

May 31, 2010

HOLD

Price Rs 120	Target Price Rs 132
Sensex	16,945

Price Performance

(%)	1M	3M	6M	12M
Absolute	(27)	(31)	(40)	(41)
Rel. to Sensex	(25)	(33)	(40)	(49)

Source: Bloomberg

Stock Details

Sector	Engineering & Capital Goods
Reuters	PUJL.BO
Bloomberg	PUNJ@IN
Equity Capital (Rs mn)	664
Face Value(Rs)	2
No of shares o/s (mn)	332
52 Week H/L	299/119
Market Cap (Rs bn/USD mn)	40/862
Daily Avg Volume (No of sh)	3357575
Daily Avg Turnover (US\$m)	12.1

Shareholding Pattern (%)

	M'10	D'09	S'09
Promoters	37.5	37.4	37.5
FII/NRI	14.1	14.9	20.6
Institutions	23.5	26.1	22.9
Private Corp	8.1	7.3	5.8
Public	16.8	14.4	13.1

Source: Capitaline

Pritesh Chheda, CFA

pritesh.chheda@emkayglobal.com
+91 22 6612 1273

Perna Jhavar

perna.jhavar@emkayglobal.com
+91 22 6612 1337

Punj Lloyd (PLL) reported disastrous performance in Q4FY10, beyond estimation. The key highlights are (1) 45% yoy decline in revenues to Rs17.8 bn, Libya order does not reach revenue booking in Q4FY10 and (2) adjusted net loss of Rs6.2 bn – loaded with cost overruns and provisions on multiple projects. Further, PLL has reported Ebidta loss of Rs5.2 bn, adjusting for cost over-runs, normalised Ebidta margins were 10% and Ebidta of Rs1.7 bn. PLL booked extra-ordinary income of Rs3.2 bn on sale of equity holding in Pipavav Shipyards. Considering the extra-ordinary gain, reported net loss reduces to Rs3.0 bn in the quarter.

We attended the analyst meet in Delhi, where new management chaired by Mr. Atul Punj gave firm commitment for no negative surprise in ensuing quarters. Management expects to start on clean slate with Q2FY11E – addressing the pending issues if any, in Q1FY11E. Considering (1) firm commitment given by management in the analyst meet for no room for negative surprises (2) ratifying the quality of outstanding order backlog and (3) recent price correction, PLL being valued on P/BV against PER earlier – we are upgrading our rating by one notch from 'REDUCE' to 'HOLD' with price target of Rs132/Share. Further, we shall review our valuation and ratings methodology on profitable execution of order backlog in ensuing quarters, up on gaining further confidence.

Disastrous performance in Q4FY10 – expectation holds no bar

PLL has hattrick under its fold – reporting disastrous performance for 3 quarters back-to-back i.e. Q2FY10, Q3FY10 and Q4FY10. Further, PLL reported disastrous performance in Q4FY10, beyond estimation. The key highlights are (1) 45% yoy decline in revenues to Rs17.8 bn, Libya order does not reach revenue booking in Q4FY10 and (2) adjusted net loss of Rs6.2 bn – loaded with cost overruns and provisions on multiple projects. Further, PLL has reported Ebidta loss of Rs5.2 bn, adjusting for cost over-runs, normalised Ebidta margins were 10% and Ebidta of Rs1.7 bn. PLL booked extra-ordinary income of Rs3.2 bn on sale of equity holding in Pipavav Shipyards. Considering the extra-ordinary gain, reported net loss reduces to Rs3.0 bn in the quarter.

Cost overruns and provisions of Rs6.5 bn in Q4FY10– explanation for few and balance left unexplainable

We attended the analyst meet in Delhi to get explanations and reasons for Q4FY10 performance. Our rough-cut estimates (not ratified by management), indicates cost overruns and provision of Rs6.5 bn in Q4FY10. Certain portion is explained by management and balance is left unexplainable. Around Rs3.0 bn is attributed to Ensus Project - February 2010 press release indicates only Rs1.7 bn – hence there is disconnect. Further, Rs0.5 bn is attributed on account of ONGC Heera Project. Early mobilizations in Libya project also resulted in cost overruns –corresponding advances from clients have been delayed and billing did not happen. There are other international projects, details for which are not shared in analyst meet.

