BUY

Price	**Rs424**
Target Price	**Rs545**
Investment Period	**12months**

Stock Info	
Sector	Construction
Market Cap (Rs cr)	2,532
Beta	1.0
52 WK High / Low	472/103
Avg. Daily Volume	68,341
Face Value (Rs)	1
BSE Sensex	15,173
Nifty	4,514
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 (%)	33.1	10.0	42.1
Patel Engg(%)	149.7	7.8	63.4

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Performance Highlights

- **Top-line grew by a good 15%**: Patel Engineering (PE) registered steady growth in 1QFY2010. Consolidated Sales of the company were in line with our expectations, increasing 15% yoy to Rs643.0cr (Rs558.4cr) on the back of a strong Order Book of Rs7,350cr. We expect PE to continue with its good performance and post a CAGR of 21.3% in Top-line over FY2009-11E.

- **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 1QFY2010, the company's OPM at 16.4% (14.1%) exceeded our estimates. The company has been clocking high Margins on account of operating efficiencies and having price escalation clauses in its contracts. Higher share of hydro power and irrigation projects also helped the company improve Margins.

- **Net Profit spurts 25% on higher Margins:** PE posted Net Profit growth of 24.8% for 1QFY2010 to Rs36.3cr (Rs29.1cr). However, the company registered a substantial jump of 89% in Depreciation costs to Rs31.5cr (Rs16.7cr) mainly because of its US subsidiary. PE is also one among the construction companies to claim Section 80IA benefits. However, post the recent clarification in the Union Budget relating to Section 80IA benefits being claimed by infrastructure companies, PE will no longer claim these benefits and has provided for Tax at 29% during the quarter. The company's Total tax liability comprising the claims of past years would be Rs140-150cr, which we believe will not impact its cash flows as the tax has already been provided for. We have been factoring in the full tax rate owing to which our estimates remain intact.

- **Robust Order Book:** As on June 2009, PE had a robust Order Book of Rs7,350cr or 3.0x its FY2009 Revenues. During the quarter, the company bagged several new orders amounting to more than Rs700cr. Of its Total Order Book, the Hydropower Sector contributed around 44%, Irrigation 44% while the balance came from the Roads and Urban Infrastructure Segment. Pertinently, PE has been focusing on high-Margin projects for optimum utilisation of resources.

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)	16.5	13.9	15.1	11.4
RoE (%)	19.6	19.6	15.5	17.7
RoCE (%)	14.8	14.8	13.7	14.6
P/BV (x)	3.0	2.5	2.2	1.9
EV/Sales (x)	1.7	1.3	1.2	1.1
EV/EBITDA (x)	11.2	8.3	7.8	7.0

Source: Company, Angel Research, Price as on July 29, 2009

Outlook and Valuation

The Infrastructure Sector has embarked on a strong Public Private Partnership (PPP) mode changing over from the earlier public investment driven mode. Moreover, growing complexities in jobs has seen many domestic construction companies joining hands with global leaders to improve their pre-qualifications for bagging orders. Overall, investment in the infrastructure Segment is estimated to be around US $500bn over the next four to five years, which would provide substantial opportunities for the players in the Segment.

PE is currently experiencing good traction in Order Inflow. Going ahead, amidst favourable outlook for the Infra Sector, we expect the company to post a CAGR of 21% over the next two years on the Top-line front, and continue register high Margins. We have accordingly assigned the PE stock a P/E multiple similar to its peers, even though there is an overhang on scrip arising from the Section 80IA claims.

We have valued PE on SOTP methodology. We have assigned its Core Construction business a PE of 12x FY2011E EPS of Rs36.8. As per the NAV method, its Real Estate arm has been valued at a huge discount and fetches Rs103/share. In the recent past, the stock had risen sharply on the bourses in line with other construction stocks. At Rs424, the stock is trading at 11.4x FY2011E EPS of Rs36.8, on a consolidated basis excluding its Real Estate venture. **We recommend a Buy on the stock, with a Target Price of Rs545.**

Exhibit 1: 1QFY2010 Performance (Consolidated)

Y/E March (Rs cr)	1QFY2010	1QFY2009	*% chg*	FY2009	FY2008	*% chg*
Net Sales	**643.0**	**558.4**	***15.2***	**2459.8**	**1859.6**	***32.3***
Total Expenditure	537.3	479.8	*12.0*	2070.2	1585.6	*30.6*
Operating Profit	**105.7**	**78.6**	***34.5***	**389.7**	**274.0**	***42.2***
OPM (%)	16.4	14.1	-	15.8	14.7	-
Interest	28.4	17.6	*61.8*	47.5	29.5	*61.1*
Depreciation	31.5	16.7	*89.0*	119.6	62.7	*90.7*
Non Operating Income	0.0	0.0	-	14.5	3.7	*291.9*
Nonrecurring items	7.8	2.4	-	0.0	0.0	-
Profit Before tax	**53.5**	**46.7**	***14.6***	**237.0**	**185.5**	***27.8***
Tax	15.3	14.6	*5.2*	43.6	22.7	*92.2*
Net Profit before MI	38.1	32.1	*18.9*	193.4	162.8	*18.8*
PAT (%)	5.9	5.7	-	7.9	8.8	-
Minority Interest (MI)	1.8	3.0	*(39.4)*	12.9	10.9	*18.4*
Net Profit after MI	**36.3**	**29.1**	***24.8***	**180.5**	**151.9**	***18.8***
Adj. PAT (%)	5.7	5.2	-	7.3	8.2	-
Adj. FDEPS (Rs)	**6.1**	**4.9**	***24.8***	**30.2**	**25.4**	***18.8***

Source: Company, Angel Research