

April 3, 2008

MODEL PORTFOLIO - INFRASTRUCTURE SECTOR COMPANIES**INDEX**

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Introduction

The Indian economy is cruising at great speed to become one of the biggest economies in the world. The economy saw a robust growth during the last three years, with GDP growth of 7.4% (FY05), 9% (FY06) and 9.4% (FY07).

While the growth momentum is likely to taper off over the next few years, GDP growth is still likely to be in the region of 7-7.5% over the next few years. We however expect huge investment flows to continue entering some sectors, which will likely outperform the GDP growth trend. We believe Infrastructure would be among the key sectors in terms of contribution to the economy as a whole, going forward.

The primitive nature of the infrastructure in India is regarded as one of the major hindrances to economic growth. It underscores the need for a huge infrastructure build-up if the Indian economy is to move fast.

We believe that there is a huge underlying opportunity in the high growth Indian infrastructure sector. As per Planning Commission estimates, an amount of \$250-260bn would be spent on overall infrastructure in the XIth plan period (FY08-12) primarily on power, ports and airports and urban infrastructure. The Government has given permission for large projects such as mega power projects, major road projects, new SEZs, and construction projects.

We believe the infrastructure sector would be an important growth driver of the Indian economy over the next 7-10 years. We constructed a model infrastructure sector portfolio comprising of our best picks from the cement, power, capital goods, infrastructure, construction, shipping (incl. ports & logistics) sectors.

Our model portfolio consists of securities from sectors which we believe will deliver strong growth (power, infrastructure, construction) and strong to moderate growth (cement, capital goods and shipping) going forward.

The benchmark BSE Sensex gave returns of 23.2% during the last one year. Between October 10, 2007 and January 10, 2008, (when the Sensex peaked at 21,207) the returns on BSE Sensex and our model infrastructure portfolio were 10.3% and 25.6% respectively.

However, post January 10, 2008 till date, the Sensex has corrected by 23.1%, and our model portfolio by 34.8%, which clearly shows the volatile nature of our portfolio. However, all companies in our model portfolio are strong companies with professional managements and robust business models. Post-correction, their respective valuations have become more attractive. We remain bullish on these with a medium term perspective of 12-18 months

K E Y N O T E

Matrix of Key Data

Sectors / Companies	Sales (Rsbn)	Market Cap (Rsbn)	P/E (x)		CMP 3 Apr 08
			FY08	FY09	
Capital Goods					
Bharat Heavy Electricals Ltd	173.21	879	27.2	19.1	1794.95
Larsen & Toubro Ltd	204.99	833	35.9	26.3	2850.05
Cement					
Ambuja Cements Ltd	63.39	186	13.0	14.5	122.00
Grasim Industries Ltd	38.12	235	9.6	8.6	2560.95
Construction					
DLF Ltd	26.15	1063	15.7	10.6	623.75
Unitech Ltd	32.88	447	25.5	14.8	275.10
Infrastructure					
GMR Infrastructure Ltd	19.69	261	113.6	75.3	143.15
Punj Lloyd Ltd	51.39	96	29.5	18.2	316.05
Power					
National Thermal Power Corp. Ltd.	338.76	1601	20.7	19.0	194.25
Reliance Energy Ltd	69.09	281	29.6	25.2	1189.45
Tata Power Co. Ltd	64.60	255	28.5	25.0	1159.30
Shipping, Ports & Logistics					
Bharati Shipyard Ltd	4.22	14	15.1	9.5	502.25

Bharat Heavy Electricals Ltd.

April 3, 2008

Price: Rs1794.95

52 wk High/Low: 2925 / 970

MCap: Rs879bn

Company Background

Incorporated in 1950 as a government owned organisation, Bharat Heavy Electricals Ltd. (BHEL) is the largest engineering and manufacturing company in India in the energy-related infrastructure sector. BHEL operates in three business sectors viz. Power, industry, and overseas business. The company manufactures over 180 products under 30 major product groups and caters to core sectors of the Indian Economy viz., Power Generation & Transmission, Industry, Transportation, Telecommunication, Renewable Energy, etc. It has a wide network of 14 manufacturing divisions, four Power Sector regional centres, over 100 project sites, eight service centres and 18 regional offices.

Highlights

- Given the need to build huge capacities in the power sector, BHEL being the largest power equipment manufacturer in India, is the major beneficiary. The company's order book stands at Rs780bn.
- BHEL has completed first phase of expansion; it has increased its capacity by 10,000MW by December 2007. In the second phase, the company targets 15,000MW which will be completed by December 2008.
- Eleventh five year plan has envisaged power capacity additions of 78,000MW of which tenders for 50,000MW have already been floated. The balance 28,000MW is in process and the government is likely to issue orders over next 12 months.
- In December 2007, BHEL has acquired government owned sick company Bharat Heavy Plates & Vessels Ltd. (BHPVL). BHEL plans to invest Rs275Cr as capex apart from investing R34Cr as equity in the company. BHPVL will add to the capacity of industry boilers division of BHEL. BHEL can also benefit in terms of tax breaks on accumulated losses of BHPL.
- BHEL has recorded a topline growth 14.4% in Q3 FY08 and earnings growth of 15.6%. The EBITDA margin eroded by 132 bps due to higher staff costs.
- BHEL's topline grew at a CAGR of 25.5% during FY03-07. Considering the huge demand for power sector in India and the huge capacity build up in the eleventh plan period, we believe BHEL will continue on a similar growth trajectory. As per consensus estimates the topline is expected to grow at a CAGR of 28.7% over FY07-09.
- The stock trades at 27.2x FY08E and 19.1x FY09E earnings.

