

August 13, 2010

Rating	Accumulate
Price	Rs411
Target Price	Rs484
Implied Upside	17.7%
Sensex	18,167

(Prices as on August 13, 2010)

Trading Data

Market Cap. (Rs bn)	28.7
Shares o/s (m)	69.8
Free Float	54.51%
3M Avg. Daily Vol ('000)	224.5
3M Avg. Daily Value (Rs m)	89.3

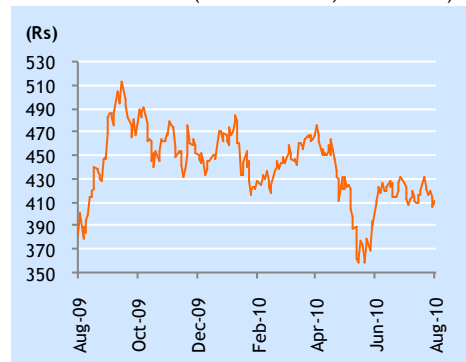
Major Shareholders

Promoters	45.49%
Foreign	14.92%
Domestic Inst.	10.95%
Public & Others	28.64%

Stock Performance

(%)	1M	6M	12M
Absolute	(3.7)	(4.2)	3.4
Relative	(4.7)	(16.7)	(13.7)

Price Performance (RIC: PENG.BO, BB: PEC IN)



Source: Bloomberg

■ **Consolidated revenue growth satisfactory:** Patel Engineering Company (PEC) has posted a 9.2% YoY top-line growth for Q1FY11 at Rs7bn; this was in line with our estimates. However, on a standalone basis, the company posted revenues of Rs5bn, registering a 2.2% YoY growth, which shows that the Indian operations have taken a hit due to the Telangana issue. Contribution from the subsidiaries to the total sales increased to 30.7% from 25.9% in Q1FY10.

■ **Consolidated EBITDA margins outperform again:** EBITDA margins continued to fare better in the current quarter at 16.9% (44bps improvement YoY) as against our estimates of 15.7%. However, on a standalone basis, PEC reported EBITDA margin of 16.2% (110bps improvement YoY). PAT after minority interest grew at 10% YoY at Rs401m. However, PAT growth was flat at Rs256m on a standalone basis. PEC's US and Indian subsidiaries, *ASI* and *Michigan* contributed Rs1.7bn to the sales and Rs150m to PAT.

■ **Order book:** PEC's current order book stands at Rs95bn. Of this, 10% is from subsidiaries and balance from PEC. During the quarter, the company has been declared L1 for orders aggregating to Rs15bn. Order book for AP stands at Rs30bn and outstanding from AP stands at R1.9bn.

■ **Updates:** PEC has infused equity of Rs2.5bn in the power project, where land for the first phase of 1050MW is acquired and coal linkages from Mahanadi coal fields are secured. The company has sold 1000 apartments in Bangalore real estate project and is expected to realise Rs2.4bn on sales in the next 24-30 months.

■ **Valuations:** At CMP of Rs411, PEC trades at 9.6x FY11E and 8x FY12E earnings. However, our estimates don't fully include real estate and BOT revenues as the consolidation has not started. On account of stable execution as compared to its peers, higher margins and new ventures going fine, we maintain 'Accumulate' rating.

Key financials (Y/e March)	FY09	FY10	FY11E	FY12E
Revenues (Rs m)	24,598	30,811	37,835	44,740
Growth (%)	32.3	25.3	22.8	18.3
EBITDA (Rs m)	3,897	4,892	5,893	7,100
PAT (Rs m)	1,805	1,946	2,292	2,745
EPS (Rs)	30.3	27.9	32.9	39.4
Growth (%)	18.8	(7.9)	17.8	19.8
Net DPS (Rs)	1.0	2.0	1.0	1.1

Source: Company Data; PL Research

Consolidated Nos.

EPS for FY10, 11 & 12 on diluted basis

Profitability & valuation	FY09	FY10	FY11E	FY12E
EBITDA margin (%)	15.8	15.9	15.6	15.9
RoE (%)	20.8	16.5	16.3	16.9
RoCE (%)	15.9	15.3	16.3	17.1
EV / sales (x)	1.7	1.6	1.3	1.3
EV / EBITDA (x)	10.8	10.2	8.3	7.9
PE (x)	13.6	14.7	12.5	10.4
P / BV (x)	2.4	2.1	1.8	1.6
Net dividend yield (%)	0.2	0.5	0.2	0.3

