

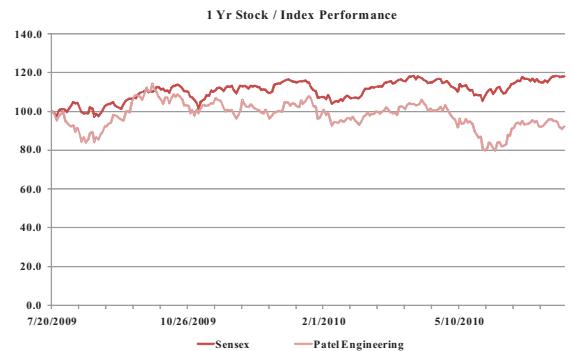
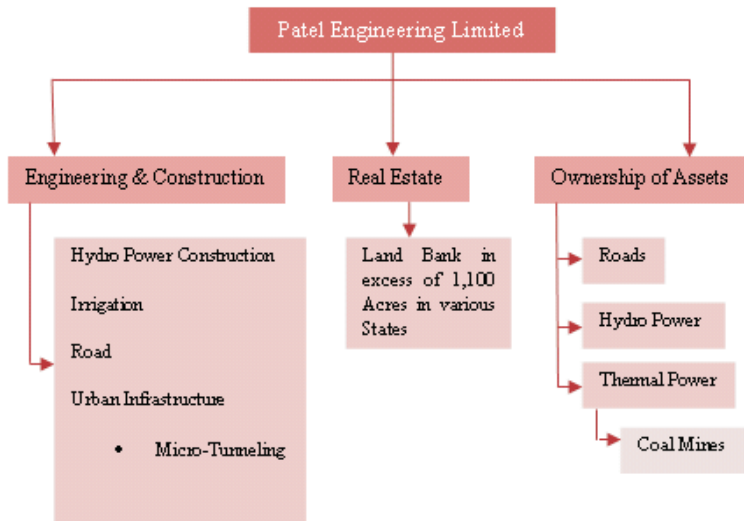


The Company

Patel Engineering Ltd. or “Patel” is an infrastructure company engaged in civil construction. The Company's projects include heavy construction, earth and rock excavations, housing complexes, building projects, dams, tunnels, bridges, refineries, factories, steel projects, thermal and hydro power house, pre-stressed and pre-cast concrete, marine works, and public health works. Patel’s subsidiaries include Patel Engineering (Mauritius) Ltd., Patel Energy Resources Pvt. Ltd., Patel Realty (India) Ltd., Patel Engineering (Singapore) Pte. Ltd., Patel Engineering Infrastructure Pvt. Ltd., Friends Nirman Pvt. Ltd., Patel Concrete & Quarries Pvt. Ltd. and Patel Engineering Inc., among others.

Industry: Engineering and Construction

Current Price	413
Target Price	517
Market Cap (Cr.)	2886
52 Week H/L	526/340
FV	1
Book Value/Share	195
BSE Sensex	17928
NSE Nifty	5386
BSE Code	531120
NSE Code	PATELENG
Reuters Code	PENG.NS
Bloomberg Code	PEC:IN



Particulars	FY 09	FY 10	FY 11E	FY 12E
Net Revenue	2459.8	3190.9	3768.6	4436.6
Operating Exp.	2070.2	2682.3	3193.9	3760.0
EBITDA	389.7	508.7	574.7	676.6
Profit after Tax	136.4	198.2	195.1	234.0
EPS	22.9	28.4	27.9	33.5
ROE%	13.4%	14.5%	12.7%	13.4%
ROCE%	4.9%	5.5%	4.8%	5.1%
EV/EBITDA	8.9	8.8	8.4	7.7

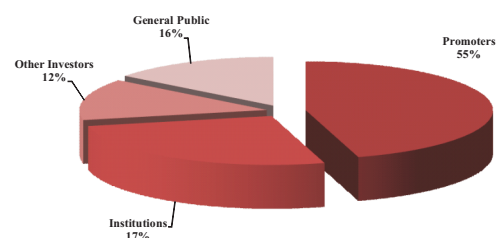
Investment Rationale

Foray into Power Generation to Unlock significant value in Future

To utilize its vast experience in the Power sector as Contractor and considering the huge demand-supply mismatch in terms of Energy availability in the country, Patel formed Patel Energy Resources Ltd. in 2008.