Financial Snapshot

(RsCr)

For year to March 31,	2005	2006	2007	2008 E	2009 E
Net Sales	9516.49	13442.58	17320.74	21608.70	28694.41
Growth	18.8%	41.3%	28.8%	24.8%	32.8%
Profit After Tax	963.28	1677.17	2413.99	3,229.77	4,602.64
Growth	22.4%	74.1%	43.9%	33.8%	42.5%
EBITDA margins	15.0%	18.5%	20.1%	22.6%	23.6%
EPS (Rs)	39.36	68.52	98.63	65.98	94.02
Book value (Rs)	246.24	298.31	359.06	246.83	300.71
Paid-up Equity Cap	244.76	244.76	244.76	489.52	489.52
P/E (x)	9.7	16.4	11.5	27.2	19.1
P/B (x)	1.6	3.8	3.1	7.3	6.0
P/S (x)	4.7	9.6	6.3	4.1	3.1

E - Consensus Analysts Estimates

Larsen & Toubro Ltd.

April 3, 2008

Price: Rs2850.05

52 wk High/Low: 4470 / 1414

MCap: Rs833bn

Company Background

Founded in 1938, Larsen & Toubro Ltd. (L&T) is one of the largest engineering conglomerates in South East Asia. It is a technology, engineering, construction and manufacturing company.

The company operates mainly through its Engineering & Construction business which carries out turnkey projects in core sectors on EPC basis and heavy engineering division which manufactures critical equipment and systems for core sectors. It also executes construction in civil, mechanical, electrical and instrumentation contracts on turnkey basis.

L&T's other important businesses are electrical and electronics (including low voltage switchgear products, electrical systems, energy meters, etc.), construction equipment, and IT related services.

Highlights

- L&T is an Engineering and construction major in India. Engineering and construction business is the largest revenue earner, with a share of 68% of FY07 in the consolidated revenues.
- Given its track record and size, L&T is well poised to capitalise on the increasing infrastructure activities in India as well as globally (mainly gulf region).
- The company currently has an order book of Rs49575Cr, up 39% over previous quarter. The total order inflow was Rs13019Cr during this quarter. Exports contribute 13% of total order book.
- After a low of 8.7% in FY05, L&T's EBITDA margins improved substantially in the last 2 years, to reach 13.4% in FY07. Going forward, the company expects only a limited margin expansion on account of the higher contribution of the E&C division in the revenue mix.
- On the positive side, the company enjoys a strong pricing power due to robust demand. Also, its emphasis on increasing the manufacturing content in its projects can help improve margins.
- L&T is also into building small sized ships (1000DWTs) at Hazira. It plans to start production of large sized ships (150,000DWTs to 350,000DWTs). Estimated capex of Rs2000-2500Cr, with margins of 15%. The company will likely to build hi-tech ships like LNG carriers.
- The company is also likely to unlock value by listing its subsidiaries L&T Infotech (tentatively post September 2008), L&T Finance in 2010, L&T IDPL in 2011.
- The company expects a revenue growth 25-30% in FY08 backed by strong order inflow. The company expects growth in order inflows in the range of 25-30%.
- The stock trades at 35.9x FY08E and 26.3x FY09E earnings.

Financial Snapshot

(RsCr)

For year to March 31,	2005	2006	2007	2008 E	2009 E
Net Sales	14486.86	16538.52	20498.88	25462.66	33982.19
Growth	32.3%	14.2%	23.9%	24.2%	33.5%
Profit After Tax	760.20	1017.42	1792.49	2,254.13	3,081.70
Growth	3.4%	33.8%	76.2%	25.8%	36.7%
EBITDA margins	8.7%	10.2%	13.4%	13.0%	14.1%
EPS (Rs)	58.52	74.05	63.28	79.42	108.25
Book value (Rs)	252.89	359.18	243.38	315.88	412.72
Paid-up Equity Cap	25.98	27.48	56.65	57.31	57.31
P/E (x)	8.5	16.4	25.6	35.9	26.3
P/B (x)	2.0	3.4	6.7	9.0	6.9
P/S (x)	7.1	11.4	18.4	3.3	2.5

E - Consensus Analysts Estimates

Ambuja Cements Ltd.

April 3, 2008

Price: Rs122.00

52 wk High/Low: 154 / 100

MCap: Rs186bn

Company Background

Ambuja Cements Ltd. (ACL) is the third largest cement company in India, with a capacity of 16.3mn tpa. It is the most cost efficient company among large cement companies. The company has a strong presence in the North, East and West regions of India.

