Punj Lloyd

Performance Highlights

Punj Lloyd (Punj) posted a disappointing set of numbers for 3QFY2010. The quarter witnessed a Top-line de-growth, along with operating margins below our expectations. This poor performance and extraordinary expenses (on account of losses booked on the Bio-ethanol project) booked by its 100% subsidiary, Simon Carves, led to a dismal Bottom-line number, much below our expectations. In the backdrop of slower execution and a shrunken Order Book, we prune our Top-line estimates, factor in extraordinary expenses, in FY2010, FY2011E and FY2012E, resulting in the revision of Bottom-line estimates. **However, considering its cheap valuations and overall opportunities in the sector, we maintain Buy.**

Disappointing set of numbers: Punj Lloyd posted a Top-line de-growth of 7.2% to Rs2,918cr, against our expectation of Rs3,363cr. The Pipeline and Process plant segments contribution (to the Top-line) came in flat for the quarter, whereas that of the Tankages and Infrastructure segments de-grew by 33% and 27% yoy, respectively. Revenue to the extent of 75-80% comes in from currency other than Indian Rupee, as a consequence of which the Top-line de-growth comes partly on account of Rupee appreciation in the quarter. Punj booked losses (in its 100% subsidiary, Simon Carves) to the tune of Rs165cr for the quarter, as against our estimates of Rs70cr. As a result, operating margins came in at 7.7%. On account of losses on the Simon Carves' front, Punj reported a Bottom-line of Rs12.5cr.

Outlook and Valuation: Punj's financial performance has been plagued by consistent losses on the Simon Carves' front, amounting to Rs297.2cr (9MFY2010). The management of Simon Carves is in talks with its customer for a waiver of liquidation damages for a delay in completion of the project, which continues to be an overhang on the Stock. We have factored in losses to the tune of Rs173cr on this front in 4QFY2010. In the backdrop of Slower execution, a shrunken Order Book and concerns relating to liquidation damages on the Simon Carves' front, we prune our Top-line estimates for FY2010E, FY2011E and FY2012E by 5.4%, 15.6% and 18.0%, respectively. We also provide for extraordinary expenses to the tune of Rs250cr over the next two years. However, considering the scale of operations that Punj has achieved over a period of time, along with its geo-segmental diversified portfolio of offerings and relatively cheap valuations, we continue to maintain a Buy, with a revised Target price of Rs261 (Rs308).

Key Financials(Consolidated)

Y/E March (Rs cr)	FY2009	FY2010E	FY2011E	FY2012E
Net Sales	11,912	12,339	14,037	15,868
% chg	*53.6*	*3.6*	*13.8*	*13.0*
Net Profit	(250.3)	233.4	487.6	584.0
% chg	-	-	*108.9*	*19.8*
FDEPS (Rs)	(8.2)	7.0	14.7	17.6
EBITDA Margin (%)	3.7	7.8	9.5	9.9
P/E (x)	-	26.5	12.7	10.6
RoE (%)	-	7.9	13.7	14.4
RoCE (%)	4.9	10.9	13.9	15.0
P/BV (x)	2.2	1.8	1.6	1.4
EV/Sales (x)	0.7	0.7	0.7	0.6
EV/EBITDA (x)	19.1	9.5	7.0	6.2

Source: Company, Angel Research

BUY

CMP	Rs187
Target Price	Rs261
Investment Period	15 Months

Stock Info	
Sector	Infrastructure
Market Cap (Rs cr)	6,221
Beta	1.5
52 WK High / Low	299/67
Avg Daily Volume	1959327
Face Value (Rs)	2
BSE Sensex	16,358
Nifty	4,882
Reuters Code	PUJL.BO
Bloomberg Code	PUNJ@IN

Shareholding Pattern (%)	
Promoters	37.4
MF/Banks/Indian FIs	33.3
FII/NRIs/OCBs	14.9
Indian Public	14.4

Abs(%)	**3m**	**1yr**	**3yr**
Sensex	1.9	77.1	15.1
Punj Lloyd	(7.7)	100.0	(8.4)

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Exhibit 1: 3QFY2010 Quarterly Performance (Consolidated)

