Index

Maruti Suzuki India

Apple Green

Stock Update

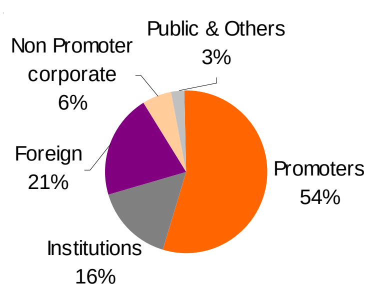
Labour unrest turns ugly; risk of earnings downgrade looms

Hold; CMP: Rs1,117

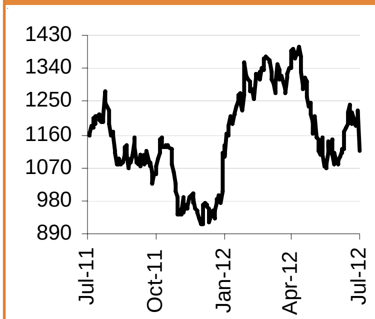
Company details

Price target:	Rs1,399
Market cap:	Rs32,281 cr
52 week high/low:	Rs1428/906
NSE volume: (no. of shares)	7.3 lakh
BSE code:	532500
NSE code:	MARUTI
Sharekhan code:	MARUTI
Free float: (no. of shares)	13.2 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	12.3	-9.3	11.3	5.1
Relative to Sensex	8.7	-9.2	5.2	11.3

Death of GM (HR)—Manesar plant in ugly violence

- On Tuesday (July 17, 2012), differences arose between a worker and his supervisor at the Manesar plant of Maruti Suzuki. The management suspended the worker for beating the supervisor.
- Even as the negotiations for re-instating the worker were on; the mob became violent and burnt facilities at the plant.
- Unfortunately, Avinash Kumar, general manager (GM), Human resource (HR) at the Manesar plant, lost his life while two Japanese executives were injured.

Wage issues resurfaced

- In the conference call, Mr Sachdev, national secretary, All India Trade Union Congress expressed concern that the contract workers are paid only one-third of what the regular workers are paid.
- Mr Sachdev was also angered by the fact that the contract workers were paid the minimum wage prescribed by Haryana (Rs5,500) as against the minimum wage applicable to the auto industry (Rs12,000-14,000).
- The union leader commented that negotiations may take at least three to four days, given the intensity of the situation.
- Going forward, the labour department of the Haryana government has to initiate negotiations between the management and the workers.

Details of Manesar plant workers

Manesar plant	Permanent	Trainee	Contract	Apprentice
No. of workers	970	500	1100	300
Monthly wage rates				
- Fixed (Rs)	8000	6500	235/day	3000
- Variable (Rs)	8000	2250	75/day	1000

Source: BL

Valuation

Particulars	FY2010	FY2011	FY2012	FY2013E	FY2014E
Net sales (Rs cr)	29,623.0	36,965.4	35,970.3	42,504.9	52,653.7
Growth (%)	*41.7*	*24.8*	*-2.7*	*18.2*	*23.9*
EBITDA (Rs cr)	3,954.3	3,664.3	2,584.3	3,468.0	4,276.1
OPM (%)	13.7	9.9	7.2	8.2	8.1
PAT (Rs cr)	2,497.6	2,288.6	1,635.1	2,151.0	2,479.7
Growth (%)	*104.9*	*-8.4*	*-28.6*	*31.5*	*15.3*
FD EPS (Rs)	86.4	79.2	56.6	74.4	85.8
P/E (x)	12.9	14.1	19.7	15.0	13.0
P/B (x)	2.7	2.3	2.1	1.9	1.7
EV/EBITDA (x)	6.5	6.8	10.2	7.6	5.9
RoE (%)	21.1	16.5	10.8	12.7	13.2
RoCE (%)	28.3	21.8	14.1	16.8	18.4

Estimate do not include impact of production halt.

Maruti Suzuki's response to the agitation

- The company argued that the mob attack was intentional as negotiations for the re-instatement of the suspended worker were still on.
- The mob targeted supervisors in groups and destroyed the company's property.
- The management would decide shortly on the further course of action with regard to resuming operations at the Manesar plant.

Impact of strike on Maruti Suzuki's financials: we estimate revenue loss of Rs60 crore a day

- The Manesar facility produces around 1,500 vehicles a day. The key products manufactured at the plant are *Swift*, *Dzire* and *Ertiga*. These are high-value products where there are no discounts and the customer waiting period is long.
- We assume a 25% higher realisation, of over Rs4 lakh a vehicle, for these vehicles as most of the variants sold are diesel models.
- Based on the output, we estimate a Rs60-crore revenue loss a day if the production at Manesar stops (assuming there's little inventory in the warehouse).
- A prolonged strike would affect the company's margins as well as profitability on account of the lower economies of scale and large fixed costs.
- The knee-jerk reaction in the stock price has factored in the short-term impact but a delayed resolution of the matter can cause further downside as well as a downgrade of the earnings estimate for FY2013.

