

July 02, 2009

GEPL Investment Research | Results Update | Infrastructure |

## PATEL ENGINEERING LTD (PEL)

"Continues to excel on operational margins"

**CMP Rs. 426**

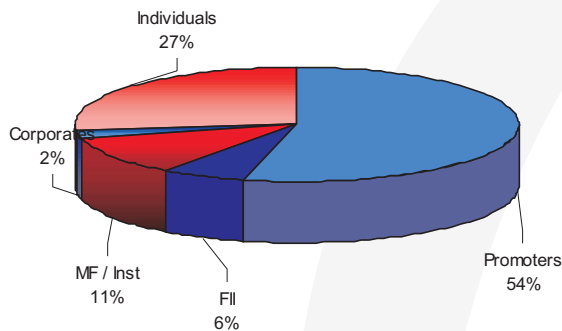
**Target Price Rs. 475**

**STAY INVESTED**

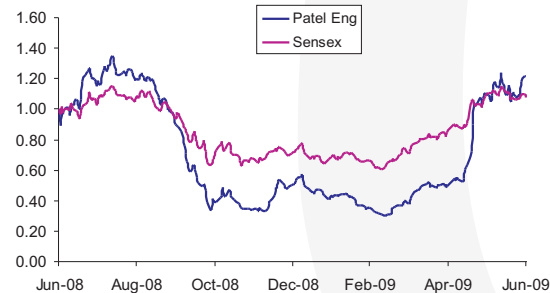
### COMPANY SNAPSHOT (July 02, 2009)

Market Price	Sensex
Rs. 426	14658
52 Wk H / L	Bloomberg Code
Rs. 470 / 103	PEC IN
Mkt Cap ( mn )	Shares O/S ( mn )
Rs. 25432.2	59.7
BSE CODE	NSE CODE
531120	PATELENG

### Shareholding Pattern



### Price Performance Chart



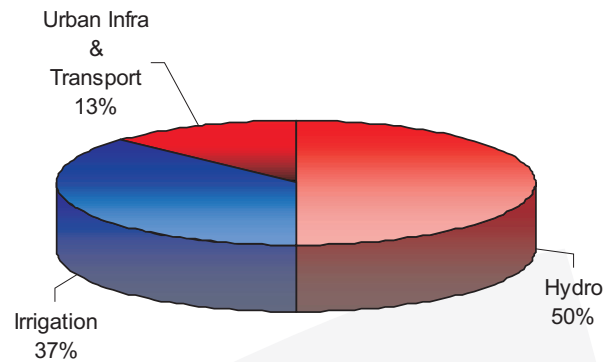
### Company Profile

India's true trans-national has carved a reputation of being one of the premier civil engineering construction companies with over 350 projects across the world to its credit. The company is engaged primarily in the civil construction of hydro power projects, irrigation and water supply projects, transportation and property. PEL has carved a niche for itself in tunnels and under ground works for hydro electric and transportation under taking. The company and its subsidiaries have successfully undertaken several assignments in USA, China, Greece, and Nepal to mention a few. It has the experience and resources to successfully commission complex projects in India and other countries as a contractor, developer and consultant.

### Q4 F Y 09 Results

Patel Engineering Ltd (PEL) came out with its consolidated quarterly results ended 31<sup>st</sup> March 09 with rise in net sales of 32.8% y-o-y to Rs. 9.64 bn as against Rs. 7.26 bn in Q4 FY08. The growth in the revenues was led by the hydro segments which contributed around 50% of the revenues coupled with Irrigation segment which contributed 37% of the revenues. The subsidiaries continue to do well even in the midst of challenging environment prevailing in the industry.

### Chart 1: Revenue Mix Q4 F Y09



EBITDA margins were slightly lower by 20 bps y-o-y to 15.4% from 15.6% in Q4 FY08. The absolute EBITDA stood at Rs. 1.48 bn in Q4 FY09, up by 31% y-o-y from Rs. 1.13 bn in Q4 FY08. PEL continues to derive high margins in its Hydro and Irrigation segment.