ACL was promoted by the Seksharia Group. It was acquired by Swiss cement major Holcim in 2006, in one of the most expensive cement acquisition deals in India, at EV/tonne of \$220. The Holcim Group has already acquired another group company ACC Ltd., which makes it the largest cement manufacturer in India.

Highlights

- In the current scenario of uninterrupted run of cement prices, we are positive about the sector from a medium term perspective. Its scale of operations, presence in different regions and low leverage (debt to equity of 0.2:1) will help ACL capture the opportunity. Also its higher profitability has helped the stock trade at a premium to its peer group.
- The threat of possible supply overhang in FY09 accentuated by the pressure from the government to curb the spiralling cement prices impacted the sector as a whole. Recently, after the government clarified that that it will not directly control prices, cement stocks bounced back.
- We therefore have a positive view on the sector from the medium term perspective (as threat of supply overhang in FY09 remains). We expect the robust demand and pricing scenario to continue.
- In our view, ACL's recent capacity expansions (1mn tonnes in Q2CY07 and proposed expansion of 0.5mn tonnes in Q4CY07) are well-timed. We however remain skeptical of the timing of its Rs3500Cr, 6mn tonnes capacity expansion in FY09, as other large sized cement companies (Grasim, Shree Cement) are also commissioning large capacities at the same time.
- We believe the recent capacity expansion will help the company sustain its earnings growth trajectory in the medium term.
- The stock trades at 13x CY07E and 14.5x CY08E earnings.

Financial Snapshot

(RsCr)

For year to	30.06.04	30.06.05	31.12.06 (18mths)	31.12.07E	31.12.08E
Net Sales	2410.00	3075.76	6339.00	6188.82	6514.21
Growth	11.0%	27.6%	NC	NC	5.3%
Profit After Tax	358.96	507.62	1633.69	1463.97	1244.33
Growth	23.3%	41.4%	NC	NC	-15.0%
EBITDA margins	26.1%	26.4%	33.4%	35.7%	31.4%
EPS (Rs)	4.00	3.76	7.18	9.37	8.41
Book value (Rs)	19.43	17.76	25.72	38.32	42.41
Paid-up Equity Cap	179.4	270.38	303.37	304.32	304.32
P/E (x)	9.5	15.7	19.7	13.0	14.5
P/B (x)	2.0	3.3	5.5	3.2	2.9
P/S (x)	5.0	7.4	6.9	3.0	2.9

NC - Not Comparable due to year change

E - Consensus Analysts Estimates

Grasim Industries Ltd.

April 3, 2008

Price: Rs2560.95

52 wk High/Low: 4074 / 1970

MCap: Rs235bn

Company Background

Grasim Industries Ltd. (Grasim) is the flagship company of the Aditya Birla Group, operating in the Viscose Staple Fibre (VSF), cement, sponge iron, chemicals and textiles sectors. The company holds a dominant position in these respective segments.

Grasim is the second largest VSF manufacturer in the world with a capacity of 266,450 tpa and controls 23% of the global market. It is the second largest cement producer (including subsidiaries Ultratech Cement and Shree Digvijay Cement) in India after the Holcim group. Grasim also has commanding positions in other segments (sponge iron, chemicals, and textiles).

Highlights

- Given the diversified nature of the company, we believe that it is less exposed to the cyclical downturns vis-à-vis competitors.
- Backed by strong cotton and VSF prices globally, Grasim has increased VSF prices eight times in the last eight quarters. The company is taking initiatives to introduce VSF-based non-woven products in the domestic market and is focusing on the high value niche fibres.
- It is expanding its VSF capacity from the current 270,100 tonnes to 364,975 tonnes by end FY08. It is also doubling the capacity in its Chinese JV to 60,000 tonne by Q2FY09. It has also sought regulatory clearances for a brownfield expansion of 31000 tonne at Harihar plant in FY10.
- Grasim has undertaken a cement capacity expansion of 17mn tonnes with an investment of over Rs5400Cr. The capacity expansion programmes are well timed, as additional capacities are expected to commence by March 2008.
- Though, the cyclical downturn is expected in FY09 in India, we believe that Grasim's timely expansion will enable it to post a volume growth of around 14% over FY08-10.
- Grasim is the largest merchant producer of sponge iron in India. Given the positive outlook of steel industry, falling scrap prices, and increasing demand for sponge iron we expect prices to sustain.
- The company also envisages an expansion in its chemical business. It is expanding its caustic soda capacity from 190,800 tonnes to 258,000 tonnes.
- In our view, given the diversified nature of the company, its expansion plans and bullishness in the cement, VSF and steel sectors, Grasim is a good investment opportunity.
- The stock trades at 9.6x FY08E and 8.6x FY09E earnings.