Valuation

We are still assessing the situation at the Manesar plant and keeping our FY2013 earnings expectation unchanged. There would be serious risks if the situation lasts for more than three to four days. Our worries have considerably increased with the death of the general manager (HR) of the Manesar plant and the large-scale arrest of the suspects for an attempt to murder.

The knee-jerk reaction of the stock price has already factored in the short-term production risks. However, given the increased vulnerability of labour, as seen in the past year, the company's earnings may see significant downgrades. We maintain our Hold recommendation on the stock.

NIIT Technologies

Ugly Duckling

Stock Update

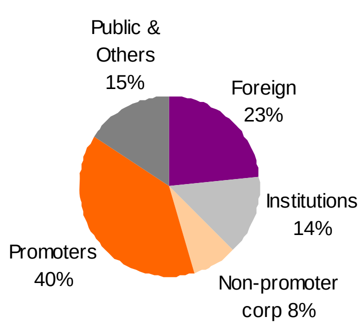
Price target revised to Rs340

Buy; CMP: Rs291

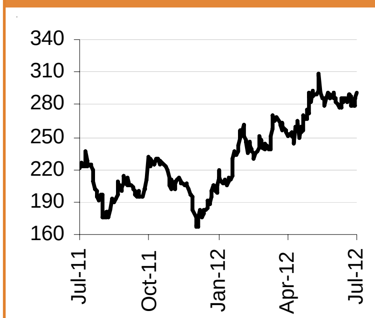
Company details

Price target:	Rs340
Market cap:	Rs1,744 cr
52 week high/low:	Rs317/166
NSE volume: (no. of shares)	1.2 lakh
BSE code:	532541
NSE code:	NIITTECH
Sharekhan code:	NIITTECH
Free float: (no. of shares)	3.7 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.0	15.4	38.9	42.8
Relative to Sensex	-1.3	15.5	31.3	51.2

Result highlights

- **Soft quarter; rupee benefits aid profitability:** The June quarter is traditionally a soft quarter for NIIT Technologies (NTL) as it is a seasonally slow quarter for Geospatial Information Services (GIS; revenues of GIS dropped by 15.3% quarter on quarter [QoQ] in Q1FY2013). Thus, the consolidated revenues of the company remained flat for the quarter on a constant currency basis (0.5% QoQ). However, driven by rupee depreciation, the revenues in Indian rupee (INR) terms were up by 5.9% QoQ to Rs469.6 crore.

- During the quarter, the revenues from the Morris Communication joint venture (JV) were up 5.7% QoQ to Rs25.9 crore, whereas Proyecta reported revenues of Rs14.2 crore, down 1.4% QoQ. The Room Solutions revenues have jumped 16.9% QoQ (after a sharp fall of 16.7% in Q4FY2012) to Rs41.5 crore and reported a margin of 23%, up 300 basis points QoQ.

- The EBITDA margins were down 80 basis points to 16% (below our expectations of 17%). The fall in the margins can be attributed to wage hikes (-235 basis points), whereas rupee benefits (+150 basis points) and offshoring in the Morris JV (+40 basis points) remain the margin tailwinds for the quarter.

- The net other income for the quarter came in at Rs21 crore, as against Rs4.6 crore of losses in Q4FY2012. The higher other income was driven by Rs17.3 crore of foreign exchange gain from revaluation of assets and liabilities as

Results (Rs cr)

Particulars	Q1FY13	Q1FY12	Q4FY12	YoY %	QoQ %
Net sales	**469.6**	**328.8**	**443.5**	**42.8**	**5.9**
Direct costs	304.7	201.5	282.4	51.2	7.9
Gross profit	164.9	127.3	161.1	29.5	2.4
SG&A	89.8	66.5	86.6	35.0	3.7
EBITDA	**75.1**	**60.8**	**74.5**	**23.5**	**0.8**
Depreciation & amort.	12.6	7.8	11.1	61.5	13.5
PBIT	62.5	53.0	63.4	17.9	-1.4
Other Income	21.0	3.9	-4.6	438.5	556.5
PBT	83.5	56.9	58.8	46.7	42.0
Tax	24.6	15.1	11.1	63.2	122.0
PAT	58.9	41.8	47.7	40.8	23.4
Minority interest	1.3	0.6	1.5	123.3	-10.7
Net profit	**57.5**	**41.2**	**46.2**	**39.6**	**24.5**
EPS (Rs)	9.6	6.9	7.7		
Margin (%)					
GPM	35.1	38.7	36.3		
EBITDAM	16.0	18.5	16.8		
EBITM	13.3	16.1	14.3		
NPM	12.2	12.5	10.4		
Tax rate	29.5	26.5	18.9		

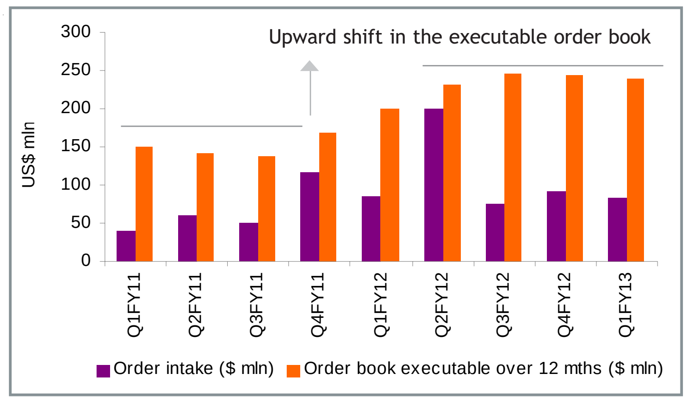
against a loss of Rs7 crore in Q4FY2012. The net profit for the quarter was higher by 24.5% QoQ to Rs57.5 crore, ahead of our estimates of Rs54.1 crore.