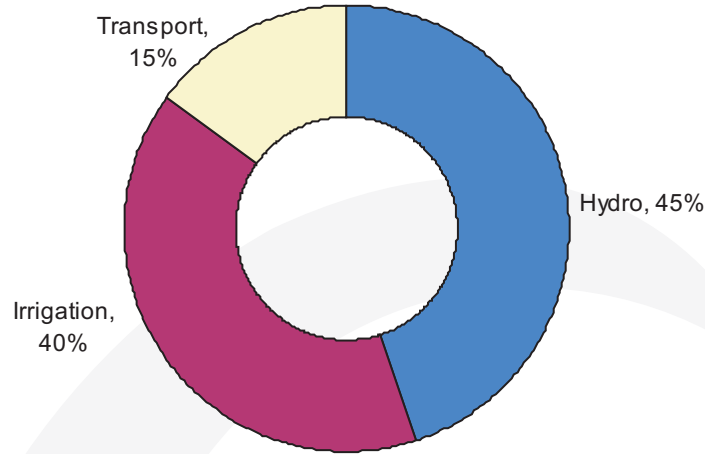
PEL reported net interest income of Rs. 103 mn in Q4 FY09 as against net interest expense of Rs. 158.7 mn in Q4 FY08. This was on account of interest received on delayed payments from the clients. Depreciation during the Q4 FY09 was on the higher side, as the company chose to fully depreciate couple of its equipments. PEL continues take shelter under Section 80IA of Income Tax. The tax outgo for Q4 FY09 stood at Rs. 193 mn, an effective rate of 21.9%. As a result of net interest income, the resultant PAT increased to Rs. 690.7 mn, up by 29.6% from Rs. 532.8 mn in Q4 FY08.

### Order Book Position

The company's order book position as on 31<sup>st</sup> March 09 stood at Rs. 72 bn. During the quarter the company bagged an orders worth Rs. 4.7 bn from Narmada Valley Development Authority. For the year FY09, PEL was successful in getting orders to the tune of Rs. 30 bn and has further been declared as the lowest bidder for projects worth more than Rs. 25 bn. PEL expects its order book position to reach Rs. 90 bn by the first half of FY10. The strong order book which is 2.9x its FY09 sales provides clear visibility of revenues.

The company continues to focus on domestic markets for development of hydro power, irrigation & water supply as it expects government spending to increase in these areas in the near future. PEL is going slow on its reality project and is currently concentrating on Jogeshwari project. The first project is almost complete and is expected to derive revenues of Rs. 80 mn per annum. The construction of second one is expected to start during the year.

**Chart 2: Order Book Mix**

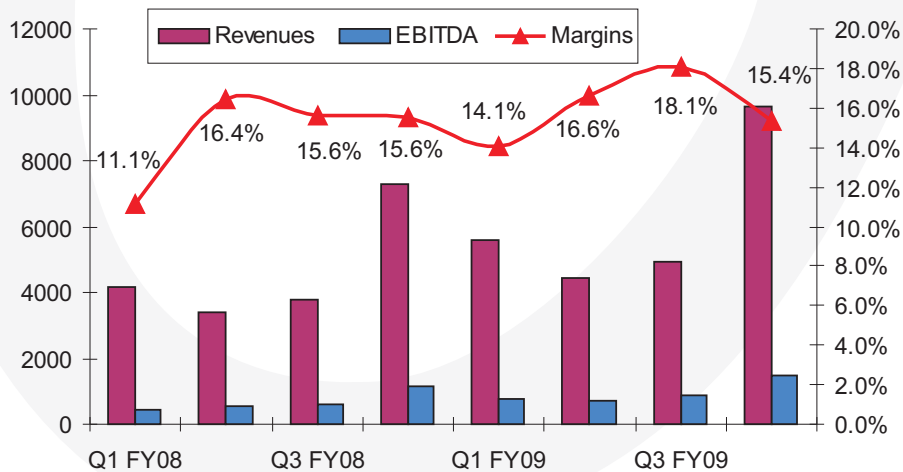


PEL has maintained its leadership position in micro-tunnelling segment with a market share of 95% in India. The company is expecting orders to the tune of Rs. 20 bn from the metro cities over the next couple of years.

**Margins continue to remain strong**

PEL continued to excel on the operational margin front and reported margins of 15.8% during FY09, up by 110 basis points from 14.7% in FY08. PEL is deriving higher margins on account of its greater exposure to high margin segment such as Hydro, Irrigation and Microtunnelling.

**Chart 3: Quarter Margins**



**Continue to claim tax benefits under Section 80IA**

Sec 80IA benefits were withdrawn in Budget 2008, however PEL continues to claim benefits under this section. PEL feels that it fulfils all the required conditions under the clause of being an infrastructure developer and therefore is eligible for the same. The matter is currently pending with the Mumbai High court and a final decision is awaited. In case of any adverse decision, PEL has to shell out Rs. 20 Cr as the final tax settlement. The effective tax rate during FY09 is at 18.4% with a net tax outgo of Rs. 436.3 mn.

