

## Construction – Civil / Turnkey - Large

## Patel Engineering Ltd.

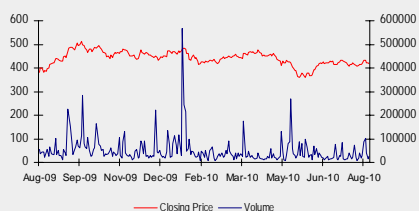
BUY

<b>CMP</b>	<b>Rs 412</b>
<b>Target Price</b>	<b>Rs 546</b>

## Key Data

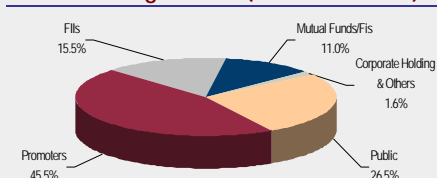
Face Value	1.00
Market Cap (Rs in mn)	28757
Total O/s Shares in (in mn)	69.8
Free Float	54.5%
52 Week High / Low	526/340
Avg. Monthly Volume (BSE)	33355
Avg. Monthly Volume (NSE)	124537
BSE Code	531120
NSE Code	PATELENG
Bloomberg Code	PEC IN
Beta	1.06
Date of Incorporation	April 1949
Last Dividend Declared	200%
Six month return	-4.54%
Indices	BSE200
FCCB's outstanding	N.A.
Warrants outstanding	N.A.

## One Year Price /Volume Chart



Source: Capitaline

## Share Holding Pattern (as on 30/6/2010)



Source: Company, KJMC Research

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Patel Engineering Ltd reported slower 9.2% yoy growth in consolidated net revenue in Q1FY11 as against previous quarter. The slow down in revenue growth was led by no contribution from over 30% of its order book. The EBITDA in the quarter grew at 12.2% yoy to Rs 1185.3 mn with 50 bps improvement in the EBITDA margin (at 16.9%). The order book including Rs 31 bn of L1 order is at Rs 110 bn (3.4x FY10 net revenue) and gives visibility on revenue growth in the ensuing years. The management expects 50% yoy growth in the order book by FY11 end. It has maintained its guidance of 20% growth in the revenue in FY11E with sustainable margins.

## Q1 FY10 Results highlights

- **Revenue growth inline with expectation:** PEL has reported slower 9.2% yoy growth in consolidated net revenue in Q1FY11 which stood at Rs 7023.1 mn. The slower growth in revenue against previous quarters was driven by no work on Rs 30 bn of orders which includes Prahnita Chevella Lift Irrigation Project in AP. The management has maintained guidance for 20% growth in revenue which factors in contribution from L1 and AP irrigation order and also contribution from the real estate projects. The revenue during the quarter includes contribution from subsidiaries with Rs 1080 mn from ASI Inc and Rs 659 mn from Michigan Engineers.
- **EBITDA margin grew by 50 bps in Q1FY11** - The consolidated EBITDA during Q1FY11 grew at 12% yoy to Rs 1509.8 mn with an improvement of 50 bps in EBITDA margin. The consolidated EBITDA margin in Q1FY11 was at 16.9% vs 16.4% in Q1FY10. The management has guided to maintain consolidated EBITDA margin of 15.9 - 16% on the existing order book. The PAT after minority interest for the quarter grew at 10.3% to Rs 400.7 mn. The profits include Rs 130 mn PAT from subsidiary ASI Inc and Rs 20 mn from Michigan Engineers.

## Consolidated Financial Snapshot

Rs in mn

Particulars	FY07	FY08	FY09	FY10	FY11E	FY12E
Net Sales	12,900	18,596	24,598	31,909	33,295	41,290
EBITDA	1,664	2,740	3,897	5,087	5,266	6,421
EBITDA Margin %	12.9	14.7	15.8	15.9	15.8	15.6
PAT	1,130	1,519	1,805	1,982	1,777	2,430
EPS	18.9	25.5	30.3	28.4	25.5	34.8
P/E	21.8	16.2	13.6	14.5	16.2	11.8
EV/EBITDA	16.2	11.5	8.8	8.8	8.4	7.3
ROE%	41.8	18.2	18.0	2.8	11.3	13.7
ROCE%	12.4	14.5	12.9	14.3	12.4	14.5

Source: Company, KJMC Research

**50% growth guidance in the order book** – PEL currently has a consolidated order book of Rs 110 bn including Rs 31 bn of L1 orders. In Q1FY11 it added fresh Rs 15.86 bn of L1 orders. The management has guided for 50% growth in the consolidated order book in FY11 and expects it to be at Rs 13-14 bn by the end of the financial year.

