

EARNINGS REVIEW

Punj Lloyd (PUJL.BO)

Neutral

Equity Research

Above expectation on higher orders, but margin stability still uncertain

What surprised us

Punj Lloyd reported Q3FY12 profit of Rs703 mn, which included Rs840 mn of accounting gains on write-backs from the deconsolidation of the Simon Carves subsidiary. Adjusting for this, profit for the quarter was below our estimate, primarily due to higher than expected contractor charges. However, revenue for the quarter at Rs27 bn was 7%/5% above GSe and Bloomberg consensus estimates. Order inflow at Rs42bn was 20% ahead of our estimate, resulting in closing order book of Rs283bn being up 31% yoy – highest growth among the stocks within our coverage. Auditor qualification has also come down by Rs5 bn on account of the ONGC dispute and stabilization of the political situation in Libya.

What to do with the stock

We retain our Neutral rating on the stock, as despite these positives of: (1) Strong order inflow over the past 9M, which is 124% above the entire FY11's inflow; (2) reduction in auditor qualification; and (3) close to historical trough valuations, we continue to be concerned over: (1) uncertainty on margin stabilization; (2) our assumption that new projects will likely deliver lower margins being they are competitive bids and given the geographical spread; and (3) uncertainty over potential treatment of the outstanding auditor qualifications.

We adjust FY12E EPS to Rs3.96 from Rs1.59 based on Q3 results and the write-back, and increase FY13-14E EPS by 31%-39% on higher order inflow and stabilization of execution. We also increase our P/B-based 12m TP to Rs57 (from Rs48 at 0.5X FY13E P/B) – now valued at 0.6X FY13E P/B – justified in our view given our expected ROE of about 6% in FY13E. Risks: Upside: lower commodity price and interest rate; downside: lower order inflow and project delays.

Punj Lloyd Q3FY12 results

In Rs mn	Q3FY12A	YoY growth	Variance vs	
			consensus	vs GSE
Sales	27,012	27%	5%	7%
EBITDA	142	-85%	-94%	-93%
Net Income	703	-213%	304%	312%

Source: Bloomberg, Company data, Goldman Sachs Research estimates.

INVESTMENT LIST MEMBERSHIP

Neutral

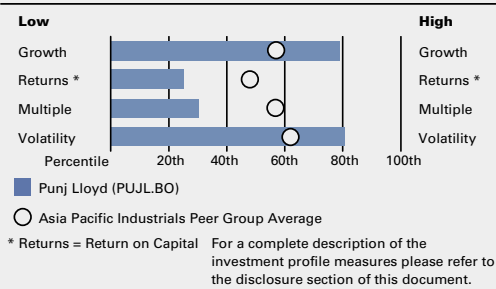
Coverage View: Neutral

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Investment Profile

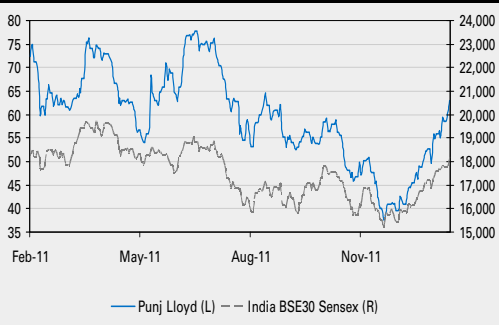


Key data

	Current
Price (Rs)	62.95
12 month price target (Rs)	57.00
Market cap (Rs mn / US\$ mn)	20,905.7 / 423.5
Foreign ownership (%)	15.0

	3/11	3/12E	3/13E	3/14E
EPS (Rs) New	(1.79)	3.96	5.18	7.13
EPS revision (%)	0.0	148.8	38.7	31.2
EPS growth (%)	46.8	320.8	30.8	37.8
EPS (dil) (Rs) New	(1.79)	3.96	5.18	7.13
P/E (X)	NM	15.9	12.2	8.8
P/B (X)	0.7	0.7	0.6	0.6
EV/EBITDA (X)	17.2	7.2	6.5	6.0
Dividend yield (%)	0.2	0.2	0.2	0.2
ROE (%)	(2.0)	4.3	5.4	7.0
CROCI (%)	9.2	12.0	13.4	13.0