Financial Snapshot

(RsCr)

For year to March 31,	2005	2006	2007	2008 E	2009 E
Net Sales	9264.80	10246.09	14093.91	13961.75	15952.93
Growth	68.5%	10.6%	37.6%	15.8%	11.0%
Profit After Tax	942.38	989.72	1928.85	2,393.66	2,633.63
Growth	31.4%	5.0%	94.9%	24.1%	10.0%
EBITDA margins	20.0%	20.1%	28.1%	33.8%	33.1%
EPS (Rs)	102.80	107.97	210.41	266.83	299.34
Book value (Rs)	445.72	527.72	724.33	981.66	1,245.48
Paid-up Equity Cap	91.67	91.67	91.67	91.69	91.69
P/E (x)	11.8	19.1	9.9	9.6	8.6
P/B (x)	2.7	3.9	2.9	2.6	2.1
P/S (x)	8.0	10.8	6.0	1.7	1.5

E - Consensus Analysts Estimates

DLF Ltd.

April 3, 2008

Price: Rs623.75

52 wk High/Low: 1225 / 506

MCap: Rs1,063bn

Company Background

DLF Ltd. (DLF) is the largest real estate player in India, with a developable land area of 615mn sq. ft. The company ranks among the top five companies in India and among the top 3 real estate companies in the world, by market cap.

The company has interests in the other fast growing sectors like hotels, insurance and entertainment and media too.

Highlights

- DLF is India's largest and diversified real estate developer. It has a sizeable presence in the National Capital Region (NCR).
- The size of the Indian real estate market is estimated at \$40bn and estimated to grow at a CAGR of 20% over next five years. We are positive about the real estate sector and bullish on DLF due to its aggressive business model, scale and execution skills.
- The company has a diversified land bank with saleable area of 748mn sq. ft. across various cities. The company also has presence in other sectors like insurance, entertainment and media, and hotels. We believe these are strong growth businesses and would likely fetch good returns to long term investors.
- The company plans to list business trust DLF Office Trust (DOT) in Singapore with an initial portfolio of around 10mn sqft of land of which around 4mn sqft is completed and leased.
- The company has adopted build-and-sell model with DLF Assets Ltd. (DAL) which would help it in rapid recycling of capital and facilitate faster earnings growth.
- Going forward, DLF would likely focus on the commercial segment to drive profitability growth.
- DLF has major order from Karnataka Government for building Bidadi Knowledge City on 9187 acres of land. The project would require an investment of Rs600bn (\$15bn). DLF has entered into a JV with Limitless Holdings, Dubai for this project.
- The stock trades at 15.7x FY08E and 10.6x FY09E earnings.

Financial Snapshot

(RsCr)

For year to March 31,	2005	2006	2007	2008E	2009E
Sales	608.10	1153.60	2615.20	12374.68	18174.90
Growth		89.7%	126.7%	373.2%	46.9%
Net profits	87.90	192.70	1942.40	6,928.36	9,697.14
Growth		119.2%	908.0%	256.7%	40.0%
EBITDA margins	27.7%	41.2%	57.2%	70.9%	68.5%
EPS (Rs)	50.11	10.20	12.70	39.77	58.74
Book Value (Rs)	429.37	50.56	46.64	99.53	150.55
Paid-up Equity Cap	3.50	37.80	1255.70	3409.70	3409.70
P/E (x)	-	-	-	15.7	10.6
P/B (x)	-	-	-	6.3	4.1
P/S (x)	-	-	-	8.6	5.9

E - Consensus Analysts Estimates

Unitech Ltd.

April 3, 2008

Price: Rs275.10

52 wk High/Low: 547 / 165

MCap: Rs447bn

Company Background

Unitech Ltd. (Unitech) is the second largest listed real estate developer in India with a land bank of 10,700 acres (developable area 500mn sq. ft). The company has presence mainly in the NCR and Kolkata regions. It is also developing land in major cities including Chennai, Hyderabad and Kochi.

Highlights

- Unitech has experience of over three decades and has strong project execution capabilities and diversified presence in Tier-I and Tier-II cities of India.
- Residential development constitutes a major chunk of the total saleable land area of Unitech, at 73%. We estimate the company will develop 32-34mn sq. ft. of residential property over FY08-10. 77% of the company's residential property is attributable to apartments and 23% to villas.
- IT/ITES office space accounts 44% of total commercial saleable area, which we believe is a positive, considering the strong investment flows in this sector going forward. Currently, region-wise Kolkata has largest share in the total commercial space with 21.2mn sq. ft. We estimate land development of around 11-12mn sq. ft. by FY10.
- Unitech has plans to develop retail space on 26.8mn sqft of land mainly in Tier-II and Tier-III cities like Varanasi and Agra. The majority of developable land area (44%) is attributable to Varanasi while Agra constitutes 26%. We expect the company to develop a land area of 3-4mn sq. ft. by FY10.
- During the last few quarters, the industry has witnessed a trend of growing interest rates in India. However, following the recent 50 bps rate cut by the US Federal Reserve, interest rates have been reduced in India as well. We expect the interest rates to remain at current levels. The reason behind stagnating interest rate would be derived from the increasing global liquidity due to decrease in interest rates by US Fed Reserve. We believe that the fall in the US interest rate to continue in the next quarter also. This may put pressure from two sides; one from increasing assets prices in India due to higher investment flows and second from increasing oil prices globally.
- The company is foraying fast growing telecom space. Department of Telecommunication has issued the Letters of Intent to 8 subsidiaries of the company for issuance of Unified Access Services Licence in 22 telecom circles across the country.
- In the current positive scenario in the real estate industry, we have a bias towards the largest companies in this space viz., DLF and Unitech due to their size, execution capabilities and the projects pipeline.
- The stock trades at 25.5x FY08E and 14.8x FY09E earnings

