



Research



RESEARCH :: COMPANY :: PATEL ENGINEERING LIMITED

9th November, 2009

BUY

Approx price	= Rs 463
Target price	= Rs 650
Estimated EPS	= 37
Target PE	= 17-20
Investment period	= 12 mnths

STOCK INFO (TTM Basis)

Sector	Construction
Market cap(Cr)	2704
Face value	1
Book value	230
EPS	30
Cash EPS	38
Dividend	-
Sales Growth	35%
RONW	17%
Debt to equity	1.1
52 week H/L	526/103
Avg Daily Vol	49492
Sensex	16158
BSE code	531120
Promoter Holding	53%
Management	Pravin patel
Incorporation	1949
Listed	NSE, BSE

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COMPANY PROFILE

Established in 1949 Patel Engineering limited (PEL) is a leading infrastructure player with a strong presence in high margin Hydropower Construction projects, tunneling, underground works for hydroelectric and irrigation projects, heavy foundations, dams, bridges, residential and commercial projects, etc. It possesses in-house niche technologies like roller compacted concrete (RCC) dam construction, micro tunneling, double lake water tapping, etc. The company has completed work on 40 hydropower projects in India, 78 dams, 33 Micro tunneling both domestically and internationally.

The company has presence across geographies like USA, Arabian Gulf, Sri Lanka, Nepal and Bhutan. It is one of the few players with pre-qualifications in Hydro, Upstream Irrigation and other projects.

With a burgeoning order book and access to leading-edge technology, Patel appears well placed to capitalize on the current infrastructure spending in the country.

Company has a debt-equity ratio of 1:2 and around 125 crore rupees in cash as of 31st March FY09.

Construction:

Company had an outstanding Order book of 7000 crores last year, executable over 3 years. Current order book stands at 9900 crores in 3 segments namely: Irrigation (43%), Hydro(48%) and Transport(20%).

Patel Engineering Ltd sees its order book doubling by the end of FY10 with the Indian governments continuous spending on infrastructure. Company has higher EBITDA margins in the industry in this business due to higher margin in hydro business.

During the year FY09 company bagged many major orders.

- ✚ Awarded Bargi diversion project worth Rs. 799 crores from the Narmada valley development authority which is estimated to be completed in the next 36 months.
- ✚ Project from the Govt. of AP in consortium with BHEL and Navyuga construction which is the single largest irrigation project in India, the Pranahita- Chevella lift "irrigation package 6" worth Rs.38,590 million.
- ✚ Orders worth Rs. 6,955.70 million from the AP Government for the modernization of the Krishna Delta System.
- ✚ The company is L1(lowest)bidder in projects worth Rs. 2500 crores, there could be significant order inflow from this

POWER

Patel Engineering is looking to beef up its power generation interest as it explores a 1,200 mw thermal power project in Gujarat and a 90MW hydel power unit in Arunachal Pradesh. The company's 1,320-mw Nagapatnam thermal power is slated to complete its financial closure by January 2010. PEL is the leader in the hydropower segment and the only Indian company with experience in RCC, Micro Tunneling and Double Lake Tap Work. The company has completed work on 40 hydropower projects in India, 78 dams, 33 Micro tunneling both domestically and internationally. Company is investing around INR 6,800 crore in the power business. The venture would start generating money from sometime next year. 1400 crore will be equity infusion, 400 crore have already been raised further 1000 crores will be raised in 2-3 years.

REAL ESTATE:

Company has a land bank of 1100 acres, spread across Bangalore, Chennai, Mumbai and Hyderabad. It plans to monetize substantial part of it over next 3 years. Mumbai and Bangalore properties can provide good yields in next 3-4 years while company has not made any announcement about Chennai and Hyderabad property.

Mumbai:

80,000 sq ft commercial property in Mumbai's Jogeshwari area which would be leased out. According to company it would contribute 10 crores to bottomline.

There is further potential to develop 1 mn. Sq ft area in Jogeshwari, Mumbai at Patel Estate.

Bangalore:

120-acre property just off Bangalore's IT hub at Electronic City. Company is planning one crore sq ft residential and commercial development where it is proposing to set up two Special Economic Zones (SEZs) for IT and IteS companies. We are working to get this up and going by 2012

According to management it can fund its business through internal accruals.

EXCERPTS FROM NEWS REPORT

Result Analysis (Oct 29, 2009):

Consolidated segment grew 38% to 608 crores for second quarter ended September compared to 442 crores in corresponding period last year. Consolidated period grew by 27% to 41 crores compared to 32 crores in the corresponding quarter last year.

Company's order book currently stands at 9900 crores; company had earlier this year set a target of to double order book from 7000 crores last year.

