

Quarterly Result Update

Patel Engineering Ltd.

Recommendation	Buy			
CMP (16/08/2010)	Rs. 410			
Sector	Construction			
Stock Details				
BSE Code	531120			
NSE Code	PATELENG			
Market Cap (Rs. cr)	2857			
Free Float (%)	54.51%			
52- wk HI/Lo	526/340			
Avg. volume(Monthly in Lakhs)	100244(BSE)			
Face Value	Rs.1			
Dividend (FY10)	200%			
Shares o/s (No.)	6.98 Cr			
Relative Performance		1Mth	3Mth	1 Yr
PEL		-3.3%	-4.7%	3.3%
Sensex		1.2%	5.2%	17.0%

Background

Patel Engineering Limited (PEL) has a rich experience of 60 years in the construction industry. PEL has expertise in the fields of tunneling, underground works for hydroelectric and irrigation projects, water conductor systems, nuclear and thermal power projects, refineries, dams, industrial projects, heavy foundations, environmental engineering projects, roads, bridges and marine works, residential and commercial complexes, hotels and leisure establishments.

Result Analysis – Modest growth but Margin Impressive

PEL reported top line growth of 9.2% y-o-y to Rs. 702.3 crs in Q1 FY11 as compared to Rs. 643 crs in Q1 FY10. PEL reported modest growth as execution was impacted due to company's decision to go slow on the Rs. 1500 Crs Pranahita Irrigation project in Andhra Pradesh & execution of Rs. 1500 Crs Kotli Behal Hydel project in Himachal Pradesh did not start in Q1FY11 due to certain environmental Issue.

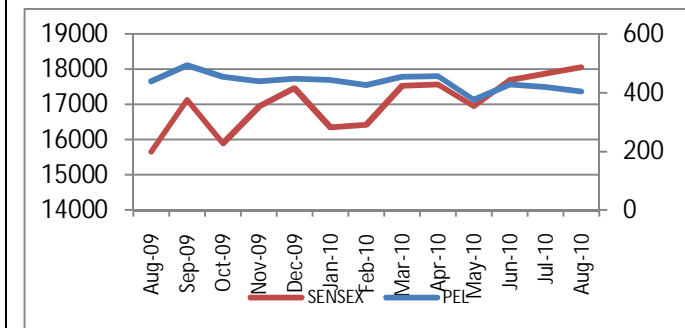
In Q1 FY11, PEL witnessed EBITDA growth of 12.2% y-o-y to Rs. 118.5 crs as compared to Rs. 105.7 crs in Q1 FY10.

EBITDA recover to 16.9% in Q1 FY10 against 12.6% in Q4 FY10. Growth in EBITDA margin is mainly on account of decline in construction cost by 360bps.

Interest expenses were recorded at Rs. 32.49 crs as compared to Rs. 46.06 crs showing a q-o-q decline of 30% on account of receiving payments on Andhra Pradesh projects. However, on a y-o-y basis interest expense increased by 14.3%.

Tax rate for Q3 FY10 stood at 29.8% as a percentage of Profit Before Tax (PBT). PEL reported PAT (before minority Interest) of Rs. 44.2 crs for Q1 FY11 as compared to Rs. 38.1 crs in Q1 FY10 registering a growth of 16% y-o-y. Growth in PAT is attributable to improved EBITDA margin (mainly on QoQ) PAT margins increased 40 bps y-o-y to 6.3% in Q1 FY11 & on a q-o-q basis PAT margins improved 90 bps.

The company reported EPS of Rs5.74 for Q1 FY11 as compared to Rs. 5.2 for Q1 FY10.



