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*Company has started its first phase of development plan which covers 11% of its land bank.*

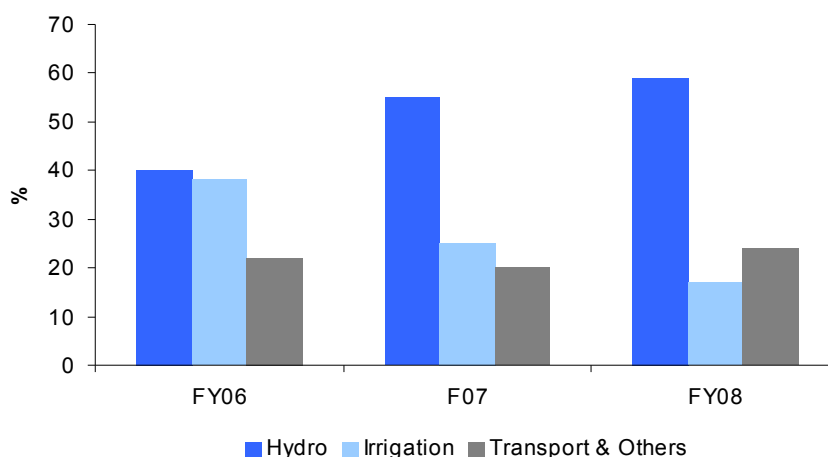
*Revenue from overseas operation improved by 400% to Rs. 245 cr.*

## Patel Engineering Ltd (Rs. 346, FY08, P/E -14x,Unrated)

### Key Takeaways

- Patel Engineering Ltd. order book stands at Rs.6047 crores an increase of 20% over previous year. The company is also pre-qualified for new projects worth 12000 crores.
- Break-up of order book is as follows Hydro Projects (58.74%), Irrigation (17.17%) and Transport (24.09%)
- During FY08 Company's capital expenditure was of Rs. 230 crores.
- Companies employee strength stands at 1476 (78% Technical staff) compared to 1268 employees in FY07. Staff attrition rate has reduced to 2% in FY08 from 5% in FY07.
- Company's total land bank stands at 1000 acres which is diversified across Hyderabad, Chennai, Bangalore, Mumbai and Panvel. Land bank is valued at Rs. 2100 crores by DTZ.
- Company has started its first phase of development plan which covers 11% of its land bank.
- Patel Engineering Ltd is leader in Hydro power with 22% market share and only Indian company with experience in Roller Compacted Concrete (RCC) , Microtunnelling and Double Lake Tap.
- Revenue from overseas operation improved by 400% to Rs. 245 cr. Capital expenditure for overseas operation was at Rs. 85 cr
- Revenues from Michigan (acquired last year) increased by 75%. Order book for Michigan stands at Rs. 500 crores.
- On completion of road projects AP-7 (Est. completion Mar 10) and KNT-1 (Est. completion Mar 09) company will generate regular revenue of Rs. 100 pa for next 18 years.
- Company is constructing thermal power plant of 1200 MW (4 phases) through an SPV and 120 MW Hydro power plant at Gondri, Arunachal Pradesh.

### Order Mix Change



## FY08 Performance

(Rs. Mn.)

	FY08	FY07	YoY (%)	4QFY08	3QFY08	QoQ (%)	4QFY07	YoY (%)
Net Sales	18,596	12,900	44	7,268	3,789	92	4,910	48
Total Expenditure	15,856	11,240	41	6,137	3,197	92	4,302	43
EBIDTA	2,740	1,660	65	1,131	592	91	608	86
EBIDTA Margin (%)	14.7	12.9		15.6	15.6		12.4	
Other income	37	98	(62)	(79)	31	(360)	23	-444
Interest	295	97	205	159	44	262	93	71
Depreciation	627	349	80	323	104	211	108	199
PBT	1,855	1,312	41	570	474	20	430	32
Provision for tax	227	144	57	37	64	(42)	40	-8
PAT	1,628	1,168	39	533	411	30	391	36
Extraordinary Income	-	4	-	-	-	-	-	-
Minority Interest	109	27	310	28	22	25	32	-14
Adj PAT	1,519	1,130	34	505	389	30	358	41
Equity Capital	60	60	-	60	60	-	60	-
EPS (Rs)	25	19	34	8	7	-	6	-
Net Profit Margin	8.2	8.8	-	6.9	10.3	-	7.3	-

Source: Company

Company's topline for FY08 grew by 44% to Rs.18596 mn compared to Rs. 12900 mn in FY07. Revenue growth was led by US subsidiary.

### Top line up by 44% to Rs. 18596 mn in FY08 from Rs. 12900 mn in FY07.

Company's topline for FY08 grew by 44% to Rs.18596 mn compared to Rs. 12900 mn in FY07. Revenue growth was led by US subsidiary. On q-o-q basis company registered a robust 92% increase in revenue.

### EBIDTA Margin improved by 180 bps at 14.7% for FY08 compared to 12.9% in FY07.

EBIDTA of the company grew by 65% to Rs. 2740 mn in FY08 from Rs. 1660 mn in FY07. The rise in EBIDTA margin can be attributed to lower growth in construction and other cost which were at Rs. 5207 mn in FY08 compared to Rs. 3893 in FY07.

### Net profit margin declined by 60 bps for FY08 compared to FY07.

Higher interest cost for the year of Rs. 295 mn in FY08 and higher depreciation cost of Rs. 627 mn an increase of 205% and 80% respectively led to a decline in net profit margin. Depreciation cost increased on account of accelerated depreciation policy adopted on its US operations. Company incurred loss of Rs. 79.4 mn on its foreign transactions (derivatives and forex losses) in 4QFY08 which also reduced net profits of the company. Interest cost for 4QFY08 was at Rs. 159 mn up by 262% on q-o-q basis.