Details of L1 Orders in current	Value (Rs mn)
Micro tunneling Projects	2926.4
Kashang Hydro Electric Project Stage II & III	3000
High Altitude road along Indo China Border in J&K Pkg I&II	3442.4
Parnai Hydro Electric Project	6500
<b>Total L 1 Order</b>	<b>15868.8</b>

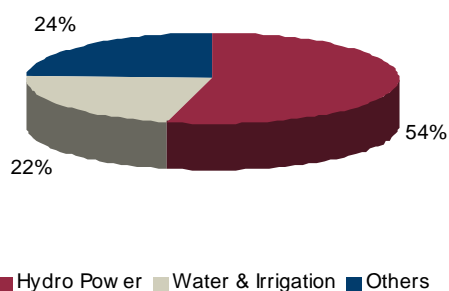
Source: Company

**Mauritius Project is not included in current order backlog**- During Q4FY10 the company bagged a township project in Mauritius through its wholly owned subsidiary. The project has estimated revenue potential of Rs 45 bn over next 7 years and has not been included in the current order backlog. The company expects to start project in next 2-3 months and would require Rs 350 mn investment in FY11.

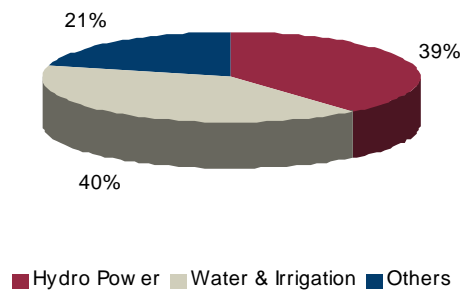
**Real Estate projects on track** – Its wholly owned subsidiary Patel Realty launched residential project ‘Smondoville’ in Bangalore last year. In Phase 1, it sold out 1000 apartments out of total 1100 and expects total revenue of Rs 2400 mn in next 2.5 years. It is also launching Phase 2 of ‘Smondoville’ with 230 apartments and is through with 40 pre-bookings. It has launched a mall project in Bangalore of total area 7 mn sqft with Rs 1250 mn of investment. The company expects a total rental of Rs 400 mn per annum from the same. Besides all these, Mumbai and Noida real estate projects are on track.

**Financial closure of thermal power projects by year end** – The financial closure for the Nagapatnam 1050 MW thermal power project would be achieved by 2010 end. The company has invested Rs 2.5 bn in the project. PEL is looking for strategic partner by diluting stake in the project for meeting the equity requirement of the project. Regarding hydropower project, it has increased the project size to 140 MW from earlier 90MW and the financial closure for the same is expected by next year.

**Revenue breakup in terms of segments in Q1FY11**



**Order book breakup in terms of segments (incl. L1)**



Source : Company, KJMC Research

## Company Background

Patel Engineering Ltd (PEL), incorporated in 1949 is one of the oldest players in the civil construction business in India. It undertakes civil construction contracts on EPC basis in various infrastructure segments which include hydro power, water and irrigation, roads and urban infrastructure. In the last 10 years the company made several acquisitions in India and in the US. PEL is among the selected players in India who does micro-tunneling job. It is being carried out through its subsidiary Michigan Engineers Ltd. Besides this, the company has forayed into real estate business where it has land bank of over 1100 acre in Mumbai & Panvel, Bangalore, Hyderabad and Chennai. Further the company has diversified itself in the asset ownership business in road and power sector.

## Q1 FY11 Results – Consolidated

Rs mn

Particulars	Q1FY11	Q1FY10	YoY Growth%	Q4FY10	YoY Growth%
Net Sales	7023.1	6430.0	9.2	11970.9	-41.3
Expenditure	5837.8	5373.4	8.6	10461.1	-44.2
Construction & Other Costs	5203.4	4884.3	6.5	9300.5	-44.1
General & Administrative Expenses	634.4	489.1	29.7	1160.6	-45.3
EBITDA	1185.3	1056.6	12.2	1509.8	-21.5
EBITDAM%	16.9	16.4	50 bps	12.6	430 bps
Other Income	25.8	77.70	-66.8	269.6	-90.4
PBITD	1211.1	1134.3	6.8	1779.4	-31.9
Depreciation	256.2	315.4	-18.8	295.6	-13.3
Interest	324.9	284.2	14.3	460.6	-29.5
PBT	630.0	534.7	17.8	1023.2	-38.4
Tax	187.8	153.3	22.5	374.1	-49.8
PAT	442.2	381.4	15.9	649.1	-31.9
PATM%	6.3	5.9	40 bps	5.4	90 bps
Minority Interest/ Share of Associates	41.5	18.0	130.6	31.5	31.7
PAT (after Minority Interest)	400.7	363.4	10.3	719.4	-44.3
Equity Capital	69.8	59.6	17.1	69.8	0.0
EPS (Aft Min Int)	5.7	6.1	-5.8	10.3	-44.3

