

# Patel Engineering

An engineering behemoth

## Summary

Patel Engineering (PEC) founded in 1949, is into construction of complex civil infra work like hydro power plant, tunnelling, Urban Infra, irrigation and others. It has seen multiple capex cycle in India, and currently has an order book of Rs191bn (which is 4x TTM revenue). Up-cycle in its order inflow has started post Covid and in FY23 it has received highest ever annual order inflow of Rs78bn. Company is one the major beneficiary of Infra capex for hydro plant & it expect bidding opportunity of 30GW+ in sector. After reporting revenue CAGR in double digit at 18% over FY20-23, its YTDFY24 revenue increased by 20% YoY. Leverage in PEC has tapered off to 0.6x in 9MFY24 vs ~1x before covid. This is led by internal accrual, non-core asset sale & equity raise in the last 4 years.

## Key Highlights and Investment Rationale

- **Experience of 7+ decades:** Headquartered in Mumbai, company has successfully completed 250 projects, including 85+ dams, 300kms+ tunnels, 12000+mwh hydroelectric projects & 1200kms+ roads. It currently has market share of 45% in under-construction hydro plant in India.
- **Order book and margin:** PEC order book of Rs191bn is from sector like hydro, irrigation, tunnel work, which contributes 90% to its book. It's presence in construction of complex infra which is technology and machinery heavy, has enabled it to get EBITDA margin of 14% (9MFY24).
- **Balance sheet, +ve OCF:** PEC has reported positive OCF in the last 4 years and its working capital days is 100 with large part coming from sticky arbitration claims and land. Out of Rs12bn arbitration awards it expects recovery of Rs2-3bn in the next 1 year & receive Rs2-3bn from sale of land in the next 2 years. Both to enable it to reduce leverage & provide funds for working capital.

NOT RATED

TP ---

CMP Rs57

Potential upside/downside --

### Price Performance (%)

	-1m	-3m	-12m
Absolute	(16.3)	(5.3)	279.9
Rel to Sensex	(16.1)	(7.3)	255.1

### V/s Consensus

EPS (Rs)	FY25E	FY26E
IDBI Capital	--	--
Consensus	--	--
% difference	--	--

### Key Stock Data

Bloomberg/Reuters	PEC IN/PENG.BO
Sector	Infrastructure
Shares o/s (mn)	774
Market cap. (Rs mn)	44,058
3-m daily avg Trd value(Rs mn)	78.0
52-week high / low	Rs79 / 14
Sensex / Nifty	73,651 / 22,327

### Shareholding Pattern (%)

Promoters	39.4
FII	2.8
DII	5.6
Public	52.2

### Financial snapshot

Year	FY19	FY20	FY21	FY22	FY23
Revenue	20,699	23,331	17,191	30,298	38,171
Change (yoY, %)	-	13	(26)	76	26
EBITDA	2,770	1,247	1,689	4,575	5,405
Change (yoY, %)	-	(55)	35	171	18
EBITDA Margin(%)	13.4	5.3	9.8	15.1	14.2
Net Profit	829	372	(1,384)	555	1,556
EPS (Rs)	5.0	0.9	(3.0)	1.2	2.0
Change (yoY, %)		(82)	(427)	(139)	74
PE(x)	6	89	(60)	28	27
Dividend Yield (%)	-	-	-	-	-
PBV (x)	6	23	18	7	8
RoE (%)	15	1	(2)	4	6
RoCE (%)	11	2	2	9	10

Source: IDBI Capital Research, Company

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## About the company

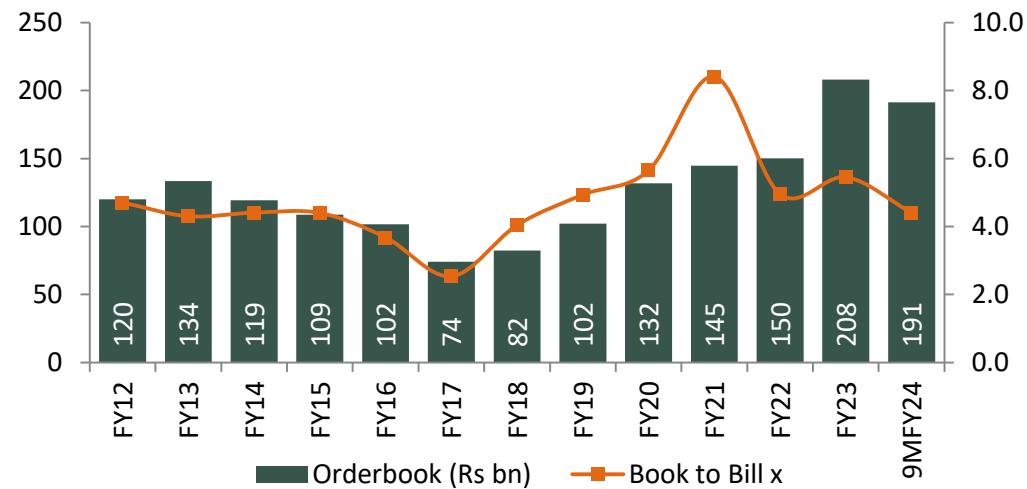
- Patel Engineering Ltd, founded in 1949, is one of the major Infrastructure and Construction services company in India. It has PQ (Pre-Qualification) in construction work in Infrastructure segment like dams, tunnels, micro-runnels, hydroelectric projects, irrigation projects, highways, roads, bridges, railways, refineries to real estates and townships.
- Company has successfully completed over 250 projects, including 85+ dams, 300kms+ tunnels, 12000+mwh hydroelectric projects & 1200kms+ roads.
- Headquartered in Mumbai, it also has experience in execution of projects in international markets like Indonesia, Singapore, Nepal & Mauritius.
- Key projects executed are 520MW Tapovan Hydro Electric Project, 412MW Rampur Hydro plant, 800MW Parbati hydro, 600MW Kameng project, & various Irrigation projects.

