



Between the Lines

Daily Corporate News Analysis

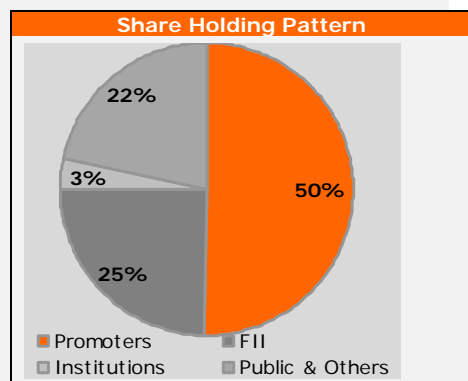
Dec 22nd 2009

Patel Engineering Ltd.

Market Performer ; Hold

Company Info	
CMP (Rs.)	433.0
Target Price (Rs.)	515.0
Sector	Infrastructure
52 week H/L (Rs.)	526/103
BSE Code	531120
NSE Code	531120
Face Value (Rs.)	1
Market Cap (Rs. In Cr.)	3,021

Price Performance				
%	1m	3m	1yr	
Absolute	-2.8	-14.4	144.1	
Relative to Sensex	-1.3	-12.9	46.0	



INVESTMENT RATIONALE

Patel Engineering Ltd (PEL), an ISO-9001- company, has carved a reputation as one of India's top construction and civil engineering companies and over 200 projects around the world. It has specialization in construction of Power House, Dams, Tunnels, Marine Works, Steel and Concrete structures, Bridges, Flyovers and Highways. Company has a robust order book of Rs7200 crore of which) of which hydro constitutes 45%, irrigation constitutes ~40% while the remaining 15% is transportation, urban infrastructure etc. PEL's L1 status order book stands at Rs.2,500 crore of which majority bids are in hydro.

Key Developments

- Company is in the process of setting up a 1200 MW thermal power plant and a hydro power plant, with a capacity of 120 MW. Company is planning to float new subsidiary raise money through IPO or will go for strategic investments.
- Real Estate: Company expects the revenues from the Jogeshwari Corporate Park to start flowing in post Q3 FY10 and also expects to launch its real estate project in Bangalore(Electronic City)which will be catering to the mid income group.
- Company has capex plans of Rs 80-120 crore.
- Company's order book stand at Rs9,900 crore and L1position at ~Rs3000 crore

Valuations

Company's top-line has been growing at healthy pace and is expected to clock 20-25% in the coming years given the robust order book pipeline company possess. EBIDTA margin are likely to consolidate at ~16-16.5% levels as the companies revenue mix changes; however company's foreign subsidiaries are likely to act as a cushion on the margin. PEL will also be a major beneficiary of the new orders to be awarded for common wealth games and additional funds allocated to the Mumbai state (~Rs.500 crore) for water related projects and with the technology and expertise PEL possesses it would be able to materialize this opportunity. Profitability is expected to be impacted in FY10 on account of high depreciation cost. At the CMP of Rs.433 the stock is currently trading at 18.4x its TTM EPS of Rs23.0 and 2.6x its TTM P/BV. We recommend a "BUY" on the stock with a target price of Rs.515





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Kisan Ratilal Choksey Shares and
Securities Pvt. Ltd.
1102, Stock Exchange Tower, Dalal
Street, Mumbai 400 001.
Head-Off Phone : 91-22-66535000
Fax : 66338060
Branch-Off Phone : 91-22-66965555
Fax : 66919576

Members: BSE & NSE
www.krchoksey.com