



## 5 PICKS FOR INVESTMENT

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**MICROSEC RESEARCH**

We have focused our Research on the Companies which have shown good growth in topline & bottomline and the valuation of which are relatively cheaper than the industry average.

Five Picks for Investment are as Follows:

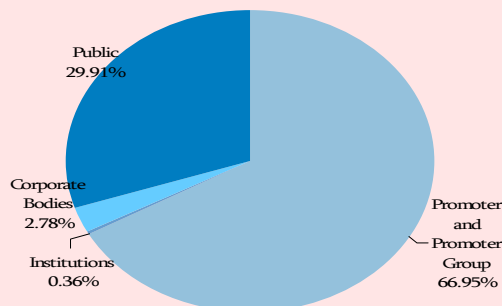
Company	CMP	Target Price	Upside (%)
Banco Products	103	135	31%
Fedders Lloyd	96	157	64%
Lloyd Electric & Engineering	76	126	66%
Surya Pharma	167	253	51%
Patel Engineering	392	500	28%

**BUY**

**Market Data**

Current Market Price (INR)	103.00
Target Price	135.00
<b>Upside Potential</b>	<b>31%</b>
52 Week High / Low (INR)	113 / 23
Market Capitalization (In INR Mn)	7,368.10

**Shareholding**



**STOCK SCAN**

BSE Code	500039
NSE Code	BANCOINDIA
Bloomberg Ticker	BNCO.IN
Reuters Ticker	BNCO.BO
Face Value (INR)	2.00
Equity Share Capital (Rs. Mn.)	143.00
Average 3 Year P/E	7.5x
Beta vs Sensex	1.1x
Average Daily Volmes (12 M)	122,584
Dividend Yield	1.50
Stock Return (1 Yr)	261%



## Banco Products – Riding Auto Boom

### Sector – Auto Ancillary

We rate Banco Products a BUY. Banco Products (India) Limited has been in the business of manufacturing Gaskets and Radiators since last four decades. These products are considered important components in sealing and cooling applications of Automotive, Power, Earthmoving and Industrial engines. The company offers a complete line of radiators, intercoolers, oil-coolers and all types of engine gaskets.

#### Investment Highlights

**Strong Clientele:** Banco Products is into manufacturing of Gaskets and Radiators for almost four decades now. The company's products form an important component in sealing and cooling applications of Automotive Power, Earthmoving and Industrial engines. **Maruti, Tata Motors, Hero Honda, Bajaj Auto, Caterpillar India, Kirloskar Oil Engine, Cummins India, BEML, JCB and Indian railways** are some of its prominent customers. Tata Motors and Railways contribute around 10-11% each.

**Acquisition of NRF would provide platform in OEM segment in Europe and Marine Application in India:** The company has acquired 100% shares of NRF, a Netherlands based company, for Euro 17.7 million. NRF is debt free company. The acquisition would provide platform for Banco in OEM segment in Europe while it would look out for platform for NRF in Marine applications in India and South East Asia. NRF has Sales of approx Rs. 350 crore with PAT margin of around 3%.

**Strong Financial performance with healthy EBITDA Margin :** Banco's Net sales grew by 41% to Rs. 407 crore and PAT jumped by 90% to Rs.78.5 crore in comparison to previous years. Also EBITDA Margin of the company improved to 26.03% from 19.9% and PAT margin jumped to 19.3% from 14.4%. It has one of the highest EBITDA margin among the Auto ancillary industry.

**Demand for Auto Industry to keep the sales going:** Indian Automobile recorded 26% growth in sales in FY09-10. Ernst and Young has predicted the Indian passenger car market to grow at 12 percent annually over the next five years to touch 3.75 million units by 2014 and industry turnover to touch \$155 bn by 2016.