- During the quarter the company added five new clients - two in the transportation space and one each in the banking, financial services and insurance (BFSI); manufacturing; and government verticals. In the government space, the company added the state of Odisha under the Crime and Criminal Tracking Network and System (CCTNS) program (deal size Rs41 crore).

- **Healthy order intake; backlog remains strong:** The company witnessed a healthy order intake of $83 million in the quarter under review. The order intake for the quarter includes a renewal from a banking and financial services (BFS) client worth $15 million. The order intake was fairly spread across geographies with 30% coming from the USA, 36% from Europe, Middle East & Africa (EMEA) region and the balance 28% from the rest of the world (RoW) geography. The orders executable in the next 12 months stood at $240 million against $243 million at the end of the sequential previous quarter, up 20% year on year (YoY). The company has seen an uptick in the executable order book from around $140 million in Q1FY2011 - Q4FY2011 to around the $240 million levels in the last four quarters.

- **Valuation and view:** With a strong order backlog of $240 million and strong client engagements, NTL's management remains confident of beating Nasscom's growth guidance for FY2013. However, given the macro uncertainties, the management has cautioned on volatility in the sectoral demand environment. We continue to remain positive on NTL given its predictable earnings profile in the current uncertain industry environment. We have reset our currency estimates to Rs54.5 and Rs54; consequently we increase our earnings per share (EPS) estimates by 7.2% and 5.6% for FY2013 and FY2014 respectively. We maintain our Buy rating on the stock with a revised price target of Rs340.

Strong order book



Source: Company & Sharekhan Research

Operating matrix

Particulars	Q1FY13	Q1FY12	Q4FY12	YoY %	QoQ %	Key comments
Geographic mix (%)						
Americas	36.0	37.0	37.0	39.0	3.0	Company continues to remain positive on EMEA regions, despite
EMEA	39.0	37.0	37.0	50.5	11.6	uncertainties
APAC	13.0	15.0	13.0	23.8	5.9	US growth slower than expectation, declined QoQ on a
India	12.0	11.0	13.0	55.8	-2.3	constant currency basis
Industry verticals (%)						
BFSI	34.0	41.0	34.0	18.4	5.9	BFSI remains flat on a constant currency basis (on account of
Transportation	40.0	35.0	39.0	63.2	8.6	restructuring in one of the large clients in the US)
Retail & Manufacturing	7.0	8.0	6.0	25.0	23.5	Company signed Odisha state under CCTNS program for a
Government	8.0	5.0	7.0	128.5	21.0	project order of Rs41 crore
Others	11.0	11.0	14.0	42.8	-16.8	
Client contribution (%)						
Top 5 clients	30.0	33.0	30.0	29.8	5.9	Management indicates at pressure in larger client accounts,
Top 10 clients	43.0	47.0	43.0	30.7	5.9	whereas smaller accounts are opening up
Top 20 clients	60.0	61.0	58.0	40.5	9.5	
Others	40.0	39.0	42.0	46.5	0.8	
Service lines (%)						
ADM	61.0	62.0	61.0	40.5	5.9	Room Solutions' revenues were up by 16.7% QoQ after a sharp
IP Asset based	12.0	15.0	11.0	14.3	15.5	decline in Q4FY2012
Managed services	12.0	13.0	13.0	31.8	-2.3	
System Int. & Package Impl	9.0	7.0	9.0	83.6	5.9	
BPO	6.0	4.0	6.0	114.2	5.9	

Source: Company & Sharekhan Research

- **Management reiterates beating industry growth:** NTL's management continues to remain optimistic on the demand environment, however given the uncertain macro environment, it also cautioned on the increasing volatility in the industry demand scenario. Among the key industry verticals, BFS continues to remain a sluggish vertical in larger clients whereas it is seeing tier 2 banks opening up for offshoring. In Europe, the BFS segment remains stressed, however for the company, the large travel and transportation clients continue to scale up. The company is working with a large European transport carrier (Eurostar) on a large transformational deal with revenue run-rate of $2 million per quarter. In terms of the newer areas of cloud, mobility and analytics, the company has configured solutions under the brand Procure Easy to target small and medium organisations. On the pricing front, the management is seeing stable pricing with no instances of price cuts or discounts.

Other key highlights:

- GIS' revenues for the quarter were down 15.3% QoQ and up 19.6% YoY to Rs23.8 crore. The Q-o-Q fall is mainly due to the fourth quarter being the strongest quarter for GIS revenues.

