

EQUITY RESEARCH

Infrastructure

CMP: Rs.183.40
(As on 10-03- 2010)**10-03-2010****INDIA****Market Cap**
Rs.60897.97mn**BUY****(Target Price Rs.220.00)****Punj Lloyd Limited**

- We initiated the coverage of Punj Lloyd and set a target price of Rs.220.00 for medium long term.
- Punj Lloyd is a globally diversified conglomerate providing engineering, procurement and construction services in oil & gas, petrochemical and infrastructures sectors, with interests in aviation, defence and marine.
- The company has global presence in the Middle East, the Caspian, the Asia Pacific, Africa, South Asia, China and Europe. It is spread across five continents and has 16 offices worldwide.
- Punj Lloyd has to become amongst the top five EPC companies by 2012 in the segment & market they serve.
- Punj Lloyd has received an EPC contract of over Rs 1100 crore from GMR Hyderabad Vijayawada Expressways.
- Punj Lloyd has received project from Qatar Petroleum worth \$800 million.
- The top line of the company is expected to grow at a CAGR of 19% over 2008A to 2011E.

One-year comparative graph with BSE**Punj Lloyd Ltd****BSE SENSEX****H.Lavanya**
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Key Financials	FY08	FY09	FY10E	FY11E	Key Data	
Net Sales					Face Value	Rs.2.00
(Rs.mn)	77529	119861	118260	130086	Shares Outstanding	332.05 (Millions)
EBIDTA					Exchange	BSE
(Rs.mn)	7218.00	3837.90	10143.34	11339.02	52 wk. High/Low(Rs.)	298.80/70.00
Margin %	9.31%	3.20%	8.58%	8.72%	2 wk avg. volume	682000
PAT					BSE Code	532693
(Rs.mn)	3599.90	-2246.90	2506.60	3277.14		
Margin %	4.64%	-1.87%	2.12%	2.52%		

**Firstcall Research**

(KPO Division Of Firstsubject Technologies Ltd.)

Table of Contents	Page no.
1)Peer Group Comparison	3
2)Company Updates	3
3)Company Profile	7
4) Business Areas	8
5) Subsidiary Companies	9
6) Joint Ventures	12
7) SWOT Analysis	13
8) Financials	14
9) Charts	16
10) Valuation	18
11) Industry Overview	19

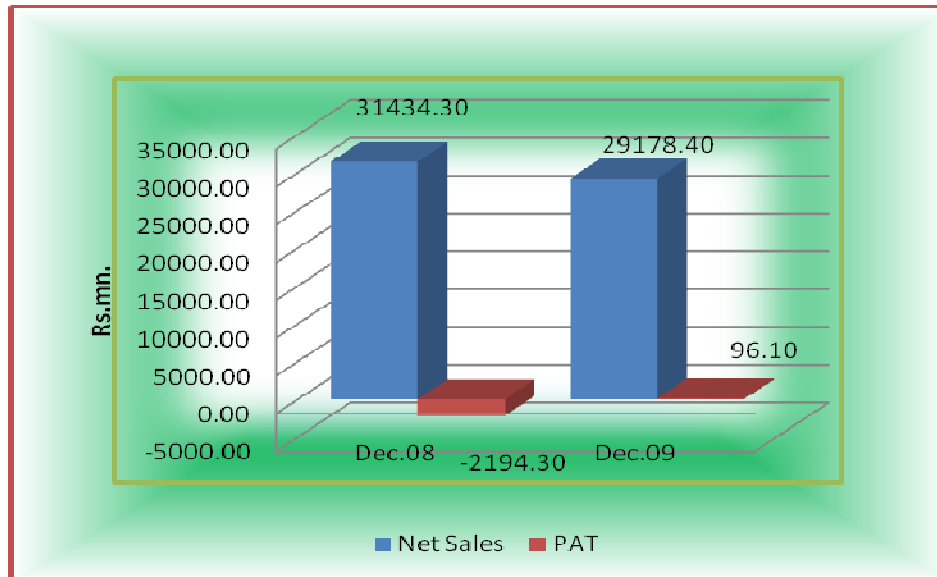
Peer Group comparison

Name of the Company	52week High/Low(Rs)	C.M.P(Rs)	EPS(Rs)	P/E(x)
Punj Lloyd Limited	298.80/70.00	183.40	8.74	20.98
Thermax	745.00/153.55	678.05	21.10	32.01
Texmaco	170.50/35.60	140.60	6.52	21.63
Rel Ind Infra	1287.00/235.00	852.40	15.23	55.88