**Table 1: Q4 F Y09 Results**

Patel Eng Ltd	Quarter ended 31st March			Year ended		
	Q4 FY09	Q4 FY08	% Change	FY09	FY08	% Change
Net Sales	9649.9	7267.7	32.8%	24598.4	18596.43	32.3%
<b>Expenditure</b>						
Construction and Other Costs	7213.5	5207.8	38.5%	18304.6	13797.7	32.7%
% of net sales	74.8%	71.7%		74.4%	74.2%	
(Inc)/Dec in stock	0.0	0.0		0.0	0.0	
General & Admin Costs	954.0	929.2	2.7%	2397.3	2058.4	16.5%
% of net sales	9.9%	12.8%		9.7%	11.1%	
<b>Total</b>	<b>8167.5</b>	<b>6137.0</b>	<b>33.1%</b>	<b>20701.9</b>	<b>15856.1</b>	<b>30.6%</b>
EBITDA	1482.4	1130.7	31.1%	3896.5	2740.3	42.2%
EBITDA Margins	15.4%	15.6%		15.8%	14.7%	
Interest	-103.0	158.7	-164.9%	475.2	295.0	61.1%
<b>PBDT (Op)</b>	<b>1585.4</b>	<b>972.0</b>	<b>63.1%</b>	<b>3421.3</b>	<b>2445.3</b>	<b>39.9%</b>
Depreciation	662.0	323.1	104.9%	1195.6	627.1	90.6%
<b>PBT (Op)</b>	<b>923.4</b>	<b>648.9</b>	<b>42.3%</b>	<b>2225.7</b>	<b>1818.2</b>	<b>22.4%</b>
% of net income	9.6%	8.9%		9.0%	9.8%	
Other Income	-38.9	-79.4	-51.0%	144.6	36.9	292.2%
<b>PBT</b>	<b>884.5</b>	<b>569.5</b>	<b>55.3%</b>	<b>2370.3</b>	<b>1855.1</b>	<b>27.8%</b>
% of net income	9.2%	7.8%		9.6%	10.0%	
Tax	193.8	36.7	428.1%	436.3	227.0	92.2%
Tax rate	21.9%	6.4%		18.4%	12.2%	
<b>PAT</b>	<b>690.7</b>	<b>532.8</b>	<b>29.6%</b>	<b>1934.0</b>	<b>1628.1</b>	<b>18.8%</b>
% of net income	7.2%	7.3%		7.9%	8.8%	
Minority Interest	58.5	28.0		129.2	109.1	
<b>APAT</b>	<b>632.2</b>	<b>504.8</b>	<b>25.2%</b>	<b>1804.8</b>	<b>1519.0</b>	<b>18.8%</b>
<b>EPS</b>	<b>10.6</b>	<b>8.47</b>	<b>25.1%</b>	<b>30.25</b>	<b>25.46</b>	<b>18.8%</b>

**Table 2: Revised Estimates**

	FY09	FY10E	FY11E
Net Sales	24598	30649	37506
Expenditure	20702	26118	31886
EBITDA	3897	4531	5620
EBITDA Margins	15.8%	14.8%	15.0%
Depreciation	1196	882	984
Interest	475	1138	1106
PAT	1805	2227	2532
EPS	30.3	37.3	42.4
EBITDA/Share	65.3	75.9	94.2

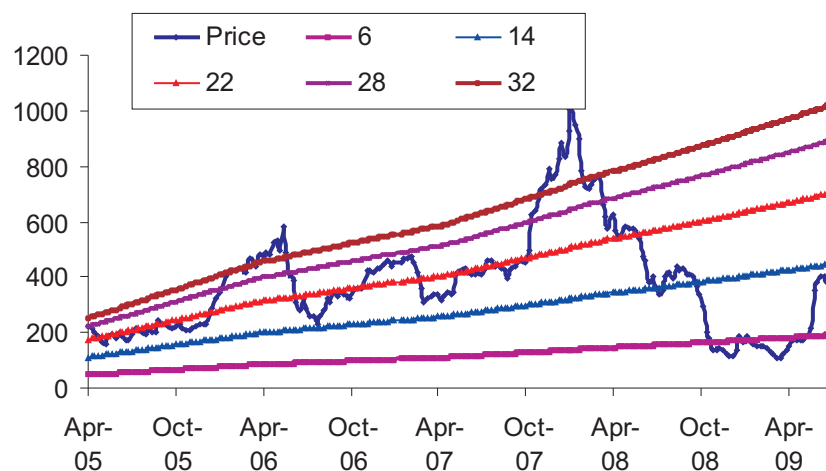
## Outlook & Valuations

PEL's results were better than our expectation and therefore we have revised our estimates. We now expect PEL to deliver an EPS of Rs 37 and Rs. 42 for FY10E and FY11E respectively. PEL has maintained its operational margins well above 15% during the FY09, which is best among the industry. We are therefore increasing our valuation multiple for PEL from 10x to 12x. based on revised valuations we now arrive at a target price of Rs. **475** and recommend “**Stay Invested**”.

**Table 2: SoTP Valuations**

	Method	Multiple	Value per Share
Core Construction Business	PE	12	396
Subsidiaries	PE	6	54
BOT Projects	P/Bv	1	23
Land / Realty	Capitalisation		2
<b>Total</b>			<b>475</b>

**Chart 4: One Year Forward PE**



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