Under this, the company is developing a 1050 MW Power plant at Nagapattinam in Tamil Nadu. The land for the project has been

Share Holding Pattern as on Mar 31, 2010



Tapan Trivedi

Tel - 0484-2796211

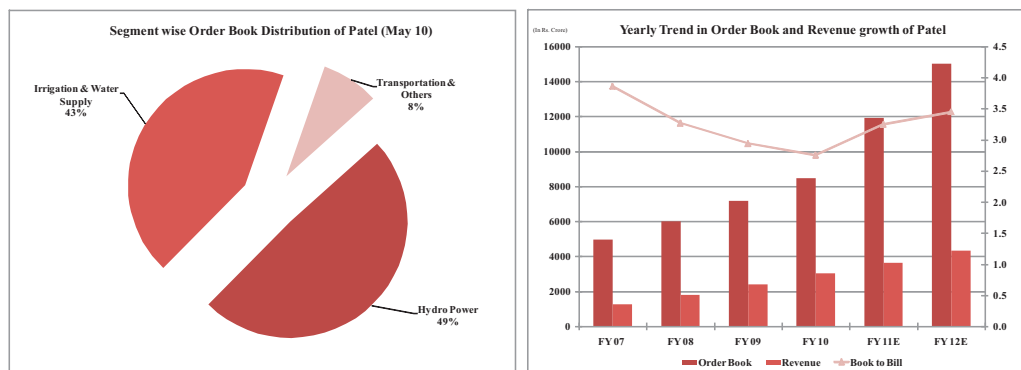
Email: tapan.trivedi@jrg.co.in

acquired while Coal linkages are also in place. Though the company was expecting financial closure for the aforesaid project to be completed by first quarter of FY 11, it got delayed and is now expected to be achieved by the end of CY 2010 only. The Power Generation plant, once implemented is expected to add significant value to the Top as well as the Bottom-line of the company. The company has already invested more than Rs 300 Crore in the project wherein to unlock the value of its investment, it is looking for a strategic partner for diluting some stake in the Project.

Other than Thermal Power plant, the work is also under process for setting up a 140 MW Hydro-Power project in Arunachal Pradesh.

Order Book of over Rs 8500 Crore provides strong Revenue visibility

The current Order Book of Patel stands at around Rs 8500 Crore on a consolidated basis which is well diversified into the different segments of Hydro-Power (Rs 4175 Crore), Irrigation and Water Supply (Rs 3650 Crore) and the balance into Transportation and Other segments. Other than this, the company is L1 in Order of around Rs 1500 Crore and which have a strong probability for conversion.



Source: Company Data, JRG Research

The Order backlog of over Rs 8500 Crore is more than 2.7X its FY 10, Net Sales of Rs 3191 Crore and provides a strong visibility for future financial performance. The Central and the state governments are investing heavily for the development of the Water and Irrigation facilities in the country and Patel being one of the highly experienced player in that segment is expected to grab a lot of orders in that space going forward. The company expects 60-70% growth in order book for FY11 on back of Rs 2,000 Crore orders, (where it is pre-qualified) while in addition expects Rs 3,000 Crore worth of internal orders (from Power and Real-Estate subsidiaries). We anticipate the Order book to grow at a CAGR of around 33% over the next two years and rise to over Rs 15000 Crore (FY 12E).