#### Exhibit 1. Banco Products – Historical Financials and Projections

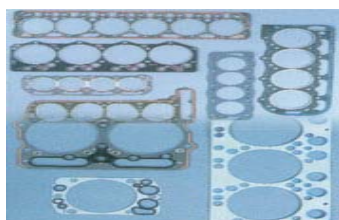
Particulars	FY2007A	FY2008A	FY2009A	FY2010A	FY2011E
Net Sales	2,602.10	2,988.50	2,879.14	4,071.50	7,778.65
Growth (%)		14.85%	-3.66%	41.41%	91.05%
EBITDA	386.32	565.04	573.44	1,059.92	1,272.88
EBITDA Margins (%)	14.85%	18.91%	19.92%	26.03%	16.36%
Net Profit	252.59	452.38	414.65	785.90	967.39
Net Profit Margins (%)	9.71%	15.14%	14.40%	19.30%	12.44%
Net Profit Growth (%)		79.10%	-8.34%	89.53%	23.09%
EPS	3.74	6.33	5.80	10.99	13.53
BVPS	13.71	18.99	23.69	34.68	48.21
P/E	27.57	16.28	17.76	9.37	7.61
P/BV	7.51	5.42	4.35	2.97	2.14
RoE	30.2%	39.6%	27.2%	37.7%	32.6%

Source: Company, Microsec Research (In INR Mn)

### Product Profile



**RADIATORS :** Banco Products (I) Limited is a leading manufacturer & exporter of radiators ranging from high performance radiator, auto radiator, car radiator, industrial radiators, intercoolers ranging from Air to Water intercooler, Air to Air intercooler, custom designed inter cooler, cabin heater and replacement cores for various Automotive, Industrial and Agricultural applications.



**GASKETS:** Banco Gaskets division provides complete sealing solutions for every conceivable application like Automotive, Industrial and Agriculture. Banco manufactures and exports a whole range of automotive gaskets for diesel engines, agriculture diesel engines, cylinder head gaskets including asbestos steel composite cylinder head gasket, copper cylinder head gasket, edge-moulded cylinder head gasket, gasket head kit, steel composite cylinder head gasket, graphite composite cylinder head gasket and multi layered steel cylinder head gasket.



**Compressed Fibre Jointing Sheets (CFJS):** Banco Products manufactures high quality compressed jointing sheets using non asbestos raw materials which are environmentally friendly. Banco Products exports all varieties of compressed fiber jointing sheets which cover a complete range of Automotive and Industrial applications world wide.

### VALUATION

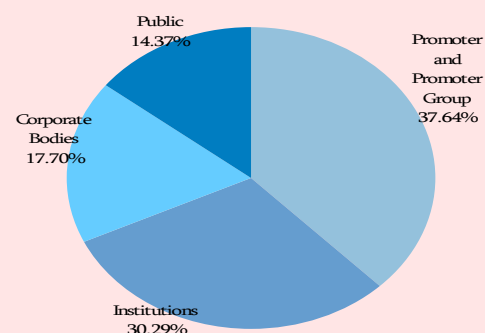
The stock is currently trading at Rs. 103 at a P/E of 9.4x. It discounts its FY11E EPS of Rs.13.5 by 7.6x. Its 3 year and 5 year Average P/E works out to be 8. With one of the Best EBITDA margin, Average ROE of 5 year ~25% and Consistent financial growth, the valuation looks to be very attractive. Average multiple of Auto Ancillary Industry comes to 13x . We believe that the stock to be re-rated and should trade a P/E of around 10x which put our Target Price to Rs. 135 (30% upside) based on FY11E EPS of Rs. 13.53

**BUY**

**Market Data**

Current Market Price (INR)	96.00
Target Price	157.00
<b>Upside Potential</b>	<b>64%</b>
52 Week High / Low (INR)	109 / 25
Market Capitalization (In INR Mn)	2,966.20

**Shareholding**



**STOCK SCAN**

BSE Code	500139
NSE Code	FEDDERLOYD
Bloomberg Ticker	FDLC.IN
Reuters Ticker	FDCL.BO
Face Value (INR)	10.00
Equity Share Capital (Rs. Mn.)	307.70
Average 3 Year P/E	14.0x
Beta vs Sensex	0.8x
Average Daily Volmes (12 M)	37,173
Dividend Yield	1.04
Stock Return (1 Yr)	152%



## Fedders Lloyd – Cooling n Chilling

### Sector- consumer durables

We rate Fedders Lloyd a BUY. Fedders Lloyd Corporation provides engineering products and solutions for heating, ventilation, air-conditioning, and refrigeration to commercial, corporate, public sector organization, government organization, telecom, defence, and railway sectors in India. Of late, Fedders has entered into Steel Structural and Power Engineering business also.

### Investment Highlights

**Serving the Customized Air conditioning requirements of Indian Railways and Defence :** Fedders focuses on serving the highly specific airconditioning customized requirements, particularly for the railways and defence sectors. It was the first airconditioning company to manufacture roof mounted package AC units for Indian Railways and Rugged AC units for mobile vehicles of Indian Defence Services.

