investor's eye

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Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
Bharti	8-Jan-07	625	**794**	1,100
Glenmark	17-Jul-08	599	**596**	754
HDFC	19-Nov-07	2,700	**2,198**	2,912
L&T	18-Feb-08	3,536	**2,530**	4,044
Orbit	17-Dec-07	800	**214**	808

Pulse Track

ECB norms relaxed for infrastructure sector

Against the backdrop of a depreciating rupee, tighter domestic liquidity conditions and record capital outflows, the finance ministry has relaxed the external commercial borrowing (ECB) guidelines for core infrastructure companies engaged in building roads, ports, power plants, telecom and others. The highlights of the revised ECB guidelines are as follows:

- Considering the huge funding requirements of the infrastructure companies, the existing ECB limit of $100 million has been raised five-fold to $500 million per financial year under the approval route. ECBs in excess of $100 million should have a minimum average maturity period of seven years.
- Against the backdrop of widening credit spreads worldwide, the cost ceiling applicable under the revised guidelines are:

Average maturity period	Existing	Revised	Change
3 years—up to 5 years	L + 200bps	L + 200bps	0
> 5 years—up to 7 years	L + 350bps	L + 350bps	0
> 7 years	L + 350bps	L + 450bps	100

* L = 6M Libor or other applicable benchmark for respective currency

- The changes in the ECB guidelines are effective immediately.
- Other aspects of the ECB guidelines (including the $50-million limit for non-infrastructure borrowers) remain unchanged.

Other recent liquidity boosting measures

The Reserve Bank of India (RBI) has announced several measures to ease the domestic liquidity crunch and bolster the weakening rupee to check the adverse impact of the global financial turmoil on the Indian markets.

Measures:

- The RBI will continue to intervene in the foreign exchange (forex) market through agent banks to meet the demand-supply gaps.
- The interest rate ceiling on foreign currency non-resident (bank) and non-resident (external) rupee account deposits has been raised by 50 basis points.
- The RBI has also said it would conduct a second liquidity adjustment facility (LAF) operation on a daily basis to manage liquidity. This facility was earlier available only on reporting Fridays.
- It has granted temporary access to additional LAF from September 17 auction to the extent of up to 1% net demand and time liabilities, effectively reducing the statutory liquidity ratio (SLR) requirement.
- It has granted a waiver from paying penal interest for missing the 25% SLR requirement.
- The central bank will allow banks to borrow more by relaxing the SLR, if the situation warrants.

Impact analysis

- *Fillip to investment in infrastructure:* The direct and obvious fall-out of the relaxation in the ECB guidelines would be in the form of an impetus to investments in the infrastructure sector. However, telecom and power sectors are likely to benefit the most vis-à-vis sectors like road and construction, considering the increased risk premium. Importantly, the government has taken cognisance of the slowing infrastructure spending as this is the second time the ECB norms have been relaxed during current financial year.
- *Lower cost of capital:* The relaxation of the ECB norms opens up an important source of cheaper funds for the big-ticket projects. Currently, the cost of capital through the ECB route works out to around 9.0-9.5% (including the cost of hedging) compared with the 12-13% lending rate charged by the domestic financial institutions. The saving of ~300 basis points (bps) in the cost of capital is significant.
- *Stabilising currency:* The relaxed ECB norms imply an increase in the forex inflows, which in turn would aid the overall balance of payment situation and consequently check further depreciation in the rupee. The rupee has depreciated significantly so far in September 2008, touching a low of ~Rs47 against the US Dollar.

To boost domestic liquidity

Apart from the initiatives to boost the inflows from the ECB and non-resident Indian routes, the RBI has also taken some temporary steps to ease the domestic liquidity situation. These include grant of access to the LAF to the extent of 1% of the net demand and time liabilities which amounts to an indirect reduction in the SLR requirement. The step is in line with the possible reduction in the SLR by the end of this fiscal, as hinted in the RBI's annual report for FY2008.

Punj Lloyd

Apple Green

Stock Update

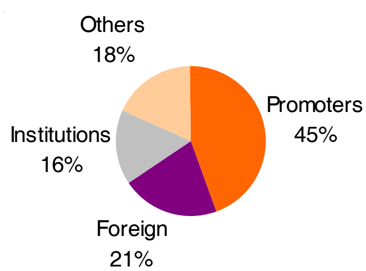
Expanding foothold in Gulf

Buy; CMP: Rs288

Company details

Price target:	Rs532
Market cap:	Rs8,732 cr
52 week high/low:	Rs589/183
NSE volume: (No of shares)	30.2 lakh
BSE code:	532693
NSE code:	PUNJLLOYD
Sharekhan code:	PUNJLLOYD
Free float: (No of shares)	16.8 cr

Shareholding pattern



Price chart

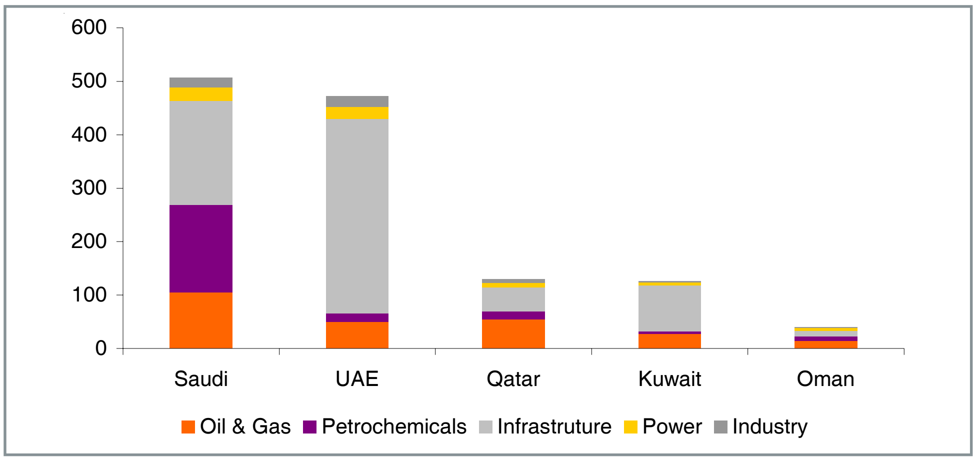
Price performance

(%)	1m	3m	6m	12m
Absolute	8.0	21.5	-6.4	-5.9
Relative to Sensex	11.0	25.6	-0.8	10.0