### Exhibit 1: Key numbers, highlighting company's track record

 7+ decades Experience	 14 States Current Domestic Presence	 15,000+ MW Hydro Project
 87+ Dams	 300+ Kms of Tunnels	 5.5+ Lakhs Acres Irrigated
 1,200+ Kms Road	 ₹ 1,91,347 Mn Order book ( Including L1 Orders)	 BBB+ Credit rating

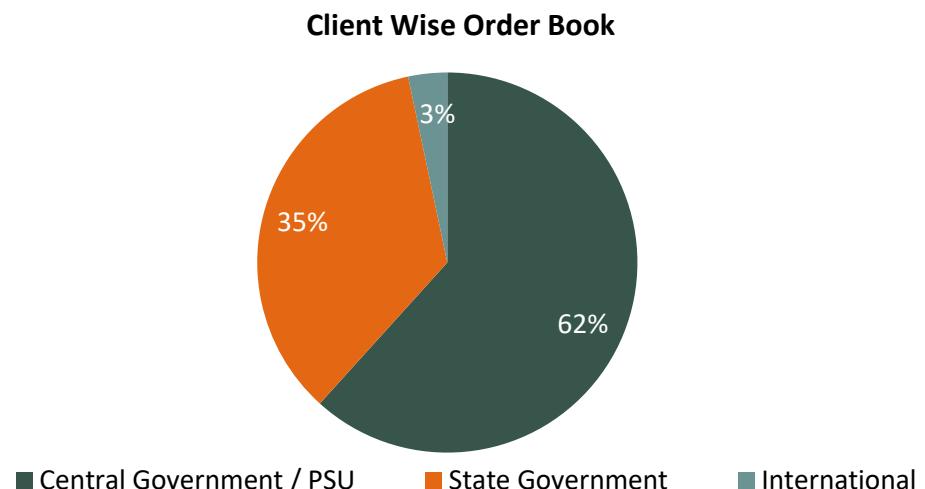
Source: Company

Exhibit 2: Order book at Rs191bn as of 9MFY24 i.e. 4.4x years TTM revenue