Shareholding Pattern as of 30/06/2010

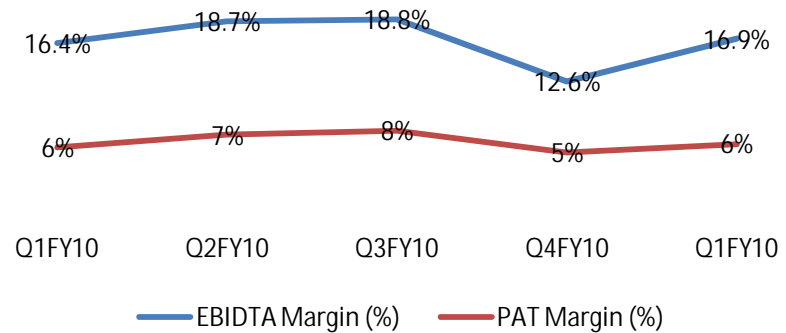
Promoters Holding	45.49%
Institutional (Incl. FII)	26.04%
Corporate Bodies	1.58%
Public & others	26.52%
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Year	Sales(Rs.Cr)	Growth	EBIDTA (Rs. Cr.)	EBIDTA %	PAT (Rs. Cr.)	EPS (Rs.)	P/E	P/BV	ROE%
FY09A	2,459.8	32.3%	389.7	15.84%	136.4	19.5	21.0	2.8	13.4%
FY10A	3,190.9	29.7%	508.7	15.94%	198.1	28.4	14.4	2.1	11.7%
FY11E	3,548.1	11.2%	592.5	16.70%	229.1	32.8	12.5	1.8	14.5%
FY12E	4,537.2	27.9%	744.1	16.40%	291.8	41.8	9.8	1.6	15.8%

Growth in EBIDTA margin is mainly on account of decline in construction cost by 360bps.

PEL expects significant order accretion in H2FY11, & hopes to end this year with an order book of Rs. 14000 Crs.

EBIDTA & PAT Margin



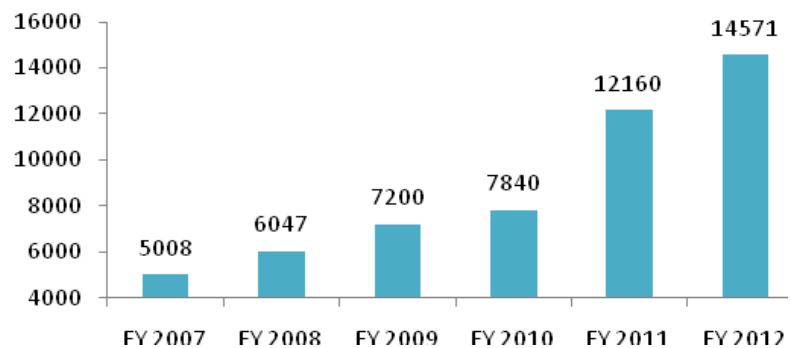
Source: Nirmal Bang Research

Healthy Order Book

PEL currently has an order book of Rs. 11000 crs (including L1 of 3100 Crs) and order inflow for the quarter was around Rs. 1500. Orders from the Hydropower segment constitute 49% of the total order book, whereas the irrigation segment contributes 40% to the order book.

From total order book of Rs. 11000 crs, 30% comes from Andhra project. Management expects work to start by end of this fiscal. The company currently has an order book to sales ratio of 3.4x based on its FY 2010 revenues. Going forward we expect the company to witness strong order intake based on increased government thrust on infrastructure spending.

Order Book



Source: Nirmal Bang Research

Construction for phase –I to begin next year

Power Projects to achieve financial closure by End of FY11

PEL is in the process of setting up a 1200 MW coastal thermal based power plant (Phase I) based on imported coal at Nagapattinam in Tamil Nadu at a cost of approximately Rs. 5250 crs. PEL have attained the coal linkages to the project and the environmental clearance has also been granted for this project. Financial closure will be achieved soon for this project.

Once operational this project will deliver annual revenues of Rs. 2500 crs for the company. PEL is also planning to develop Phase II (1600MW)for this project for 800 acres of land has already acquired

For its 140 MW Hydro project in Arunachal Pradesh, the company expects to achieve financial closure by Q2 FY 11.

Real estate projects picking up momentum...2 projects launched

The company launched the first phase 'Smondoville' (1 msf) through its wholly owned subsidiary Patel Realty India Ltd. PEL has already sold 1000 units of this project. The average rate for this project is expected around Rs. 2500 per sq. feet & it is expected to earn revenue of Rs 240 Crs from this phase. Now it is launching 'Smondoville-2' comprising 230 apartments from which it is expected to fetch revenues of Rs. 90 Crs .

