

Punj Lloyd Ltd.

INR 86

**Punj - A- Tantra - Story of Growth**

Gateway to Prosperity

February 06, 2009

**Company Background**

Punj Lloyd (PL) is an Indian Engineering & Construction (E&C) company catering to the Hydrocarbons & Civil Construction sectors across India, Asia & the Middle East markets. Its services too include laying pipelines, building roads & constructing refineries & tankages, power plants & other infrastructure facilities. In FY07 Punj Lloyd acquired Sembawang, which helped it scale up its expertise to upstream oil & gas, airports, jetties, MRT/LRT & tunnelling amongst others, in the infrastructure domain. Enabled by the extended capabilities accruing from this acquisition, Punj Lloyd is now also pre-qualified for larger and more complex project bids.

**Investment Rationale.****➔ Surprising results.....Performance better.(Standalone basis)**

For 3QFY09, Punj Lloyd(PL) came out with outstanding figures, with its Top Line clocked 46% growth to INR 18,107 mn as against INR 12,437 mn, while its Bottom Line registered a growth of 128% to INR 893 mn as against INR 392 mn when compared with previous years quarter figures. Its EBITDA grew by around 128% to INR 2,416 mn as against INR 1,058 mn, while its OPM expanded by 383bps. However its financial performance for current quarter were affected due to provision made towards SABIC order executed by Simon Carves Ltd which is under litigation with client, along with foreign loss on loans taken by the same whose loss were incurred due to volatility of Sterling pounds. PL has an total Order backlog of INR 219.08 bn, while it added around INR 23 bn order in order book pipeline during current quarter.

**➔ PL secures order from Libya.**

Engineering, Procurement & Construction(EPC) company PL secured a new contract valued at INR 13.11 bn for the execution of utilities in Libya along with partnership with Public Work Company Tripoli in the form of 60:40 venture. The scope here includes engineering, procurement, construction and commissioning of infrastructure networks, water-sewerage-stormwater mains & branch lines, roads & other facilities. Previously, the company bagged an contract of USD 290 mn for engineering, procurement & construction of Oil & Gas projects & was also was the Group's single largest order then. Infrastructure renewal, modernisation and development play a large role in Libya's progress & so Libya is one of the key market for it. PL is planning to expand its presence in the promising business environment of the country, which would help to gather more opportunities & would also help it to establish its global capabilities.

**➔ PL-Thorium to work together through JV.**

Infrastructure player PL & US-based Thorium Power has signed an MOU during the last month to form a 50:50 JV company for exploring commercial nuclear power opportunities & both are targeting to infuse around USD 1 bn in the venture through investment in the sector. Their investment & area of

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Reuters	: PUJL.BO
Bloomberg	: PUNJ@IN
NSE	: PUNJLLOYD
BSE	: 532693

**Market Data**

52 Wk Range (INR)	: 405 / 83.90
Shares in Issue (mn)	: 303.45
Mkt. Cap (INR bn)	: 26.07
BSE 2 Wk Avg Vol	: 2577739

**Share Holding Pattern (%)**

Promoters	: 44.25
MFs, FIs & Banks	: 16.23
FIIIs	: 14.17
Others	: 25.35

**Investment Theme**

PL the engineering giant, has indicated that they have submitted bid of worth USD 11 bn in 3QFY09. They are even looking at another USD 12 bn worth of orders for bidding over the next 6 months. It is being expected that in the coming days ONGC is likely to award few exploration projects along with PL securing various other projects in infrastructure & gas exploration sector, which would act a trigger point for its earning capability, which even indicates bright future for the firm in the long term too. The company during the current fiscal would infuse around INR 3 bn, while in FY10 it expects to do the same by INR 3-3.5 bn.

**The Hawk - Hunting Growth**

operation can be in various technologies, manpower training, fuel processing and operation & maintenance of power plants in the nuclear sector. This agreement would be benefited in the form of providing Thorium fuel technology for light water reactors (LWR) industry coming up in India. The JV is also planning to offer advisory services for nuclear power plants & establishing a nuclear technology investment fund in India.