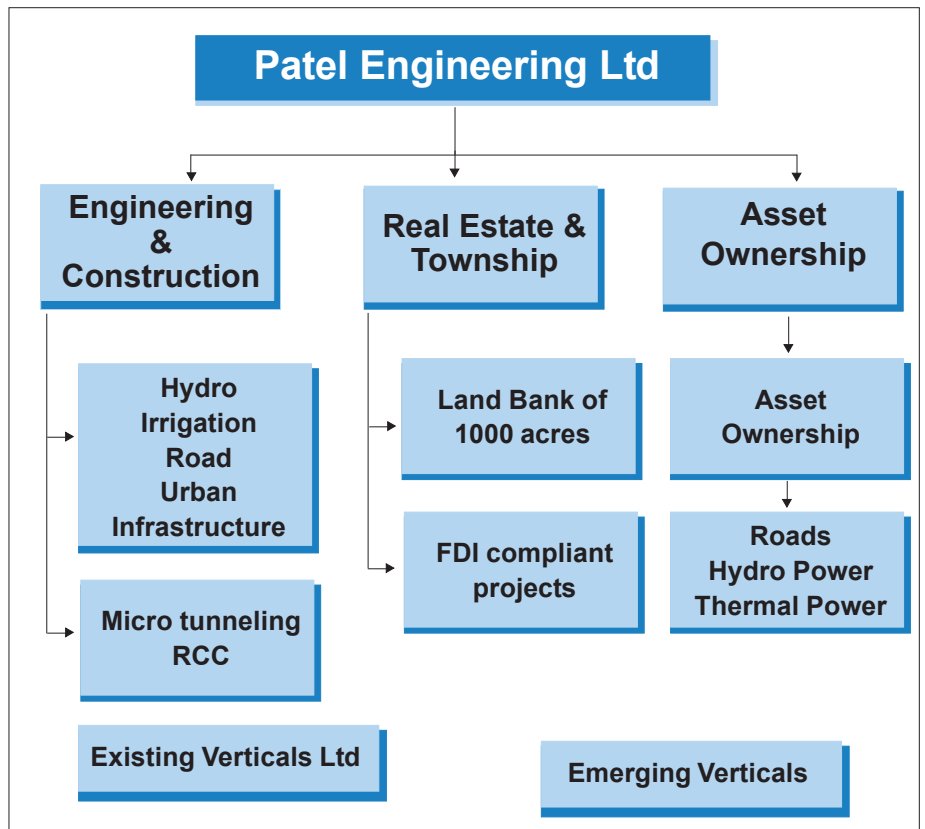
Net profit margin declined by 60 bps for FY08 compared to FY07.

### Business Background

Patel engineering is an ISO-9001 company, engaged in Civil construction with over 200 projects around the world to its credit. Its areas of operation include Multipurpose Power, Irrigation, Transport and Urban Infrastructure. The company has competitive advantage of technology for Microtunnelling, Double Lake tap and Roller Compacted Concrete (RCC). The company till date has completed 75 Dam related projects, 30 Hydro power projects, 30 microtunnelling projects , 160 Km of tunneling.

Areas of operation include Multipurpose Power, Irrigation, Transport and Urban Infrastructure.

Strategy going ahead is to bid selectively and intelligently to increase order size.



Source: Company

### Business Outlook And Valuations

Patel Engineering has competitive advantage in Microtunnelling, Roller Compacted Concrete (RCC) and Double Lake Tap. The growth in topline and bottomline for FY08 and 4QFY08 reflects the company's healthy business model. The companies focus on high margin Hydro Power Sector has paid dividends to the company. Company's strategy going ahead is to bid selectively and intelligently to increase order size. Patel also plans to use sophisticated technology in order to execute the orders. Higher interest rate, rising raw material prices and shortage of skilled manpower remains major area of concern for the company. Healthy order book gives revenue visibility for 2-3 years (Order Book to Sales ratio of 3.25X). Governments thrust on infrastructure can be measured from the projected investments in infrastructure to the tune of USD 581 bn in eleventh plan.

Order Book to Sales ratio of 3.25X

### Financial Estimates -

Year Ended	FY07	FY08	FY09E*	FY10E*
Net Sales (Rs Mn)	12,900	18,596	20,838	26,115
EBITDA (Rs Mn)	1,660	2,740	2,842.00	3,838.00
EBITDA (%)	13	15	14	15
PAT (Rs Mn)	1,130	1,519	1,367.00	1,682.00
EPS (Rs)	18.96	25.49	22.94	28.22
P/E (x) @ Rs.346	18	14	15	12

Source: Company/ \*Consensus Estimates

At Current market price of Rs 346 stock is trading at 15x FY09E consensus estimates. We don't have any active rating on the stock, but looking at the fundamentals and future growth prospects, we have a positive outlook on the stock.

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## Reliance Money Stock Rating

Rating	Stock Performance
BUY	Appreciate more than 15% in next 12 months
HOLD	Appreciate upto 15% in next 12 months
REDUCE	Depreciate upto 10% in next 12 months
SELL	Depreciate More than 10% in next 12 months

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Equities: Trading through Reliance Securities Limited | NSE SEBI Registration Number Capital Market :- INB 231234833 |  
BSE SEBI Registration Number Capital Market :- INB 011234839 | NSE SEBI Registration Number Derivatives :- INF 231234833  
Commodities : Trading through Reliance Commodities Limited | MCX member code: 29030 | NCDEX member code: NCDEX-CO-05-00647 |  
NMCE member code: CL0120 Mutual Funds : Reliance Securities Limited | AMFI ARN No.29889

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