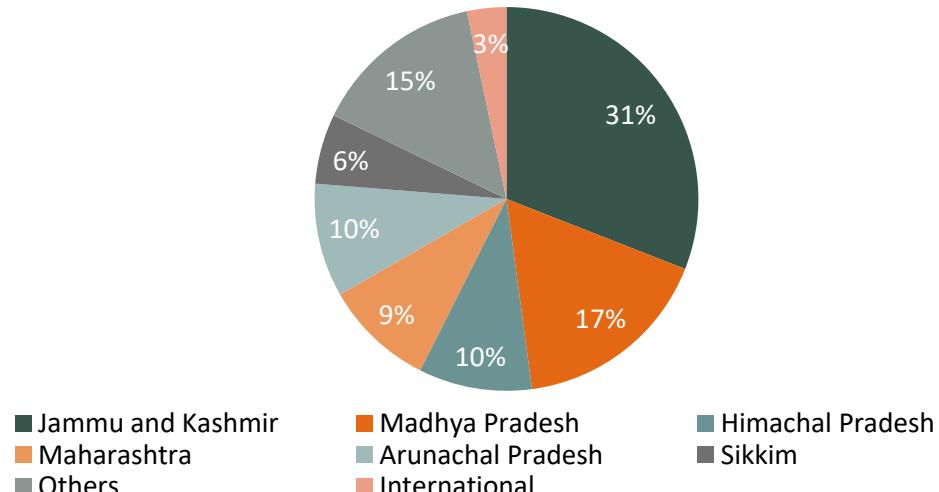
Source : Company, IDBI Capital Research

Exhibit 3: Central govt. major client, comprises 62% of 9MFY24 order book



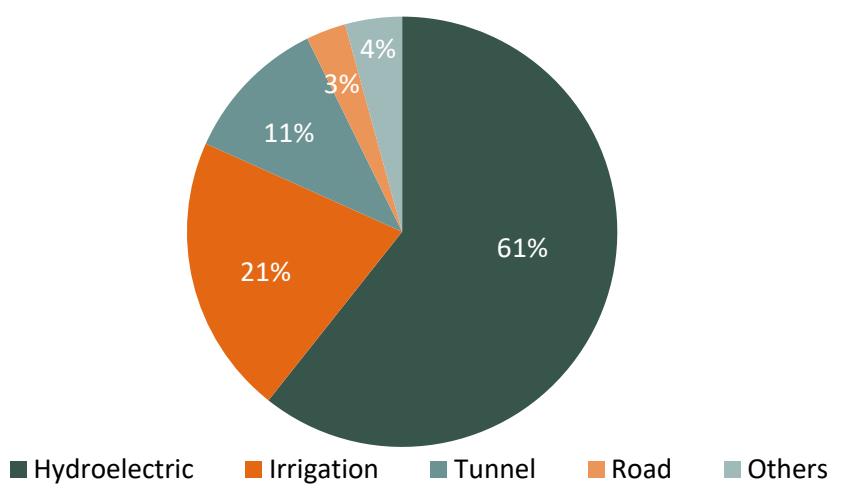
Source : Company

Exhibit 4: 80% of 9MFY24 order book in 6 states , J&amp;K highest at 31%

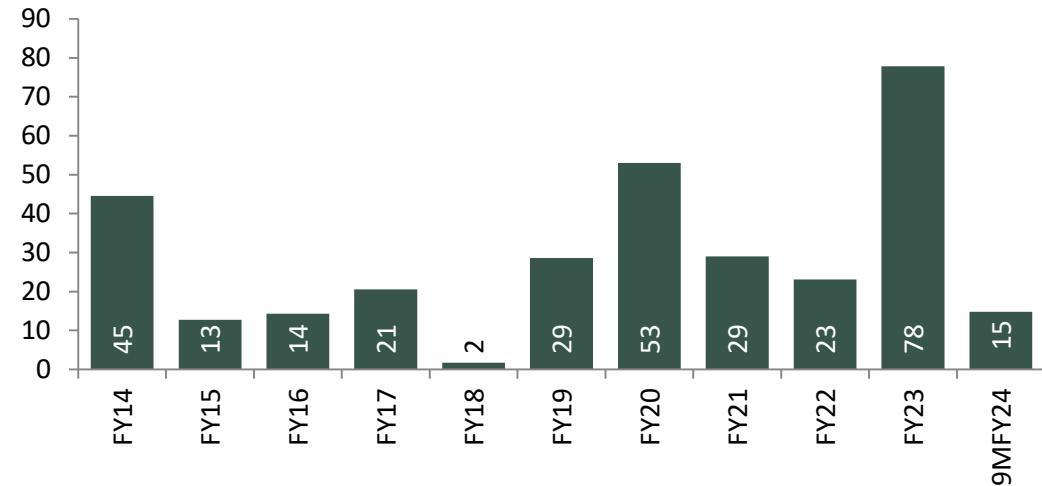


Source : Company

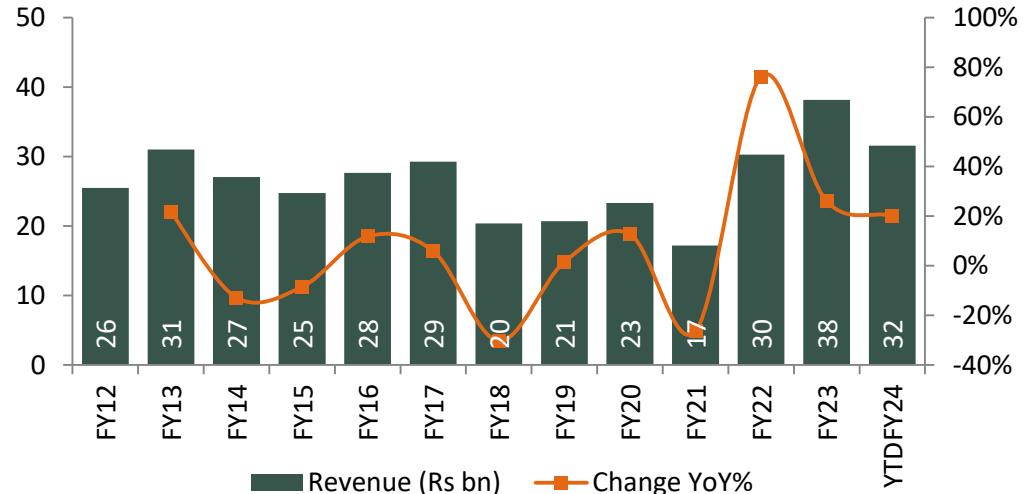
Exhibit 5: Major share from Hydroelectric sector in 9MFY24 order book



