226.5					
Cash flow from investments	(2,813.0)	(6,000.0)	(4,045.9)	(4,573.5)					
Dividends paid (common & pref)	(49.8)	(49.8)	(49.8)	(49.8)					
Inc/(dec) in debt	870.5	9,500.0	0.0	3,000.0					
Common stock issuance (repurchase)	190.3	0.0	0.0	0.0					
Other financing cash flows	(4,412.4)	(6,325.0)	(5,904.4)	(5,355.2)					
Cash flow from financing	(3,401.4)	3,125.2	(5,954.2)	(2,405.0)					
Total cash flow	6,039.2	(2,723.8)	(6,594.4)	(1,659.1)					

Note: Last actual year may include reported and estimated data.
Source: Company data, Goldman Sachs Research estimates.

Analyst Contributors

Ishan Sethi

ishan.sethi@gs.com

Pulkit Patni

pulkit.patni@gs.com

Mukul Garg

mukul.garg@gs.com

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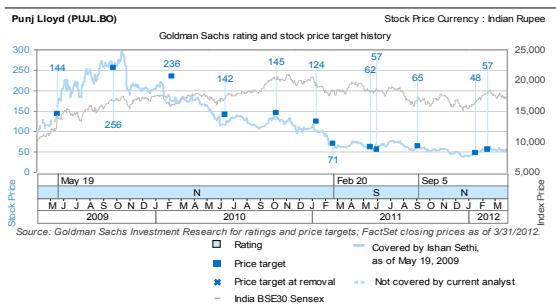
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