Y/E March (Rs cr)	3QFY10	3QFY29	% chg	9MFY10	9MFY09	% chg
Net Sales	2,918	3,143	(7.2)	8,762	8,756	0.1
Total Expenditure	2,694	3,216	(16.3)	8,017	8,307	(3.5)
Operating Profit	224.3	(72.8)	(408.0)	745.7	448.6	66.2
OPM (%)	7.7	(2.3)	-	8.5	5.1	-
Interest	92.3	62.0	48.9	246.3	147.9	66.6
Depreciation	53.5	43.3	23.7	159.0	126.3	25.9
Non Operating Income	8.3	0.3	-	15.0	0.4	-
Nonrecurring items	-	(7.2)	0.0	-	13.2	-
Profit Before tax	86.7	(185.1)	(146.9)	355.5	188.0	89.1
Tax	77.1	41.6	85.5	169.4	159.3	6.4
PAT for the year	9.6	(226.6)	(104.2)	186.1	28.7	548.3
Share of Profits/ (Losses) of Associates	5.3	1.4	-	6.5	1.4	-
Share of Profits/ (Losses) of MI	(2.4)	(0.4)	-	(0.1)	0.3	-
PAT after MI and Assoc.	12.5	(225.6)	-	192.5	30.4	-
PAT (%)	0.4	(7.2)	-	2.1	0.3	-
Adjusted PAT	9.6	(226.6)	(104.2)	186.1	28.7	548.3
Adj. PAT (%)	0.3	(7.2)	-	2.1	0.3	-
FDEPS (Rs)	0.4	(7.6)	(105.1)	5.9	0.9	525.5

Source: Company, Angel Research

Concerns in sight, over the Order Book to Sales ratio

The Order Book stands at Rs24,500cr, partly on account of slow order inflows during the quarter, and partly on account of the Rs1,770cr Jurong aromatics, Singapore-related order, getting cancelled. This was on account of the client's inability to achieve financial closure. The outstanding Order Book provides visibility for the next couple of years. We believe that order traction can be one of the deciding factors for the stock's performance in the future.

Outlook

Losses to the tune of Rs297cr have already been booked by Punj for 9MFY2010 on account of its 100% subsidiary, Simon Carves. Further, the management of Simon Carves is in talks with its customer for a waiver of liquidation damages (to the tune of Rs173cr), for delay in completion of the project, which we believe continues to be an overhang on the Stock. We have factored in a possible loss on this front in 4QFY2010 in our numbers. Punj posted a Top-line de-growth in 3QFY2010 and a flat Top-line growth on 0.1% for 9MFY2010. In the backdrop of Slower execution and a shrunken Order Book (Jurong Island-related order cancelled, on account of financial closure not getting achieved), we prune our Top-line estimates for FY2010E, FY2011E and FY2012E by 5.4%,15.6% and 18%, respectively. We also provide for extraordinary expenses to the tune of Rs250cr over the next two years.

Valuation

At the CMP of Rs187, the stock trades at 10.6x FY2012E Earnings and 1.4x FY2012E P/BV, which we believe is cheap, considering the scale of operations that Punj has achieved over a period of time, along with its geo-segmental diversified portfolio of offerings. We have valued Punj at 14x FY2012E EPS (in line with its peers) and its stake in Pipavav Shipyard on a MCap basis, and have arrived at a Target Price of Rs261, which implies a potential upside of 39.3%. We believe that the stock might languish in the short-term because of various issues. However, we believe that due to the strong business model in place and overall positive developments in the sector, the company would be back to a growth trajectory over the next couple of years, resulting in a re-rating of the stock. **Hence, we are taking a long-term view on the stock, and maintain a Buy.**

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DISCLAIMER

Note: Please refer important `Stock Holding Disclosure' report on Angel web-site (Research Section).

Disclosure of Interest Statement	Punj Lloyd
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below Rs 5 lakh for Angel, its Group companies and Directors.

Ratings (Returns) :	Buy (> 15%)	Accumulate (5% to 15%)	Neutral (-5 to 5%)
	Reduce (-5% to -15%)	Sell (< -15%)	

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