

Patel Engineering

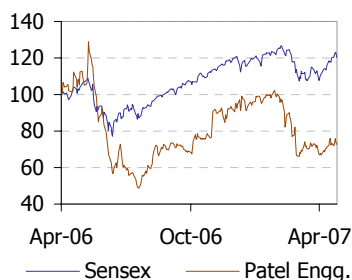
Relative to sector: **Outperformer**

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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares	: 60mn
Market cap	: Rs.21bn
52 week high/low	: Rs.635/ Rs.222
Avg. daily vol. (6mth)	: 206,300 shares
Bloomberg code	: PEC IN
Reuters code	: PENG.BO

Shareholding (%) Mar-07 QoQ chg

Promoters	: 53.9	(1.0)
FII's	: 8.9	0.0
MFs / UTI	: 8.6	0.0
Banks / FIs	: 0.5	0.0
Others	: 28.0	1.0

Financial summary – (Consolidated)

Y/E Mar	Sales (Rs mn)	PAT (Rs mn)	Consensus EPS* (Rs.)	EPS (Rs.)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBIDTA (x)	DPS (Rs.)
2006	10,147	738	-	14.8	77	32.1	38.1	23.6	20.5	1.3
2007	13,310	1,109	-	18.6	26	18.2	22.9	20.5	10.8	1.4
2008E	16,657	1,068	17.8	17.9	(4)	19.5	14.1	19.2	9.8	1.6
2009E	19,104	1,210	22.5	20.3	13	17.2	14.6	20.7	8.2	1.8

Source: *Consensus broker estimates, Company, ENAM estimates

INLINE WITH EXPECTATIONS

Patel Engineering's (PEL) FY07 results were inline with our expectations. On a consolidated basis, PEL reported revenue of Rs 13.3bn (up 31% YoY), EBIDTA of Rs 1.8bn (up 41% YoY) and adj. PAT of Rs 1.1bn (up 50% YoY). OPM expanded by 100bps to 13.8% aided by the favorable business mix. Order intake for the year stood at ~Rs 22bn taking the FY07 order backlog to a healthy ~Rs 48bn.

Key highlights

- As expected, revenue growth was back-loaded, driven by some of its large transportation projects reaching the threshold revenue booking level in Q4FY07.
- OPM expanded by 100bps YoY to 13.8% due to the favorable business mix, with 51% coming from hydro and 36% from irrigation segments.
- Order backlog stood at Rs 48bn (up 21% YoY). The order backlog comprises 55% of hydroelectric, 25% of irrigation and 20% of transport & other projects.
- The company plans its foray into thermal power generation as an IPP by setting up a 1200MW imported coal based thermal power plant in Gujarat with a proposed investment of Rs 50bn.

High intake capacity, maintain outperformer rating

While the current order backlog can support 25% revenue CAGR over FY07-09E, margin expansion is unlikely due to an unfavorable business mix. Further, the company's plans to foray into thermal power will require significant equity investment of ~Rs10bn, which may stretch the balance sheet. However, PEL has a substantially higher intake capacity and is currently bidding for Rs 90bn worth of projects in various segments. Going by historical bid-to-success ratios of ~40%, we believe that intake will gain traction going forward. Hence, we maintain our earnings forecast for FY08 at Rs 1.1bn. At CMP (Rs 350), adj. for value of real estate and BOT investments of Rs 100 per share, the stock trades at an EV/ EBIDTA of 7x FY08E. We maintain our sector **Outperformer** rating on the stock.

Results update

(Rs mn)	Quarter ended					12 months ended		
	Mar-07	Mar-06	% Chg	Dec-06	% Chg	Mar-08E	Mar-07	% Chg
Net Sales	4,910	3,014	62.9	2,841	72.8	16,657	13,310	25.1
EBIDTA	608	269	125.7	471	29.0	2,214	1,844	20.1
Other income	23	101	(77.2)	10	127.4	172	179	(3.7)
PBIDT	631	371	70.2	481	31.1	2,386	2,023	18.0
Depreciation	108	63	71.6	97	11.5	420	378	11.1
Interest	93	72	28.6	41	125.1	305	351	(13.0)
PBT	430	236	82.6	343	25.4	1,661	1,294	28.4
Tax	40	23	70.0	44	(10.7)	548	145	278.8
Minority Interest	32	-	-	4	699.6	45	41	10.0
Adjusted PAT	358	212	68.7	295	21.5	1,068	1,109	(3.6)
Extra ordinary income/ (exp.)	-	-	-	-	-	(690)	-	-
Reported PAT	358	212	68.7	295	21.5	378	1,109	(65.9)
No. of shares (mn)	60	50	-	60	-	60	60	-
EBIDTA margins (%)	12.4	8.9	-	16.6	-	13.3	13.9	-
PBIDT margins (%)	12.9	12.3	-	16.9	-	14.3	15.2	-
EPS - annualized (Rs.)	24.0	17.0	41.4	19.8	21.5	17.9	18.6	(3.6)

Source: Company, ENAM Research

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