**Government's renewed focus on National infrastructure development will lead to tremendous scope for expansion:** The Government's renewed focus on National infrastructure development, especially in the area of up-gradation and modernization of airports, establishment of SEZ and medical tourism will add to demand for centralized ACs and offers an opportunity to demonstrate the engineering capabilities of the Company and move up the value chain.

**Provides Specialised and Turnkey Solution for AC Malls, Hospitals , IT centres etc.:** It also provides the specialized and turnkey solutions for the Air Conditioning for buildings, industries, multiplexes, malls, pharmaceuticals units, Retail outlets, IT centres, hospitals, business establishments, etc. The renowned customers include Hotel Radisson, BHEL, BSNL, HAL.

**Diversification into Steel structural and Power Engineering has added value and Global presence :** Fedders is a well known name amongst Indian Corporate with 53 years of its firm existence in HVAC&R Industry. Of late, Fedders Lloyd has emerged as a global and dynamic entity with its diversification and involvement in Structural Steel in the year 2008 and in Power Sector in the year 2009. By its diversifications, Fedders Lloyd has become a multi-disciplinary civil, mechanical and power engineering Company with global presence.

### Exhibit 2. Fedders Lloyd– Historical Financials and Projections

Particulars	FY2007A	FY2008A	FY2009A	FY2010E	FY2011E
Net Sales	3,483.50	4,460.10	4,602.20	6,384.30	8,100.00
<b>Growth (%)</b>		<b>28.04%</b>	<b>3.19%</b>	<b>38.72%</b>	<b>26.87%</b>
EBITDA	297.61	306.25	295.37	702.80	891.50
<b>EBITDA Margins (%)</b>	<b>8.54%</b>	<b>6.87%</b>	<b>6.42%</b>	<b>11.01%</b>	<b>11.01%</b>
Net Profit	182.47	192.65	113.16	388.60	486.00
<b>Net Profit Margins (%)</b>	<b>5.24%</b>	<b>4.32%</b>	<b>2.46%</b>	<b>6.09%</b>	<b>6.00%</b>
<b>Net Profit Growth (%)</b>		<b>5.58%</b>	<b>-41.26%</b>	<b>243.41%</b>	<b>25.06%</b>
EPS	5.93	6.26	3.68	12.63	15.79
BVPS	41.70	47.90	50.30	59.30	75.00
P/E	16.19	15.34	26.09	7.60	6.08
P/BV	2.30	2.00	1.91	1.62	1.28
<b>RoE</b>	<b>16.8%</b>	<b>13.9%</b>	<b>7.5%</b>	<b>23.8%</b>	<b>23.5%</b>

Source: Company, Microsec Research (In INR Mn). Financials year ending June



### *Product Profile*

**HVAC&R BUSINESS:** The HVAC&R business of Fedders provides extensive range of air-conditioning comprising of Window Air Conditioners, Split/Ductable Air Conditioners, Package Air Conditioners, Chillers, Transport Air Conditioners and Heat Exchangers, etc. It also provides the most extensive range of products like Air Handling Units, Fan Coil Units, Ventilation Units, Exhaust Air Units, Air Washers and Heat Transfer Coils catering to Air Conditioning Industry with its varied applications in Commercial Space



**STEEL STRUCTURALS:** It endeavored in structural steel segment in the year 2008 gratifying Steel Fabrication; Design & Erection catering to structural steel building having focus on turn key solutions meeting the demand of modern industrial construction & maintenance requirements, not only in India but across the globe as well.



**POWER ENGINEERING:** Company has recently forayed into this field endeavoring to spread and entrench Industrialized Power Engineering Technology not only in domestic markets but in International markets. Fedders Lloyd is geared up with latest design software to the Indian and International acceptable standards to provide turnkey solution of Engineering, Procurement & Construction (EPC) on Power transmission and distribution.

### *VALUATION*

The stock is trading at P/E of 7.6x its June ending FY10E EPS of Rs.12.6 and by 6.1x its June FY11E EPS of Rs.15.79. Its 3 year and 5 years Average multiple works out to be 13.9x and 17.1x respectively. This shows that the company is currently trading way below its Average historical multiples even after giving such a splendid growth in topline as well as bottomline. Its 9M Net sales ended Mar10 has increased by 62% to Rs. 462 crore and PAT jumped by 406% to Rs. 27.5 crore giving a EPS of Rs.8.96. Its ROE for 2010 works out to be 23.8%. Historically the ROE has been in the range of above 16% and has only dipped in 2009 due to recession.

