

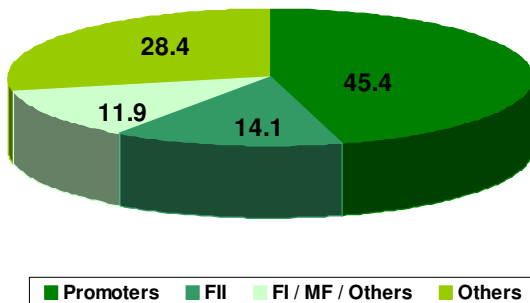
## Patel Engineering Ltd.

16 April 2010

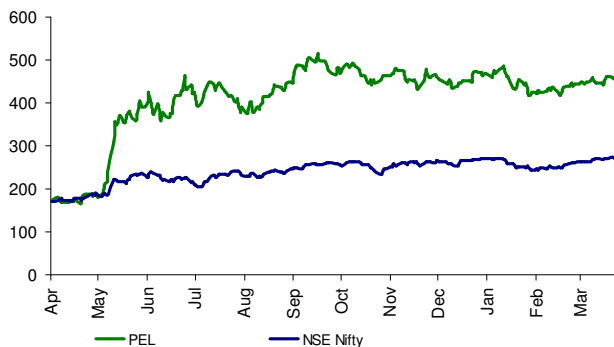
Buy

Industry	Civil Construction
CMP (INR)	463
52 week High/Low (INR)	526 / 151
Market Cap (INR MN)	32,286
3M Avg. Daily Volumes	59,668
Industry P/E (TTM)	29.6
PEL P/E (TTM)	20.7

### Shareholding Pattern (%)



### Stock Performance (Last one year)



### Performance (%)

	1 Month	3 Months	1 Year
PEL	4.1	0	171.9
NIFTY	3.5	0.8	58.7

\* Source: Capitaline, Unicon Research

We met the management of Patel Engineering Ltd (PEL) –for an outlook of the company’s business and strategy. Following are the key takeaways from the management meet

### Key Takeaway

#### Sound Order book provides earning visibility

PEL’s current order-book stands at INR 63bn. PEL is also lowest bidder for projects worth INR 30bn. Out of INR 30bn, projects worth INR 20bn are expected from Hydro Power segment. While Hydro-Power segment contributes ~48% to the current order-book, 43% is contributed by Irrigation and the remaining 9% is from Transportation & other segment. Going forward, PEL expects, Hydro-power to contribute ~50% to the order-book.

#### Work progress in Andhra Pradesh at snail speed

One of the major projects of the company under Pranahita Chevella Lift Irrigation Scheme (~INR 20bn) in the state of AP is on halt owing to the geo-political disturbance. Of the total order-book, projects worth INR 22bn (~23%) is tilted towards Andhra Pradesh. Further, ~INR 1,250Mn of fund is blocked in the form of receivables from the State. For FY11E, in our view, the geo-political disturbance will lead to a) extended order-book to sales ratio b) margin under pressure due to delayed project execution, higher interest outgo and extended working capital cycle upto 185-190 days

### Growth strategy

PEL is exploring growth opportunities in the state of Maharashtra / Gujarat / Karnataka and Madhya Pradesh. Besides, consolidating its position in the hydro power, irrigation and urban infrastructure segment, both in the domestic market as well as abroad, PEL intends to own assets in the Power and Road sectors with diversification across geography and different business verticals. Currently, PEL owns a) power assets (1,320MW thermal power, 90MW of Hydro Power) and b) two road projects on annuity basis.

### Power Business Update

For its ambitious thermal power project of 1,320MW in the state of AP, PEL has received approval from Government of India for Coal linkage from Mahanandi Coal field of Coal India Ltd. Coal deliveries are expected by end of FY12E. This will meet ~50% of its coal requirement and rest 50% would be met from company’s Indonesian mine. To fund the project cost, PEL would dilute its stake (but to retain the majority stake) which is expected over Q1/Q2FY11E.

### Real-Estate

PEL has FDI compliant, Land bank of ~1,100 acres which would be developed in phased manner and revenue is expected to flow in from FY12E.

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## Patel Engineering Ltd.

### Mauritius Project Update

Recently, PEL's subsidiary has been awarded a contract for the development of the largest Waterfront project in Mauritius. The project envisages development of an integrated township within the capital city of Port Louis. PEL has to develop the Master Plan to establish Port Louis as the commercial hub in the Indian Ocean region. The Master Plan is expected to be submitted over next two quarters. For the project, PEL has taken ~60 acres of land (70% developable) on lease for 99 years from the Govt. of Mauritius. This project involves construction of tourist heritage centre, apartments complex, office building, shopping malls, entertainment hub, marine garden etc, spanning a built up area of over 10 million sq ft. PEL expects to generate gross revenues over ~INR 45bn over seven years starting from FY13E and onwards.

### Stable and sustainable EBITDA margin outlook

PEL derives revenue predominantly from the Irrigation and Power segment (~88%) wherein the operating margins are rich (above 12%) compared to other civil construction and road contracts (sub 10.5%). Despite the rising commodity price regime, we believe PEL would sustain its EBITDA margin above 15% (Q3FY10 – 18%), as over 70% of its order-book has price escalation clause.

### Others

PEL, current debt stands at ~INR 16bn with cash on hand of ~INR 1-1.1bn. PEL expects to incur ~800Mn towards capex for FY11E. Company's current cost of debt is ~9.5% and is expected to rise by 50bps over coming quarters

### Outlook

Since FY04, PEL's order-book has grown from INR 15.48bn to INR 72bn (FY09) witnessing compounded average annual growth rate (CAGR) of ~31.3%. During same period, revenue and PAT grew at a CAGR of 38% and 28.5% respectively. While there could be slippage of revenue, owing to slow work progress in the state of AP, in our view, it would not be significant. The current order-book is 3.7x its FY09 revenue and provides revenue visibility over FY12E.

### Valuation

At the CMP of INR 463, stock trades at 12.1x its FY12E consensus per share earning of INR 37.2. Given the available sector opportunity and PEL's potential to tap it, the growth trajectory is expected to maintain its momentum over forthcoming years, and risk reward ratio at current market price is favourable, Buy for long term capital appreciation.

### Concerns

Key risks to our rating would be prolonged delay in project execution in general and particularly in the state of AP, commissioning of Power business.



# Patel Engineering Ltd.

## Unicon Investment Ranking Methodology

Rating	Buy	Accumulate	Hold	Reduce	Sell
Return Range	>= 20%	10% to 20%	-10% to 10%	-10% to -20%	<= -20%

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