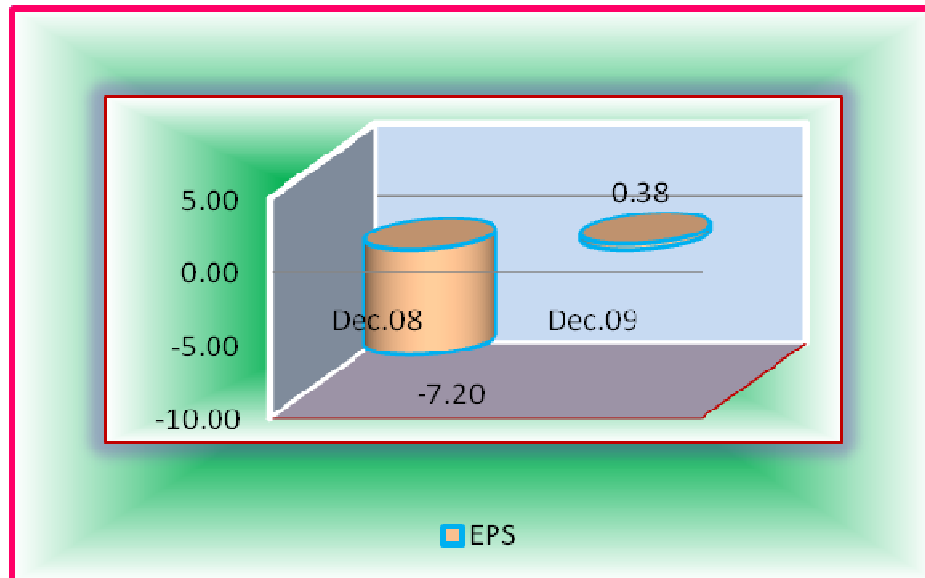
Company Updates

- Q3 FY10 Results Update**

Punj Lloyd Ltd disclosed results for the quarter ended December 2009. Net sales for the quarter moved down 7% to Rs.29178.40 million as compared to Rs. 31434.30 million during the corresponding quarter last year. During the quarter, PAT stood at Rs.96.10 million. The Basic EPS of the company stood at Rs.0.38 for the quarter ended December 2009.



EPS of the company for the quarter stood at Rs.0.38



- **Secures Rs. 1023 crore from CESC's arm**

Punj Lloyd has bagged an order worth Rs 1,023 crore from Dhariwal Infrastructure, a subsidiary of CESC. The scope of work involve engineering, procurement and construction of complete balance of plant systems including civil and structural works for entire plant, erection, testing and commissioning services for boiler, turbine and generators on a 2 X 300 megawatt (MW) thermal power project at Tadali village, near Chandrapur in Maharashtra.

In a separate development, Simon Carves (SCL), a UK-based subsidiary of Punj Lloyd, has obtained 'Take Over' certificate of the engineering and construction of the world's largest wheat to bio ethanol plant at Teesside, England, for its client, Ensus UK. The client has decided to levy liquidated damages to the extent of GBP 23.1 million owing to delay in achieving the completion of this project. The delay in project completion is due to delays by sub-contractors, including certain client nominated sub-contractors.

- **Allots equity shares under ESOP**

Punj Lloyd Ltd has allotted 15,300 equity shares of Rs. 2 each to the eligible employees under ESOP 2005 and 2145 equity shares of Rs. 2 each to the eligible employees under ESOP 2006 of the Company.

- **Wins Rs 1100 crore highway EPC Contract**

Punj Lloyd, a global engineering, procurement, construction (EPC) conglomerate, has received an EPC contract of over Rs 1100 crore from GMR Hyderabad Vijayawada Expressways for 116.5 km of National Highway No 9. The National Highways Authority of India (NHAI) had earlier awarded the project on a build, operate and transfer (Toll) basis to GMR Hyderabad Vijayawada Expressways Private Limited, which has been sub-contracted to Punj Lloyd. Punj Lloyd will widen the highway from two to 4/6 lanes along with 38 km of service roads. The scope of work will also include construction of two major bridges, 32 minor bridges, 174 culverts and 31 vehicular, pedestrian & cattle underpasses, apart from 66000 sq m of reinforced earth retaining wall.

Hyderabad and Vijayawada are important commercial hubs of Andhra Pradesh and this project will help boost trade and commerce in the region. In addition to increasing the direct connectivity between these two major cities of the state, Kolkata and Bangalore will also have improved connectivity consequent to the implementation of this highway.

- **Grants 30000 stocks options**

Pursuant to the provisions of Pun Lloyd Employees Stock options Plan 2006, the Remuneration Committee has granted 30000 stock options to an employee of the Company. The option grantee shall have the right to subscribe for one fully paid-up equity share of Rs. 2/- each of the Company at the price of Rs. 198.90 (Rupees One Hundred and Ninety Eight and Paise Ninety only). The maximum exercise period shall not be more than 5 years from the date of vesting of the options.

- **Wins first offshore project in Thailand**

The Punj Lloyd Group has bagged its first offshore contract worth Rs 574 crore from PTT Public Company, a Thailand state-owned oil and gas major. Under the contract, the company will install three compressor units for the platform compressor station on the PTT Riser Offshore Platform at water depth of up to 80 meters in the Gulf of Thailand.

This is Punj Lloyd's first project with PTT in Thailand. Upon completion, the project will facilitate boosting the pressure of gas being supplied downstream. This would help meeting the rising demand of gas within Thailand's domestic market for power plants and other users.

- **Receives thermal power project worth Rs 947 Crore in Orissa**

Punj Lloyd has been mandated to execute partial balance of plant and civil work on a 2X350 MW thermal power project by Ind-Barath Energy (Utkal) in Orissa. The project, worth Rs 947 crore, is located near Sahajbahal village in Jharsuguda district of Orissa. The scope of work for the project includes execution of partial balance of plant, mechanical, electrical and C&I work along with civil and structural work. This order will be executed in over the next two years.

With this contract, the order backlog for the Punj Lloyd Group on consolidated basis has gone up to Rs 28,378 crore.

- **Plans to bid for 25 new national highway projects**

Punj Lloyd is planning to bid for up to 25 new national highway projects, valued at an estimated Rs 40,000 crore this year. The highway projects will be a minimum of Rs 1,000 crore each. The bidding of these projects is likely to commence this year. At present, the company is executing seven highway projects across the country.

The company's existing order book stands at \$ 5.5 billion, of which 30% belongs to South Asia, Middle East and India each, and 10 % from the rest of the world. About 30% of company's unexecuted orders belong to oil and gas sector, from Middle East and North Africa.