The stock is trading at an inexpensive valuation to its Average Industry P/E multiple of 15x. Its should at least trade at a conservative P/E multiple of 10x which will give it fair value of Rs.157 based on its June11E EPS of Rs.15.76. This provides an appreciation of 67% from current levels.

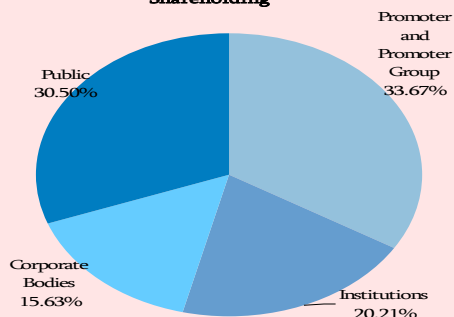


**BUY**

**Market Data**

Current Market Price (INR)	76.00
Target Price	126.00
<b>Upside Potential</b>	<b>66%</b>
52 Week High / Low (INR)	85 / 27
Market Capitalization (In INR Mn)	2,373.00

**Shareholding**



**STOCK SCAN**

BSE Code	517518
NSE Code	LLOYDELENG
Bloomberg Ticker	LEE IN
Reuters Ticker	LEEG.BO
Face Value (INR)	10.00
Equity Share Capital (Rs. Mn.)	310.00
Average 3 Year P/E	7.2x
Beta vs Sensex	1.4x
Average Daily Volumes (12 M)	143,882
Dividend Yield	1.04
Stock Return (1 Yr)	64%



## Lloyd Electric & Engineering – Coiling Delight

### Sector- Consumer Durables

We rate Lloyd Electric & Engineering (LEEL) a **BUY**. It is India's leading manufacturer of Heat Exchanger Coils (a key input) for air conditioning, having more than 50% market share. LEEL also manufactures coils for refrigerators; supplies Roof Mounted Packaged Units (RMPU) to the Indian Railways and Delhi Metro, and has started assembling ACs since 2005 for some of its OEM clients.

### Investment Highlights

**Strong Clientele:** It has emerged as OEM supplier with its reputed clients such as Samsung, LG Electronics, Carrier, Haier, Voltas, Blue Star and Indian Railways, etc. LEEL is the sole assembler of AC's in India for Haier and also assembles AC's for Samsung, Blue Star, Onida and other large players in India.

**Sound Financial Performance:** In FY10, net sales increased by 16% to 680 crore and PAT jumped by 92% to Rs.39.2 crore giving an EPS of Rs.12.64 in comparison to previous year. Also the EBITDA Margin jumped from 9% to 11% and PAT margin improved from 3.5% to 5.8%.

**Highly Attractive Valuation in terms of P/E and P/BV:** The stock is currently trading at a P/E of 6x. It discounts its FY11E EPS of Rs.15.79 by 4.8x. Its 3 year and 5 year Average P/E multiple are 7.3x and 11.5x respectively. The current Book value of the company is Rs.132 and the CMP is Rs. 76 which gives a P/BV of 0.58x. The stock looks to be fairly undervalued and looks to re-rated. It should command a P/E multiple of 8x which gives a target price of Rs.126 (upside of 68%) based on our FY11E EPS of Rs.15.79

**Bagged an Order of Rs. 80 crore from Delhi Metro:** It supplies Roof Mounted Packaged Units (RMPU) to the Indian Railways and Delhi Metro. Recently it has received orders worth Rs 80 crore for supplying air conditioning equipments to Delhi Metro from Air International, Australia. Execution of Delhi Metro order will put LEEL in much better footing to bid for the Mumbai and Bangalore metro projects and will boost its topline.

