

# Punj Lloyd: Sound affair

## Singapore buy and robust capex cycle bolstered FY07 numbers

**P**unj Lloyd reported an improved performance in FY07, thanks to its earlier acquisition of the Singapore-based Sembawang Engineers & Constructors, coupled with a robust domestic and overseas capex cycle. Though higher operational costs such as contractor charges put pressure on margins in FY07, the Q4 margins have been impressive.

The company's consolidated operating profit grew 115 per cent y-o-y to Rs 374.3 crore in FY07, on a net sales growth of 204.3 per cent y-o-y to Rs 5126.58 crore. However, the results of FY07 are not strictly comparable with a year earlier, given its acquisition of Sembawang. Nevertheless, the merged entity's operating profit margin fell 300 basis points y-o-y to 7.3 per cent in the previous year.

Pressure on margins was owing to contractor charges as a percentage of net sales rising 690 basis points y-o-y to 27.7 per cent in the previous year. The largest player in the business, L&T, grew its consolidated operating margin by 300 basis points y-o-y to 12.56 per cent in the previous year. Investors have been optimistic on the Punj Lloyd stock as it has gained over 60 per cent in the past three months. And, the reason is its Q4 consolidated operating margin, which stood at 10 per cent compared with 6 per cent in the nine months. Its core business of pipelines did well in FY07, and is expected to continue the momentum going forward. Its order-book amounted to Rs 15,944 crore at the end of FY07 compared with Rs 14,400 crore levels at the end of Q3 FY07. The stock trades at about 23 times estimated FY08 earnings, given the buoyancy in margins and strong business growth ahead.

## Aban Offshore: Margin pressure

Aban Offshore's performance in the

March 2007 quarter was adversely affected by the dry docking of one its rigs Aban II for two months during the quarter, which curtailed revenue growth. In addition, its margins were under pressure owing to higher operational costs such as staff costs and repairs to machinery.

As a result, operating profit fell 30.5 per cent y-o-y to Rs 47.69 crore in the last quarter compared with 1.3 per cent fall in its income from operations to

Rs 118.67 crore.

Operating profit margin also declined 1690 basis points y-o-y to 40.2 per cent in Q4 FY07. For FY07, Aban's operating margin fell 720 basis points y-o-y to 50.2 per cent.

However, it is understood that Aban's rigs like Aban II, have recently renewed their contracts with upstream players at about \$80,000 per day levels compared with \$27,000 a day levels earlier. Also, the company is expected to leverage synergies with its earlier acquisition of Norway-based Sinvest over the next few quarters.

Investor expectations of strong growth in the medium term has helped to ensure that this stock has outperformed the broader market over the past three months — the Aban stock has gained over 50 per cent during the past three months compared with 12 per cent rise in the Sensex.

At 13 times estimated FY08 earnings, the stock price is reasonable given expectations of strong rigs rates over the next few years.

### PUNJ LLOYD

Share price on BSE in Rs