Financial Snapshot

(RsCr)

For year to March 31,	2005	2006	2007 E	2008 E	2009 E
Net Sales	644.40	925.95	3288.00	4979.08	8404.13
Growth	28.3%	43.7%	255.1%	51.4%	68.8%
Profit After Tax	33.14	87.59	1282.53	1765.44	2947.76
Growth	28.5%	164.3%	1364.2%	37.7%	67.0%
EBITDA margins	12.0%	18.8%	60.9%	55.3%	55.8%
EPS (Rs)	5.31	14.03	15.80	10.78	18.62
Book value (Rs)	31.33	41.61	24.57	21.97	39.83
Paid-up Equity Cap	12.49	12.49	162.34	324.68	324.68
P/E (x)	0.5	1.5	12.3	25.5	14.8
P/B (x)	0.1	0.5	7.9	12.5	6.9
P/S (x)	4.2	5.1	10.1	9.0	5.3

E - Consensus Analysts Estimates

GMR Infrastructure Ltd.

April 3, 2008

Price: Rs143.15

52 wk High/Low: 269 / 65

MCap: Rs261bn

Company Background

GMR Infrastructure Ltd. (GIL) is the flagship of the GMR group and is also a holding company of its infrastructure businesses. GIL develops various infrastructure projects in power, road and aviation sectors for GMR group.

Its current portfolio includes two airports (Delhi and Hyderabad, with real estate of 1250 acres), six road projects of 422kms (both on annuity and toll bases), and three operating power projects totalling 810MW.

Highlights

- Investments of \$300bn has been proposed for infrastructure over next 5 years. Over \$175bn is slated to flow into power, roads and airports. We believe, as an early mover in this space GIL has immense opportunity to expand rapidly.
- GIL has strong large project execution skills, which we believe has significant importance in the huge investment scenario of infrastructure sector.
- GIL has a pure developer model as opposed to the construction-cum-developer model (As per this model, GIL focuses on project selection, bidding, monetizing projects, timely execution, while outsources operations and maintenance).
- With the development of Delhi and Hyderabad airports, the Government has also offered GIL to develop 250 acres of land area surrounding Delhi Airport and 1,000 acres surrounding Hyderabad Airport. In the first phase, the company is developing 45 acres of land in Delhi by 2010 and balance would be developed after 2010.
- The Hyderabad International Airport would be operational by March 2008, while the first phase of Delhi Airport modernisation will be completed by 2010 Commonwealth Games. The company has also received approval to develop a 250 acre SEZ on the Hyderabad Airport land.
- In June 2007, GIL's subsidiary GMR Energy Ltd. (GEL) signed an MOU with Chhattisgarh Government for implementation, operation and maintenance of 1000MW coal-based thermal power plant in Chhattisgarh. In January 2008, GEL won 300MW project in Nepal and has made acquisition of in Himtal Hydro Power Co. Pvt. Ltd. (HHPPL) in Nepal. HHPPL is setting up 250MW power plant.
- The company is aggressively foraying into airport and power businesses. It recently raised \$1bn through QIP to fund its expansion plans. The company is investing Rs140bn over next 5-6 years.
- Our investment concerns include the huge funding requirements and the increasing competition in the sector.
- The stock trades at 113.6x FY08E and 75.3x FY09E earnings

Financial Snapshot

(RsCr)

For year to March 31,	2005	2006	2007	2008 E	2009 E
Sales	992.91	1061.65	1968.72	2061.06	3219.14
Growth	-	6.9%	85.4%	4.7%	56.2%
Net profits	71.29	72.13	171.23	207.22	304.96
Growth	-	1.2%	137.4%	21.0%	47.2%
EBITDA margins	39.5%	42.2%	25.3%	30.6%	37.0%
EPS (Rs)	0.90	0.55	1.03	1.26	1.90
Book Value (Rs)	5.54	4.31	12.04	13.28	14.94
Paid-up Equity Cap	158.66	264.44	331.07	331.08	331.08
P/E (x)	-	-	69.64	113.6	75.3
P/B (x)	-	-	5.99	10.8	9.6
P/S (x)	-	-	28.74	12.6	8.1

E - Consensus Analysts Estimates

Punj Lloyd Ltd.