➔ **Focusing towards Infra & concentrating on new geographies.**

PL has an total order backlog of INR 219.08 bn, adding around INR 23 bn during the current quarter . PL will be shifting its focus to Government-driven infrastructure projects. Also in order to compensate for order slowdown in the current segment, it is exploring newer geographies including increased focus on Indian orders. At present 60% of revenue is derived from overseas projects. Recently, management indicated delays in a few projects, mainly for Dighi Port projects with only INR 270 mn of the project completed vs INR 1.25 bn expected, along with Punjab Power project has also been delayed. ONGC is expected to award a few exploration projects & PL would be one of the key beneficiaries for them. Apart from this project, PL is expecting to secure projects in infrastructure and gas exploration segment too.

➔ **Strong order backlog.... shows maintaining positivity.**

Order inflows for the company continue to remain strong, thus reporting an order book of INR 219 bn in its pipeline up by around 136% YoY, which clearly shows its revenue visibility for the next two years. Current quarter, the company added orders of INR 23 bn in its bucket. The order backlog seems to be geographically diversified which comprises of 28% from South Asia, 4% from Caspian, 26% from Middle East, 37% from South East Asia & 5% from ROW, where average execution period of the project is around 24-26 months. The company seems to be continuing of shifting focus away from India to International markets, where India is just contributing around 20-25% of the order book. Meanwhile, Infra contributes with the largest orders with 33%, followed by Pipelines 32%, Process Plants & Others with 31% & Tankages business contributing around 4% for 9MFY09 period.

➔ **Management confident of recovering advance payments from SABIC.**

Prior to acquisition of Simone Carves Ltd(SCL) in 2006 by PL, SCL entered into an contract with Huntsman Petrochemicals, UK(now acquired by SABIC) to design build & pre-commission a 400 kte p.a low density polyethylene plant in UK. SABIC has recently terminated the contract on the basis that Simon Carves failed to undertake completion of the contractual works with due diligence. but the new management expects that the contract has been significantly completed & is on the track to be completed within the scheduled completion date. SABIC has called the performance and advance payment bank guarantees issued by SCL amounting to GBP 28.5 mn. The company has currently made provisions for only the costs incurred for the SABIC order of INR 2.1 bn. The performance as well as bank guarantee invoked by SABIC against Punj Lloyd for a total amount of GBP 28.5 mn is not included in the provisions, which continues to remain as receivables in the company's financials. The Management stated that they are fairly confident of recovering this amount from SABIC. SCL has presently commenced litigation proceedings against SABIC with an aim to recover the GBP28.5 mn (about INR 2.1 bn) in respect of the advance payment bond and a performance bond called by SABIC.

**Acquisitions/JVs till date.**

**Technodyne International Ltd, Eastleigh,**

**UK:-** PL has bought a pie of 74% in Technodyne International Ltd, Eastleigh, UK which is a specialist in engineering, design & consultancy firm have large knowledge scale cryogenic and high pressure tanks, along with having a track record of designing test rigs. This acquisition would further strenghten, PL's existing tankage & terminal business.

**Pipavav Shipyard:-**

Punj Lloyd acquired 28.84% stake in Pipavav Shipyard Ltd (PSL) for INR 3.49 bn. Pipavav Shipyard is currently constructing the largest shipyard in India to carry out ship construction & repairs of vessels of different sizes and types. The shipyard is expected to be fully functional by Feb'09. There will be two parts in the shipyard, one will be the ship making business where they already have an order backlog of USD 1 bn for construction of 25 Panamax bulk carriers for delivery from 2009 to May 2012.

**Air Works India:-**

Punj Lloyd Aviation (a wholly owned subsidiary of PL) has taken 33% stake in Air Works India, along with GTI (Global Technology Investments Group LLC, USA) which is a private equity firm. Air Works is India's largest private jet MRO service and its operations are being scaled up to include an exclusive MRO facility besides offering other services including aircraft charters, aircraft maintenance, sales and acquisitions, crew training and infrastructure development. PL is planning to build six hangars and lease to Air Works. This business can grow quickly if it seeks opportunities in the commercial aviation space as opposed to private jets alone.