- Room Solutions reported revenues of Rs41.5 crore, ie a Q-o-Q rise of 16.9%. The Q-o-Q jump in revenues was mainly due to the impact of natural calamities in Indonesia, Japan and Australia seen in Q4FY2012. Revenues have normalised in Q1FY2013.

- During Q1FY2013, NTL has made a net addition of 82 employees, taking the total headcount at the end of the quarter to 7,444. The attrition rate increased marginally to 12.4% from 12.1% in the sequential previous quarter.

- Cash and cash equivalents at the end of Q1FY2013 stood at Rs266.9 crore, down from Rs287.1 crore at the end of the sequential previous quarter. The drop in cash balance is mainly due to payment of dividend including tax of about Rs55 crore and capital expenditure of Rs25.4 crore. The debt on the books has decreased to Rs42.2 crore from Rs50.6 crore at the end of the sequential previous quarter.

- The company has hedges of $41.06 million at Rs52.55/$ against $49.59 million at Rs50.9/$ as at the end of the sequential previous quarter.

- The DSO days were up to 84 days from 81 days in the sequential previous quarter with increase in revenue from the India government business.

- The number of clients contributing more than $1 million increased to 64 from 61 in the sequential previous quarter.

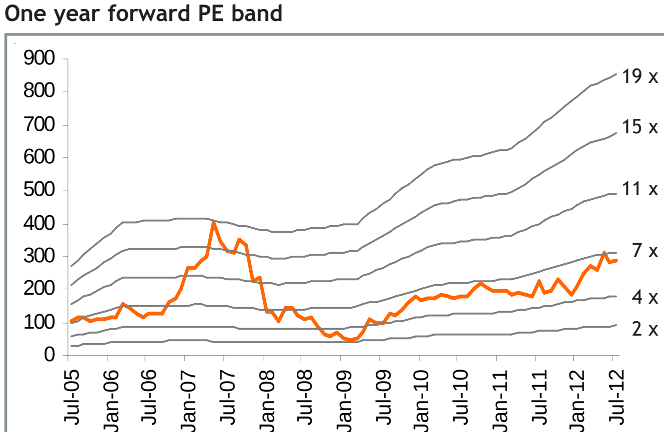
Valuation and view:

With a strong order backlog of $240 million and strong clients engagements, NTL's management remain confident of beating Nasscom's growth guidance for FY2013. However, given the macro uncertainties, the management has cautioned on volatility in the sectoral demand environment. We continue to remain positive on NTL given its predictable earnings profile in the current uncertain industry environment. We have reset our currency estimates to Rs54.5 and Rs54; consequently we increase our EPS estimates by 7.2% and 5.6% for FY2013 and FY2014 respectively. We maintain our Buy rating on the stock with a revised price target of Rs340.

Valuation

Particulars	FY10	FY11	FY12	FY13E	FY14E
Revenues (Rs cr)	913.7	1232.2	1576.5	2084.1	2401.0
YoY growth (%)	*(6.8)*	*34.9*	*27.9*	*32.2*	*15.2*
EBITDA	170.3	237.7	268.4	385.7	437.5
EBITDA margin (%)	18.6	19.3	17.0	18.5	18.2
Net profit (Rs cr)	126.4	182.2	197.2	256.8	288.2
YoY growth (%)	*10.0*	*44.2*	*8.2*	*30.2*	*12.2*
EPS (Rs)	21.2	30.6	33.1	43.1	48.3
PE (x)	13.7	9.5	8.8	6.8	6.0
EV/EBITDA (x)	9.2	6.7	5.6	3.6	2.7
RoE (%)	26.0	27.3	23.6	25.2	23.6
RoCE (%)	27.6	31.8	29.7	34.0	31.3
Dividend yield (%)	2.4	2.6	2.8	3.3	3.7

One year forward PE band



Source: Bloomberg

Bajaj Auto

Apple Green

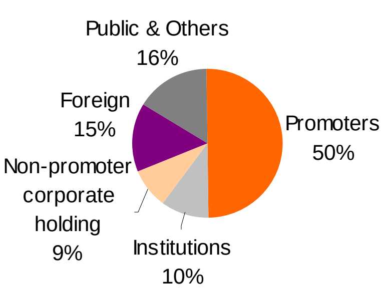
Stock Update

Top gear—low speed combination giving an uneasy drive

Hold; CMP: Rs1,549

Company details	
Price target:	Rs1,690
Market cap:	Rs44,828 cr
52 week high/low:	Rs1839/1351
NSE volume: (no. of shares)	5.3 lakh
BSE code:	532977
NSE code:	BAJAJ-AUTO
Sharekhan code:	BAJAJ-AUTO
Free float: (no. of shares)	14.5 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	1.5	-8.8	7.6	10.4
Relative to Sensex	-1.8	-8.7	1.7	16.9

Q1FY2013 conference call highlights

Cutting FY2013 volume estimates

Bajaj Auto Ltd (BAL)'s management has maintained its volume target at 5 million units, that is a 15% year on year (YoY) volume growth target for FY2013. However it also expressed caution on account of the poor show of Q1FY2013 (where volumes declined 1.3%YoY). This has made the full year target challenging. The optimism is built around expectations of a sharp growth revival in H2FY2013 on account of new product launches, revival in exports and general improvement in sentiments.