April 3, 2008

Price: Rs316.00

52 wk High/Low: 589 / 148

MCap: Rs91.9bn

Company Background

Punj Lloyd Ltd. (PLL) is a leading engineering construction company in India. It provides integrated design, engineering, procurement, construction and project management services for energy industry and infrastructure sector projects. The company's business is spread across the Middle East, the Asia Pacific, Africa and South Asia.

Highlights

- PLL has a strong track record of 18 years of executing projects which include construction of pipelines, tanks and terminals and refinery modernisation and quality improvement projects.
- In FY06, PLL acquired Sembawang Engineers & Constructors (SEC), the largest Engineering & Construction (E&C) company in South East Asia region. Before the acquisition, PLL had presence only in the construction segment of EPC, while SEC had presence in engineering and procurement. Post acquisition, PLL has become a fully integrated player in the infrastructure construction industry.
- Another positive of the SEC acquisition is the acquisition of Simon Carves (SEC's 100% UK subsidiary), a niche player in the petrochemical and process plant segment, with minimum competition.
- PLL's average order ticket size has substantially improved over last 2-3 years, from \$30mn to \$100mn and now to \$200mn. The company expects it to go up to \$300mn which is comparable to its bigger peer L&T.
- The company has a strong order book of Rs16013Cr at consolidated levels. The total order inflows were Rs4020Cr during the Q3FY08.
- We anticipate huge activities in the oil and gas and infrastructure sectors in India and globally. We believe PLL considering its aggressive plans can be a good play on the growth of these sectors.
- The stock trades at 29.5x FY08E and 18.2x FY09E earnings.

Financial Snapshot

(RsCr)

For year to March 31,	2005	2006	2007	2008 E	2009 E
Net Sales	1856.60	1727.31	5138.96	7905.33	10643.60
Growth	-	-7.0%	197.5%	53.8%	34.6%
Profit After Tax	93.07	56.07	195.46	331.94	552.06
Growth	-	-39.8%	248.6%	69.8%	66.3%
EBITDA margins	11.1%	10.1%	7.2%	8.4%	9.8%
EPS (Rs)	7.38	2.15	7.48	10.71	17.35
Book value (Rs)	40.44	42.95	48.95	86.35	107.39
Paid-up Equity Cap	25.23	52.22	52.25	58.17	58.17
P/E (x)	-	100.8	21.7	29.5	18.2
P/B (x)	-	5.0	3.3	3.8	3.1
P/S (x)	-	35.7	10.4	1.3	0.9

E - Consensus Analysts Estimates

National Thermal Power Corporation Ltd.

April 3, 2008

Price: Rs194.00

52 wk High/Low: 291/135

MCap: Rs1,600bn

Company Background

Incorporated in 1975, National Thermal Power Corporation Ltd. (NTPC) is India's largest power utility and the world's sixth largest thermal power generator. It has an installed capacity of 27904MW, which is 1/5th of total installed capacity in India, while it accounts for 1/4th of the total power generation in India.

Highlights

- NTPC is India's largest and most efficient power utility, with an average plant load factor (PLF) of 89%. The company generates power from thermal resources (coal and gas). Thermal power accounted for around 82% of FY07 revenues.
- In FY07, NTPC added capacity of 3155MW. It plans to aggressively increase its power generating capacity over the next five years, from 27,904MW to 50,004MW and 75000MW by 2017. Plant orders for 13360MW have already been placed while orders for 9000MW plants will be placed throughout the year.
- It is also diversifying from its core area of thermal power generation to power generation from other resources like hydro, nuclear and non-conventional renewable resources. The company expects the share of thermal power in its installed capacity to decline from 82% in FY07 to 66% in FY17. The strategic diversification in phased manner will improve EBITDA margins, going forward.
- Besides power generation, NTPC is also foraying into power distribution, as it plans to have 1000MW capacity by FY12. The company also expects its trading volumes to increase more than 4-fold from 2.66bn units to 10bn units by FY12.
- It plans to improve its sourcing capability of raw materials, as it intends to bid for coal mines which will have capacity of 15mn tpa by FY12 and 47mn tpa by FY17.
- Only recently, the company has acquired TELK from Kerala Government to manufacture, market and service transformers.
- In our view, given that a positive investment scenario in the power sector has been building up, NTPC, with its good track record would be a good investment opportunity. With its aggressive expansion plans, diversification in terms of power generation from thermal to other alternative energy sources would likely improve margins. While its diversification into the transformer businesses will improve the returns to shareholders (As per regulations the utilities have 14% cap on their ROE, but due to the diversification to transformer segment would help increase ROE)
- The stock trades at 20.7x FY08E and 19.0x FY09E earnings.