Patel Engineering's order book of 9900 crores implies sales coverage of 5 times FY09 sales and provides good earning visibility.

Equity Dilution (22nd October)

Patel Engineering Ltd has announced that it has raised Rs 3,443.23 million through the fresh issue of shares to qualified institutional buyers (QIBs) at a price of Rs 477.03 per share. Company's equity post dilution stands at 6.7 crore, up from 5.97 crore earlier.

Infrastructure Output Data (28th October)

During April-September, the first half of the 2009/10 year, output rose 5 percent compared with 3.4 percent in the same period in 2008/09. The infrastructure sector accounts for 26.7 percent of India's industrial output.

Allocation for Jawaharlal Nehru National Urban Renewal Mission (JNNURM), the flagship program for urban infrastructure, has been stepped up by 87 per cent to Rs.12,887 crore in the current Budget.

National Highways Authority of India (NHAI) has also got a higher allocation of Rs 8,578.45 crore in 2009-10 from Rs 6,972.47 crore spent in 2008-09 as per the revised estimates.

FINANCIALS: **PATEL ENGINEERING LIMITED** (Rs Crores)

	2008-09	2007-08	2006-07	2005-06	2004-05
Gross revenue	1478.72	989.52	1019.25	686.32	464.42
Profit before Interest , tax and depreciation	414.86	242.82	178.56	127.85	84.58
less: Interest/ Finance charges	173.15	51.88	29.68	25.16	19.82
Profit before tax and Depreciation	241.71	190.94	148.88	102.69	64.76
less: Tax	23.3	10.6	12.92	4.61	4.84
Profit After Tax and before Depreciation	218.41	180.34	135.96	98.08	59.92
Add: Deferred Revenue Expenditure	0	0	0	0	0
Cash Accruals	218.41	180.34	135.96	98.08	59.92

BALANCE SHEET: **PATEL ENGINEERING LIMITED** (Rs Crores)

	2009-08	2007-08	2006-07	2004-05	2003-04
networth	978.87	844.19	703.17	194.7	129.36
Loans- term	1453.29	885.29	460.37	435.52	305.69
Loans - working capital	0	0	0	0	0
deferred tax liability	9.66	10.43	10.81	12.18	14.41
TOTAL	2441.82	1739.91	1174.35	642.4	449.46
net block including WIP	339.79	299.08	204.11	177.29	167.63
Investments	289.74	144.35	191.83	16.77	28.18
net working capital	1812.29	1296.48	778.41	448.19	253.65
deferred revenue expenses	0	0	0	0.15	0
TOTAL	2441.82	1739.91	1174.35	642.4	449.46

ANALYSIS & REPORT

Why to invest in shares of Patel Engineering limited?

1) SECTOR:

With continuing thrust on Infrastructure and Power by Indian Government through its flagship schemes like JNNURM and increasing contribution through PPP's (Public Private Partnerships), Infrastructure sector companies will continue to do well over next few years.

2) COMPANY:

Patel Engineering is one of the oldest Construction and Infrastructure player in the country incorporated in 1949 and listed in 1995. Company expertise's in complicated large hydro and Irrigation projects, and with governments huge thrust on Hydro, Irrigation, Power and Real Estate business, Patel engineering with its scale, expertise and timing is likely to emerge as one of the largest integrated infra player in the country.

1. **Construction:** Company's outstanding Order book of 10000 crores is 5x its TTM sales of 1800 crores.
2. **Real Estate:** 1100 acres of land of which 500 acres is in commercially lucrative areas of Hyderabad Bangalore, Mumbai and Chennai.
3. **Power:** Company plans to enter power business with initial capex of 6800 crores(3:1 debt equity) for 3 power, with excellent execution capabilities in complicated business puts the company on better footing then some of the other players in the Industry

3) FUNDAMENTALS:

Operating Margins are higher than peers. Company's core strength lies in Hydropower and upstream Irrigation projects including Dams and Micro tunneling which enjoys higher margins. Patel Engineering is leader in the sector with prequalification for Projects worth 12000 crores. Going forward increasing contribution from Real Estate will add tremendously to the topline.

Company is trading at 15 times current EPS of 30 and 12 times cash EPS of 38, company is likely to maintain strong Sales and Earnings growth over next 5 years. Company's real estate venture will start contributing by FY 11. Company has a very strong balance sheet and cash accruals which will continue to provided strong credit ratings for the business.

4) TECHNICALS:



Bullish pattern with short term correction

Stop loss for trader: 430

Target for trader: 520

Stop loss for investor: 375

Target for investor: 650

Notes: Figures and graph sourced from www.bseindia.com and capital market.

END

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