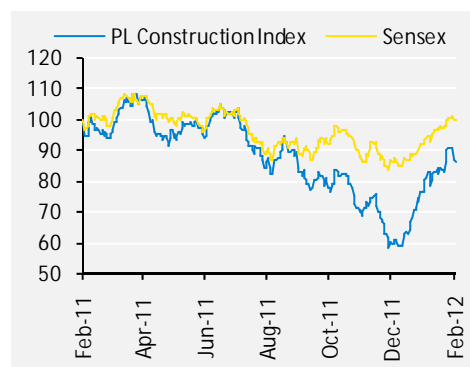


February 23, 2012

Rupa Shah
rupashah@plindia.com
+91-22-66322244

Sensex v/s PL Construction Index



Source: Bloomberg

Stock Performance

(%)	1M	6M	12M
Sensex	8.3	10.0	(0.2)
Construction Index	7.4	4.5	(13.6)
Ashoka Buildcon	2.2	(21.7)	(26.0)
Era Infra	1.0	(12.9)	(27.7)
Gayatri Projects	31.4	7.7	(23.8)
GMR Infra	5.3	1.2	(28.8)
Hind. Construction	33.9	3.6	(18.2)
IL&FS Transp.	9.7	10.9	(5.5)
IRB Infra	16.5	18.9	0.9
IVRCL Asset	33.1	49.3	(8.6)
IVRCL Infra	24.6	52.6	(19.2)
Larsen & Toubro	11.4	(10.7)	(11.1)
Nagarjuna Const.	20.1	7.4	(41.1)
Patel Eng.	14.9	7.7	(37.7)
Punj Lloyd	18.0	-	(7.7)
Reliance Infra	30.4	36.4	(11.9)
Sadbhav Eng.	13.7	(0.4)	38.2

■ **Order inflows scenario improved:** Engineering & Construction (E&C) companies which had seen a gradual downward shift in the order inflows since the last two quarters, have seen a healthy revival this quarter. Mining, Water and Road orders contributed majorly to the revival. Total orders announced in Q3FY12E for PL Universe are close to Rs309bn (Overall: Rs400bn) which was up by 39% QoQ and 19% YoY. However, if one excludes NCC's internal power order of Rs52bn then the growth would be 15% QoQ and flat YoY. Orders from the Gulf countries in the petrochemical segment have cooled off in Q3FY12 to Rs15-16bn from close to Rs67bn in Q2FY12. The total order inflow till now has been close to Rs115bn in Q4FY12.

■ **Earnings in Q3, though, have not shown improvement:** Sales growth stood at 17% YoY and higher by 20% QoQ (as Q2 is seasonally weak). However the 'C' segment was down by 9.1% YoY, where IVRCL's sales were down by 15.3% YoY, whereas the 'E' segment stole the show by a 24% growth YoY and 20.9% QoQ. Sales growth for 'C' segment was mainly arrested by working capital constraints faced by mid-sized players. EBITDA grew by 2.8% YoY and flat QoQ, where barring L&T & EIL, all the players were in the negative territory. EBITDA margins (down by 120bps YoY) were down for all the companies which clearly shows the competitiveness and lower execution/higher fixed overheads is taking toll on the margins. Interest continues to haunt the companies growing by 30-40% YoY and 5-10% QoQ. Interest as a % to sales (excl. L&T & EIL) stood marginally lower QoQ at 5.2%. Overall, PAT grew by 8.1% YoY, mainly arrested by losses in Punj Llyod, NCC and HCC.

■ **Risk reward ratio still not predictable:** Markets have risen since the last quarter, particularly the Infrastructure sector, where the jump has been substantial, mainly in the last 30 days. However, the balance sheet profile, ROEs and moreover corporate governance issues still continue to haunt the prospects, which don't make our view any positive on the fundamental side. With the run-up to the 2014 elections and fresh orders from the 12th Plan, we expect a sharp revival in order inflows. Investment opportunities pegged at 9-10% of the GDP could bring out new projects worth US\$1trn over 2012-2017, doubling the 11th plan estimates. However, we think that the onus will again fall on the private sector and with stretched balance sheets and liquidity crunch, only few players will be able to cash in on the opportunities. Only a potential dilution at the parent level and SPVs will bring some hope to ease the debt trap and working capital deadlock. However, due to overall improvement in the macro economic environment, there has been a re-rating in the sector. Our sector stance remains **'Neutral'**.