We remain conservative as we expect increased competitive intensity in the domestic market, sustenance of the inflationary trend due to poor monsoon pick-up, and a volatile export market scenario. We are cutting our volume estimates for FY2013 to 4.65 million units reflecting a growth of 7% YoY. We expect the management to eventually cut its volume guidance in the due course.

Margins on path of structural improvement through FY2014

We expect the company to report better operating margins in the next three quarters on account of price hikes taken, better product mix and improved three-wheeler mix. As we eventually move towards FY2014, the export realisations would see a quantum jump with the dollar strengthening against the rupee from Rs50 to Rs55.

New launches to play critical role in pushing growth, however...

The company has high expectations from Pulsar NS, the new flagship product in the premium segment and expects to sell over 10,000 units/month as the product is available pan-India. Similarly, *Discover ST (Sports Tourer)* is the new launch in the executive segment which is expected to gain significant traction as it increases its presence across the country.

Valuation

Particulars	FY2010	FY2011	FY2012	FY2013E	FY2014E
Income (Rs cr)	11,921.0	16,398.2	19,529.0	21,139.4	24,666.2
Growth (%)	*35.3*	*37.6*	*19.1*	*8.2*	*16.7*
EBIDTA (Rs cr)	2,592.6	3,171.2	3,720.0	3,918.5	4,701.2
OPM (%)	21.7	19.3	19.0	18.5	19.1
PAT (Rs cr)	1,814.6	2,615.2	3,138.1	3,234.7	3,910.2
Growth (%)	*110.6*	*44.1*	*20.0*	*3.1*	*20.9*
FD EPS (Rs)	62.7	90.4	108.5	111.9	135.2
P/E (x)	24.7	17.1	14.3	13.9	11.5
P/B (x)	15.3	9.1	7.4	5.6	4.4
EV/EBIDTA (x)	16.5	13.1	10.7	9.1	7.1
RoE (%)	62.0	53.3	51.9	40.7	38.1
RoCE (%)	60.4	66.8	65.9	50.0	48.3
EV/EBIDTA (x)	16.5	13.1	10.7	9.1	7.1

… the company has to deal with customer down trading

Customers were seen down trading to better mileage driven motorcycles and avoiding performance bikes due to sharp increase in fuel prices. The commuter segment (entry segment) grew by 22%. However the executive and sports segments were laggards.

Both the new products look interesting, but are present in the premium and executive segments where the industry growth is flat. While the company expects to pull market share away from competition with these launches, the same remains an ardent task when customers are down trading and focusing more on mileage as the buying criteria.

BAL motorcycle performance segmentwise

Dom motorcycles	market size	Remarks
Sports segment	16%	BAL dominates with a 46% market share; has high hopes from *Pulsar NS*
Executive	64%	BAL Q1FY2013 volumes declined 16% against industry growth of 3%
Entry commuter	20%	BAL Q1FY2013 volumes grew 34% vs Industry growth of 22%

Exports to regain traction with Sri lanka pricing issues sorted out

After the sharp increase in import duties by Sri lanka, the company has taken price cuts and the same have been shared by the distributors also. Post the price cuts, the impact of the import duty hike has been negated for the end customers by a large proportion. The management expects to reach 60-70% normalised activity for Sri lankan operations from August 2012 onwards.

Meanwhile, another important export region from the three-wheeler point of view is Egypt where operations were impacted by political unrest. The management expects to regain lost volumes in due course. Among the new geographies expected to be added during the year are Iran and Argentina.

Valuation

We remain conservative and cut down volume growth expectations for FY2013 to 7% to 4.65 million units while we expect FY2014 volumes at 5.2 million units, ie +13.1% YoY. We take a positive view on the margins over the next few quarters and thereafter in FY2014. While we are cutting our FY2013 earnings per share (EPS) estimate by 2% to Rs112 per share; we maintain our FY2014 EPS estimates at Rs135 per share. Based on FY2014 valuations, our target price of Rs1,690 remains unchanged. We maintain our Hold recommendation on the stock.

Punj Lloyd

Apple Green

Stock Update

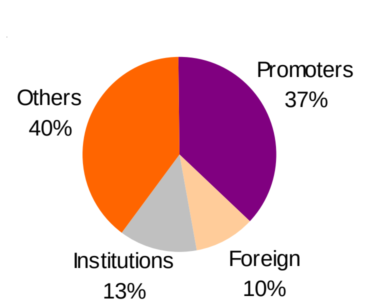
Annual report review

Hold; CMP: Rs54

Company details

Price target:	Rs63
Market cap:	Rs1,813 cr
52 week high/low:	Rs77/37
NSE volume: (no. of shares)	31 lakh
BSE code:	532693
NSE code:	PUNJLLOYD
Sharekhan code:	PUNJLLOYD
Free float: (no. of shares)	20.9 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	17.2	-5.6	16.2	-29.0
Relative to Sensex	13.4	-5.6	9.8	-24.8