PEL is also planning to launch India's biggest strip mall (0.7mn sqft) as part of project. About 60% of the space in the mall has already been pre-leased. Construction of the mall is likely to start by end of this year. Company expects annual lease rental of Rs. 40 Crs from this project

Valuation & Recommendation

PEL has a land bank of 1127.6 acres spread across India. According to the company this land bank is valued at Rs. 2100 crs on an "as in where is basis" as per DTZ report 2008. However given the current scenario where in the company have plans to utilize the land, we value the land bank at 2x its actual book value. The book value of the land bank is at Rs. 250 crs in the company's balance sheet. Based on this we get a valuation of Rs. 71.6 per share for the land bank of the company. We believe with the improving outlook on the commercial real estate front the company should be able to get a better valuation of its land bank. Furthermore with improving visibility on the development plans of the company for the same would also provide further upside to the valuations.

Sum of the Parts Valuation Particulars	Methodology	Multiple	Target
Core Construction Business	P/E	15x	492.2
BOT Projects	NPV	-	7.4
Real Estate	2x BV	-	71.6
Total			571
Current Market Price			410.0
Upside			39.3%

Source :Nirmal Bang Research

We have valued the Construction Business on a PE basis assigning it a multiple of 15x FY11E earnings of Rs. 32.81 per share thereby valuing the core construction business at Rs. 492 per share. Whereas the BOT projects are valued using the NPV methodology and yields a value of Rs. 7.4per share.

At the current market price of Rs 410 per share, PEL is currently trading at a PE of 12.5 FY11E EPS estimates. At Rs. 410 per share the stock is trading at a discount of 39.3% from our intrinsic price of Rs. 571 per share. We recommend a BUY rating on the stock with a long term view.

Q3 FY10 Results

Particulars (Rs. Cr.)	Q1 FY11	Q1 FY10	y-o-y	Q4 FY10	q-o-q
Income from Operations	702.3	643.0	9.2%	1197.1	-41.3%
Total expenditure	583.8	537.3	8.6%	1046.1	-44.2%
EBITDA	118.5	105.7	12.2%	151.0	-21.5%
EBITDA Margins	16.9%	16.4%	44 bps	12.6%	426 bps
Depreciation	25.6	31.5	-18.8%	29.6	-13.3%
EBIT	92.9	74.1	25.4%	121.4	-23.5%
EBIT Margins	13.2%	11.5%	170 bps	10.1%	309 bps
Other income	2.6	7.8	-66.8%	27.0	-90.4%
Interest	32.5	28.4	14.3%	46.1	-29.5%
PBT	63.0	53.5	17.8%	102.3	-38.4%
Total Tax	18.8	15.3	22.5%	37.4	-49.8%
PAT before Minority Interest	44.2	38.1	15.9%	64.9	-31.9%
Minority Interest	4.2	1.8	130.6%	3.2	31.7%
PAT after Minority Interest	40.1	36.3	10.3%	61.8	-35.1%
PAT Margins	6.3%	5.9%	36 bps	5.4%	87 bps
EPS	5.7	5.2	10.3%	8.8	-35.1%

Income Statement

Particulars (Rs. Cr.)	FY 2008	FY 2009	FY 2010	FY 2011E	FY 2012E
Income from Operations	1,859.6	2,459.8	3,190.9	3,548.1	4,537.2
Total expenditure	1,585.6	2,070.2	2,682.3	2,955.5	3,793.1
EBITDA	274.0	389.7	508.7	592.5	744.1
EBITDA Margins	14.7%	15.8%	15.9%	16.7%	16.4%
Depreciation	62.7	119.6	109.0	130.7	163.6
EBIT	211.3	270.1	399.6	461.8	580.5
EBIT Margins	11.4%	11.0%	12.5%	13.0%	12.8%
Other income	3.7	14.5	63.0	69.3	76.2
Interest	29.50	47.52	157.67	171.68	189.19
PBT	185.5	237.0	305.0	359.4	467.5
Total Tax	22.7	87.8	92.9	115.0	159.0
PAT before Minority Interest	162.8	149.3	212.0	244.4	308.6
Minority Interest	10.9	12.9	13.9	15.3	16.8
PAT after Minority Interest	151.9	136.4	198.1	229.1	291.8
PAT Margins	8.2%	5.5%	6.2%	6.5%	6.4%
EPS	21.75	19.53	28.38	32.81	41.78