Patel developing a Township in Mauritius

In Mar 10, Patel through its subsidiary bagged a \$1 Bln project in Mauritius which

involves development of an integrated township within the capital city of Port Louis. This project involves construction of hotels, casinos, gaming centers and would have the largest waterfront development in the southern hemisphere. The first phase of the project is expected to be executed in about 3 years while the total project should be completed about 7 years.

Patel has sold 1% stake in the project for Rs 30 Crore wherein the investor has an option to pick up a 10% stake at the same valuation within a year. Following this stake sale, the project has been valued at above Rs 3000 Crore while the total estimated revenue potential from this project stands at around Rs 4500 Crore.

Diversification of Revenue through BOT/BOOT Projects

After gaining Technological expertise in the area of Construction, development of Hydro-power plants and Roads; the company is further leveraging its experience by owning infrastructure assets in these segments. Patel currently has two BOT road projects; one in Karnataka build at a cost of over Rs 425 Crore and is already operational while the other project in Andhra Pradesh build at a cost of around Rs 600 Crore is expected to be completed soon. These BOT projects are expected to provide steady Annuity based revenue for the next many years to the company.

Real Estate Venture to generate healthy Cash-flows in the future

Diversifying its business model from being a pure Construction player, Patel has forayed into Real Estate, to monetize its huge land bank of over 1,100 acres in Mumbai, Panvel, Bangalore, Mysore, Hyderabad and Chennai. Other than this, the company has also formed JV's with land owners for constructing and marketing residential and commercial properties in different parts of the country.

The company has already booked around 1000 apartments in its 1.2 Mln Sq Ft Bangalore Electronic City township project (Total 1123 apartments) at an average realization of Rs 2500 per Sq Ft. Post the striking demand for the project, Patel is planning to launch another residential project coupled with a mall in Bangalore.

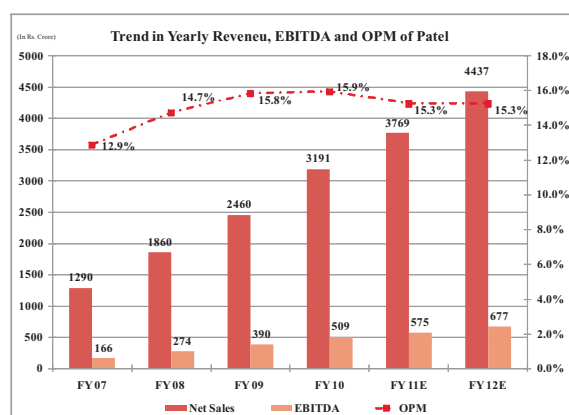
Patel has also launched a project in Noida under an SPV, PAN Realtors Pvt. Ltd. wherein Patel holds 51% stake while rest is controlled by Amrapali group and Nirala Developers. The project with a saleable area of around 2.2 Mln Sq Ft will have 1600 units in Phase I and commands firm average realization of over Rs 3500 per Sq Ft.

Valuation and Financial Projections

Financial Projections - Patel Engineering Limited				
Units: in Rs Crore	FY 09	FY 10	FY 11E	FY 12E
Net Sales	2459.8	3190.9	3768.6	4436.6
Other Income	14.0	63.0	40.0	40.0
Construction Exp	1830.5	2408.4	2854.7	3360.7
General & Admin	239.7	273.8	339.2	399.3
Total Expenditure	2070.2	2682.3	3193.9	3760.0
EBITDA	389.7	508.7	574.7	676.6
OPM	15.8%	15.9%	15.3%	15.3%
Depreciation	119.6	109.0	119.9	132.3
Interest	47.5	157.7	194.2	227.6
Tax Expense	87.8	92.9	91.7	108.8
% of Tax	37.0%	30.5%	30.5%	30.5%
Adjusted Net Profit	136.4	198.2	195.1	234.0
NPM	5.5%	6.1%	5.1%	5.2%

The company is expected to record healthy growth in financials over the next few years. By FY 12E, Patel is anticipated to clock around 18% in its Top-line to Rs 4437 Crore (FY 12E) as compared to Rs 3191 Crore (FY 10).