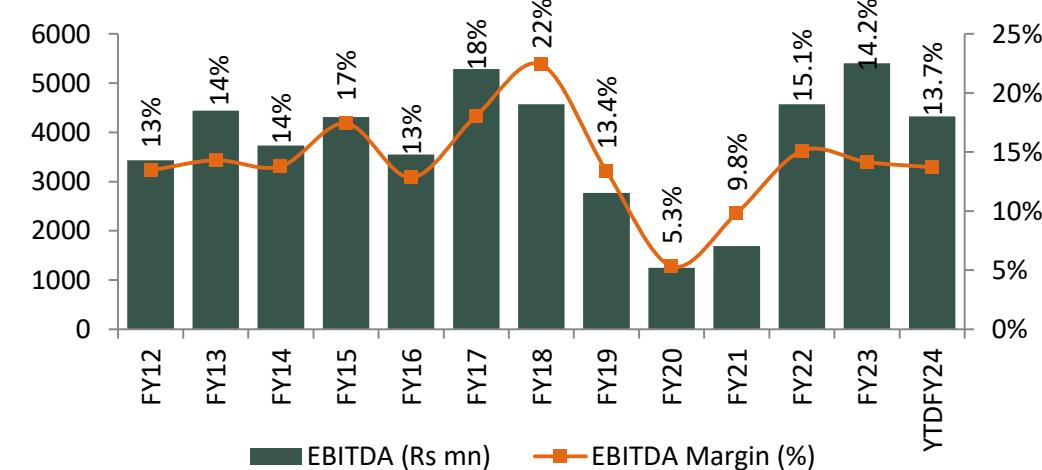
Source : Company

**Exhibit 6: Order inflow over the years Rs bn**


Source : Company, IDBI Capital Research

**Exhibit 7: Revenue up 20% YoY in 9MFY24**


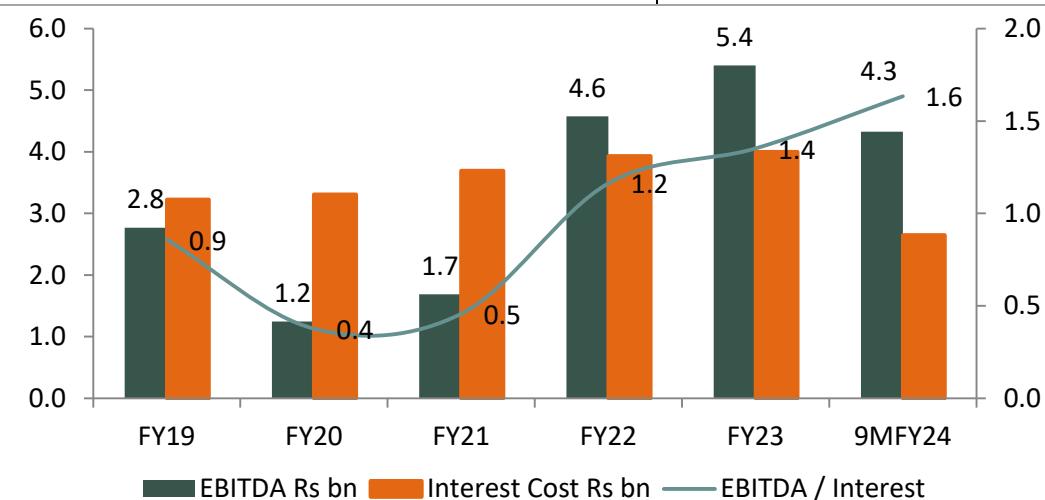
Source : Company

**Exhibit 8: 9MFY24 EBITDA margins at ~14%**


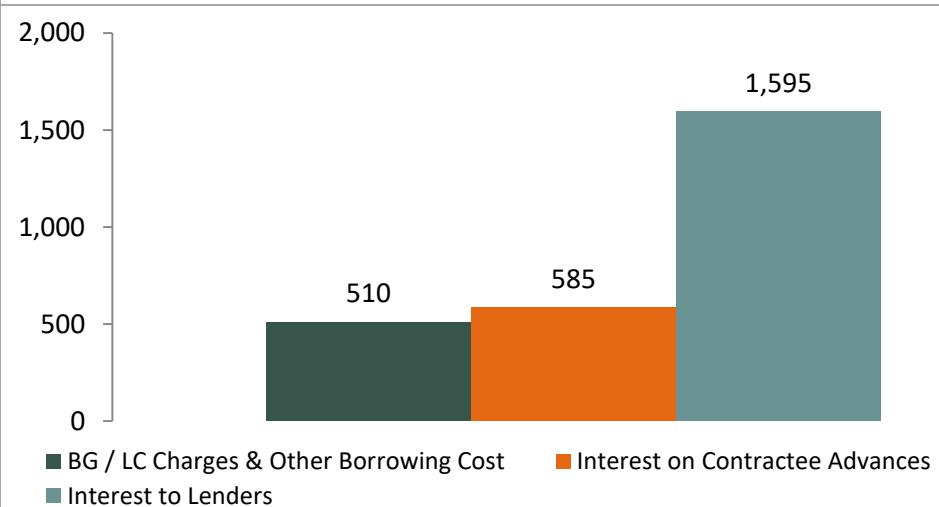
Source : Company

**Exhibit 9: EBITDA margin trajectory segment wise**

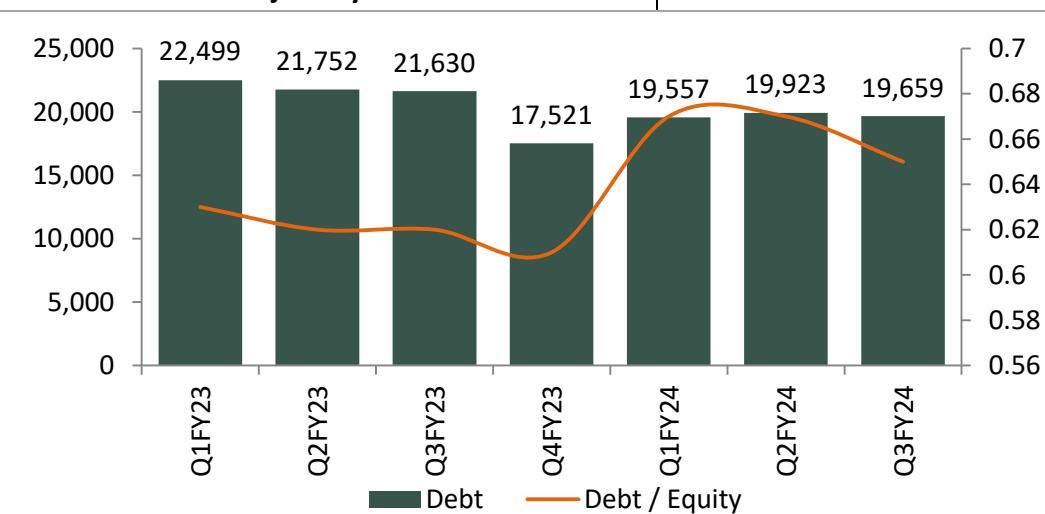

