

# Patel Engineering Company Ltd



Sector: Construction	CMP: Rs. 450	Book Value: Rs. 104	Avg. Daily BSE Vol. (6m): 113624
BSE Code: 531120	Trailing EPS: 15.3	M Cap: Rs. Mn 26196	Face Value: Re 1
NSE Code: PATELENG	Trailing P/E: 29.4	Free Float: 45.06 %	52Wk H/L: Rs. 635 / 218

## Technical Outlook

The short term trend is bullish for the stock. One can buy at current levels with a stoploss of 410 for the target of 530.

## Highlights

**Background:** Incorporated in 1949, Patel Engineering Company Ltd (PEL) operates in the areas of industrial complexes, building projects, power projects, underground works, dams, bridges, marine works and infrastructure. PEL has participated in the development of 26 hydropower projects (more than 7,000 MW) of the 32,000-MW executed since independence and has been involved in the civil work of over 75 dams across the world. Bulk of PEL's revenue comes from two sectors: hydel power and irrigation. Hydel power projects account for about 40% of its revenue, while irrigation and roads contribute 36% and 24%, respectively.

**New Orders:** PEL has recently received orders from National Thermal Power Corporation Ltd (NTPC) for construction of Loharinag Pala Hydro Electric Power Project (4 x 150 MW), worth Rs 3,600 mn. The project is situated on river Bhagirathi in Uttarkashi District of Uttaranchal, about 195 km from Rishikesh, on National Highway 108. This project is a run-of-the-river scheme. The project comprises among others, an underground powerhouse, an underground transformer hall, tunnel and switchyard. The company has also bagged two projects in October 2006, worth an aggregate Rs 1,760 mn from Rail Vikas Nigam. PEL has also bagged a project worth Rs 4,100 mn on build-operate-transfer (BOT) from National Highways Authority of India (NHAI), and a contract worth Rs 371.3 mn from the Municipal Corporation of Greater Mumbai for the rehabilitation of the sewage system.

**Expansion Plans:** In June 2006, the Rs 4,250 mn follow-on public offer of the company was oversubscribed 27.2 times, and it had mopped up more than Rs 1,00,000 mn with the offer price fixed at Rs 440 per share. The proceeds of the issue are to be used for organic and inorganic expansion. The company intends to bid for infrastructure projects and invest in subsidiaries and joint ventures, inside and outside the country.

**High Margins:** The company primarily operates in hydel power and irrigation - which offer the highest margins in

civil construction. Operating margins for the company have ranged from 14-15% over the past few years, which are high for this industry. Most of the other large players of in the construction industry have operating margins of around 8-12%.

**Bright Industry Prospects:** Generally, the overall construction component of infrastructure spending of India is usually over 50%, although the investment varies. It implies that the upcoming infrastructure projects have a potential to translate into huge orders for the construction industry.

Larger players are increasingly targeting complex projects to expand their margins. Small and medium players are graduating to fill the vacuum created by large players' shift in focus.

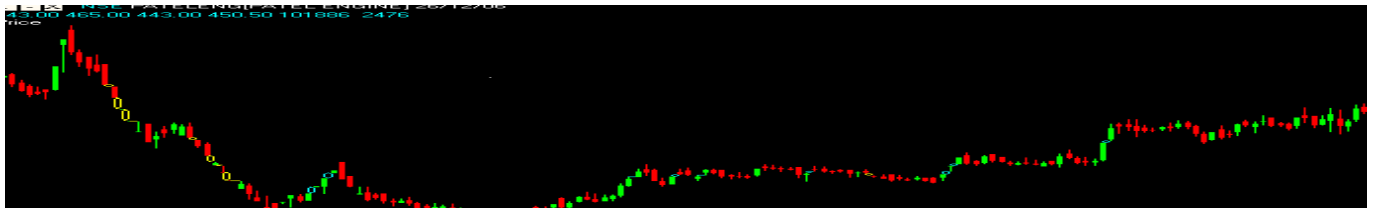
## Financial Overview

(Rs in mn)

Particulars	FY05	FY06	Q2FY06	Q2FY07
Sales (Rs.)	7122	9180	1842	2438
% Growth	-2.5	28.9	51.6	32.4
Operating Profit	994	1434	258	383
% Growth	18.8	44.3	22.9	48.4
OPM (%)	13.9	15.6	14.0	15.7
PAT (Rs.)	416	733	125	255
% Growth	49.1	76.2	72.6	104
PATM (%)	5.8	8.0	6.8	10.5
Equity Capital	48.60	50.0	48.60	59.7
EPS (Rs) (Annualised)	8.6	14.7	10.0	17.1
RONW (%)	34.6	44.7	-	-

Source: Capitaline Database

## Technical View



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### Rating Methodology

“**Equity Pick**” is an investment idea with the purpose to recommend a fundamentally good company with future growth prospects and a technical outlook, advising the entry and exit from the investment.

In order to recommend a fundamentally strong company, a ranking system has been carved out based on various financial parameters on a ranking scale of 1.5-9.5 for each metric.

#### Analyst Stock Rating

After ranking each parameter, a final score is arrived at and the rating is done as follows:

- ❑ **Average (\*)** - A stock with final score between 49 and 76 is given an “average” rating, denoted by one star.
- ❑ **Good (\*\*)** - A stock with final score between 77 and 104 is given a “good” rating, denoted by two stars.
- ❑ **Excellent (\*\*\*)** - A stock with final score of 105 and above is given an “excellent” rating, denoted by three stars.

**The Rating System would give an assurance as to the strong fundamentals of the company but should not be relied upon as an investment advice. The decision for entry and exit will depend upon the technical outlook.**

## Notes

<u>HNI Sales</u>	<u>Institutional Sales</u>
<b>Bharat Patel</b> Tel.: 91-22-28577303/28577309	<b>Sharmila Joshi</b> Tel.: 91-22-22695078 / 22700119-121
 <b>investmentz.com</b> Online trading & more	

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