Financial Snapshot

Rs Mn

YE-Mar	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	AEPS (Rs)	EV/ EBITDA	P/BV	Div Yld (%)	RoE (%)	P/E
FY2009	119,120	8,590	7.2	2,289	7.6	7.4	1.4	0.3	8.7	15.7
FY2010P	105,388	2,184	2.1	(4,308)	(13.2)	37.0	1.3	0.1	(15.6)	-
FY2011E	126,606	10,712	8.5	2,746	7.8	7.9	1.1	0.1	8.0	15.2
FY2012E	158,149	13,774	8.7	4,582	13.2	6.1	1.0	0.1	11.7	9.0

Order accretion continues, but doubts on profitable execution remains

Order inflows were strong in the quarter, reports order inflows of Rs61.2 bn in Q4FY10 – up 303% qoq and 188% yoy. PLL actually beats our FY10 order inflow estimates; reports order inflows of Rs174.1 bn against estimates of Rs149.2 bn. Further, order inflows grew by 35% over FY09 – amongst strongest growth in large companies. Despite, lacklustre activity in Energy segment, PLL managed to report robust order inflows owing to better order inflows from Infrastructure segment with some large order wins in Libya, Singapore and Abu Dhabi. The dichotomy continues – order accretion on one hand, doubts on profitable execution remains.

Reconciling, what is still in the closet

Based on information gathered in analyst meet and earlier press release, we tried to reconcile scope and magnitude for any further bad news. In our view, there could be more provisions on Ensus project and ONGC Heera in ensuing quarter (not quantifiable, but could be manageable). The cost overruns in Libya are akin to Q4FY10 and not likely to surface in Q1FY11E – since project execution started in Q1FY11E. Further, cost overruns in Ensus Project and Libya project cannot be recovered, linked to mistakes of PLL rather than the client. Recovery of dues in ONGC Heera and Sabic Project will be long drawn affair.

Balance sheet quality deteriorates, debt of Rs45.0 bn

FY10 balance sheet deteriorates – despite the QIP done in Q2FY10 of Rs8.8 bn. The debt in books stood at Rs45 bn versus Rs35 bn in FY09 – increase by 33%. Further, debtors stood at Rs44 bn on revenues of Rs104.4 bn booked in FY10 – which translates into 180 days cycle. This has nearly doubled from 80 days in FY09 to 180 days in FY10. Further, net working capital increased from Rs34.0 bn in FY09 to Rs40.5 bn in FY10.

Management makes aggressive comments – promises no negative surprise from Q2FY11E

We attended the analyst meet in Delhi, where new management chaired by Mr. Atul Punj gave presentation on past performance and future outlook. The focal point for us and many other participants was firm commitment given by management for no negative surprise in ensuing quarters. Further, management expects to start on clean slate with Q2FY11E – addressing the pending issues if any, in Q1FY11E. Management has also highlighted risk management initiatives w.r.t project bidding, selection and implementation – promises for non recurrence of another ONGC Heera, Sabic or Ensus.

Now trading closer to 1X P/BV, relying on management comments – upgrading one notch from 'REDUCE' to 'HOLD'

In our earlier reports, we have highlighted rapid decline in PLL market cap – beginning Q2FY10 when bad news surfaced. PLL has corrected by 46% from Rs220/Share in October 2010 (just after Q2FY10 results) to Rs119/Share (just after Q4FY10 results). This price correction has taken the sheen of high expectations and valuations from over-optimistic levels to attractive levels. Currently, PLL is trading at P/BV of 1.1X FY11E Book Value of Rs105/Share. Since, last 8 quarters we had negative bias on the company, citing concerns on profitable execution of order backlog, track record of cost overruns and relentless diversification (defence, offshore service, solar, etc).

Considering (1) firm commitment given by management in the analyst meet for no room for negative surprises (2) ratifying the quality of outstanding order backlog and (3) recent price correction, PLL being valued on P/BV against PER earlier – we are upgrading our rating by one notch from 'REDUCE' to 'HOLD' with price target of Rs132/Share. Further, we shall review our valuation and ratings methodology on profitable execution of order backlog in ensuing quarters, up on gaining further confidence.