- **Foray into Solar Utility space**

Punj Lloyd has decided to foray into solar utility space by forming a joint venture (JV) with Singapore-based Delta Solar. The JV, named as Punj Lloyd Delta Renewables, will develop, engineer and execute renewable energy based projects across the globe. It will also provide turnkey integrated development and sustainable solutions within the power, building and infrastructure sectors. Punj Lloyd Delta Renewables will further diversify into other forms of renewable energy like biomass and wind.

- **Wins order from Indian Oil Petronas**

Punj Lloyd has won an order worth Rs 275.80 crore from Indian Oil Petronas. The order is for design, detailed engineering, supply, construction / installation, testing and commissioning of Propane / Butane / Liquefied Petroleum Gas (LPG) import terminal at Ennore, Tamil Nadu on EPCC (Engineering, Procurement, Construction and Commissioning) basis.

Earlier, the company had secured an order for a value of approximately Rs 550 crore from Mangalore Refinery and Petrochemicals.

- **Mobilizes Rs 600 crore via NCDs**

Engineering and construction major, Punj Lloyd has mobilized Rs 600 crore worth of fresh funds through issue of Non Convertible Debentures (NCDs). The company has allotted 1,750 secured redeemable Non Convertible Debentures (NCDs) of Rs 10,00,000 each aggregating Rs 175 crore and another 42,500 secured redeemable NCDs of Rs 1,00,000 each aggregating Rs 425 crore on private placement basis.

- **Wins order from GAIL India**

Punj Lloyd has won an order from GAIL India for laying, testing and commissioning of 145.43 km pipeline for Dahej Vijaipur Pipeline Upgradation Project. The order is valued at Rs 167.51 crore.

Company Profile

Punj Lloyd provides integrated design, engineering, procurement, construction and project management services in the energy and infrastructure sectors. With operations spread across the Middle East, Africa, the Caspian, Asia Pacific and South Asia, Punj Lloyd provides EPC services in Oil & Gas, Process, Civil Infrastructure, and Thermal Power. Punj Lloyd is a diversified conglomerate, owing to its successful foray into aviation, defence, upstream, real estate and marine, through its subsidiaries and joint ventures.

The Company has large fleet of sophisticated construction equipment, including horizontal directional drilling rigs and pipe-laying barges, gives it a competitive edge over competitors. The Company has central workshop and equipment maintenance yards in India, Indonesia, Abu Dhabi and Kazakhstan ensure minimal downtime on all projects. The Company's multi-skilled, multi-

cultural and highly adaptable workforce is capable of handling multiple complex projects across the world.

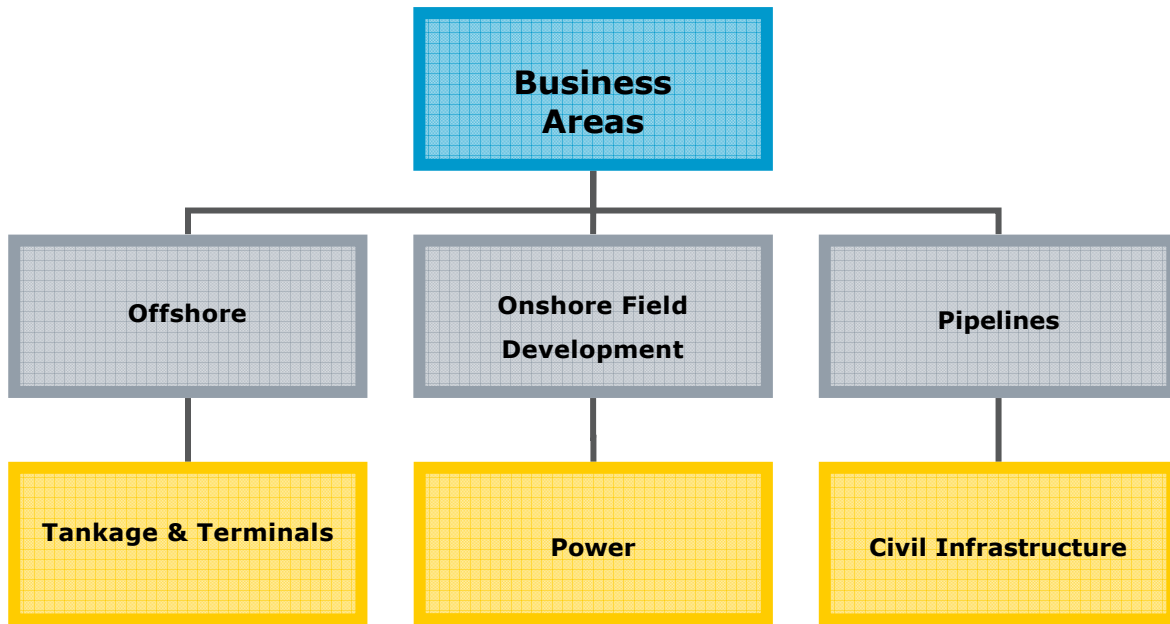
The first Indian company to partner with an American nuclear company –Thorium Power, after the 123 agreement, Punj Lloyd was also prompt in exploring the opportunity in the defence sector with its tie-up with ST Kinetics, Singapore. Its stake in Pipavav Shipyard Limited continues to throw new opportunities every day, be it fabrication of platforms, or the requirements of Navy on the defence front or the nuclear industry.