Source : Company

**Exhibit 10: Interest coverage trajectory**


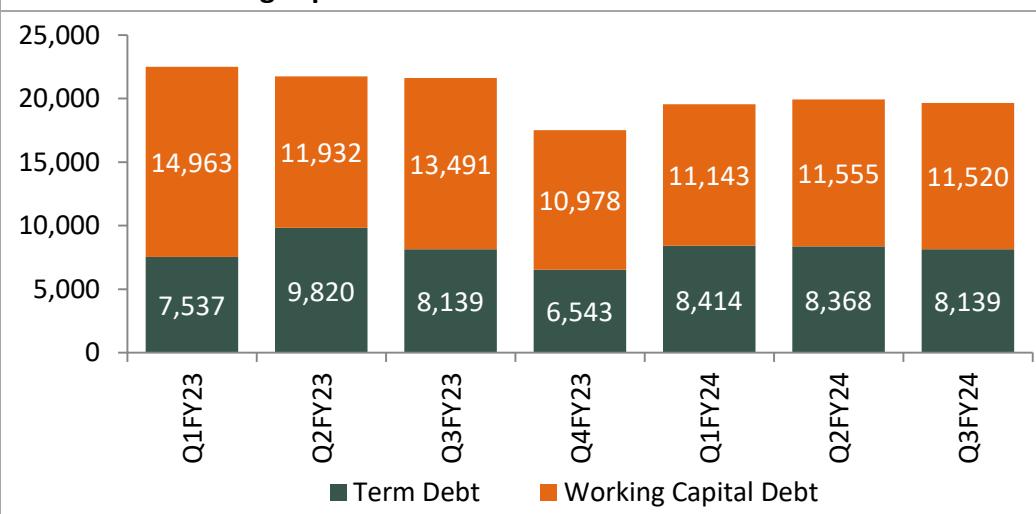
Source : Company, IDBI Capital Research

**Exhibit 11: 9MFY24 interest break up Rs mn**


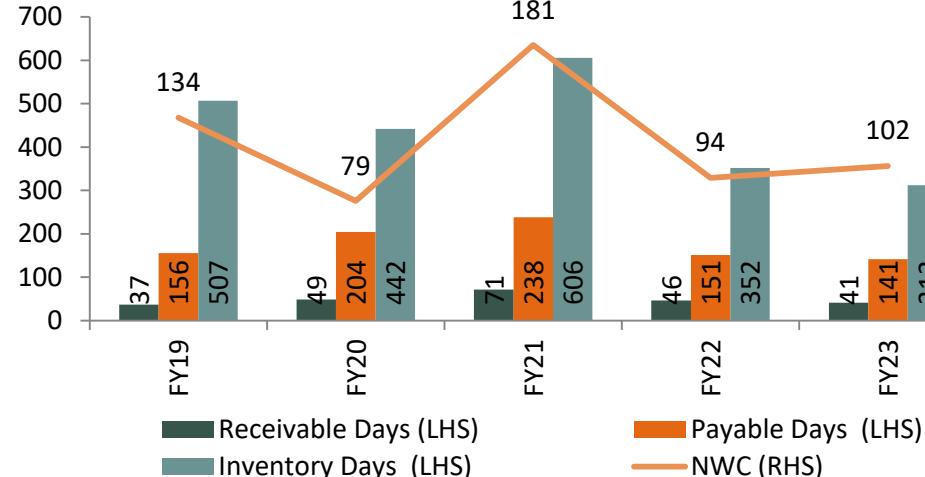
Source : Company, consolidated interest break up

**Exhibit 12: Debt trajectory Rs mn**


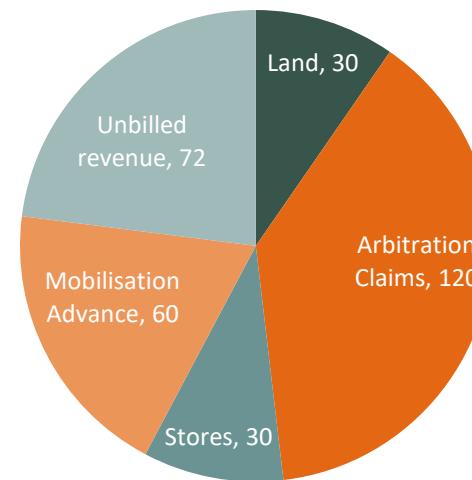
Source : Company, IDBI Capital Research, consolidated debt