Key points

- **Delivers strong revenue growth in FY2012 after two years of decline:** After two consecutive years of reporting a decline Punj Lloyd (Punj) managed to deliver a strong 31% growth year on year (YoY) in its revenues to Rs10,313 crore in FY2012. The growth was largely led by robust order inflows and better execution in FY2012. In FY2011 its revenues had been affected because work in Libya, which accounted for a major chunk of its order book till FY2011, had come to a complete halt due to a political crisis. However, with the company bagging projects worth Rs15,370 crore from the other regions, the share of Libya came down (few Libyan projects removed from order book too) significantly to 16% of the order book in FY2012. The current order book is 2.6x its FY2012 revenues which provides strong revenue visibility for the future. Further, the Libyan orders are expected to resume work in H2FY2013 which would boost the revenues.

- **Witnesses turnaround at the operating level too:** At the EBITDA level too, Punj was able to improve its margins from 4.9% in FY2011 to 6.5% in FY2012. The turnaround was possible due to (1) improved execution of orders; (2) the withdrawal of financial support to Simon Carves; and (3) cost control. Punj followed centralised procurement for many of its core items like steel, cement, consumables and equipment in FY2012. It also laid emphasis on procuring material from the low-cost countries. However, despite the sharp growth at the EBITDA level, Punj reported a loss at the earnings level due to high interest and depreciation charges and low other income, though the loss was lower at Rs151 crore against the loss of Rs166 crore in FY2011. But on a reported basis, it made a profit of Rs92 crore supported by a net gain of Rs83 crore on account of the deconsolidation of Simon Carves and a foreign exchange (forex) gain of Rs190 crore.

Valuation

Particulars	FY2010	FY2011	FY2012	FY2013E	FY2014E
Net sales (Rs cr)	10,447.8	7,895.1	10,312.9	12,724.1	15,892.3
YoY growth %	*-12.0*	*-24.4*	*30.6*	*23.4*	*24.9*
EBITDA (Rs cr)	451.1	383.4	674.2	967.0	1,350.8
YoY growth %	*-24.0*	*-15.0*	*75.8*	*43.4*	*39.7*
Reported net profit (Rs cr)	-108.4	-60.0	91.8	101.2	276.6
Adj. net profit (Rs cr)	-107.0	-167.0	-150.7	101.2	276.6
YoY growth %	*-240.2*	*-56.1*	*9.8*	*167.1*	*173.5*
Fully diluted EPS (Rs)	-3.2	-5.0	-4.5	3.0	8.3
YoY growth %	*-228.1*	*-56.1*	*9.8*	*167.1*	*173.5*
PER (x)	-16.9	-10.9	-12.0	17.9	6.6
P/B (x)	0.6	0.6	0.6	0.6	0.6
EV/EBITDA (x)	11.7	12.4	9.0	7.3	5.9
RoCE (%)	4.8	3.4	5.8	9.5	12.3
RoNW (%)	-3.5	-5.6	-5.2	3.4	8.4

- **Working capital days improve but problem at debt level persists:** The consolidated debt for Punj stood at Rs5,603 crore at the end of FY2012, with the debt/equity ratio rising to 1.9x for FY2012 vs 1.5x each in FY2011 and FY2010. In the previous two years the company had been adversely affected by the political crisis in Libya and the slower execution of its legacy orders which had resulted in a surge in its working capital and debt level. However, in FY2012 as the execution of orders improved and Simon Carves was put under administration, the working capital days improved from 189 days in FY2011 to 145 days in FY2012. However, this did not reflect in the debt level. The total debt in FY2012 surged by more than Rs1,000 crore due to the debt taken to fund the capital expenditure (capex) during the fiscal. Further, the average cost of debt for the company went up by about 200 basis points because the additional funds were being raised at much higher rates.

- **Maintain estimates with Hold recommendation:** Punj witnessed strong order inflow in FY2012 which improved the revenue visibility for the next two years. Further, it has started showing an improvement at the execution level over the last few quarters along with a gradual improvement in the operating profit margin (OPM). Even the situation in Libya is improving though it has not stabilised yet. The company has started mobilising resources in the country and we expect order execution to pick up soon. Thus, the worry for Punj now remains bringing its debts under control, as this would help in reducing its interest burden and help the operating profit to percolate through to the net level. The company plans to restructure its debts by replacing the domestic debt with foreign debt which would reduce the cost of debt. Hence, any success in lowering the cost of debt will add to the growth at the net profit level. We maintain our Hold rating on Punj and keep our estimates for the company unchanged. At the current market price, the stock is trading at 17.9x and 6.6x its FY2013E and FY2014E earnings.