Business Areas

Punj Lloyd Limited is a transnational company specializing in the energy and infrastructure sectors. The company's operations spread across the Middle East, Africa and The Caspian, Asia Pacific and South Asia. The business areas covered by the company include:

- Offshore
- Onshore Field Development
- Pipelines
- Tankage & Terminals
- Power
- Civil Infrastructure
- Asset Management

As a reflection of its international quality standards, construction and project management techniques, Punj Lloyd holds ISO 9001:2008, ISO 14001:2004 and OHSAS 18001:2007 certifications.



Subsidiary Companies

- **Punj Lloyd Delta Renewables Pvt .Ltd**

Punj Lloyd Delta Renewables, a recently formed subsidiary, will develop, engineer and execute renewable energy based projects throughout the world. The Company key focus is Solar Photovoltaics (SPV) and Solar Thermal with a strong emphasis on technology and providing application specific solution and products. The Company provides turnkey integrated development and sustainable solutions from Utility Scale plants, Buildings & Infrastructure to Commercial and Industrial applications.

- **Punj Lloyd Pte Ltd**

Punj Lloyd Pte Ltd, based in Singapore, is the holding company for Punj Lloyd subsidiaries in Asia Pacific region and is working as an EPC contractor for projects in Singapore and other neighboring countries. Its present strength includes over 150 qualified engineers and staff and over 500 workmen in this region.

- **Punj Lloyd Oil & Gas (Malaysia) Sdn Bhd**

Punj Lloyd Oil & Gas (Malaysia) Sdn Bhd, a subsidiary of Punj Lloyd Pte Ltd, Singapore was incorporated in 2007. Within a short span, the company has obtained project specific registration with the local Chamber of Industrial Development Board (CIDB) under the highest category G7. The company is also registered with Petronas.

Punj Lloyd Oil & Gas Malaysia is executing the Sabah Sarawak Gas Pipeline Project for Petronas Carigali. The project, valued at over USD 500 million comprises 501 km pipeline, compressor stations, block valve and metering stations.

- **PT Punj Lloyd Indonesia**

Punj Lloyd Indonesia has executed projects in the face of language barriers and cultural differences, which the company overcame by its policy of recruiting locals. Sometimes working through the populated villages and towns is a logistical challenge, both for men and machines. Challenges like inaccessibility of islands, environmentally sensitive mangrove forests, undulating terrain, rocky seabed with live coral reefs and granite rock, working in the busiest shipping route connecting Singapore and Indonesia, crossing a river through difficult terrain by horizontal directional drilling and constructing two terminal stations on hilltops involving 500,000 m³ of earthwork did not unnerve Punj Lloyd Indonesia.

- **PT Sempec Indonesia**

PT Sempec Indonesia is an established Engineering, Procurement and Construction (EPC) Company, specializing in onshore and offshore Oil & Gas production facilities for the Indonesian and regional markets.

- **Punj Lloyd Kazakhstan**

Punj Lloyd Kazakhstan is a 100% owned subsidiary of Punj Lloyd and is an active player in the engineering and construction business, like its parent company. With offices in Almaty, Atyrau and Tengiz, Punj Lloyd Kazakhstan has built its reputation in projects of all dimensions and complexity requiring various skills, in the most demanding terrain and conditions. Be it flat deserts or icy plains, Punj Lloyd Kazakhstan has earned the reputation of delivering projects of quality, speed and economy. The company studied the market to achieve maximization of local content, Machinery - Manpower - Material. Also close proximity with Kazakh companies employing contemporary technology, gave the company an advantage.

- **Punj Lloyd Construction, India**

PLN Construction Ltd is a wholly-owned subsidiary of Punj Lloyd Ltd, specializing in Horizontal Directional Drilling with the largest fleet of Maxi HDD Rigs in India.

Significant Projects:

- The longest HDD crossings in India to pull 18"+ 6" dia pipeline i.e. 1700 and 1770 metres at the Krishna-Godavari basin on the eastern coast of India for GAIL India
- Longest HDD Crossings in India to pull 42" dia pipeline i.e. 1041 metres at Tapi River near Surat for ONGC
- Longest HDD Crossing in India to pull 30" dia pipeline i.e. 1595 meters at Backwaters from Island to LFP 6 near Kochi for Bharat Petroleum Corporation Limited.
- Longest HDD Crossing in India in Hard Rock Strata to pull 24" dia pipeline i.e. 900 meters across Kal River near Mumbai for Gail India Limited.
- Have crossed almost all the perennial rivers of India.

- **Spectra Punj Lloyd, India**

Spectra Punj Lloyd is a specialised company for renting the equipment to construction Industry. This company helps the Punj Lloyd operations by hiring in at competitive rates when the captive asset base cannot meet the total requirement and facilitates hiring out in case of certain assets being under utilised.

- **Punj Lloyd upstream, India**

Punj Lloyd Upstream Ltd to address the opportunities in the Integrated Drilling Services market. With internationally experienced crew of drillers & technicians credited with completing complicated drilling programs in difficult and diverse terrain, Punj Lloyd Upstream will have a fleet of brand new AC VFD 1500 2000 HP onshore rigs with a drilling capacity of 6,000 m. The US manufactured rigs are in various stages of building, delivery, and deployment.

With plans to acquire a leadership position in onshore drilling space with a fleet of 10 onshore rigs for India, Punj Lloyd Upstream will simultaneously develop onshore drilling contracts in the MENA region and will expand to other countries where Punj Lloyd has an operating presence.

- **Punj Lloyd Aviation Ltd, India**

The Company has recently bought a 33% stake in Air Works India along with Global Technology Investments Group LLC, USA. The joint efforts are clearly focused on creating India's preferred aviation services and solutions. This is the first private equity deal in Indian aircraft corporate aviation sphere.