### ➔ Other Key Arguments.

- PL has strong visibility in earnings with the consolidated order book of INR 219 bn with Sembawang's share of around INR 62 bn. The company is heavily planning to infuse some liquidity in the form of capex of INR 3 bn in current fiscal, while around INR 3-3.5 bn during FY10.
- ➔ PL has bagged contract to build Sikkim's first Greenfield airport project in Pakyong, which is been awarded by Airports Authority of India (AIA), thus valuing around INR 2640 mn which is to be completed within a time frame of 24 months. The scope of work will include construction of 30 m wide runway of 1.7 km length, taxiway, apron drainage system and electrical work for the Airport.
- ➔ PL has signed a collaboration agreement with Singapore Technologies Kinetics (ST Kinetics), with sales of USD 1.18bn in 2007 for the manufacture of defence equipment. It has already been issued a license by the Government of India for the manufacture of guns, rockets & missile artillery systems & related equipment in addition to other defence equipment.
- ➔ PL has been the only firm to be involved in all 3 LNG terminals viz Dahej, Dabhol & Hazira in India & has also completed the cryogenic storage tank package at the Reliance Jamnagar refinery. The acquired capabilities enable the group to provide end-to-end solutions for complete delivery of complex cryogenic, high pressure LNG, LPG, ethylene, ammonia and other similar storage tanks, a significant growth area in oil and gas sector.
- ➔ The company has been awarded a project by Carin India Ltd valuing around INR 1.05 bn, which would include EPC of a pipeline in a stretch of 66.52 km. The scope of work for this contract would include laying a crude oil heated and insulated pipeline and a gas pipeline in section II for the Mangla Development Project, in Gujarat. The amount thus raised would be utilized for acquisition of vessels.
- ➔ The company beneficial subsidiaries like Sembawang Engineers & Constructors (Singapore), SCL (UK) having its presence in niche areas like Oil & Gas, Process, Renewables, Power, Utilities, Infrastructure, Buildings, Petrochemicals, Biofuels, Ports, MRT & Asset Management Services. PL is likely to get benefit from these companies as there is limited competition in this area of operation. The company has also set-up a new subsidiary Punj Lloyd Upstream Ltd. for providing onshore drilling services (including rigs) to Oil & Gas sector.

### Key Financials

Year Ended 31 <sup>st</sup>	Mar 06	Mar 07	Mar 08
Revenue (INR mn)	17165.88	23054.78	45417.56
<b>Rev. growth (%)</b>	<b>(10.61)</b>	<b>34.31</b>	<b>97.00</b>
EBITDA (INR mn)	2228.76	2819.10	6084.00
Net profit (INR mn)	539.52	615.85	2214.43
Shares outstanding (mn)	52.22	261.25	303.45
EPS (INR)	10.33	2.36	7.30
<b>EPS growth (%)</b>	<b>208.68</b>	<b>(77.18)</b>	<b>209.57</b>
P/E (x)	20.95	68.96	42.69
<b>ROCE (%)</b>	<b>3.21</b>	<b>3.55</b>	<b>8.29</b>

(contd....)

**Thorium Power:-** Thorium Power, a US-based nuclear energy company, has signed an agreement with Punj Lloyd (one of the leading engineering and construction companies in India) to form a joint venture (JV). The JV will provide thorium fuel technology for light water reactors (LWR) to come up in India, which predominantly generates nuclear power using LWRs. The agreement for the equal-stake joint venture company will be signed in the first half of calendar year 2009.

**Ramprastha Group:-** Punj Lloyd has signed an MoU with the Ramprastha Group for the development of multi-storied residential housing through a 50:50 joint venture. The MoU envisages development of residential apartments by JV in Ghaziabad in approximately 29 acres in Vaishali in the first phase. In the second phase, substantial real estate development is proposed in Indrapuram and Gurgaon, where the Ramprastha Group holds a large land-bank. Its exposure to the real estate sector is rather minimal.

**Singapore Technologies Kinetics Ltd:-** Punj Lloyd recently signed an agreement for the manufacture of guns, rockets and missile artillery and other defence equipment for the Ministry of Defence in India.

## Financial Statements

### Income Statement

(INR mn)

Year end Mar 31 <sup>st</sup>	FY 06	FY 07	% Chg	FY 08	% Chg
<b>Total Income</b>	<b>17165.88</b>	<b>23054.78</b>	<b>34.31</b>	<b>45417.56</b>	<b>97.00</b>
Total Sales	16846.46	22388.47	32.90	44885.68	100.49
Other Income	319.42	666.31	108.60	531.88	(20.17)
<b>Total Expenses</b>	<b>14937.12</b>	<b>20235.68</b>	<b>35.47</b>	<b>39333.56</b>	<b>94.38</b>
Raw Material Con.	5506.66	5904.19	7.22	16253.63	175.29
Operating Expenses	9430.47	14331.49	51.97	23079.93	61.04
<b>EBITDA</b>	<b>2228.76</b>	<b>2819.10</b>	<b>26.49</b>	<b>6084.00</b>	<b>115.81</b>
Depreciation	603.70	844.61	39.90	1133.87	34.25
<b>EBIT</b>	<b>1625.06</b>	<b>1974.49</b>	<b>21.50</b>	<b>4950.13</b>	<b>150.70</b>
Total Interest	794.06	1001.16	26.08	1540.63	53.88
<b>PBT</b>	<b>831.00</b>	<b>973.33</b>	<b>17.13</b>	<b>3409.50</b>	<b>250.29</b>
Total Taxation	291.47	357.49	22.65	1195.08	234.30
<b>Net Profit</b>	<b>539.52</b>	<b>615.85</b>	<b>14.15</b>	<b>2214.43</b>	<b>259.57</b>