Key Financials

YE Mar (Rs Million)	Q4FY10	Q4FY09	YoY Gr (%)	Q3FY10	QoQ Gr (%)
Net Sales	17,765	32,306	-45.0	29,072	-38.9
Expenditure	22,912	30,723	-25.4	26,935	-14.9
Material Cost	8,007	11,101	-27.9	9,681	-17.3
% of Sales	45.1	34.4	-	33.3	-
Contractor Charges	3,781	10,109	-62.6	8,133	-53.5
% of Sales	21.3	31.3	-	28.0	-
Employee Expenses	3,814	3,783	0.8	3,266	16.8
% of Sales	21.5	11.7	-	11.2	-
Other Expenses	7,310	5,729	27.6	5,855	24.8
% of Sales	41.1	17.7	-	20.1	-
Operating Profit	(5,147)	1,583	-	2,137	-
EBIDTA (%)	(29.0)	4.9	-3390 bps	7.4	-3630 bps
Other Income	(14)	1	-	189	-
Interest	728	729	-0.2	923	-21.2
Depreciation	680	508	34.0	535	27.0
PBT	(6,569)	347	-	867	-
Tax	(322)	667	-	771	-
PAT (Before Minority)	(6,247)	(320)	-1850.3	96	-
PAT (After Minority)	(6,232)	(343)	-1717.5	125	-
PAT (%)	(35.2)	(1.0)	-3420 bps	0.3	-3550 bps
Extra Ordinary	3,224	(2,213)	-	-	-
PAT (After Extraordinary)	(6,232)	(343)	-1717.5	125	-
EPS	(18.8)	(1.1)	-1682.3	0.3	-

Revenue Mix (Rs Mn)	Q4FY10	Q4FY09	YoY Gr (%)	Q3FY10	QoQ Gr (%)
Pipelines	9,103	6,277	45.0	13,041	-30.2
Tankage	568	555	2.3	537	5.8
Infrastructure	4,079	7,764	-47.5	5,861	-30.4
Process Plants & Others	3,694	17,662	-79.1	9,739	-62.1
Total Revenue	17,444	32,258	-45.9	29,178	-40.2

Order Backlog Mix (Rs Mn)	Q4FY10	Q4FY09	YoY Gr (%)	Q3FY10	QoQ Gr (%)
Pipelines	27,743	64,531	-57.0	36,142	-23.2
Tankage	5,667	7,427	-23.7	3,900	45.3
Infrastructure	175,416	74,991	133.9	139,499	25.7
Process Plants	68,869	61,084	12.7	54,773	25.7
Total Backlog	277,695	208,033	33.5	234,314	18.5

Key Financials

Income Statement

Y/E, Mar (Rs. m)	FY09	FY10P	FY11E	FY12E
Net Sales	119,120	105,388	126,606	158,149
Growth (%)	53.6	(11.5)	20.1	24.9
Total Expenditure	110,530	103,204	115,894	144,375
Growth (%)	57.3	(6.6)	12.3	24.6
Materials Cost	37,505	37,701	45,292	59,897
% Of Sales	31.5	35.8	35.8	37.9
Employee Costs	12,922	13,452	16,160	20,186
% Of Sales	10.8	12.8	12.8	12.8
Manufacturing Exps	53,982	45,319	47,037	56,146
% Of Sales	45.3	43.0	37.2	35.5
Administration Exps	6,121	6,733	7,406	8,147
% Of Sales	5.1	6.4	5.8	5.2
EBIDTA	8,590	2,184	10,712	13,774
Growth (%)	18.5	(74.6)	390.5	28.6
EBIDTA Margin (%)	7.2	2.1	8.5	8.7
Other income	(56)	136	136	136
Interest	2,208	3,063	4,142	4,039
Depreciation	1,771	2,270	2,837	3,358
PBT	4,556	(3,013)	3,869	6,513
Tax	2,260	1,373	1,217	2,048
PAT	2,295	(4,386)	2,652	4,464
Minority Interest	62	17	20	25
Share in P/L of Asso	(68)	95	114	143
Adjusted PAT	2,289	(4,308)	2,746	4,582
Growth (%)	(29.2)	(288.2)	-	66.8
Net Margin (%)	1.9	(4.1)	2.2	2.9
E/O items	(4,542)	3,224	-	-
Reported PAT	(2,253)	(1,084)	2,746	4,582