$800-million order to build pipeline in Qatar

Punj Lloyd Ltd (PLL) has won an order to engineer, procure, install and commission a 211km pipeline with associated stations and infrastructure in Qatar. The contract is valued at Rs3,636 crore (US Dollar 800 million). This is the fourth engineering, procurement and construction order bagged by the company in Qatar alone. The Middle-East has been one of the key business markets for the company and 27% of its current order backlog constitutes of orders from this region. We believe the investments planned in the Gulf Cooperation Council (GCC) countries over 2006-12 spell a great opportunity for PLL. PLL's increased foothold in these geographies will further enhance the company's capability to win larger and more important projects in the GCC nations.

Planned expenditure in Gulf (2006-12)



Source: Industry, Sharekhan Research

Subsidiary gets first contract

In mid 2007, PLL had formed a subsidiary called Punj Lloyd Upstream (PLU) to exploit the opportunities in the onshore drilling business. Well, PLU has secured its first

Valuation table

Particulars	FY2006	FY2007	FY2008	FY2009E	FY2010E
Adj net profit (Rs crore)	55.4	196.7	321.2	555.9	734.7
Fully diluted EPS (Rs)	2.1	7.5	10.6	17.3	22.9
% y-o-y change	*-46.8*	*254.7*	*40.6*	*63.5*	*32.2*
PER (x)	137.0	38.4	27.1	16.6	12.6
Book value (Rs)	43	49	90.4	111.5	135.2
P/BV (x)	6.7	5.9	3.2	2.6	2.1
EV/EBIDTA (x)	10.4	23.9	15.4	9.9	8.1
EV/Sales (x)	1.2	2.8	1.3	1	0.8
Dividend yield (%)	0	0	0	0	0
RoCE (%)	7.5	11.4	12.9	17.3	19.2
RoNW (%)	6.8	16.4	16	17.6	18.5

contract for deploying two onshore oil drilling rigs in Libya for exploration in the Gialo oilfield. The contract is valued at US$42 million (approximately Rs190 crore). PLU has already placed order for two rigs at an estimated cost of US$12 million each. The first rig is expected to be deployed by November 2008 while the second is expected to reach by only March 2009. We expect the revenues from the subsidiary to start flowing in from Q4FY2009.

Attractive valuation given 51.2% CAGR in earnings over FY2008-10E

PLL continues to display its ability to bag larger orders, which would eventually increase its average order size, one of our key investment arguments on the stock. The current order backlog of Rs24,063 crore, which is 3.1x its FY2008 earnings, imparts ample visibility to the company's future revenues. At the current market price, the PLL stock is trading at 16.6x and 12.6x FY2009E and FY2010E fully diluted earning per share respectively. We believe the stock is attractively valued at these levels given that the company's earnings are estimated to grow at a compounded annual growth rate of 51.2% over FY2008-10E. We maintain our Buy recommendation on the stock with a 12-18-month price target of Rs532.

Sharekhan Stock Ideas

Evergreen

Housing Development Finance Corporation
HDFC Bank
Infosys Technologies
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 Bijlee
Bharat Electronics
Bharat Heavy Electricals
Bharti Airtel
Canara Bank
Corporation Bank
Crompton Greaves
Elder Pharmaceuticals
Glenmark Pharmaceuticals
Grasim Industries
HCL Technologies
Hindustan Unilever
ICICI Bank
Indian Hotels Company
ITC
Mahindra & Mahindra
Marico
Maruti Suzuki India
Lupin
Piramal Healthcare (Nicholas Piramal India)
Punj Lloyd
Ranbaxy Laboratories
Satyam Computer Services
State Bank of India
Tata Motors
Tata Tea
Wipro

Cannonball

Allahabad Bank
Andhra Bank
Gateway Distriparks
International Combustion (India)
JK Cement
Madras Cement
Shree Cement
Tourism Finance Corporation of India

Emerging Star

3i Infotech
Aban Offshore
Alphageo India
Axis Bank (UTI Bank)
Balaji Telefilms
BL Kashyap & Sons
Cadila Healthcare
Jindal Saw
KSB Pumps
Navneet Publications (India)
Network 18 Fincap
Nucleus Software Exports
Opto Circuits India
Orchid Chemicals & Pharmaceuticals
Patels Airtemp India
Television Eighteen India
Thermax
Zee News

Ugly Duckling

Ashok Leyland
BASF India
Ceat
Deepak Fertilisers & Petrochemicals Corporation
Genus Power Infrastructures
ICI India
India Cements
Indo Tech Transformers
Ipca Laboratories
Jaiprakash Associates
KEI Industries
Mahindra Lifespace Developers
Mold-Tek Technologies
Orbit Corporation
Punjab National Bank
Ratnamani Metals and Tubes
Sanghvi Movers
Selan Exploration Technology
SEAMEC
Shiv-Vani Oil & Gas Exploration Services
Subros
Sun Pharmaceutical Industries
Surya Pharmaceutical
Tata Chemicals
Torrent Pharmaceuticals
UltraTech Cement
Union Bank of India
Unity Infraprojects
Wockhardt
Zensar Technologies

Vulture's Pick

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