**Exhibit 13: Working capital debt is ~60% in it**


Source : Company

**Exhibit 14: Working capital days**

Source : Company

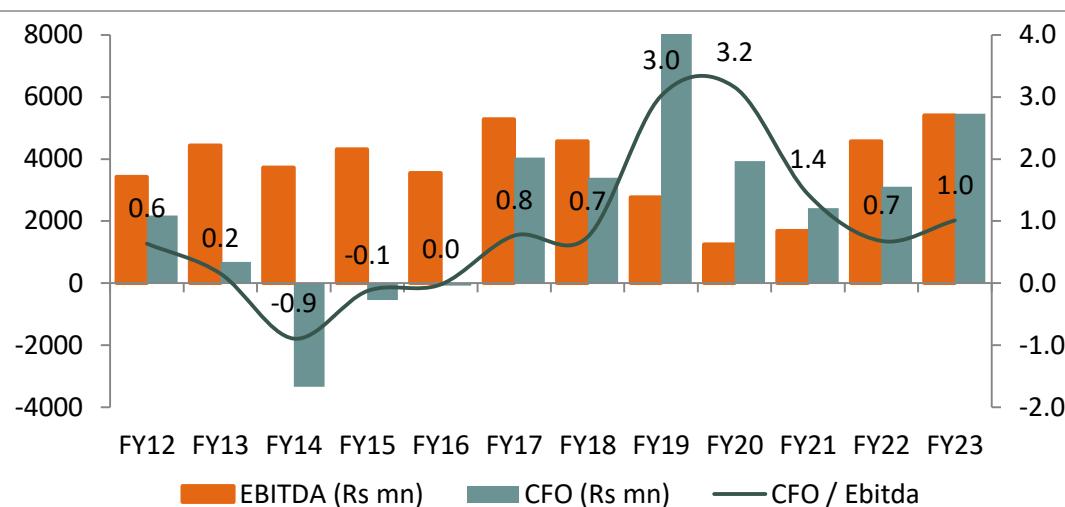
**Exhibit 15: Inventory break up (in days)**

Source : Company, IDBI Capital Research

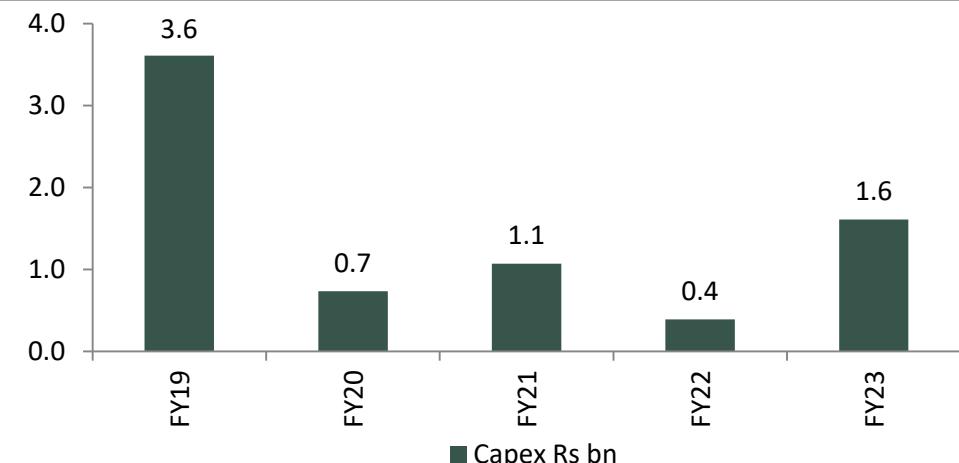
**Exhibit 16: Dupont working : ROE**

	FY19	FY20	FY21	FY22	FY23
Asset turnover (x)	0.6	0.3	0.2	0.4	0.5
Leverage factor (x)	3.1	3.0	3.0	3.1	3.0
Net margin (%)	8.1	1.1	-2.6	3.2	4.2
ROE %	4%	1.5%	-5.5%	2.3%	6.0%

Source : Company, IDBI Capital Research

**Exhibit 17: EBITDA conversion to CFO**

Source : Company, IDBI Capital Research

**Exhibit 18: Capex Rs bn**

Source : Company

**Exhibit 19: Operational stand**

	FY21	FY22	FY23
No. of employees	2130	4273	4426
Equipment's base Rs mn	7986	9153	10404

Source : Compan

**Exhibit 20: PEC share issue post covid**

Year	Outstanding No. of sh	Shares issued		Remarks
		Dilution	New Sh issued	
FY19	164			
FY20	408	149%	244	Right issue of 223mn share at Rs 9 / sh and Issued 20mn OCPS (preference share) to promoter which was converted to equity shares at Rs18.12 / sh
FY21	466	14%	58	Preferential issue 48mn shares at Rs14.78/sh to lenders as one time settlement
FY22	479	3%	13	Preferential issue of 13.7mn at Rs 14.78/ sh to lender as one time settlement
FY23	774	62%	295	Right issue at Rs12.6/sh – issue of 257 mn shares. ESOP Trust allotment of 25 mn shares and private placement to investor 13 mn shares at Rs. 25.36/share.