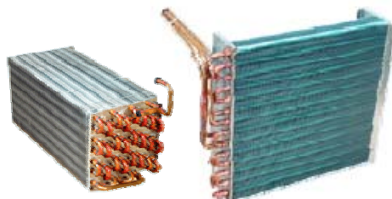
**Growing through Inorganic Route:** It Acquired Luvata Czech (coil manufacturing company) in Europe and JANKA (manufacturing major components of HV&AC) to strengthen its forward integration plan. This will boost the topline of the company by atleast 10-15% going forward

### Exhibit 3. Lloyd Electric – Historical Financials and Projections

Particulars	FY2007A	FY2008A	FY2009A	FY2010A	FY2011E
Net Sales	4,108.40	6,650.20	5,853.20	6,800.20	8,442.00
Growth (%)		61.87%	-11.98%	16.18%	24.14%
EBITDA	627.59	872.20	532.10	748.30	929.00
EBITDA Margins (%)	15.28%	13.12%	9.09%	11.00%	11.00%
Net Profit	429.56	524.10	203.72	391.67	489.60
Net Profit Margins (%)	10.46%	7.88%	3.48%	5.76%	5.80%
Net Profit Growth (%)		22.01%	-61.13%	92.26%	25.00%
EPS	13.86	16.91	6.57	12.63	15.79
BVPS	96.50	113.20	119.80	132.00	148.00
P/E	5.48	4.49	11.57	6.02	4.81
P/BV	0.79	0.67	0.63	0.58	0.51
RoE	16.5%	16.1%	5.6%	10.0%	11.3%

Source: Company, Bloomberg, Microsec Research (In INR Mn)

### Product Profile



**AC Coils:** LEE has a 1.2 m units AC coils manufacturing facility. Coils currently account for about 50% of the company's top line. It has more than 50% market share of AC Coils in India and make 450 types of coils in a year.



**Air Condition assembly unit:** LEE, under contract manufacturing basis, supplies assembled ACs to many large AC players in the country. It has a 0.4m unit capacity. Currently, this segment contributes to about 1/3rd of the company's revenues. However, by increasing its capacity utilization the company intends to scale up contribution from this segment to 50% over the next two-three years. Though margins in the AC assembling segment are relatively low, it helps the company tap a fast growing segment in the country.



**Roof Mounted Packaged Units (RMPU):** RMPUs are supplied to the Indian Railways to be fitted in the AC coaches of trains. The airconditioning units that it is manufacturing for railways are on turnkey basis i.e. design, manufacturing, supplying, installation and maintenance.

**Sheet metal:** LEE has a capacity to produce 0.3 mn sheet metal case and can produce approximately 70 corrugation patterns on sheet metal. This is broadly sufficient to provide any desired pattern required by various OEMs. With the increase in demand for energy efficient air conditioning products, specific patterns and cuts of sheet metal become important.

### VALUATION

The stock is currently trading at a P/E of 6.0x. Its discounts its FY11E EPS of Rs.15.79 by 4.8x. Its 3 year and 5 year Average P/E multiple are 7.3x and 11.5x respectively. **The current Book value of the company is Rs.132** and the CMP is only Rs. 76 which gives a P/BV of 0.58x. The stock looks to be fairly undervalued and the stock looks to be re-rated.

It should command a P/E multiple of 8x which gives a target price of Rs.126 (upside of 68%) based on our FY11E EPS of Rs.15.79. It has touched an all time high of Rs. 240 which leaves much room for the investors to BUY the stocks from the CMP of Rs.76. Its 5 year Average ROE comes around 13.6%.

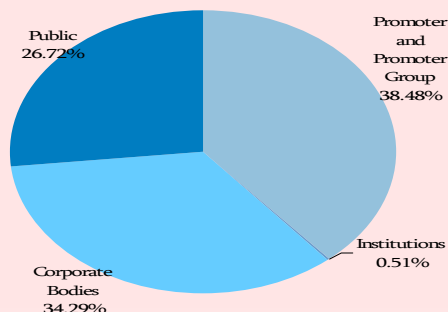


**BUY**

**Market Data**

Current Market Price (INR)	167.00
Target Price	253.00
<b>Upside Potential</b>	<b>51%</b>
52 Week High / Low (INR)	195 / 75
Market Capitalization (In INR Mn)	2,430.20

**Shareholding**



**STOCK SCAN**

BSE Code	532516
NSE Code	SURYAPHARM
Bloomberg Ticker	SUPHIN
Reuters Ticker	SURP.BO
Face Value (INR)	10.00
Equity Share Capital (Rs. Mn.)	144.70
Average 3 Year P/E	3.5x
Beta vs Sensex	0.9x
Average Daily Volumes (12 M)	59,075
Dividend Yield	0.72
Stock Return (1 Yr)	71%



## Surya Pharmaceutical – A Solid and Steady Player

### Sector- Pharmaceuticals

We rate Surya Pharmaceutical a **BUY**. Surya Pharmaceutical Limited was established in 1992 and has rapidly emerged as the premier integrated pharmaceuticals company in India. Its business focuses on Contract Manufacturing, Custom Synthesis, FTE Research, and the manufacture and marketing of pharmaceuticals products and services to clients across the globe.