The company will be scaling existing operations to include an exclusive MRO facility. The joint entity proudly holds exclusive representation for sales of Gulfstream aircraft in India and is also the authorized service centre for Bombardier & Gulfstream corporate jets in the country.

Joint Ventures

- **Pipavav Shipyard, India**

Punj Lloyd is a co-promoter in Pipavav Shipyard Ltd and subscribed to 129,361,538 equity shares in 2007. A strategic investment by Punj Lloyd, this joint venture will support the growth of its business in the offshore sector.

The experience of Punj Lloyd for executing EPC work for offshore platforms would be used to develop an offshore platform fabrication yard for oil and gas fields. The shipyard would fabricate jackets, decks and other large modules like compressor modules for the offshore industry. Punj Lloyd will avail of the services of this yard for projects in India as well as the Middle East and Asia Pacific.

- **Dayim Punj Lloyd, Saudi Arabia**

Dayim Punj Lloyd Construction Contracting Co. Ltd is a joint venture of Punj Lloyd Ltd. This JV offers EPC services for oil and gas, petrochemical and infrastructure sectors by drawing on the proven expertise of the Punj Lloyd Group companies.

- **Kaefer Punj Lloyd, India**

KAEFER Punj Lloyd is one of the biggest insulation contracting companies in India and can mobilise expert site managers, skilled manpower, tools & equipment, CNC cutting machinery for jobs of any magnitude in the areas of hot, cold & acoustic insulation, refractory lining, fire proofing and scaffoldings. KAEFER's competencies range from design, engineering, thermal

calculations, sourcing quality materials from indigenous and overseas vendors to installation, commissioning and guaranteeing performance of services.

KAEFER Punj Lloyd is committed to providing utmost satisfaction to its customers and improving efficiency in all areas of application with back up from KAEFER competency centers in Germany.

SWOT analysis

Strengths

- Punj Lloyd uses state of the art engineering design software to enable integration across geographies and between the Company and the client.
- Large material handling projects.
- Optimum utilization, efficient monitoring, timely maintenance and safety of assets.

Weakness

- High Operating expenses.
- High Tax rates.

Opportunities

- Punj Lloyd has to become amongst the top five EPC companies by 2012 in the segment & market they serve.
- Punj Lloyd also plans to enter new geographies. The Company is one of the four international pre-qualified bidders for a mega pipeline project in Papua New Guinea.

Threats

- Global Economic slowdown.
- Increasing Competition from Unorganised players.

Financials Results Update

12 Month Ended Profit& Loss Accounts (Consolidated):

Value(Rs.in million)	FY08A	FY09A	FY10E	FY11E
Description	12m	12m	12m	12m
Net Sales	77529.20	119861.30	118260.02	130086.02
Other Income	810.70	4.20	234.75	281.70
Total Income	78339.90	119865.50	118494.77	130367.73
Expenditure	-71121.90	-116027.60	-108351.43	-119028.71
Operating Profit	7218.00	3837.90	10143.34	11339.02
Interest	-1292.10	-2207.60	-3432.27	-3775.50
Gross Profit	5925.90	1630.30	6711.07	7563.52
Depreciation	-1462.30	-1770.70	-2147.01	-2361.71
Exceptional Items	371.20	153.80	0.00	0.00
Profit before Tax	4834.80	13.40	4564.06	5201.81
Tax	-1234.90	-2260.30	-2057.46	-1924.67
Profit after Tax	3599.90	-2246.90	2506.60	3277.14
Minority Interest & Share of P&L asso.	-15.70	-5.90	89.74	94.23
Net Profit	3584.20	-2252.80	2596.34	3371.37
Equity Capital	606.90	607.00	664.10	664.10
Reserves	26518.00	24188.10	26694.70	29971.83
Face Value (Rs)	2.00	2.00	2.00	2.00
EPS (Rs)	11.81	-7.42	7.82	10.15

