

PATEL ENGINEERING | BUY | Rs. 115

17 March 2009

STOCK DATA	
Revenue	1905 Cr.
Net Profit	160 Cr.
EPS	27
Price-Earning	4.2
Book Value	141
Equity - (1 paid-up)	6 Cr.
Market Cap	690 Cr.
Dividend	45%
Recent Low	103

"An excellent infrastructure business is available absolutely free, considering Patel's urban land bank, which is worth the current enterprise value"

Portfolio Manager

Patel Engineering is a blue chip Engineering and construction company with leadership in Hydro Electric Power segment (22% market share). The 6 decades old company has a **historic land bank** of 1127 acres at prime locations. Patel is entering infrastructure asset ownership verticals (Roads, Hydro and Thermal Power) by investing the cash generated from the existing high-margin engineering and Construction business and lucrative Real Estate and Township development.

We had a management visit recently and they are confident of **25% growth in the current year** in spite of the challenging economic environment. Patel Engineering has an order book of Rs.6200 Cr. and they bid only high margin business like Hydro Power, Roads and irrigation. Most of the orders are from government, which are safe and desirable at this point of time!

Patel Engineering has initiated a 1200 MW Thermal Power Plant at Nagapattinam in Tamil Nadu, with an estimated project cost of Rs. 6000 Cr. and a Hydro Electric Power project of 120 MW in Arunachal Pradesh at an investment of Rs.800 Cr. Two BOT road projects worth Rs.1040 Cr. are at different stages of completion and expected to generate Rs.100 Cr annually for the next 18 years. 3 real estate projects (one of them is already complete), are expected to generate Rs.260 Cr. annual lease rent. 'Patel Eco City', a 12 million sq ft project is planned near Electronic City at Bangalore. All the projects are implemented on the company's own land acquired at very low prices.

The stock is priced most attractively at around 4 PE multiples, considering an expected profit of around Rs.175 Cr. on revenue of Rs.2500 Cr during FY-09. Patel is on an excellent growth path and we expect it to de-leverage (current debt of Rs.1200 Cr is a concern) when market conditions improve. The stock is quoting below our previous two recommendations. Stock market is witnessing highly irrational pricing due to extreme pessimism and Patel Eng is just a victim. It is a potential multi-bagger!!

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