Source: Company, KJMC Research

## Outlook & valuation

We are positive on the long term prospects of the company. Though the management has guided for strong revenue growth of 20% in FY11E, we are conservative in estimating FY11E financials on 1) no clarity on the execution of irrigation order from AP and 2) major order addition expected in H2FY11E (on conversion of L1 orders) 3) expectation on increase in interest cost. We downgrade our revenue and earning estimates for FY11E by 5% and 14% respectively and for FY12E by 4% and 10% respectively. We have not included any revenue contribution from real estate projects in our estimations.

## Revision in Estimates

Rs in mn

Particulars	Previous Estimates		Revised Estimates	
	FY11E	FY12E	FY11E	FY12E
Net Sales	35,079	42,915	33,295	41,290
Growth%	13.9	22.3	4.3	24.0
EBITDA	5,588	6,660	5,266	6,421
EBITDA Margin %	15.9	15.5	15.8	15.6
PAT	2,073	2,697	1,777	2,430
EPS	29.7	38.6	25.5	34.8

Source: KJMC Research

Based on revised FY11E and FY12E EPS of Rs 25.5 and Rs 34.8, the stock is currently trading at a P/E of 16.2x and 11.8x respectively. We maintain our BUY recommendation with revised SOTP based target price of Rs 546 (Vs Rs 564 earlier).

Segment	Basis	Multiple (x)	Value (Rsmn)	Value per share (Rs)
PATEL	PE	12	29162	418
Road	NPV	1x BV of equity	1095	16
Power	NPV	0.5x BV of Equity	1150	16
Real Estate				
Bangalore (Smondoville)	NAV		608	9
Noida	NAV		449	6
Mumbai (Corporate Park & Tower)	NAV		2583	37
Rest of the land value	NAV		3060	44
<b>Total Real Estate</b>	<b>NAV</b>		<b>6700</b>	<b>96</b>
<b>Total</b>			<b>38107</b>	<b>546</b>

Source: KJMC Research

## Financial Summary (Consolidated)

Profit & Loss Statement						Balance Sheet					
Rs. in mn						Rs. in mn					
Y/E, Mar	FY08	FY09	FY10	FY11E	FY12E	Y/E, Mar	FY08	FY09	FY10	FY11E	FY12E
Net Revenue	18,596	24,598	31,909	33,295	41,290	Equity Share Capital	60	60	70	70	70
Growth %	44.2	32.3	29.7	4.3	24.0	Reserves	8,399	10,113	13,558	15,172	17,439
Expenses	15,856	20,702	26,823	28,030	34,870	Total Share Holders' Fund	8,459	10,172	13,628	15,242	17,508
Growth %	41.1	30.6	29.6	4.5	24.4	Secured Loans	6,020	8,410	12,037	12,037	13,037
EBITDA	2,740	3,897	5,087	5,266	6,421	Unsecured Loans	3,744	4,403	6,263	6,263	6,263
Growth %	64.7	42.2	30.5	3.5	21.9	Loan Funds	9,764	12,813	18,300	18,300	19,300
Ebitda%	14.7	15.8	15.9	15.8	15.6	Minority Interest	405	216	615	760	940
Other Income	37	145	630	330	330	Total Liabilities	18,628	23,201	32,543	34,302	37,749
Interest	295	475	1,577	1,723	1,817	Gross Block	6,152	8,038	8,609	9,259	9,909
Depreciation	627	1,196	1,090	1,126	1,205	Less: Accumulated Depreciation	1,801	3,035	3,060	4,186	5,391
PBT	1,855	2,370	3,050	2,746	3,729	Net Block	4,351	5,004	5,549	5,073	4,518
Tax	227	436	929	824	1,119	Capital Work In Progress	2,352	697	2,042	2,042	2,042
Reported PAT	1,628	1,934	2,121	1,922	2,610	Investments	361	505	698	698	698
Growth	39.0	18.8	9.6	-9.3	35.8	Current Assets	20,360	28,653	37,578	38,051	44,712
Net Margin%	8.8	7.9	6.6	5.8	6.3	Inventories	8,148	11,100	18,033	15,335	19,077
Minority Interest	109	129	139	145	180	Debtors	4,617	5,826	6,957	9,349	11,594
PAT (After minority int)	1519	1805	1982	1777	2430	Cash & Bank	2,882	2,951	2,324	2,959	1,310
Growth %	34	19	10	-10	37	Loans & Advances	4,712	8,776	10,264	10,408	12,732
E/O Item	0	0	1512	0	0	Current Liabilities & Prov	8,667	11,569	13,276	11,514	14,173
Adjusted PAT	1,519	1,805	1,982	1,777	2,430	Net Current Assets	11,693	17,084	24,302	26,537	30,539
Growth %	34	19	10	-10	37	Net Deferred Tax	-151	-148	-115	-115	-115
						Total Assets	18,628	23,201	32,543	34,302	37,749