Source: Company Data; PL Research

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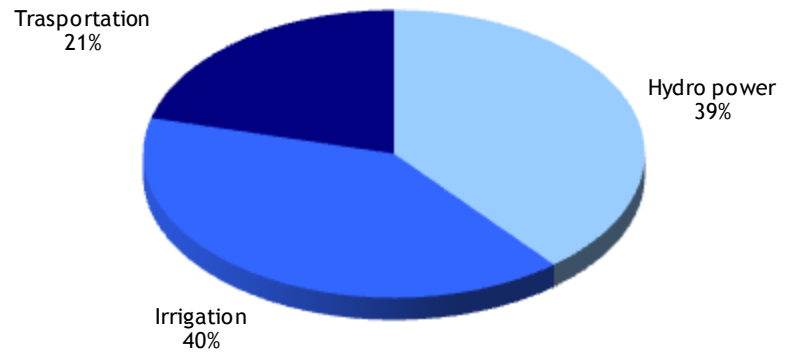

Q1FY11 Result Overview
(Rs m)

Y/e March	Q1FY11	Q1FY10	YoY gr. (%)	Q4FY10	FY11E	FY10	YoY gr. (%)
Net Sales	7,023	6,430	9.2	11,971	37,835	30,811	22.8
Expenditure							
Construction, Mfg. & Others	5,203	4,884	6.5	9,301	28,706	23,206	23.7
<i>% of Net Sales</i>	<i>74.1</i>	<i>76.0</i>		<i>77.7</i>	<i>75.9</i>	<i>75.3</i>	
Gen & Admin Expenses	634	489	29.7	1,161	3,235	2,710	19.4
<i>% of Net Sales</i>	<i>9.0</i>	<i>7.6</i>		<i>9.7</i>	<i>8.6</i>	<i>8.8</i>	
Total Expenditure	5,838	5,373	8.6	10,461	31,942	25,917	23.2
EBITDA	1,185	1,057	12.2	1,510	5,893	4,894	20.4
<i>Margin (%)</i>	<i>16.9</i>	<i>16.4</i>	<i>44.5</i>	<i>12.6</i>	<i>15.6</i>	<i>15.9</i>	
Depreciation	256	315	(18.8)	296	1,250	1,251	(0.1)
EBIT	929	741	25.4	1,214	4,643	3,643	27.4
Interest	325	284	14.3	461	1,534	1,272	20.6
Other Income	26	78	(66.8)	270	333	500	(33.5)
PBT	630	535	17.8	1,023	3,442	2,871	19.9
Tax	188	153	22.5	374	1,050	917	14.5
<i>Tax Rate (%)</i>	<i>29.8</i>	<i>28.7</i>		<i>36.6</i>	<i>30.5</i>	<i>31.9</i>	
Recurring PAT	442	381	15.9	649	2,392	1,955	22.4
Minority Interests	42	18	130.6	(70)	100	21	367.3
PAT	401	363	10.3	719	2,292	1,933	18.6



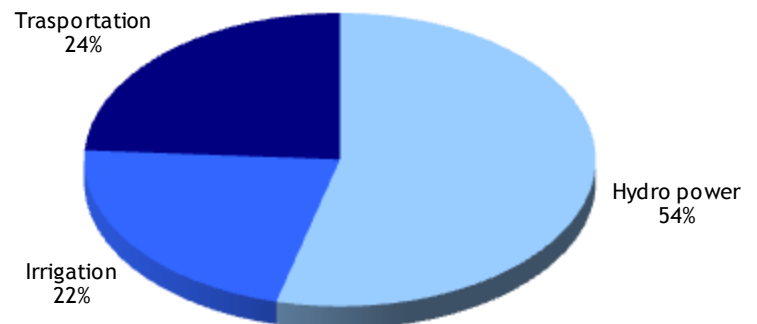
Highlights

Order book break-up



Source: Company Data, PL Research

Q1FY11 Revenue break-up



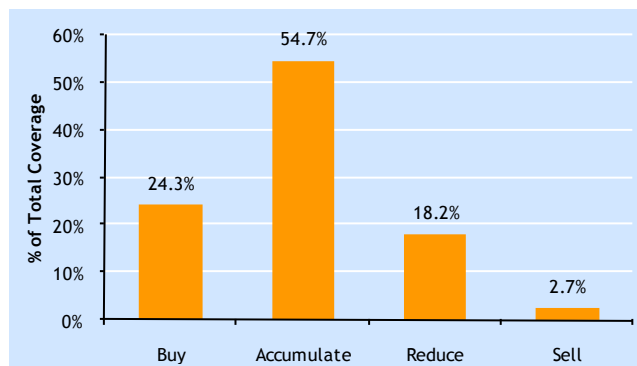
Source: Company Data, PL Research

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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