Financial Snapshot

(RsCr)

For year to March 31,	2005	2006	2007	2008 E	2009 E
Net Sales	23516.10	27575.40	33875.70	36111.19	39861.98
Growth	-	17.3%	22.8%	14.8%	15.6%
Profit After Tax	5844.06	6553.05	6909.48	7675.68	8441.97
Growth	-	12.1%	5.4%	11.1%	10.0%
EBITDA margins	28.5%	28.2%	29.9%	29.6%	30.5%
EPS (Rs)	7.09	7.95	8.38	9.39	10.20
Book value (Rs)	41.11	45.11	49.87	64.64	70.70
Paid-up Equity Cap	8245.5	8245.5	8245.5	8245.5	8245.5
P/E (x)	12.1	16.9	17.9	20.7	19.0
P/B (x)	2.1	3.0	3.0	3.0	2.8
P/S (x)	12.2	16.0	13.5	4.5	4.0

E - Consensus Analysts Estimates

Reliance Energy Ltd.

April 3, 2008

Price: Rs1189.45

52 wk High/Low: 2632 / 451

MCap: Rs281bn

Company Background

Reliance Energy Ltd. (REL), erstwhile Bombay Suburban Electric Supply Ltd. (BSES), was incorporated in 1929 as an electricity supplier to the suburbs of Mumbai. It was acquired by Reliance in 2003. The company currently distributes 28bn units of electricity to cover 25mn customers in an area spanning over 124,300 sq. kms. The company also generates 941MW of electricity in Maharashtra, Andhra Pradesh, Kerala, Karnataka and Goa. The company has emerged as a leading player in the EPC segment of the power sector.

Highlights

- Given the backdrop of the huge power shortage (peak power deficit of around 14%) in India, we expect significant activities in the sector over the next decade and have a positive view on the sector.
- REL is planning to expand its generation capacity from current 1,000MW to 15,000MW over the next 4-5 years (an investment of Rs606Bn). Considering the track record of the Reliance ADA group, we believe this exponential increase in capacities will create substantial value for investors.
- The company's EPC business saw a strong growth in FY07. REL has entered in an agreement with Shanghai Electric Power Co. Ltd. (SEPCO) for equipment supply. This agreement provides a cost advantage to the company as SEPCO's equipment costs are 10-15% cheaper than that of Indian component suppliers.
- REL has already secured Sasan project (Ultra mega power project) following the disqualification of Lanco Infratech Ltd.
- REL has 44.96% stake in recently listed Reliance Power Ltd (RPL). RPL plans to generate 27000MW power by 2017. The company has a market cap of Rs728bn.
- Recently, the company has announced a buy-back of 5mn shares for Rs8bn (Rs1600 per share).
- We believe the high governmental interference in the sector, availability of fuel, and slow pace of reforms are the major concerns. At the company level, besides these concerns, timely execution is critical.
- The stock trades at 29.6x FY08E and 25.2x FY09E earnings.

Financial Snapshot

(RsCr)

For year to March 31,	Standalone			Consolidated		
	2005	2006	2007	2007	2008 E	2009 E
Net Sales	4152.11	3955.76	5769.30	6909.20	6468.50	7576.95
Growth	6.8%	12.7%	38.9%	-	-6.4%	17.1%
Profit After Tax	467.86	642.13	809.03	835.97	925.49	1,036.20
Growth	31.2%	37.2%	26.0%	-	10.7%	12.0%
EBITDA margins	14.3%	17.6%	8.6%	8.0%	10.4%	11.6%
EPS (Rs)	25.21	30.24	35.40	36.57	40.14	47.22
Book value (Rs)	310.97	366.60	408.59	417.13	433.56	464.27
Paid-up Equity Cap	185.61	212.36	228.57	228.57	228.53	228.53
P/E (x)	21.0	20.2	14.0	13.5	29.6	25.2
P/B (x)	1.7	1.7	1.2	1.2	3.0	3.0
P/S (x)	12.8	16.7	30.2	28.6	4.7	4.0

E - Consensus Analysts Estimates

Tata Power Company Ltd.

April 3, 2008

Price: Rs1159.30

52 wk High/Low: 1641 / 491

MCap: Rs255bn

Company Background

Tata Power Company Ltd. (TPCL) is India's largest private sector power utility, with an installed generation capacity of over 2300 MW.

It has a presence in all the segments of the power sector, viz. generation (thermal, hydro, solar and wind), transmission and distribution. In FY07 the company won the bid for the first 4000 MW Ultra Mega Power Project at Mundra (Gujarat) and has successful public-private partnerships in generation, transmission and distribution - North Delhi Power Ltd. with Delhi Vidyt Board for distribution in North Delhi, Powerlinks Transmission Ltd. with Power Grid Corporation of India Ltd. for evacuation of Power from Tala hydro project in Bhutan to Delhi and Maithon Power Ltd. with Damodar Valley Corporation for a 1050 MW Mega Power Project.