### 4 Years Balance Sheets

(INR mn)

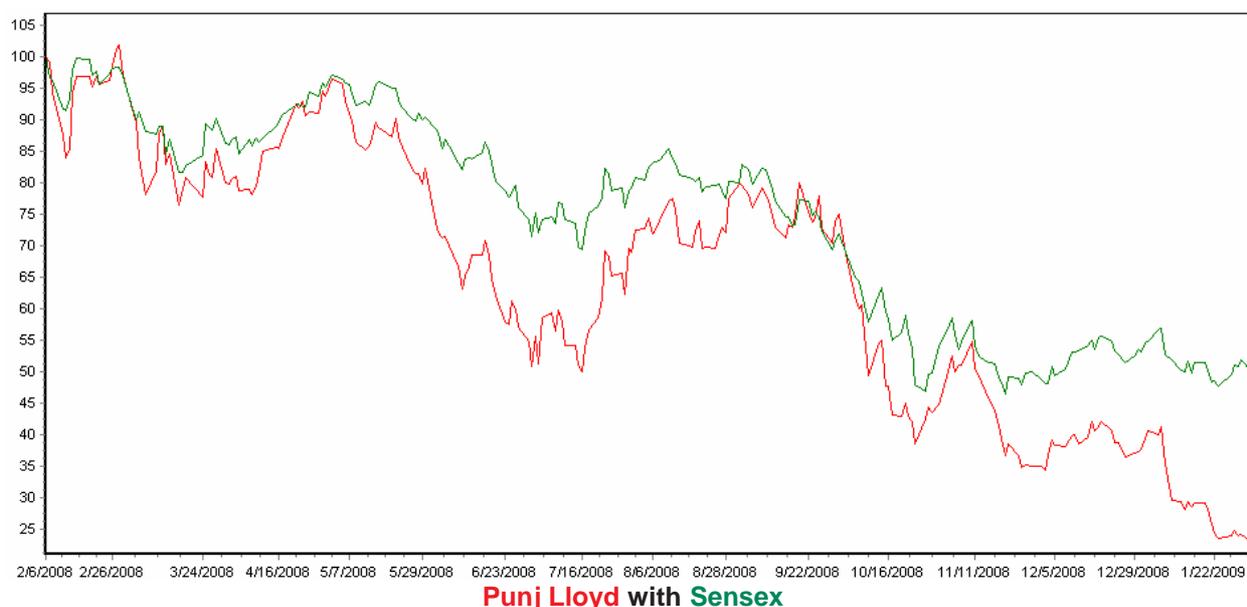
Balance Sheet as on 31 <sup>st</sup>	Mar 05	Mar 06	Mar 07	Mar 08
<b>SOURCES OF FUNDS</b>	<b>2069.6</b>	<b>1907.7</b>	<b>2047.4</b>	<b>2426.9</b>
Equity Share capital	243.2	522.2	522.5	606.9
Share Application Money	0.0	0.0	0.0	254.0
Preference Share Capital	9.2	0.0	0.0	0.0
Reserves & Surplus	4456.7	10028.1	10461.9	23538.8
Loan Funds	4529.9	3460.1	9431.4	11148.4
Unsecured Loans	1168.2	629.4	5755.0	2528.0
<b>USES OF FUNDS</b>	<b>2069.6</b>	<b>1907.7</b>	<b>2047.4</b>	<b>2426.9</b>
Gross Block	7039.1	7638.8	12217.0	9894.2
Less : Revaluation Reserves	122.5	85.3	57.7	0.0
Less : Accumulated Depreciation	2711.2	3023.8	3704.7	0.0
Net Block	4205.3	4529.6	8454.4	9894.2
Capital Work in Progress	142.9	819.6	40.3	928.5
Investments	548.6	1244.1	3178.0	7277.6
Current Assets	8947.7	12857.0	25494.5	35101.3
Less : Current Liabilities	3437.3	4810.5	10996.5	15125.4
Total Net Current Assets	5510.4	8046.5	14498.1	19975.8
Misc. Expenses not written	0.0	0.0	0.0	0.0
<b>NOTE</b>				
Bk Val Unquoted Investments	497.0	1192.5	3128.3	0.0
Mkt Val. Quoted Investments	53.5	58.5	50.9	0.0
Contingent Liabilities	4757.4	5973.1	17964.1	33314.4
Dividend (%)	7	10	15	20