*A=Actual, *E=Estimated

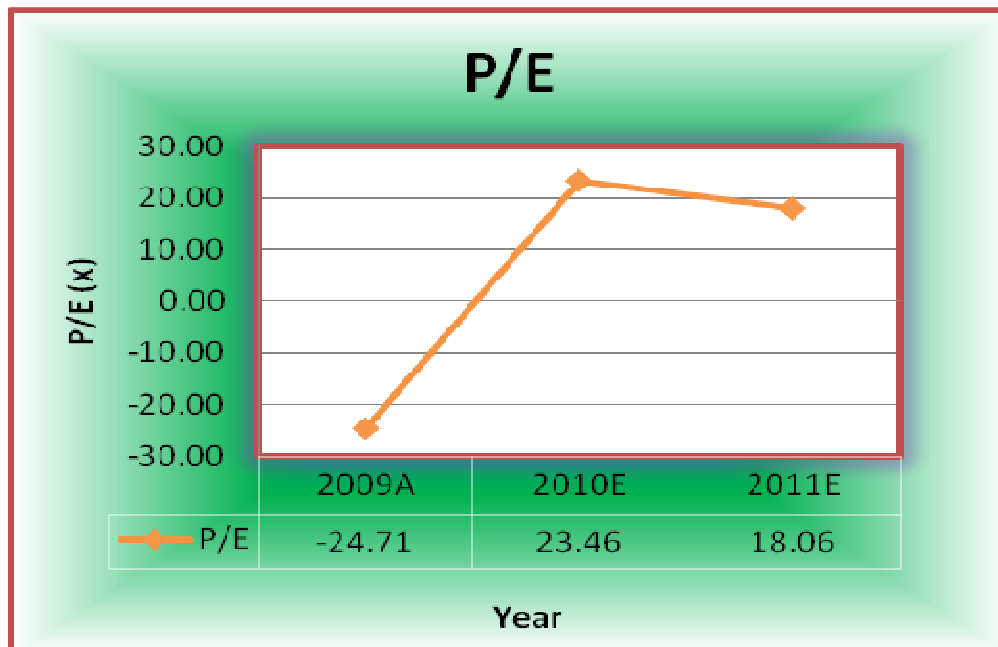
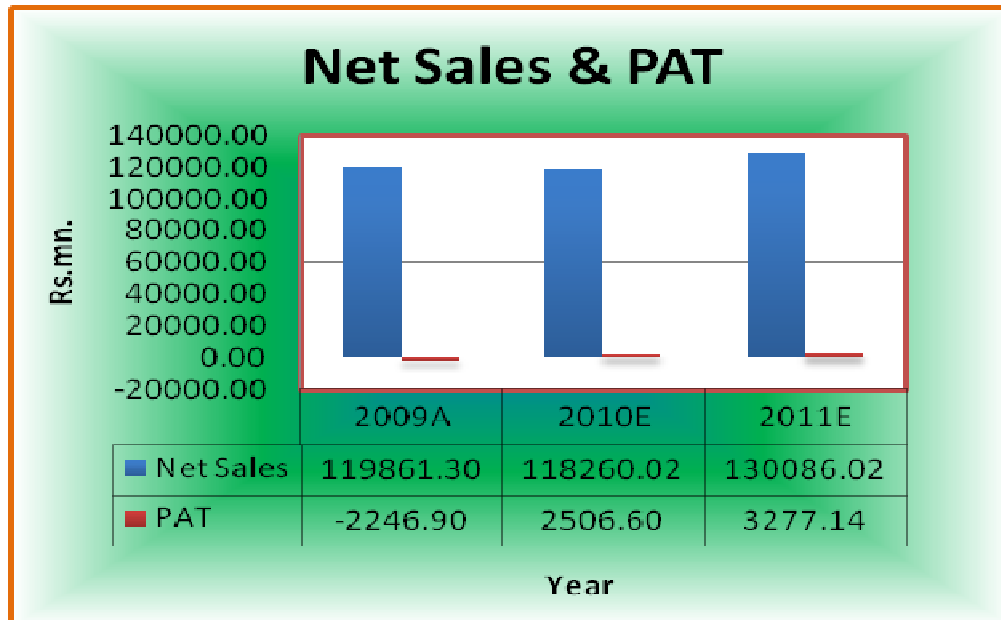
Quarterly Ended Profit & Loss Account (Consolidated):

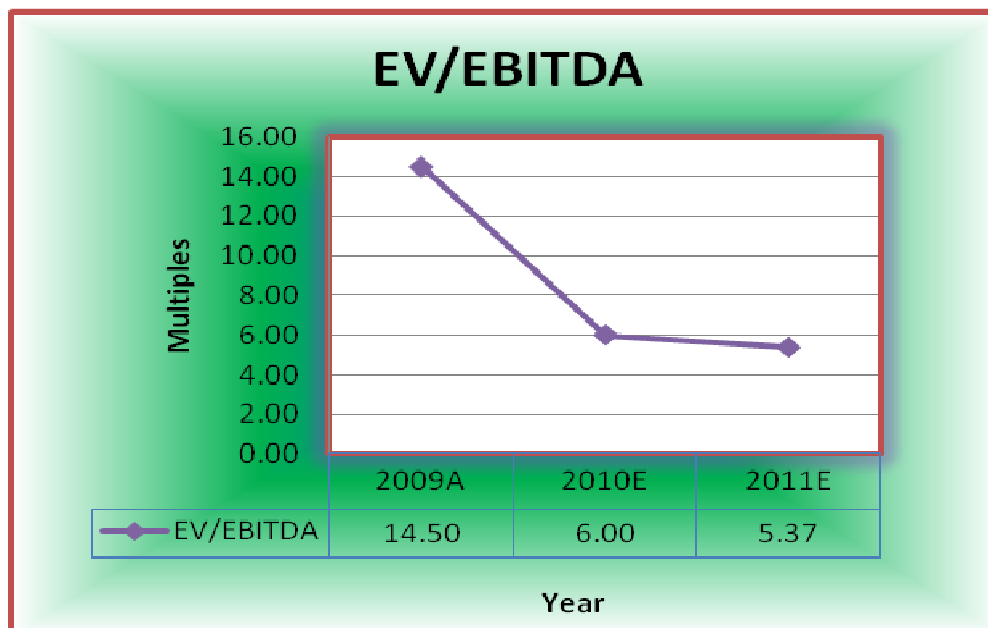
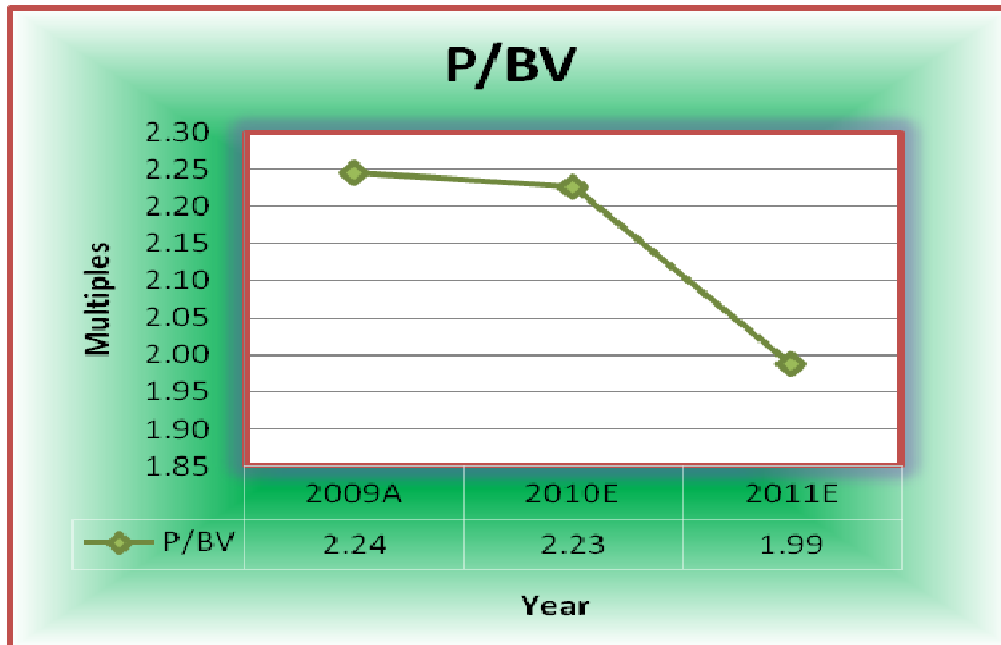
Value(Rs.in million)	30-Jun-09	30-Sep-09	31-Dec-09	31-Mar-10
Description	3m(A)	3m(A)	3m(A)	3m(E)
Net Sales	29727.80	28716.50	29178.4	30637.32
Other Income	62.60	5.10	82.70	84.35
Total Income	29790.40	28721.60	29261.10	30721.67
Expenditure	-26633.50	-26596.40	-26935.20	-28186.33
Operating Profit	3156.90	2125.20	2325.90	2535.34
Interest	-743.60	-795.70	-923.40	-969.57
Gross Profit	2413.30	1329.50	1402.50	1565.77
Depreciation	-541.40	-513.60	-535.30	-556.71
Exceptional Items	0.00	0.00	0.00	0.00
Profit before Tax	1871.90	815.90	867.20	1009.06
Tax	-621.90	-301.20	-771.10	-363.26
Profit after Tax	1250.00	514.70	96.10	645.80
Minority Interest & Share of P&L asso.	21.60	13.80	28.60	25.74
Net Profit	1271.60	528.50	124.70	671.54
Equity Capital	607.00	663.60	664.10	664.10
Face Value (Rs)	2.00	2.00	2.00	2.00
EPS (Rs)	4.19	1.59	0.38	2.02