Balance Sheet

Y/E, Mar (Rs. m)	FY09	FY10P	FY11E	FY12E
Equity Share Capital	607	663	679	679
Reserves & Surplus	24,238	29,750	34,634	39,165
Minority Interest	420	420	420	420
Shareholders Funds	25,265	30,833	35,733	40,264
Secured Loans	29,889	39,889	39,889	39,889
Unsecured Loans	5,703	5,703	3,499	3,499
Loan Funds	35,592	45,592	43,388	43,388
Capital Employed	60,857	76,425	79,121	83,652
Gross Block	26,527	33,527	37,527	41,527
Less: Depreciation	7,774	10,045	12,882	16,240
Net Block	18,753	23,483	24,646	25,288
Capital WIP	2,974	2,974	2,974	2,974
Investment	6,609	6,609	6,609	6,609
Current Assets	82,955	85,868	92,445	107,656
Inventories	36,686	29,091	34,948	43,655
Sundry Debtors	26,686	44,150	46,101	48,921
Cash and Bank	8,122	4,271	1,358	2,541
Loans and Advances	11,461	8,356	10,038	12,539
Current Liab & Prov	48,952	41,027	46,072	57,394
Current liabilities	47,099	39,512	44,371	55,275
Provisions	1,853	1,515	1,701	2,119
Net Current Assets	34,002	44,841	46,373	50,262
Miscellaneous Exps	-	-	-	-
Net Deferred Taxes	(1,482)	(1,482)	(1,482)	(1,482)
Capital Deployed	60,857	76,425	79,121	83,652

Cash Flow Statement

Y/E, Mar (Rs. m)	FY09	FY10P	FY11E	FY12E
Profit before Tax	13	(3,013)	3,869	6,513
Add : Depreciation	1,771	2,270	2,837	3,358
Add : Non Cash	(75)	3,302	94	118
Less: Tax Paid	(1,227)	(1,373)	(1,217)	(2,048)
Chg in Working Capital	(10,219)	(14,689)	(4,446)	(2,706)
Operational Cash Flows	(9,736)	(13,503)	1,137	5,234
Capital Expenditure	(6,364)	(7,000)	(4,000)	(4,000)
Investments	(1,488)	-	-	-
Investing Cash Flows	(7,852)	(7,000)	(4,000)	(4,000)
Borrowings	19,520	10,000	(2,204)	-
Issue of Shares	0	56	16	-
Add/Redn of Reserves	7	6,646	2,188	-
Dividend Paid	(142)	(50)	(51)	(51)
Financing Cash Flows	19,385	16,652	(51)	(51)
Changes in Cash	1,797	(3,851)	(2,914)	1,183
Opening Balance	6,347	8,122	4,271	1,358
Closing Balance	8,144	4,271	1,358	2,541

Key ratios

Y/E, Mar	FY09	FY10P	FY11E	FY12E
Profitability (%)				
EBITDA Margin	7.2	2.1	8.5	8.7
Net Margin	1.9	(4.1)	2.2	2.9
ROCE	12.9	0.1	10.3	13.0
ROE	8.7	(15.6)	8.0	11.7
Per Share Data (Rs)				
EPS	7.6	(13.2)	7.8	13.2
CEPS	10.7	(3.3)	13.5	19.9
BVPS	83.2	93.0	105.3	118.6
DPS	0.4	0.2	0.2	0.2
Valuation Ratios (X)				
PER	15.7	-	15.2	9.0
P/CEPS	11.1	-	8.8	6.0
P/BV	1.4	1.3	1.1	1.0
EV/Sales	0.5	0.8	0.7	0.5
EV/EBIDTA	7.4	37.0	7.7	5.9
Mcap / Sales	0.3	0.4	0.3	0.3
Mcap / EBIDTA	4.2	17.0	3.7	2.9
Dividend Yield (%)	0.3	0.1	0.1	0.1
Gearing Ratio (X)				
Net Debt / Equity	1.1	1.3	1.2	1.0
Total Debt / Equity	1.4	1.5	1.2	1.1

Emkay Global Financial Services Ltd.

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

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