#### Investment Highlights

**Expansion plan of Rs. 500 crore to Set up a new API's Unit to fuel growth:** The company is going on for a major expansion of Rs.500 crore to fuel its business plan, which involves setting up new API manufacturing unit near Chandigarh. The proposed unit will manufacture the entire range of APIs including cardio-vascular products, CNS products, hormonal products, steroids etc. Also the Funds would be utilised in expanding group's Pharmaceutical retail chain 'Viva' which has presence in Punjab, Chandigarh and Delhi.

**Sound and Consistent Financial Performance from Past 5 years:** The company has been growing very well from the past 5 years. Its Sales has continuously grown from Rs.169 crore in FY05 to Rs.1130 crore in FY10 and Net profit has grown from Rs.9 crore to Rs. 75 crore for the Same period. In FY10, Net sales has increased by 56% and PAT has increased by 33% in comparison to previous year. EPS for the Full year was Rs. 51.7 Vs. 38.7 in FY09.

**Spreading Healthcare Retails through it's Retail store 'VIVA' :** The presence of a huge spurious drug market along with an increasing number of lifestyle and stress-related ailments prompted the company to launch healthcare and pharma retail stores under the brand 'Viva'. Currently the company has a total of 42 Stores and is planning to open 500 stores in a period of 3 years. This will further boost the company's sales.

**Entered into Marketing Tie-up with US based Footwear maker 'CROCS' to improve topline:** Crocs has developed medical footwear 'Crocs Rx Medical' which is specially designed for individuals with general foot problems, diabetic and arthritic feet. This tie up is a part of Surya's initiative to launch various global brands into Indian markets. These Crocs products will go a long way in ensuring preventive footcare for diabetics, potential diabetics and people at large. The company is eyeing a revenue of over Rs 100 crore in next two years with this tie up.

#### Exhibit 4. Surya Pharma – Historical Financials and Projections

Particulars	FY2007A	FY2008A	FY2009A	FY2010A	FY2011E
Net Sales	3,043.00	5,129.74	7,515.26	11,302.00	14,693.00
Growth (%)		68.58%	46.50%	50.39%	30.00%
EBITDA	531.48	899.99	1,245.95	1,734.60	2,367.10
EBITDA Margins (%)	17.47%	17.54%	16.58%	15.35%	16.11%
Net Profit	236.90	417.15	535.93	748.09	1,093.20
Net Profit Margins (%)	7.79%	8.13%	7.13%	6.62%	7.44%
Net Profit Growth (%)		76.09%	28.47%	39.59%	46.13%
EPS	13.76	24.22	37.04	51.71	74.37
BVPS	95.00	123.00	159.00	209.00	284.00
P/E	12.14	6.90	4.51	3.23	2.25
P/BV	1.76	1.36	1.05	0.80	0.59
RoE	20.6%	26.4%	27.4%	28.1%	30.6%

Source: Company, Bloomberg, Microsec Research (In INR Mn)

### Product Profile



**Active Pharmaceuticals Ingredients:** An active ingredient (AI), is the substance in a pharmaceutical drug or a pesticide that is biologically active. Drugs are chosen primarily for their active ingredients. Surya Pharmaceutical has five manufacturing facilities of active pharmaceutical ingredients (API) which are Anti- Migranes, Anti Histamines, Betalactam Antibiotics.

**BRANDED FORMULATION:** **Alexus**, a dedicated hard core Formulations Division of SPL markets Finished Dosage Forms (FDFs) in the General Medicine Segment. The product mix includes Anti-biotics, PPIs, Cough & Cold Remedies, Calcium & Multivitamin supplements. **Aegis Healthcare** caters to therapeutic segments like Anti infectives, Gastrointestinals, NSAIDS, Anti-allergics etc. **Altair** is the Diagnostic and Medica equipment Division of Surya Pharmaceutical Ltd.

