



BUY

Price	Rs429
Target Price	Rs545
Investment Period	12months

Stock Info	
Sector	Construction
Market Cap (Rs cr)	2,560
Beta	1.0
52 WK High / Low	470/103
Avg. Daily Volume	64,334
Face Value (Rs)	1
BSE Sensex	14,645
Nifty	4,341
BSE Code	531120
NSE Code	PATELENG
Reuters Code	PENG.BO
Bloomberg Code	PEC@IN

Shareholding Pattern (%)	
Promoters	53.8
MF/Banks/Indian FIs	13.3
FII/ NRIs/ OCBs	7.1
Indian Public/others	25.8

Abs.	3m	1yr	3yr
Sensex (%)	47.9	13.0	38.0
Patel Engg(%)	204.4	40.6	48.9

Shailesh Kanani

Tel: 022 – 4040 3800 Ext: 321
e-mail: shailesh.kanani @angeltrade.com

Aniruddha Mate

Tel: 022 – 4040 3800 Ext: 335
e-mail: aniruddha.mate@angeltrade.com

Performance Highlights

- **Topline grew by a decent 33%:** Patel Engineering (PE) registered steady growth in 4QFY2009. Consolidated Sales of the company were above our expectations, increasing 33% yoy to Rs965cr (Rs727cr), on the back of a strong Order book of Rs7,200cr. For FY2009, the Top-line grew by 32% to Rs2,460cr (Rs1,860cr). Going ahead, PE is expected to continue its good performance and post a CAGR of 21.3% in its top-line.
- **Operating Margins higher than peers:** PE enjoys higher Margins than its peers, as it caters to technology-intensive businesses like Hydro Power and Upstream Irrigation Systems. For 4QFY2009, the company's OPM at 15.4% (14.5%) exceeded our estimates. The company has been clocking high Margins on account of operating efficiencies and by building in price escalation clauses in the contracts. For FY2009, PE clocked margins of 15.8% (14.7%). Going ahead, we expect the company to continue enjoying higher margins.
- **Net Profit at 25%, thanks to interest claims:** PE posted Net Profit growth of 25.2% for 4QFY2009 to Rs63.2cr (Rs50.5cr). This was mainly on account of interest claims of Rs80cr, which have been adjusted against the interest costs. Moreover, there has been huge jump (105%) in the depreciation costs to Rs66.2cr (Rs32.3cr), which was mainly because of its US subsidiary. On the Tax front, the company maintains that it is entitled to avail of Section 80IA benefits. Thus, it provided Tax at only 22%. Yet, we have adopted a conservative approach and factored in Tax at a marginal rate.
- **Robust Order Book:** PE has a robust Order book of Rs7,200cr (2.9x its FY2009 Revenues) as on 31st March 2009. There has been a change in its Order book mix towards Hydro Power Projects (with higher Margins). It has been PE's policy to concentrate on high-Margin projects and to enjoy an optimum utilisation of resources. Currently, Hydro Projects contribute 45%, Transportation, 15%, and Irrigation, 40%, of the company's total Order book. As of today, PE's order book is at Rs10,000cr, which shows that the traction in the order book in 2QCY2009 was good for the company. Additionally, PE is L1 for orders worth Rs2,500cr.

Key Financials (Consolidated)

Y/E March (Rs cr)	FY2008	FY2009	FY2010E	FY2011E
Net Sales	1,860	2,460	3,026	3,619
% chg	43.5	32.3	23.0	19.6
Net Profit	151.9	180.5	165.8	219.9
% chg	34.4	18.8	(8.2)	32.7
FDEPS (Rs)	25.4	30.2	27.8	36.8
EBITDA Margin (%)	14.7	15.8	14.7	15.6
P/E (x)	16.9	14.2	15.5	11.6
RoE (%)	19.6	19.6	15.5	17.7
RoCE (%)	14.8	14.8	13.7	14.6
P/BV (x)	3.0	2.6	2.2	1.9
EV/Sales (x)	1.7	1.3	1.2	1.1
EV/EBITDA (x)	11.5	8.4	8.0	7.1

Source: Company, Angel Research

Outlook and Valuation

The Infrastructure Sector has embarked on a strong Public Private Partnership (PPP) mode, changing from the earlier, public investment driven mode. A growing complexity in jobs has resulted in domestic construction companies joining hands with global leaders to improve their pre-qualifications for bagging orders. Investment in infrastructure is expected to be around US \$500bn over the next four to five years, which would provide a substantial opportunity to players in the segment.

Therefore, PE is currently facing a good traction in order inflows; this is positive for the company, especially considering that orders were expected to dry out with this being an election year. We expect the company to post a CAGR of 21% over the next two years on the Top-line front, and expect it to continue enjoying high Margins. We have accordingly assigned a similar P/E-multiple to the stock compared to its peers, even though there is an overhang to scrip as the company claims the 80IA benefit.

We have valued PE on SOTP methodology. We have assigned its Core Construction business a PE of 12x FY2011E EPS of Rs36.8. Its Real Estate arm has been valued at a huge discount, using the NAV method, at Rs103/share. In the recent past, the stock had witnessed a sharp appreciation, in line with its construction peers. We believe that, at the current levels, PE is available at reasonable valuations. At Rs429, the stock is trading at 11.6x its FY2011E EPS of Rs36.8, on a consolidated basis without considering its real estate venture. **We recommend a Buy on the stock, with a Target Price of Rs545.**

Exhibit 2: Quarterly Performance (Consolidated)

Y/E March (Rs cr)	4QFY2009	4QFY2008	% chg	FY2009	FY2008	% chg
Net Sales	965.0	726.8	32.8	2,459.8	1,859.6	32.3
Total Expenditure	816.8	621.6	31.4	2,070.2	1,585.6	30.6
Operating Profit	148.2	105.1	41.0	389.7	274.0	42.2
OPM (%)	15.4	14.5	-	15.8	14.7	-
Interest	(10.3)	15.9	(164.9)	47.5	29.5	61.1
Depreciation	66.2	32.3	104.9	119.6	62.7	90.7
Non Operating Income	(3.9)	0.0	-	14.5	3.7	291.9
Nonrecurring items	0.0	0.0	-	0.0	0.0	-
Profit Before tax	88.5	57.0	55.3	237.0	185.5	27.8
Tax	19.4	3.7	428.1	43.6	22.7	92.2
Net Profit before MI	69.1	53.3	29.6	193.4	162.8	18.8
PAT (%)	7.2	7.3	-	7.9	8.8	-
Minority Interest (MI)	5.9	2.8	108.9	12.9	10.9	18.4
Net Profit after MI	63.2	50.5	25.2	180.5	151.9	18.8
Adj. PAT (%)	6.6	6.9	-	7.3	8.2	-
Adj. FDEPS	10.6	8.5	25.2	30.2	25.4	18.8

Source: Company, Angel Research



Research Team: Tel: 4040 3800

E-mail: research@angeltrade.com

Website: www.angeltrade.com

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