Source : Company, IDBI Capital Research

### Exhibit 21: Shareholding pattern

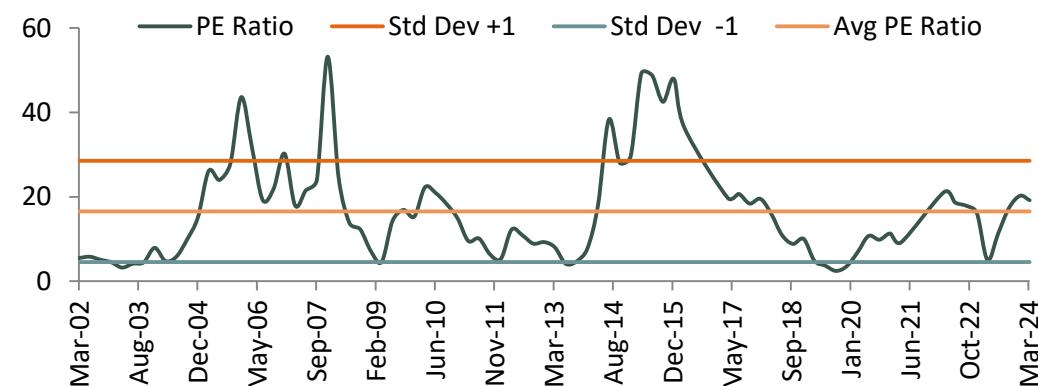
	FY19	FY20	FY21	FY22	FY23	9MFY24
Promoter	19.46%	61.87%	56.23%	54.62%	39.41%	39.41%
Public	72.45%	34.89%	40.94%	42.64%	55.79%	55.79%
Shares held by Employee Trust	8.09%	3.24%	2.83%	2.74%	4.79%	4.79%

Source: BSE

### Key Risk

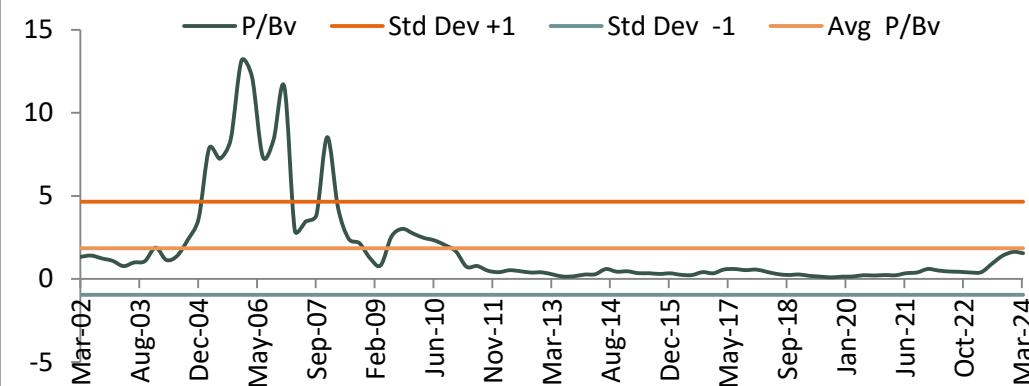
- Opportunity is huge but if/any delay in award of orders could impact growth trajectory.
- Change in the order book mix away from high margin hydro work could impact margin.
- Stretch in working capital and increase in the short term debt, company will have to maintain leverage under control.
- PEC operates in a highly competitive environment and increase in competitive intensity can pose risk to growth.

### Exhibit 22: PEC PER band (TTM basis)



Source : Company, IDBI Capital Research, Bloomberg

### Exhibit 23: PBV (TTM basis)



Source : Company, IDBI Capital Research, Bloomberg

**Exhibit 24: Peers set: Operational aspects**

	Order Book (OB)		OB by Clients (%)		Major Geography	Infrastructure Segment
	Rs bn	Visibility (x TTM revenue)	Govt. / PSU	Private		
L&T	3843	2	80	20	Across India and International	Highways, Railways, Metro, Airport, Buildings, Hydro
ITD Ceme.	208	3	50	50	Across India	Metro, Port, Highway, Bridges, Marine
HCC	112	1	52	48	West, North	Building, Civil, Roads, Hydro
J Kumar	167	4	96	4	West, North	Metro, Flyovers, Bridges, Roads, Civil
NCC	574	3	100	0	Across India	Building, Transportation, Water, Rail, T&D
<b>Patel Engineering</b>	<b>191</b>	<b>4</b>	<b>100</b>	<b>0</b>	<b>Across India</b>	<b>Hydro Power plant, Tunnel, Irrigation</b>

*Source: Company, IDBI Capital Research*
**Exhibit 25: Peers set: Financials**

	Revenue gr. yoy, %			EBITDA Margin %			ROE %			Net DER (x) - FY23
	FY22	FY23	9MFY24	FY22	FY23	9MFY24	FY22	FY23	9MFY24	
L&T	15	17	23	11.6	11.3	12.1	11	12	14	0.6
ITD Ceme.	40	34	58	8.9	9	10.3	8	10	13	0.6
HCC	29	12	(10)	16.9	13.6	15.0	NA	NA	NA	5.7
J Kumar	37	19	13	14.3	14.2	14.5	10	12	9	0.2
NCC	34	32	37	10.0	10.1	8.9	7	9	7	0.1
<b>Patel Eng.</b>	<b>76</b>	<b>26</b>	<b>19</b>	<b>15.1</b>	<b>14.2</b>	<b>14.1</b>	<b>2</b>	<b>6</b>	<b>6</b>	<b>0.6</b>