Highlights

- Indian power sector is facing a shortage of 14,000MW at peak hours. 11th plan has envisaged a power capacity addition of 132,000MW by 2012. Even if the targeted capacity addition is achieved, India is likely to face a shortage of 30,000MW due to strong economic growth.
- TPCL is India's largest power utility in private sector with strong capability of executing large projects. We believe the company's aggressive forays into mega power projects, strategies such as diversifying Maharashtra power projects, intentions to enter into nuclear power projects and hydel projects will help improve the revenue streams over a period of time. We are also positive about the company's track record of nearly nine decades in India.
- TPCL has plans to expand the generating capacity from 2,300MW to 10,000MW by 2012. The capex planned in respect of the same is Rs10,000Cr over next 3 years, of which Rs2600Cr will be during FY08.
- In FY07, the company won the bid for 4,000MW Mundra Ultra Mega power project at a levelised tariff of Rs2.26 per unit. The cost of project is expected to Rs17,000Cr, which it will finance through a debt to equity mix of 80:20. For sourcing coal for the project, TPCL has recently acquired a 30% stake in Indonesian thermal coal companies owned by PT Bumi Resources Tbk. It has signed an off-take agreement which entitles it to purchase 10mn tonnes coal per annum for an initial period upto 2021, which is extendable thereafter.
- Maithon Power Ltd. (a TPCL: Damodar Valley Corporation Ltd. JV in proportion of 74:26) would likely achieve financial closure in the current year while production will commence during 2011.
- Its Trombay plant of 250MW will be commissioned by second half of 2008 as per schedule.
- 78% of FY07 revenues consist of revenues from Maharashtra and surrounding areas. Going forward, since most of the new capacities are coming outside Maharashtra, we believe the revenue share of other parts of the country will improve.
- The stock trades at 28.5x FY08E and 25.0x FY09E earnings.

Financial Snapshot

(RsCr)

For year to March 31,	2005	2006	2007 E	2008 E	2009 E
Net Sales	5014.94	5610.68	6460.13	7377.47	8159.48
Growth	0.0%	11.9%	15.1%	14.2%	10.6%
Profit After Tax	458.49	502.39	711.69	848.05	965.59
Growth	-15.8%	9.6%	41.7%	19.2%	13.9%
EBITDA margins	23.0%	17.3%	16.5%	18.2%	20.5%
EPS (Rs)	23.17	25.39	35.97	40.66	46.29
Book value (Rs)	248.70	277.03	304.41	318.97	352.76
Paid-up Equity Cap	197.88	197.88	197.88	208.59	208.59
ROE	9.3%	9.2%	11.8%	12.7%	13.1%
P/E (x)	15.4	22.8	14.2	28.5	25.0
P/B (x)	1.4	2.1	1.7	3.6	3.3
P/S (x)	8.4	15.0	13.0	3.4	3.1

E - Consensus Analysts Estimates

Bharati Shipyard Ltd.

April 3, 2008

Price: Rs502.25

52 wk High/Low: 865 / 316

MCap: Rs14bn

Company Background

Bharati Shipyard Ltd. (BSL) is engaged in designing and construction of different types of sea-going, coastal, harbour and inland crafts and vessels. The company has developed a product line from the simple inland cargo barges to deep-sea trawlers and dredgers to manoeuvrable and ocean-going tractor tugs, cargo ships, tankers and vessels required by the offshore industry.

BSL currently has four shipyards, located at Ghodbunder (Thane), Ratnagiri and Kolkata and Goa (owned by subsidiary Pinky Shipyard).

Highlights

- Indian shipyard industry is witnessing a strong order flow from export as well as domestic market. BSL is one of the significant players in the shipbuilding industry which we believe has immense opportunities over the next 2-3 years.
- BSL has an order book of Rs44bn which is expected to be executed over next 2-3 years. Recently the company has been able to win large size orders, including a \$65mn order from Norwegian Offshore Shipping I Ltd. and a \$64.8mn contract with Great Offshore Ltd. The company has also bagged an order for a jack-up rig, first of its kind for an Indian company.
- We believe large size orders are a positive for the company which will help it to bid for large contracts globally.
- BSL's Mangalore shipyard would likely be operational in 2008 (calendar year) and generate revenues by FY10. The company can build 8-18 vessels per annum from that shipyard, as against the current capacity of 8 vessels p.a. for all its 4 shipyards taken together.
- In September 2007, the company and Apeejay Surendra Group have proposed to set up a ship building facility in Orissa under a joint venture. This facility will be developed in three phases with an investment of Rs2200Cr.
- The current activities in the offshore oil and gas sector, global and Indian logistics boom are major demand drivers for the Indian shipbuilding industry.
- The stock trades at 15.1x FY08E and 9.5x FY09E earnings.

Financial Snapshot

(RsCr)

For year to March 31,	2006	2007	2008 E	2009 E
Net Sales	293.27	421.85	647.30	1068.13
Growth	-	43.8%	53.4%	65.0%
Profit After Tax	51.03	73.21	106.60	170.23
Growth	-	43.5%	45.6%	59.7%
EBITDA margins	29.6%	29.9%	25.5%	25.2%
EPS (Rs)	22.68	32.54	33.27	53.14
Book value (Rs)	80.50	108.79	148.45	308.20
Paid-up Equity Cap	22.50	22.50	23.80	23.80
P/E (x)	15.3	10.7	15.1	9.5
P/B (x)	4.3	3.2	3.4	1.8
P/S (x)	10.8	7.4	2.4	1.6

E - Consensus Analysts Estimates

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