**Custom Research and Manufacturing Services (CRAMS):** SPL has an integrated approach towards the Custom Research and Manufacturing Services (CRAMS) offering products and services to the global life sciences industry. Over the past 15 years SPL has completely integrated R & D, technology and engineering capabilities that supports the development and demonstration of cost effective processes and products.

### VALUATION

The stock is currently trading at a P/E of 3.2x at the CMP of Rs.167. It discounts its FY11E EPS of Rs.74.3 by 2.2x which is very inexpensive. Its 3 year and 5 year Average P/E multiple are 3.5x and 6.1x respectively. **The current Book value of the company is Rs.210** and the CMP is only Rs. 167 which gives a P/BV of 0.80x. in comparison to Average P/BV of 1.5 of Mid Size Pharma Companies. The stock looks to be fairly undervalued

Its Average 5 year ROE is above 25% .With the opening of more 'VIVA' stores and tie-ups with CROCS, the outlook of the company looks to be robust. We value the company on the average of P/E and P/BV and arrive at a Target Price of Rs.253 at which it will trade at a P/E of 3.5x and P/BV of 1.2x.

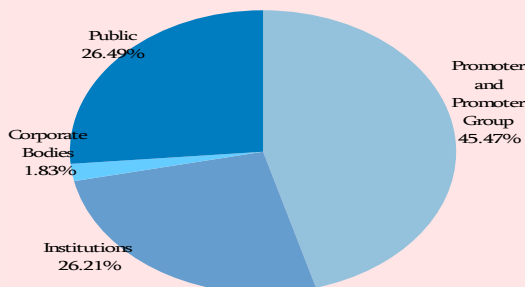
Particulars	Target Multiple	EPS FY11E	Book Value	Value
P/E basis	4	74.3	-	297.2
P/BV basis	1	-	210	210.0
			Average	253.6

**BUY**

**Market Data**

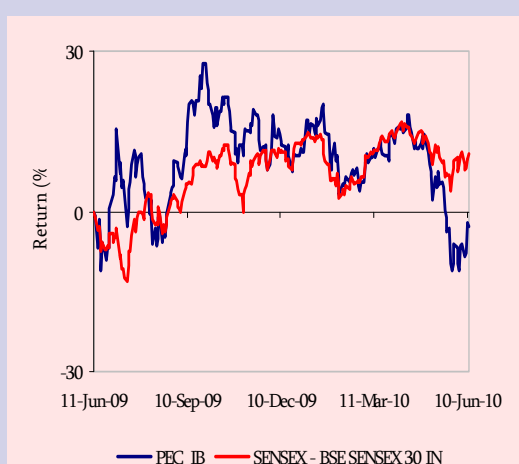
Current Market Price (INR)	392.00
Target Price	500.00
<b>Upside Potential</b>	<b>28%</b>
52 Week High / Low (INR)	526 / 340
Market Capitalization (In INR Mn)	27,347.00

**Shareholding**



**STOCK SCAN**

BSE Code	531120
NSE Code	PATELENG
Bloomberg Ticker	PEC IN
Reuters Ticker	PENG.BO
Face Value (INR)	1.00
Equity Share Capital (Rs. Mn.)	69.80
Average 3 Year P/E	18.1x
Beta vs Sensex	1.2x
Average Daily Volmes (12 M)	56,044
Dividend Yield	0.38
Stock Return (1 Yr)	-3%



## Patel Engineering – A better Play in Infrastructure

### Sector- Infrastructure

We rate Patel Engineering a **BUY**. Patel Engineering is an infrastructure company engaged in civil construction. The Company's projects include heavy construction, earth and rock excavations, housing complexes, building projects, dams, tunnels, bridges, refineries, factories, steel projects, thermal and hydro power house, pre-stressed and pre-cast concrete, marine works, and public health works.

### Investment Highlights

**Strong Order Book Size of Rs.10000 crore provides a healthy visibility.** The company's current consolidated order book stood at Rs 10000 crore, of which 48% is hydro power based projects and 44% is water & irrigation based projects while around 8% is from urban infrastructure and transportation segment. The order book grew by 30% as compared to the previous year. The company further expects the order book to increase by 60% to 70% during the current fiscal.

**Awarded the contract for developing the largest Waterfront in Mauritius:** The company's subsidiary was awarded a contract for the development of the largest waterfront project in Mauritius. This project is the development of an integrated township within the capital city of Port Louis. The project involves construction of tourist heritage center, apartment complex, office building, shopping malls, entertainment hub, marine garden etc, spanning a built up area of over 10 million sq ft and is expected to generate a revenue in excess of Rs.4500 crore.