Cash Flows						Ratios					
Rs. in mn											
Y/E, Mar	FY08	FY09	FY10	FY11E	FY12E	Y/E, Mar	FY08	FY09	FY10	FY11E	FY12E
Pre-Tax Profit	1,855	2,370	3,050	2,746	3,729	Profitability %					
Depreciation & Non Cash	627	1,196	1,090	1,126	1,205	Ebitda Mgn	14.7	15.8	15.9	15.8	15.6
Interest & others	456	578	1,280	1,723	1,817	PAT Mgn	8.8	7.9	6.6	5.8	6.3
Chg in W Cap	-3,960	-6,626	-6,317	-1,600	-5,651	ROCE	14.5	12.9	14.3	12.4	14.5
Tax Paid	-452	-760	-1,084	-824	-1,119	ROE	18.2	18.0	2.8	11.3	13.7
Operating Cash Flows	-1,474	-3,242	-1,981	3,172	-19	Per Share Data (Rs/share)					
Capex	-4,821	-150	-3,951	-650	-650	EPS	25.5	30.3	6.7	25.5	34.8
Free Cash Flows	-6,295	-3,392	-5,933	2,522	-669	CEPS	37.8	52.5	46.0	43.7	54.6
Investments	-37	-463	471	0	0	BVPS	141.8	170.5	195.2	218.3	250.7
Equity Capital	0	0	3,346	0	0	DVPS	1.5	1.8	2.0	2.0	2.0
Loans	7,030	5,357	3,865	0	1,000	Valuations (X)					
Dividend	-81	-59	-228	-163	-163	PER	16.2	13.6	14.5	16.2	11.8
Others	-223	-1,685	-1,846	-1,723	-1,817	CPER	10.9	7.9	9.0	9.4	7.5
Net Change in Cash	221	69	-627	635	-1,650	P/BV	2.9	2.4	2.1	1.9	1.6
Opening Cash Position	1,047	2,882	2,951	2,324	2,959	EV/Sales	1.7	1.4	1.4	1.3	1.1
Closing Cash Position	1,269	2,951	2,324	2,959	1,310	EV/EBITDA	11.5	8.8	8.8	8.4	7.3
						Dividend Yield	0.4	0.4	0.5	0.5	0.5
						Turnover (X Days)					
						Debtor TO	75.1	77.5	107.5	102.5	102.5
						Inventory TO	142.6	169.7	189.7	199.7	199.7
						Current Liability Days	155.5	177.5	165.5	155.7	129.8
						Net Working Cap Days	177.7	213.5	236.7	278.7	252.3
						Gearing Ratio (X)					
						Net Debt/Equity	0.8	1.0	1.2	1.0	1.0
						Total Debt/Equity	1.2	1.3	1.3	1.2	1.1

Source: Company, KJMC Research

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#### Recommendation Parameters

Expected returns in absolute terms over a one-year period

<b>Buy</b>	-	appreciate more than 20% over a 12- month period
<b>Accumulate</b>	-	appreciate 10% to 20% over a 12- month period
<b>Hold / Neutral</b>	-	appreciate up to 10% over a 12- month period
<b>Reduce</b>	-	depreciate up to 10% over a 12- month period
<b>Sell</b>	-	depreciate more than 10% over a 12- month period

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