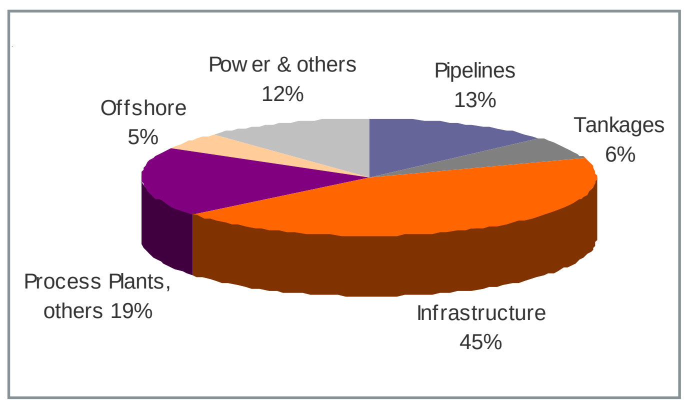
Robust order inflow in FY2012 provides good revenue visibility

Financial year 2011-12 turned out to be good for the company in terms of order inflows, as it garnered orders worth Rs15,369 crore (67% more than the order inflow in FY2011), taking the order book to a healthy Rs27,267 crore, which is 2.6x its FY2012 revenues. The healthy order inflow helped in reviving the revenue growth in FY2012 and provides good revenue visibility for the next two to three years.

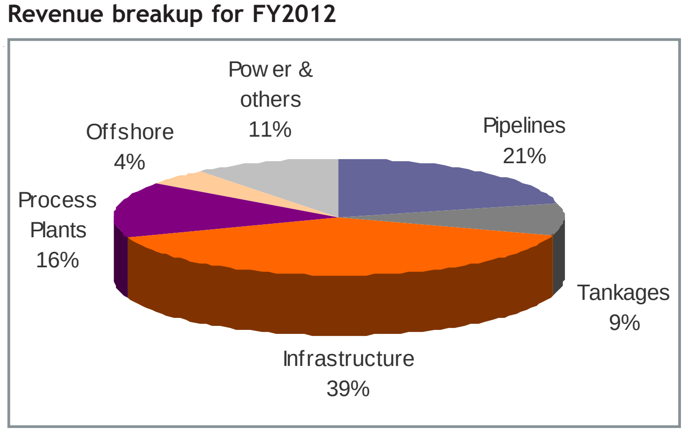
Order inflow recovers

The order inflow picked up in the offshore segment in FY2012 which would now result in better utilisation of investments made in this segment and therefore lead to operational efficiency. In case of the thermal power projects that were facing delays, the issues have been resolved and these projects are now back on track with a revised delivery schedule.

Well diversified order book helps to mitigate risk



Revenue breakup for FY2012

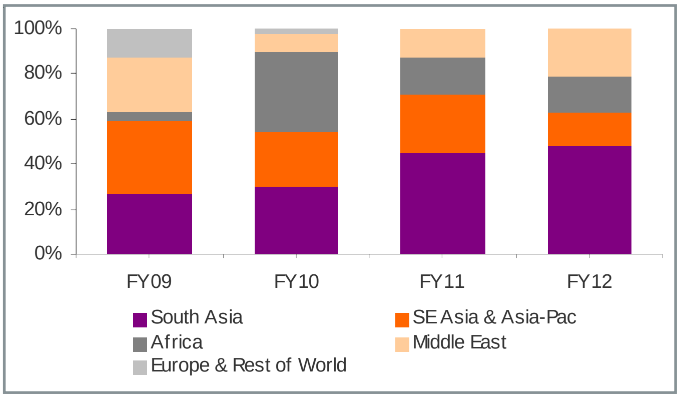


Entering newer geographies

Going ahead, the management would focus more on the international markets especially the South-East Asia, the

Middle-East and Africa, as these enjoy a high margin and comparatively less competition. The company is also looking to explore new markets like Brazil, Iran, Russia, Algeria, Nigeria and Ghana. In the last fiscal Punj had entered newer markets like Kenya (with a road project), Yemen (with a large tankage project) and Brueni (which has the largest gas reserves in the world). It is also expanding its foothold in Africa.

Exposure to Africa (Libya) reduced while focus increased on Middle East and South Asia



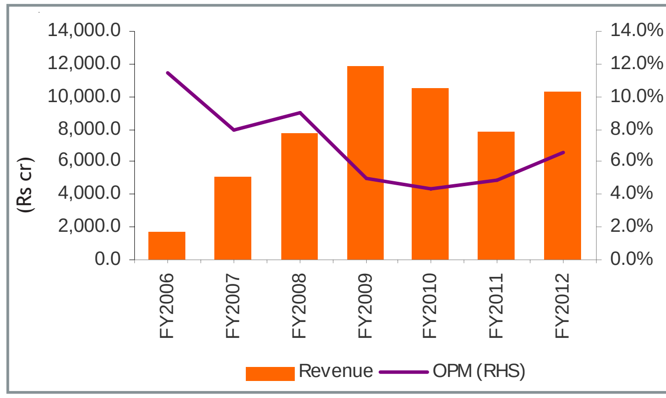
Libya peace to help revive 16% of the order book

With the political situation in Libya gradually stabilising, Punj plans to resume work out there in the next one to two months post-elections. It aims to begin drilling in Sirte Basin for Waha Oil Co. starting from July and resume the construction of a road and upgradation of a township in Tripoli after the elections. The company also renegotiated contracts for four projects after the new Libyan regime took over.