**Sound Financial Performance in the year FY10:** The consolidated revenue during the full year ended March 2010 rose 25% to Rs 3081.08 crore as compared to FY 2009. The EBITDA of the company was higher by 21% to Rs 489.42 crore. The consolidated net profit after minority interest during the year was higher by 42% to Rs 193.32 crore after adjusting Previous year Profit of Rs.136.36 crore as per Sec80 (1A) of IT Act.

**Real Estate Project at Bangalore and Noida to reap fruits in future:** The company started monetizing its traditional land bank when it opened the booking for its Electronic City (at Bangalore) project Phase I. Of the 1723 apartments the company has already sold 800 apartments. The company has also launched a project in Noida. The Phase I of the Noida project will have 1600 units with a saleable area of 2.2 million sq ft. We expect the real estate division to contribute to the bottomline by mid of FY12E.

### Exhibit 5. Patel Engineering – Historical Financials and Projections

Particulars	FY2007A	FY2008A	FY2009A	FY2010A	FY2011E
Net Sales	12,956.30	18,533.70	24,501.70	30,810.80	39,425.00
Growth (%)		43.05%	32.20%	25.75%	27.96%
EBITDA	1,684.70	2,724.10	4,039.10	4,894.20	5,913.75
EBITDA Margins (%)	13.00%	14.70%	16.48%	15.88%	15.00%
Net Profit	1,129.20	1,519.10	1,804.70	1,933.20	2,326.00
Net Profit Margins (%)	8.72%	8.20%	7.37%	6.27%	5.90%
Net Profit Growth (%)		34.53%	18.80%	7.12%	20.32%
EPS	19.37	25.46	30.25	27.70	33.30
BVPS	118.50	123.00	170.50	171.90	203.80
P/E	20.24	15.40	12.96	14.15	11.77
P/BV	3.31	3.19	2.30	2.28	1.92
RoE	44.2%	24.8%	19.5%	17.5%	17.7%

Source: Company, Bloomberg, Microsec Research (In INR Mn)

### *Services Offered*

**Hydro Power and Irrigation Projects:** The Company continued to focus on high margin business in hydropower and irrigation projects. Almost 80-90% of the total project done by the company is of Hydro Power and Irrigation Projects. The company focuses on projects in areas where the government spending is highest. Some of the Notable Projects which the company has executed are as follows:

- ❖ Bheema Lift Irrigation Project:
- ❖ Bargi Diversion Project:
- ❖ Pranahita- Chevella lift irrigation:
- ❖ Construction of Power House (4 x 150 IVIW) & Head Race Tunnel situated in Uttar Kashi
- ❖ Construction of civil works and foot power house project at Koynanagar in Satara District.
- ❖ Parbati Hydro Electric Project:

**Real Estate Project:** Located in the heart of Electronic City, Bangalore and spreading over 120 acres of land, Patel Eco City is an integrated township consisting of Residential and Commercial Developments, Two Special Economic Zones and an Information Technology Park. The company has also launched a project in Noida. The Phase I of the Noida project will have 1600 units with a saleable area of 2.2 million sq ft

**Power Generation:** Patel Engineering is also setting up a Thermal Power Project Of 1200 MW in Tamil nadu at a cost of Rs.6000 crore for which all the necessary approval has been done and financial closure will happen by end of FY11E. It is also Setting up a 120 MW hydro power Projects in Arunachal Pradesh at a cost of Rs.800 crore

### *VALUATION*

Patel Engineering's Order Book of Rs.10000 crore provides significant earning visibility for the next 2 -3 years. The company is attractively placed as almost 92% of its order book comes from hydro power and irrigation sectors, which is expected to witness robust growth driven by government's emphasis on infrastructure spending.

The stock is currently trading at P/E multiple of 14.1x at the CMP of Rs. 392. It discounts its FY11E EPS of Rs 33.3 by 11.7x. Its 3 year and 5 year Average P/E multiple are 18.1x and 22.1x respectively. A company with a high EBITDA margin should command a P/E multiple of 15x which helps us to arrive at our Target Price of Rs.500 on its FY11E EPS of Rs.33.3. Industry Average Multiple is around 18-20x

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