

Patel Engineering

Performance Highlights

For 3QFY2010, Patel Engineering (PEL) posted tad above Top-line performance on a consolidated basis, but surprised on the Margin front. Bottom-line also surpassed expectations. However, management acknowledged that problems in Andhra Pradesh have elongated the working capital (WC) cycle, but funds garnered from the recently concluded QIP issue lent interim relief. On the Real Estate front, the company's two launches in Bengaluru and Noida have met with good response. We have marginally upgraded FY2010 Margins and rolled over to FY2012E. **We maintain a Buy on the stock.**

Overall good performance: PEL reported decent Top-line growth of 28% to Rs633cr (Rs495cr) and tad above our estimate. EBITDA Margins for the quarter came in at 18.8% (18.1%), which exceeded our estimate and surprised us. Interest and Depreciation costs were in line with our estimates. Bottom-line grew 35% to Rs44.4cr (Rs32.9).

Outlook and Valuation: PEL has an Order Backlog of Rs6,300cr (L1 for 3,000cr) – Hydropower (47%), Irrigation (45%) and Transportation (8%) - which renders Revenue visibility for the next couple of years. It may be noted here that the company's Order Book is skewed towards the high-gestation Hydropower Segment, which elongates the average execution period of the Order Book. Therefore, consistent order inflow is a must to maintain and achieve management's guidance of 20-25% growth over the next couple of years. At current levels, the stock is trading at attractive valuations of 10.6x and 10.0x FY2011E and FY2012E Earnings adjusted for the value of Real Estate (Rs103/share). We believe these valuations are attractive considering the company's good Return Ratios, growth opportunities and overall positive outlook for the Sector. **Hence, we maintain a Buy on the stock, with a revised Target Price of Rs569 (Rs542 earlier).**

Key Financials (Consolidated)

Y/E March (Rs cr)	FY2009	FY2010E	FY2011E	FY2012E
Net Sales	2,460	3,026	3,619	4,219
% chg	32.3	23.0	19.6	16.6
Net Profit	180.5	196.9	218.9	232.7
% chg	18.8	9.1	11.2	6.3
FDEPS (Rs)	30.2	28.2	31.3	33.3
EBITDA Margin (%)	15.8	17.1	16.2	15.8
P/E (x)	14.4	15.5	13.9	13.1
RoAE (%)	19.6	18.1	17.3	15.7
RoACE (%)	14.8	17.0	15.0	13.5
P/BV (x)	2.6	2.6	2.2	1.9
EV/Sales (x)	1.4	1.4	1.2	1.3
EV/EBITDA (x)	8.6	7.9	7.7	8.1

Source: Company, Angel Research

BUY

CMP	Rs437
Target Price	Rs569

Investment Period	15 Months
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Stock Info

Sector	Infrastructure
Market Cap (Rs cr)	3,047
Beta	0.9
52 WK High / Low	526/103
Avg. Daily Volume	79156
Face Value (Rs)	1
BSE Sensex	16,290
Nifty	4,853
Reuters Code	PENG.BO
Bloomberg Code	PEL@IN

Shareholding Pattern (%)

Promoters	45.5
MF/Banks/Indian FIs	13.7
FII/NRIs/OCBs	14.7
Indian Public	26.1

Abs. (%)	3m	1yr	3yr
Sensex	(0.4)	80.9	14.1
PEL	(2.1)	205.7	(6.4)

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Exhibit 1: 3QFY2010 Performance (Consolidated)

Y/E March (Rs cr)	3QFY10	3QFY09	% chg	9MFY10	9MFY09	% chg
Net Sales	633.0	494.7	28.0	1,884.0	1,494.9	26.0
Total Expenditure	513.8	405.3	26.8	1,545.6	1,253.4	23.3
Operating Profit	119.2	89.3	33.4	338.4	241.4	40.2
OPM (%)	18.8	18.1	-	18.0	16.1	-
Interest	24.2	21.0	15.2	81.2	57.8	40.3
Depreciation	32.3	19.7	64.2	95.5	53.4	79.0
Non Operating Income	7.0	2.7	-	23.0	18.4	25.5
Non-Recurring items	0.0	0.0	-	0.0	0.0	-
Profit Before tax	69.6	51.3	35.6	184.8	148.6	24.4
Tax	21.3	15.9	34.0	54.3	47.5	14.2
Net Profit before MI	48.3	35.4	36.4	130.6	101.1	29.2
PAT (%)	7.6	7.2	-	6.9	6.8	-
Minority Interest (MI)	4.0	2.5	59.3	9.2	6.9	32.5
Net Profit after MI	44.4	32.9	34.6	121.4	94.2	28.9
Adj. PAT (%)	7.0	6.7	-	6.4	6.3	-
Adj. FDEPS (Rs)	6.6	5.5	19.7	19.5	15.8	23.7

Source: Company, Angel Research

Order Book Position

PEL's outstanding Order Book position, as of 3QFY2010, stood at Rs6,300cr (excluding the L1 orders worth Rs3,000cr). The Order Book composition continues to be dominated by high gestation and margin Hydro Power projects works, followed by Irrigation related contracts and Transportation related works. It should be noted here that these Rs3,000cr worth of orders are pending confirmation since the last 5-6 months and would lend the required boost to the Order Book once confirmed, which management is confident will happen during 4QFY2010. We believe that order inflow news would act as a positive trigger for the stock.

Outlook and Valuation

We expect the company to post a CAGR of 20% on the Top-line front over FY2009-12E. However, we are factoring in lower Margins to be on the conservative side. Hence, we expect Bottom-line to register CAGR of 9% over FY2009-12E on the back of lower Margins and high Interest costs (due to high working capital needs and higher investments in subsidiaries).

On the Valuation front, the stock is trading at attractive valuations of 10.6x and 10.0x FY2011E and FY2012E Earnings respectively, adjusting for the value of Real estate (Rs103/share). We believe that these valuations are attractive considering the company's good Return Ratios, growth opportunities and overall positive outlook for the Sector. **Hence, we maintain a Buy on the stock, with a revised Target Price of Rs569 (Rs542 earlier).**

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Disclosure of Interest Statement	PEL
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Ratings (Returns) :	Buy (> 15%) Reduce (-5% to -15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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