Exhibit 1: Sector Valuations

Companies	Sector Core P/E		Core ROE	
	FY12E	FY13E	FY12E	FY13E
L&T	14.8	12.8	24.0	23.8
Punj Lloyd	(34.8)	30.7	(2.3)	2.6
IVRCL	28.3	14.8	2.6	5.0
Hindustan Construction	(15.7)	(27.1)	(10.9)	(8.2)
Nagarjuna Construction	19.5	18.6	4.4	5.1
Engineers India	14.2	14.3	39.2	32.0
Total	15.9	13.5		

Source: Company Data, PL Research

Our estimates of the potential inflow for FY12E could be close to Rs1.3trn in the base case scenario.

Q3FY12 order inflow was dominated by Roads. However, we expect Power would be the key sector to watch as the ordering delay might hamper L&T's order inflow for FY12E.

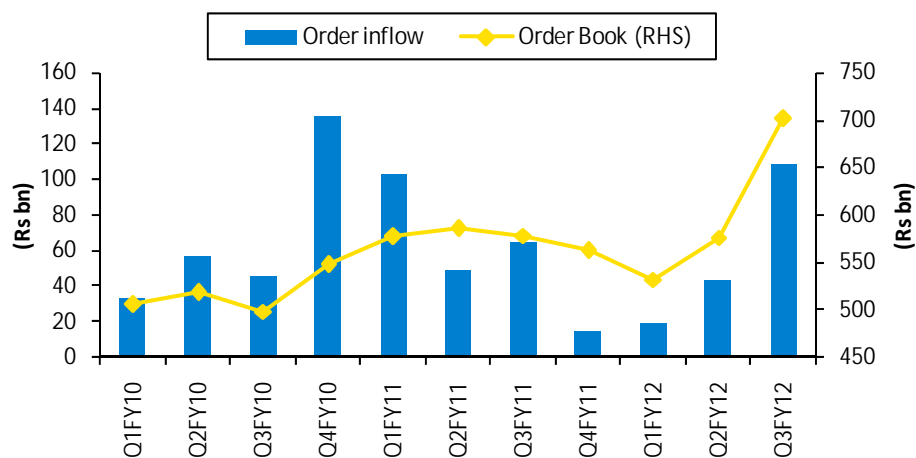
Exhibit 2: Order Inflow Trend

Segments	FY10	FY11	FY12E	9MFY12E
Roads	250	350	450	228
Water	79	56	28	47
Bldg/Industrial capex/Urban Dev	191	232	186	145
Power	312	323	300	229
Process & Hydrocarbon	308	249	265	205
Others	160	155	116	119
Total	1,300	1,365	1,345	972

Source: Company Data, Industry, PL Research

Note: The orders are excluding won by the T&D companies and are based on announcements on BSE and Industry Data and thus indicative.

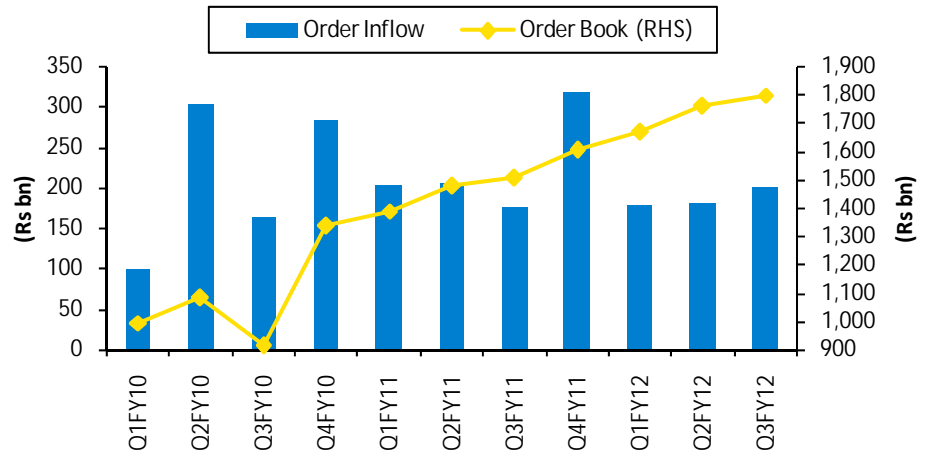
Revival in EPC orders and inclusion of NCC's Internal Power project order have led to a QoQ order inflow growth in the PL Construction Universe