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	21.3	0.2	(13.2)
Rel. to India BSE30 Sensex	12.5	(7.3)	(12.8)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 2/15/2012 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	102,677.6	124,645.6	148,008.9	Cash & equivalents	12,149.5	11,038.7	8,983.1	8,230.9
Cost of goods sold	(25,967.9)	(40,083.2)	(48,285.1)	(57,335.6)	Accounts receivable	22,038.2	27,568.2	33,466.5	38,522.9
SG&A	(51,108.4)	(57,714.2)	(70,402.5)	(83,598.6)	Inventory	48,425.1	50,104.0	56,806.1	63,706.2
R&D	--	--	--	--	Other current assets	11,055.6	12,555.6	14,055.6	14,555.6
Other operating profit/(expense)	0.0	0.0	0.0	0.0	Total current assets	93,668.3	101,266.5	113,311.2	125,015.5
EBITDA	4,111.4	8,102.1	9,993.9	11,719.1	Net PP&E	22,562.9	25,379.9	26,391.2	31,391.2
Depreciation & amortization	(2,691.9)	(3,222.0)	(4,035.9)	(4,644.4)	Net intangibles	2,087.2	2,048.3	2,001.0	2,001.0
EBIT	1,419.5	4,880.2	5,958.0	7,074.7	Total investments	3,881.1	3,881.1	3,881.1	3,881.1
Interest income	200.4	300.0	883.1	718.6	Other long-term assets	0.0	0.0	0.0	0.0
Interest expense	(4,634.8)	(5,451.0)	(5,683.9)	(5,662.1)	Total assets	122,199.6	132,575.7	145,584.6	162,288.9
Income/(loss) from uncons. subs.	23.0	0.0	0.0	0.0	Accounts payable	21,713.8	29,537.4	35,857.0	42,577.9
Others	3,173.9	2,831.6	1,600.0	1,600.0	Short-term debt	14,872.4	14,872.4	14,872.4	14,872.4
Pretax profits	181.9	2,560.8	2,757.2	3,731.3	Other current liabilities	21,190.8	21,190.8	21,190.8	21,190.8
Income tax	(663.2)	(1,126.7)	(918.1)	(1,242.5)	Total current liabilities	57,777.1	65,600.6	71,920.2	78,641.1
Minorities	(30.3)	(120.0)	(120.0)	(120.0)	Long-term debt	30,552.5	34,552.5	39,052.5	43,552.5
Net income pre-preferred dividends	(511.6)	1,314.0	1,719.1	2,368.7	Other long-term liabilities	3,294.7	463.1	863.1	3,907.5
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	33,847.2	35,015.6	39,915.6	47,460.0
Net income (pre-exceptionals)	(511.6)	1,314.0	1,719.1	2,368.7	Total liabilities	91,624.2	100,616.2	111,835.8	126,101.1
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)	1,314.0	1,719.1	2,368.7	Total common equity	29,831.6	31,095.9	32,765.1	35,084.0
EPS (basic, pre-exception) (Rs)	(1.85)	4.08	5.34	7.36	Minority interest	743.7	863.7	983.7	1,103.7
EPS (basic, post-exception) (Rs)	(1.85)	4.08	5.34	7.36	Total liabilities & equity	122,199.6	132,575.7	145,584.6	162,288.9
EPS (diluted, post-exception) (Rs)	(1.79)	3.96	5.18	7.13	BVPS (Rs)	89.83	93.63	98.66	105.64
DPS (Rs)	0.15	0.15	0.15	0.15					
Dividend payout ratio (%)	(8.4)	3.8	2.9	2.1					
Free cash flow yield (%)	22.7	0.4	(8.0)	(1.2)					
Growth & margins (%)	3/11	3/12E	3/13E	3/14E	Ratios	3/11	3/12E	3/13E	3/14E
Sales growth	(24.9)	30.8	21.4	18.7	CROCI (%)	9.2	12.0	13.4	13.0
EBITDA growth	12.8	97.1	23.3	17.3	ROE (%)	(2.0)	4.3	5.4	7.0
EBIT growth	3.4	243.8	22.1	18.7	ROA (%)	(0.5)	1.0	1.2	1.5
Net income growth	45.1	320.8	30.8	37.8	ROACE (%)	5.9	6.4	6.8	7.0
EPS growth	45.1	320.8	30.8	37.8	Inventory days	667.1	448.6	404.1	383.6
Gross margin	66.9	61.0	61.3	61.3	Receivables days	102.0	88.2	89.4	88.8
EBITDA margin	5.2	7.9	8.0	7.9	Payable days	307.5	233.3	247.2	249.7
EBIT margin	1.8	4.8	4.8	4.8	Net debt/equity (%)	108.8	120.1	133.2	138.7
					Interest cover - EBIT (X)	0.3	0.9	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)	1,314.0	1,719.1	2,368.7	P/E (analyst) (X)	NM	15.9	12.2	8.8
D&A add-back	2,691.9	3,222.0	4,035.9	4,644.4	P/B (X)	0.7	0.7	0.6	0.6
Minorities interests add-back	(0.7)	(0.7)	(0.7)	(0.7)	EV/EBITDA (X)	17.2	7.2	6.5	6.0
Net (inc)/dec working capital	9,349.1	(885.4)	(5,780.7)	(5,735.6)	EV/GCI (X)	0.9	0.7	0.7	0.6
Other operating cash flow	724.9	2,440.1	3,321.5	3,464.2	Dividend yield (%)	0.2	0.2	0.2	0.2
Cash flow from operations	12,253.6	6,090.0	3,295.0	4,741.1					
Capital expenditures	(3,544.6)	(6,000.0)	(5,000.0)	(5,000.0)					
Acquisitions	(499.5)	0.0	0.0	0.0					
Divestitures	1,146.7	0.0	0.0	0.0					
Others	84.4	300.0	883.1	718.6					
Cash flow from investments	(2,813.0)	(5,700.0)	(4,116.9)	(4,281.4)					
Dividends paid (common & pref)	(49.8)	(49.8)	(49.8)	(49.8)					
Inc/(dec) in debt	870.5	4,000.0	4,500.0	4,500.0					
Common stock issuance (repurchase)	190.3	0.0	0.0	0.0					
Other financing cash flows	(4,412.4)	(5,451.0)	(5,683.9)	(5,662.1)					
Cash flow from financing	(3,401.4)	(1,500.8)	(1,233.7)	(1,211.9)					
Total cash flow	6,039.2	(1,110.8)	(2,055.6)	(752.2)					

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

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Reg AC

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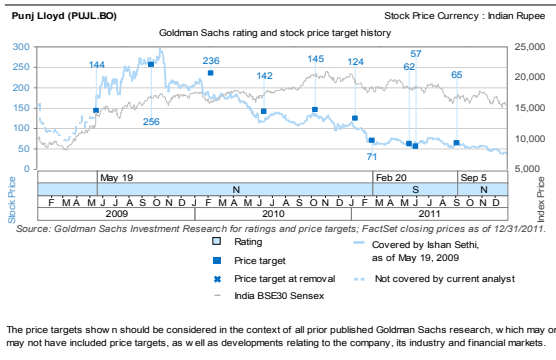
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