Due to higher growth in the Operating expenses front, the margins of the company are seen moving down a bit towards the low 15% level for the next two fiscal years. The EBITDA is seen growing at a CAGR of more than 15% and rise to Rs 677 Crore (FY 12E) as equated to Rs 509 Crore (FY 10).



Source: Company Data, JRG Research

With the company venturing into highly capital intensive business like Power Generation and executing Large scale construction projects in the different parts of the world, its interest costs are seen mounting up significantly during the period under review. Depreciation is expected to grow moderately while Interest expenses are seen jumping at a CAGR of around 20% to Rs 228 Crore (FY 12E) as against Rs 158 Crore (FY 10). The Adjusted Net Profit of Patel is seen moving up to Rs 234 Crore (FY 12E) as against Rs 198 Crore (FY 10) while the NPM's are almost flat around the 5% mark till FY 12.

Recommendation

Patel engaged in the highly growing construction and engineering verticals of the country has more than 6 decades of experience in executing turnkey contracts for Power generation, Irrigation & Water supply, Urban infrastructure development and Transportation. Over the years, Patel has diversified from a pure construction company to having presence in diverse Infrastructure verticals like Power Generation (Thermal and Hydro), Road Construction (BOT contracts) and Real Estate.

Important Ratios - Patel Engineering Limited				
Units: in Rs Crore	FY 08	FY 09	FY 10E	FY 11E
OPM	15.8%	15.9%	15.3%	15.3%
NPM	5.5%	6.1%	5.1%	5.2%
EPS	22.9	28.4	27.9	33.5
Share Capital	6.0	7.0	7.0	7.0
P/E	18.1	14.6	14.8	12.3
P/BV	2.4	2.1	1.9	1.6

At the Trailing market price of Rs 413, Patel discounts its FY 11E and FY 12E earnings by 14.8X and 12.3X respectively. The stock is trading at 7.7X its expected EV/EBITDA for FY 12E. We have valued Patel based on the SOTP valuation. We have valued its Construction business at 13X its FY11E core earnings (Rs 363) while the other Businesses of Road BOT, Real Estate and Power Generation have a cumulative valuation of Rs 154. **We recommend Investors to “Buy” the stock at current levels and Buy again if it falls in the range between 380-390 for a Target price Rs 517 in Twelve months.**

Profit and Loss Statement				
Units: In Rs Crore	FY 09	FY 10	FY 11E	FY 12E
Net Sales	2459.8	3190.9	3768.6	4436.6
% Growth	32.3%	29.7%	18.1%	17.7%
Construction Exp	1830.5	2408.4	2854.7	3360.7
% of Net Sales	74.4%	75.5%	75.8%	75.8%
General & Admin Exp	239.7	273.8	339.2	399.3
Operating Expenses	2070.2	2682.3	3193.9	3760.0
% Growth	30.6%	29.6%	19.1%	17.7%
EBITDA	389.7	508.7	574.7	676.6
% Growth	21.8%	13.1%	14.5%	17.4%
Other Income	14.5	63.0	40.0	40.0
Depreciation	119.6	109.0	119.9	132.3
EBIT	284.6	462.7	494.8	584.3
Interest	47.5	157.7	194.2	227.6
Profit Before Tax	237.0	305.0	300.7	356.7
Tax Expense	87.8	92.9	91.7	108.8
% of Tax	37.0%	30.5%	30.5%	30.5%
Adjusted Net Profit	136.4	198.2	195.1	234.0
% Growth	-10.2%	45.3%	-1.6%	20.0%