Key Ratios:

Particulars	FY08	FY09	FY10E	FY11E
No. of Shares(In Million)	303.45	303.50	332.05	332.05
EBITDA Margin (%)	9.31%	3.20%	8.58%	8.72%
PAT Margin (%)	4.64%	-1.87%	2.12%	2.52%
P/E Ratio (x)	15.35	-24.71	23.46	18.06
ROE (%)	13.27%	-9.06%	9.16%	10.70%
ROCE (%)	14.11%	3.82%	13.74%	14.24%
EV/EBITDA (x)	7.62	14.50	6.00	5.37
Debt-Equity Ratio	0.50	1.18	1.13	1.06
Book Value (Rs.)	89.39	81.70	82.39	92.26
P/BV	2.03	2.24	2.23	1.99

Charts





Valuation

- At the current market price of Rs.183.40 the stock is trading at 23.46 x and 18.06x for FY10E and FY11E respectively.
- Price to Book Value of the stock is expected to be at 2.23 x and 1.99 x respectively for FY10E and FY11E.
- Earning per share (EPS) of the company for the earnings for FY10E and FY11E is seen at Rs.7.82 and Rs.10.15 respectively.
- The top line of the company is expected to grow at a CAGR of 19% over 2008A to 2011E.
- Punj Lloyd has to become amongst the top five EPC companies by 2012 in the segment & market they serve.
- On the basis of EV/EBITDA, the stock trades at 6.00 x for FY10E and 5.37 x for FY11E.
- Punj Lloyd is planning to bid for up to 25 new national highway projects, valued at an estimated Rs 40,000 crore this year.
- Punj Lloyd has bagged an order worth Rs 1,023 crore from Dhariwal Infrastructure, a subsidiary of CESC.
- Punj Lloyd has decided to foray into solar utility space by forming a joint venture (JV) with Singapore-based Delta Solar.
- The Punj Lloyd Group has bagged its first offshore contract worth Rs 574 crore from PTT Public Company, a Thailand state-owned oil and gas major.
- Punj Lloyd has won an order from GAIL India for laying, testing and commissioning of 145.43 km pipeline for Dahej Vijaipur Pipeline Upgradation Project.
- We recommend to '**BUY**' in this stock at a Target Price of Rs.**220.00** for medium to long term investment.

Industry Overview

- India is the fourth largest economy in the world in GDP terms on the basis of purchasing power parity. Over the last decade, India has been one of the fastest growing economies in the world.
- The Indian infrastructure industry is experiencing growth in expenditure. This growth is visible throughout the country in the form of new highways, roads, ports, railways, and airports; power systems; new townships, offices, houses and other buildings; urban/rural infrastructure, including water supply, sewerage, and drainage; irrigation and agriculture systems. According to the Pre-Budget Memo 2006-07 prepared by the Construction Federation of India, construction is the second largest employer after the agriculture sector. Currently, the construction industry in India, directly or indirectly, employs approximately 32.0 million workers, accounts for 40.0% of gross investment, and 60.0% of infrastructure costs.
- Information Services of India Limited ("CRISIL"), ratings, research, risk and Policy Company, investment in construction is expected to grow to approximately Rs. 6,129 billion in 2007 – 2011 from Rs. 3,213 billion in 2002 – 2007, at a compound annual growth rate of 13.8%. The construction segment constitutes a significant part of infrastructure development in the economy.