Source: Nirmal Bang Research

Balance Sheet

Particulars (Rs. Cr.)	FY 2008	FY 2009	FY 2010	FY 2011E	FY 2012E
Share capital	6.0	6.0	7.0	7.0	7.0
Reserves & surplus	839.9	1,011.3	1,355.8	1,568.8	1,840.0
Net worth	845.9	1,017.2	1,362.8	1,575.8	1,847.0
Minority interests	40.5	21.6	61.5	76.8	93.6
Secured Loan	602.0	841.0	1,203.7	1,302.7	1,452.7
Other Unsecured Loans	374.4	440.3	626.3	626.3	626.3
Total Debt	976.4	1,281.3	1,830.0	1,929.0	2,079.0
Deferred tax Liability (Net)	15.1	14.8	11.5	11.5	11.5
Contractee Advances	217.8	465.4	307.9	369.4	459.9
TOTAL	2,095.7	2,800.3	3,573.7	3,962.4	4,491.0
Application of funds					
Gross block	615.2	803.8	860.9	1,089.3	1,363.4
less: accumulated Depn	180.1	303.5	305.8	436.5	600.1
Net book value	435.1	500.4	555.1	652.8	763.3
Capital WIP	235.2	69.7	204.2	204.2	204.2
Investments	36.1	50.5	69.8	69.8	69.8
Current assets, loans & advances					
Inventories	814.8	1,110.0	1,803.3	1,992.7	2,299.7
Sundry debtors	461.7	582.6	695.7	806.8	1,031.7
Cash & bank balance	288.2	295.1	232.7	265.8	299.6
Other Current Assets	1.1	52.7	73.1	77.8	87.0
Loans & advances	470.1	824.8	953.2	1,144.1	1,367.4
Total C.Assets	2,036.0	2,865.3	3,757.9	4,287.3	5,085.4
Less: Current Liab & provisions					
Current liabilities	646.5	683.7	975.7	1,166.5	1,491.7
Provisions	2.3	7.8	44.0	50.9	65.1
Net current assets	1,387.1	2,173.8	2,738.2	3,069.9	3,528.6
Misc Expenditure	2.3	5.9	6.7	6.7	6.7
TOTAL	2,095.7	2,800.3	3,574.0	3,962.4	4,491.0

Source: Nirmal Bang Research

Ratios

Particulars (Rs. Cr.)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Per Share Data					
EPS (Rs) (Basic)	21.8	19.5	25.7	32.8	41.8
CEPS (Rs)	30.7	36.7	44.2	51.5	65.2
Book Value (Rs)	121.1	145.7	195.2	225.7	264.5
Profitability Ratios (%)					
Order Book to Sales Ratio (x)	3.3	2.9	2.6	3.4	3.2
EBITDA Margin	14.7%	15.8%	16.1%	16.7%	16.4%
Net profit Margin	8.2%	5.5%	6.1%	6.5%	6.4%
ROE	18.0%	13.4%	11.7%	14.5%	15.8%
Valuation Matrix					
PE (x)	18.8	21.0	16.7	12.5	9.8
P/BV	3.4	2.8	2.1	1.8	1.6
EV/EBIDTA (x)	13.0	9.9	8.2	7.6	6.2
EV/Sales (x)	1.9	1.6	1.5	1.3	1.0
Mcap/Sales (x)	1.5	1.2	0.9	0.8	0.6
Leverage Ratio					
Debt/Equity Ratio	1.2	1.3	1.3	1.2	1.1
Interest Coverage Ratio	7.2	5.7	3.7	2.7	3.1
Source: Nirmal Bang Research					



NOTE

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