Cash Flow Statement				
Units: In Rs Crore	FY 09	FY 10	FY 11E	FY 12E
Profit Before Tax	237.0	305.0	300.7	356.7
Depreciation	119.6	109.0	119.9	132.3
Changes in WC	-780.6	-626.2	-337.9	-507.7
Other income	14.5	63.0	40.0	40.0
Direct Taxes paid	76.0	92.9	91.7	108.8
Cash from Operations	-514.5	-368.1	-49.0	-167.5
Capital Expenditure	-23.2	-300.3	-180.0	-180.0
Changes in Investments	-14.4	-19.4	-130.2	-50.0
Other income	14.5	63.0	40.0	40.0
Cash from Investing	-23.1	-256.6	-270.2	-190.0
Issue of Equity	0.0	344.0	0.0	0.0
Changes in Debt	552.5	391.2	300.0	300.0
Dividend Paid (Incl. Tax)	12.2	16.3	18.8	20.4
Other Financing activity	5.0	-157.0	0.0	0.0
Cash from Financing	540.3	718.8	281.2	279.6
Net change in Cash	7.7	-62.9	-38.0	-77.9
Opening Cash balance	287.6	295.2	232.3	194.3
Closing Cash balance	295.2	232.3	194.3	116.4

Balance Sheet Statement				
Units: In Rs Crore	FY 09	FY 10	FY 11E	FY 12E
Sources of Funds				
Share Capital	6.0	7.0	7.0	7.0
Reserves & Surplus	1011.3	1355.8	1532.0	1745.6
Net Worth	1017.2	1362.8	1539.0	1752.6
Minority Interest	21.6	61.5	71.5	81.5
Loan Funds	1281.3	1830.0	2130.0	2430.0
Contractee Advances	465.4	307.9	307.9	307.9
Deferred Tax Liability	14.8	11.5	15.0	15.0
Capital Employed	2800.3	3573.6	4063.2	4586.8
Application of Funds				
Gross Block	803.8	1103.8	1253.8	1433.8
Less: Depreciation	303.5	415.0	537.9	673.2
Net Block	500.4	689.1	715.9	760.6
Capital WIP	69.7	70.0	100.0	100.0
Investments	50.5	69.8	200.0	250.0
Current Assets	2866.3	3757.8	4146.2	4768.7
Inventories	1110.0	1803.4	1806.8	2127.1
Sundry Debtors	583.0	695.7	826.0	972.4
Cash and Bank	295.2	232.3	194.3	116.4
Loans and Advances	878.0	1026.4	1319.0	1552.8
Current Liabilities & Prov	691.5	1019.7	1108.2	1301.0
Net Current Assets	2174.8	2738.1	3037.9	3467.7
Total Assets	2800.3	3573.6	4063.2	4585.8

Key Ratios				
	FY 09	FY 10	FY 11E	FY 12E
Valuations (x)				
EPS	22.9	28.4	27.9	33.5
PER	18.1	14.6	14.8	12.3
CEPS	42.9	44.0	45.1	52.5
CPER	9.6	9.4	9.2	7.9
P/BV	0.4	0.3	0.3	0.2
Dividend Yield	0.4%	0.5%	0.6%	0.6%
EV/EBITDA	8.9	8.8	8.4	7.7
EV/Sales	1.4	1.4	1.3	1.2
EV/Total Assets	1.2	1.3	1.2	1.1
Profitability %				
EBITDA Margin %	15.8%	15.9%	15.3%	15.3%
PAT Margin %	5.5%	6.1%	5.1%	5.2%
ROCE	4.9%	5.5%	4.8%	5.1%
RONW	13.4%	14.5%	12.7%	13.4%
Efficiency Ratio				
Debtors Days	86.5	79.6	80.0	80.0
Inventory Days	164.7	206.3	175.0	175.0
Asset Turnover (Total)	0.9	0.9	0.9	1.0
Leverage Ratio				
Debt/Equity	1.3	1.3	1.4	1.4
Debt/EBITDA	3.3	3.6	3.7	3.6
Interest Coverage Ratio	5.7	2.5	2.3	2.4

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