Exhibit 3: Revival in order inflow (Construction – PL Universe)


Source: Company Data, PL Research

Engineering companies were better off this quarter on account of order inflows from the EPC- BOT sector

Exhibit 4: EPC lead good order inflow (Engineering – PL Universe)



Source: Company Data, PL Research

Punj Lloyd has been substantially benefited from the Hydrocarbon Sector

Exhibit 5: Orders Won in Q3FY12E (Rs bn)

Larsen & Toubro	
Water-TN	8.09
BOT-GMR/Karnataka	32.0
Transmission-Kuwait	4.1
IVRCL	
Mining	12
Punj	
Hydrocarbon- Clients not disclosed	15.3
BOT-GMR	10.5
EPC	3.1
Ashoka	
BOT	11
Total	97

Source: Company Data, PL Research

Exhibit 6: Quarterly Order Inflow Analysis

	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12
Order Inflow Trend									
L&T- Eng	164	245	156	205	133	301	153	161	171
Engineers India - Eng	1	3	7	11	19	3	1	3	3
Punj Lloyd - Eng	0	38	46	0	42	17	24	18	29
IVRCL	26	41	53	23	36	6	9	22	34
Hindustan Construction	10	39	15	11	1	7	10	0	6
Nagarjuna Construction	7	50	20	15	28	0	0	17	66
Total	211	421	312	265	258	335	197	222	309
Order Book Trend									
Construction	498	621	642	660	668	652	621	518	701
Engineering	961	1,334	1,388	1,477	1,507	1,606	1,668	1,759	1,797

Source: Company Data, PL Research

Exhibit 7: Q3FY12 Snapshot

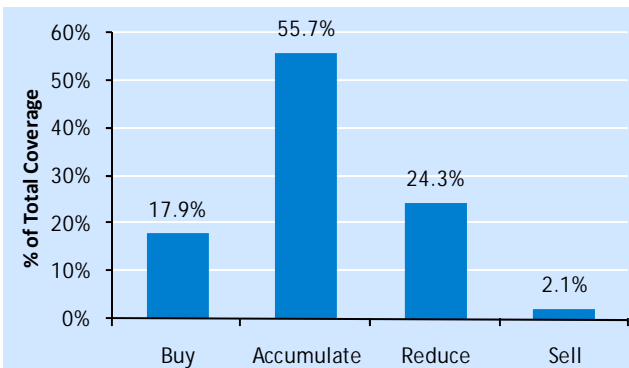
	Sales					EBIDTA					PAT				
	Q3FY12	Q3FY11	YoY gr. (%)	Q2FY12	QoQ gr. (%)	Q3FY12	Q3FY11	YoY gr. (%)	Q2FY12	QoQ gr. (%)	Q3FY12	Q3FY11	YoY gr. (%)	Q2FY12	QoQ gr. (%)
Construction	34,049	37,470	(9.1)	29,648	14.8	2,753	3,841	(28.3)	2,905	(5.2)	(218)	935	NA	(156)	39.7
Engineering	174,705	140,924	24.0	144,495	20.9	15,329	13,745	11.5	15,237	0.6	10,586	8,656	22.3	9,574	10.6
<i>Margin (%)</i>						<i>8.8</i>	<i>9.8</i>		<i>10.5</i>						
Total	208,754	178,394	17.0	174,143	19.9	18,082	17,586	2.8	18,142	(0.3)	10,368	9,591	8.1	9,418	10.1

Source: Company Data, PL Research



Prabhudas Lilladher Pvt. Ltd.
 3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India
 Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

This document has been prepared by the Research Division of Prabhudas Lilladher Pvt. Ltd. Mumbai, India (PL) and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accept any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

We may from time to time solicit or perform investment banking or other services for any company mentioned in this document.