The Indian construction industry

- Construction activity is an integral part of a country's infrastructure and industrial development. It includes hospitals, schools, townships, offices, houses and other buildings; urban infrastructure (including water supply, sewerage, drainage); highways, roads, ports, railways, airports; power systems; irrigation and agriculture systems; telecommunications etc. Covering as it does such a wide spectrum, construction becomes the basic input for socio-economic development. Besides, the construction industry generates substantial employment and provides a growth impetus to other sectors through backward and forward linkages. It is, essential therefore, that, this vital activity is nurtured for the healthy growth of the economy.
- With the present emphasis on creating physical infrastructure, massive investment is planned during the eleventh Plan. The construction industry would play a crucial role in this regard and has to gear itself to meet the challenges. In order to meet the intended investment targets in time, the current capacity of the domestic construction industry would need considerable strengthening.

- In India, construction is the second largest economic activity after agriculture. Investment in construction accounts for nearly 11 per cent of India's Gross Domestic Product (GDP) and nearly 50 per cent of its Gross Fixed Capital Formation (GFCF). Fund injection into the sector could go up to US\$ 124.65 billion by FY2010. Construction accounts for nearly 65 per cent of the total investment in infrastructure and is expected to be the biggest beneficiary of the surge in infrastructure investment over the next five years.
- The Indian construction industry recorded a consistent double-digit year-on-year growth (12%) during 2000-2005, and is expected to grow at 25-30% during 2005-2010. The key drivers of this growth are government investment in infrastructure creation and real estate demand in the residential and industrial sectors. The industry is experiencing increasing polarisation between large and small players. These players are increasing their market share through large-scale contracts, joint ventures, and foreign operations. Though an increasing number of small players are also entering the market, most of them do not have the resources to bid for big contracts.
- The construction segment constitutes a significant part of infrastructure development in the economy. The following table shows the construction investments figures in the various areas of infrastructure development:

(Rs. in billion)

Particulars	FY02-FY06	FY07-FY11E
Roads	1167	2306
Urban infrastructure	536	1150
Power	578	861
Irrigation	514	744
Railways	225	639
Others	193	429
Total	3213	6129

Demand for construction has resulted in the following macro trends:

- The increasing spend in the infrastructure sector has resulted in an increased order book for construction companies thereby easing the supply – demand competitive pressure.

- Margins of construction companies were adversely impacted by increase in prices of inputs in the past especially steel, aggregate and now cement. Whilst commodity prices continue to exhibit volatility, price escalation clauses are being used to allow for some protection. Whilst partly mitigated, this remains an area of concern.
- Construction companies are moving towards public-private partnership, raising funds from the market to finance these projects. Whilst some participants, especially the smaller ones, have adopted a fragmented approach to the market, bidding aggressively, the more established players who have financial strength, experience and access to technology and an appetite to undertake large contracts are adopting a selective approach in their order mix and client selection, leading up to risk management on margins. To accelerate and increase public private partnerships in infrastructure, two major initiatives have been taken by the GoI provision of viability gap funding and Establishment of India Infrastructure Finance Company Limited. These initiatives are designed to implement public projects to make them financially feasible and involve either a one-time grant or a deferred grant of funds to aid in the respective project. The Indian construction industry is facing the challenges of outdated land and property ownership regulations, infrastructural bottlenecks, and a shortage of civil engineers.
- The construction sector has major linkages with the building material industry since construction material accounts for sizeable share of the construction costs. These include cement, steel, bricks/tiles, sand/aggregates, fixtures/fittings, paints and chemicals, construction equipment, petro-products, timber, mineral products, aluminum, glass and plastics.

The Indian Real Estate Industry

Size

- Real Estate and Construction is a US\$16 billion (2006) industry in India
- Rapid growth in the industry in the past few years
- Real Estate share in total FDI increased from 10% in 2004-05 to over 25% in 2006-07 (estimated at over US\$5 billion).

Outlook

- The Real Estate market is projected to grow to US\$60 billion by 2010 at a CAGR of 40%
- Real Estate companies have been successfully tapping the country's booming capital markets for funds
- Companies have also raised equity internationally at the AIM in London

- Tier 2 cities (non metros) likely to experience faster growth in the future.

Opportunity

- Commercial and office complexes mushrooming in major Indian metros
- Over 20 million new housing units required in 5 years.

Potential

- Several factors are expected to contribute to the rapid growth in Real Estate
- Large demand-supply gap in affordable housing, with demand being fuelled by tax incentives and a growing middle class with higher savings.
- Increasing demand for commercial and office space especially from the rapidly growing Retail, IT/ITeS and Hospitality sectors.
- The recently announced JNNURM expected to provide further impetus
- Investment opportunities exist in almost every segment of the business
- Housing: About 20 million new units expected to be built in five years
- Office space for IT/ITeS: Five-fold increase in office space requirement over the next 3 year
- Commercial space for organized retailing: 200 million sq. ft. by 2010
- Hotels & Hospitality: Over 40,000 new rooms in the next 5 years.
- Investment opportunity of over US\$75 billion in the next five years.

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