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### Infrastructure - Visibility for multi year growth

Infrastructure spending has witnessed a sharp acceleration, with most of the Segments in the economy constrained in terms of capacity availability. Riding on the back of the fourth consecutive year of 8%+ GDP growth, we believe that the next three years would be eventful. The Government is pushing through investments in ports, roads, airports, electricity, etc; which is the biggest bottleneck in the sustainability of growth.

### Reasonable valuations

We maintain our positive view on the Infrastructure sector on the back of (a) continued momentum in order intake; (b) improvement in EBITDA margins; (c) robust management guidance and (d) possibility of value unlocking from subsidiaries.

### Dominant Industry Players

The industry is dominated by few big players viz Larsen and Tourbo Ltd, Hindustan Construction Ltd., Jai Prakash Associates Ltd and Patel Engineering

### Larsen and Tourbo Ltd.

L&T is the largest construction and engineering company in India, with a market share of 10-25% in most of the segments it operates in. The company is currently witnessing a significant ramp up in order inflows, led by higher infrastructure spending and pick up in industrial capex. During 3QFY07, Larsen & Toubro announced order intakes of Rs. 95 billion. So very strong stock to invest.

### JaiPrakash Associates Ltd. :-

JAL is a diversified conglomerate with interests in four business segments: E&C (mainly hydro power construction), hydro-power generation, cement, and hospitality industry. It has a niche positioning in India's hydro power segment, executing contracts in 54% of hydro power capacity during the Tenth Plan (FY05-07). Some of the huge real estate developments on land given by the government to the company, so it has a lot of excitement there and the split in the offering makes small investors come in again, so one should buy it, it is an aggressive buy.

### Hindustan Construction Ltd.

Established in 1926 by the Walchand Hirachand group, HCC is one of the oldest and largest construction companies in India with pre-qualification skills and proven execution capabilities across sectors like power, roads, bridges, ports, water irrigation and supply, urban infrastructure and pipelines. HCC specializes in the construction of technologically complex and long-gestation period projects. During 3QFY07 HCC contracted for 1,300 acre of land in Maharashtra, taking total land bank at 14,300 acres. The company is fundamentally very strong as the company has posted robust net profit of Rs. 11 Crores in September 2007 quarter as compared to 4 crores in last quarter.

### Patel Engineering Ltd.

Patel Engineering has expertise in hydro power, tunneling, irrigation, railways and roads segment. The company has market share of 22% in hydro power construction in India, has executed cumulative underground tunneling of 162kms (highest in Indian construction industry) and has access to niche technologies like RCC dams, micro tunneling, under water lake tapping, etc. During FY06-FY09, we expect Patel Engineering (standalone) to report revenue CAGR of 40%, EBIDTA CAGR of 40% and Net Profit CAGR of 26%. Given the strong order book position of Rs48b (4.4x FY07E revenue), we expect strong revenue and profit growth going forward. Also, the monetization of land bank could unlock significant value.

### Stocks To Watch Under Infrastructure Sector :-

- Jaiprakash Associates Ltd.. (Current Market Price Rs.1815)
- Larsen and Tourbo Ltd. (Current Market Price Rs.4160)
- Hindustan Construction Ltd. (Current Market Price Rs.204)
- Patel Engineering Company. (Current Market Price Rs.770)
- IVRCL Infrastructure Ltd. (Current Market Price Rs.475)
- Nagarjuna Construction Ltd. (Current Market Price Rs.316)

### Buy and Hold Recommendation

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**Thanks**  
**PMS Team**