Return ratios gradually improving

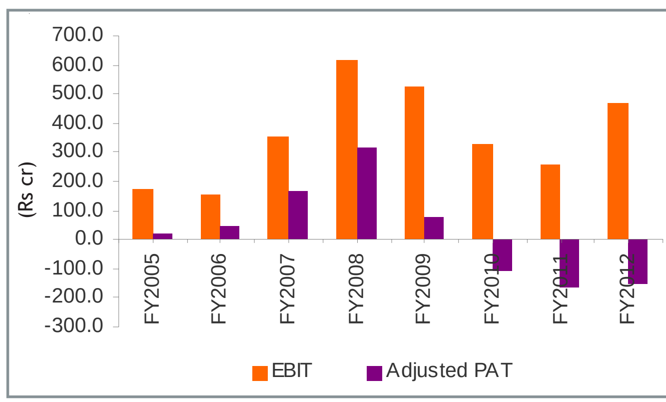
Punj's operational efficiency is further testified by the improving return ratios which clearly signal that new investments and capex done by the company are in the right direction. In addition, the withdrawal of the financial support to Simon Carves (a subsidiary, now in administration) in FY2012 has aided the company in improving its financials as well. The company's return on invested capital (RoIC) has shown an improvement to 5.4% vis-à-vis 3.23% in FY2011. Even the return on capital employed (RoCE) has now improved to 4.1% in FY2012 vs 3.4% in FY2011.

Revenue and OPM improves in FY2012 though OPM still has a long way to go



RoCE & RoIC improves while RoE still struggles

Recovery seen in PBIT but PAT still to improve



Reduction in auditors' qualification provide some relief

In the Oil and Natural Gas Corporation (ONGC) Heera matter, the arbitration proceedings have been adjourned on mutual agreement and the dispute is now being referred to an outside expert committee, which is expected to resolve it expeditiously. In this case, the auditors have consistently reduced their qualification which is positive for the case and the company.

Auditors qualification (Rs cr)

Particulars	FY11	FY12
ONGC Heera project claims	243.0	243.0
ONGC LDs not provided	65.5	7.3
ONGC Debtors	84.5	0
ONGC WIP	160.3	0
Other projects	89.7	89.7
Deductions made/amount withheld by clients	72.5	308.6
Libya	705.7	593.1
Total	**1421.3**	**1241.7**

Valuation and view

Punj witnessed strong order inflow in FY2012 which improved the revenue visibility for the next two years. Further, it has started showing an improvement at the execution level over the last few quarters along with a gradual improvement in the OPM. Even the situation in Libya is improving though it has not stabilised yet. The company has started mobilising resources in the country and we expect order execution to pick up soon. Thus, the worry for Punj now remains bringing its debts under control, as this would help in reducing its interest burden and help the operating profit to percolate through to the net level. The company plans to restructure its debts by replacing the domestic debt with foreign debt which would reduce the cost of debt. Hence, any success in lowering the cost of debt will add to the growth at the net profit level. We maintain our Hold rating on Punj and keep our estimates for the company unchanged. At the current market price, the stock is trading at 17.9x and 6.6x its FY2013E and FY2014E earnings.

Evergreen

GlaxoSmithKline Consumer Healthcare
Housing Development Finance Corporation
HDFC Bank
Infosys
Larsen & Toubro
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
Apollo Tyres
Bajaj Auto
Bajaj FinServ
Bajaj Holdings & Investment
Bank of Baroda
Bank of India
Bharat Electronics
Bharat Heavy Electricals
Bharti Airtel
Corporation Bank
Crompton Greaves
Divi's Laboratories
GAIL India
Glenmark Pharmaceuticals
Godrej Consumer Products
Grasim Industries
HCL Technologies
Hindustan Unilever
ICICI Bank
Indian Hotels Company
ITC
Mahindra & Mahindra
Marico
Maruti Suzuki India
Lupin
Oil India
Piramal Healthcare (Nicholas Piramal India)
PTC India
Punj Lloyd
Sintex Industries
State Bank of India
Tata Global Beverages (Tata Tea)
Wipro

Cannonball

Allahabad Bank
Andhra Bank
IDBI Bank
Madras Cements
Shree Cement

Emerging Star

Axis Bank (UTI Bank)
Cadila Healthcare
Eros International Media
Gateway Distriparks
Greaves Cotton
IL&FS Transportation Networks
IRB Infrastructure Developers
Kalpataru Power Transmission
Max India
Opto Circuits India
Thermax
Yes Bank
Zydus Wellness

Ugly Duckling

Ashok Leyland
Bajaj Corp
CESC
Deepak Fertilisers & Petrochemicals Corporation
Federal Bank
Gayatri Projects
India Cements
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Mcleod Russel India
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Pratibha Industries
Provogue India
Punjab National Bank
Ratnamani Metals and Tubes
Raymond
Selan Exploration Technology
Sun Pharmaceutical Industries
Torrent Pharmaceuticals
UltraTech Cement
Union Bank of India
United Phosphorus
V-Guard Industries

Vulture's Pick

Mahindra Lifespace Developers
Orient Paper and Industries
Tata Chemicals
Unity Infraprojects