## Quarterly Income Sheets

(INR mn)

Quarter Ended	Mar 08	Jun 08	Sep 08	Dec 08
<b>Total Income</b>	<b>15065.7</b>	<b>15716.1</b>	<b>15838.6</b>	<b>18111.2</b>
Sales	14994	15585.8	15835.2	18106.8
Other Income	71.7	130.3	3.4	4.4
<b>Total Expenses</b>	<b>12573.5</b>	<b>14009.6</b>	<b>13779</b>	<b>15618.6</b>
Raw Mat	4953.2	4722.2	6570.7	5416.2
Operating Expenses	1209.7	1327.2	1393.2	1439.8
Other Expenses	6410.6	7960.2	5815.1	8762.6
<b>EBIDTA</b>	<b>2492.2</b>	<b>1706.5</b>	<b>2059.6</b>	<b>2492.6</b>
Depreciation	317.5	274.2	271.2	290.2
<b>EBIT</b>	<b>2174.7</b>	<b>1432.3</b>	<b>1788.4</b>	<b>2202.4</b>
Interest	300.9	321.5	418.9	573
<b>PBT</b>	<b>1873.8</b>	<b>1110.8</b>	<b>1369.5</b>	<b>1629.4</b>
Tax	576.7	396	489	664.1
<b>PAT</b>	<b>1297.1</b>	<b>714.8</b>	<b>880.5</b>	<b>965.3</b>

## 52 Week Index Relative Percentage Appreciation



## Risks Associated

With the economy slowing down, order books of most of the engineering companies has been swollen along with plan for huge expansion has been on a hold. Even after bagging a contract, timely execution of project remains a key challenge here, as any delays would have an impact on its future getting contracts. High inflation & tightening monetary policies by the government may disturb companies capex plans & order flows. Increase in commodity prices viz steel & cement couples with adverse currency fluctuation would have negative effect, which is likely to have impact on the margins in the existing order books of the companies. Additionally, the Engineering industry does incurred a significant capex in anticipation of strong demand. However with the economy slowdown, their order flows are likely to be affected, their pricing power are likely to be diminish & would face negative gain on their operating leverage. Further, higher depreciation on account of capex and interest burden due to rising interest rates are likely to impact earnings going forward.

## In a Nutshell

Punj Lloyd is one of the most distinguished company in the field of Engineering & Construction world over and one of the biggest after Larsen & Toubro Ltd in India. The company is a complete EPC player in the areas of Oil & Gas, Chemicals and Infrastructure projects. It has made a break through in these field from last 3 years and is now in a position to bid and execute orders in excess of around USD 300-400 mn. Around 58% of PL's order backlog is from the Government based organisation. The company has initiated "Project Hawk" to transform itself into a successful Global EPC player. PL has an existing order backlog of INR 219 bn, driven by INR 23 bn orders from 3QFY09 itself which is to be executed over the next two years. PL is likely to shift its focus to Government-driven Infra projects. In order to compensate from order slowdown due to due to ongoing current scenario. it is likely to ventured into new geography by entering into the international markets like Libya. At present around 66% of revenue is derived from overseas markets. The company has recently submitted bids of USD 11 bn in 3QFY09, while its is looking to bid for another USD 12 bn worth of orders in the next six months or so.

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## Rating Interpretation

<b>Buy</b>	: Expected to appreciate 20% or more over 12-months	<b>Reduce</b>	: Expected to depreciate up to 10% over 12-months
<b>Accumulate</b>	: Expected to appreciate up to 20% over 12-months	<b>Sell</b>	: Expected to depreciate 10% or more over 12-months
<b>Trade Buy</b>	: Expected to appreciate more than 10% over 45-days	<b>Trade Sell</b>	: Expected to depreciate more than 10% over 45-days

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