*Source: Bloomberg, IDBI Capital Research*

**Exhibit 26: Peers set : Valuation, consensus estimate**

	Mkt Cap Rs bn	EV Rs bn	P/E x			P/BV x		
			FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
L&T	5188	6085	37	29	23	5.3	4.7	4.1
ITD Ceme.	57	59	20	14	11	3.5	2.8	2.1
HCC	53	73	31*	NA	NA	NA	NA	NA
J Kumar	48	50	14	12	10	1.7	1.5	1.3
NCC	146	156	18	14	12	2.0	1.7	1.5
<b>Patel Eng.</b>	<b>44</b>	<b>61</b>	<b>21 *</b>	<b>NA</b>	<b>NA</b>	<b>1.5</b>	<b>NA</b>	<b>NA</b>

Source: Bloomberg, IDBI Capital Research, \*Annualized EPS , NR = Not Rated, NA = Not Available

**Exhibit 27: Peers set : Revenue per employee**

	FY23 Revenue Rs bn	Employees (FY23)	Revenue per employee (Rs mn)
ITD Ceme.	47	2398	19.5
HCC	99	4764	20.7
J Kumar	42	7434	5.6
NCC	128	20611	6.2
<b>Patel Eng.</b>	<b>38</b>	<b>4400</b>	<b>8.6</b>

Source: Companies, IDBI Capital Research

## Key projects by PEC

**Exhibit 28: USBRL Tunnel**



Source : Company

**Exhibit 29: Tapovan Hydroelectric underground Powerhouse**



Source : Company

**Exhibit 30: Parbati Hydro Electro Project (800 MW)**



Source : Company

**Exhibit 31: Tuirial Hydro Electro Project Mizoram (60 MW)**



Source : Company

**Exhibit 32: Milestones achieved:**

- **1949:** Established as a partnership firm
- **1990:** Converted to Public Ltd Company
- **1992:** Listed on BSE
- **1995:** Revenue crossed Rs1bn
- **2002:** Achieved revenue of Rs5bn
- **2011:** Revenue crossed Rs30bn
- **2023:** Revenue surpassed Rs38bn
- **2023:** Order book touched Rs200bn

*Source: Company*

### Exhibit 33: Management Profile

Name	Designation	Details
Mr Pravin Patel	Chairman Emeritus	He has graduated in Town Planning from USA and also studied Financial Management from the London School of Economics. He is the son of Mr. Arjun Patel, one of the initial promoters and has a wide experience of more than 45 years in financial management, town planning, architecture etc. Under his vision and erudite leadership the Company has acquired immense reputation as an engineering company.
Mr Rupen Patel	Chairman & Managing Director	He is a graduate in Commerce from Mumbai University and also holds an MBA degree from the Babson College, U.S.A. Mr. Rupen Patel has a wide experience of over 22 years in the construction industry and he joined the Company as a Director in October , 1995. He was elevated to the post of an Executive Director in September 1996. He has been trained under the supervision of his visionary father, Mr. Pravin Patel, one of the Promoters.
Ms. Kavita Shirvaikar	Wholetime Director & CFO	Ms. Kavita Shirvaikar is a qualified Chartered Accountant and a Graduate of the Institute of Cost & Works Accountants of India. She has vast experience of more than 20 years in the fields of Accountancy, Tax, Audit, Banking, Finance and Fund Management, etc. Her vast experience includes working with Hindustan Construction Company and Suzlon Energy Limited.
Mr Tirth Nath Singh	Wholetime Director (Projects & Corporate Affairs)	Mr.Tirth Nath Singh, a Civil Engineering graduate from North Maharashtra University (Jalgaon) and a postgraduate in Construction Management from NICMAR (Pune), stands as a paragon in the world of construction, Mr.Tirth Nath Singh joined the Company on October 9, 2022 as Head – Projects and within a short time has been elevated to the position of Whole Time Director w.e.f November 3, 2023.

Source : Company

**Exhibit 34: PEC Major Land Parcels, Appox value at Rs10bn**

State / City	Locality	Area Acres
Karnataka, Bangalore	Electronic City	15
Maharashtra, MMR	Panvel	11
Telangana	Outskirts of Hyderabad	430
Tamil Nadu	Chengalpattu	200
Tamil Nadu	Nagapattinum	1500
<b>Total</b>		<b>2156</b>

*Source : Company*
**Exhibit 35: Awards & claims as on 1HFY24, Part of PEC inventory**

Claims	Amount Rs bn
Pending With Client	10.8
Under Arbitration	13.0
Awards in PEC favour	13.4
Claims to be submitted	7.5
<b>Total</b>	<b>44.7</b>

*Source : Company*
**Exhibit 36: Opportunity Landscape**

Sector	Remarks
Hydro	27 GW Hydropower in pipeline to come up for bidding in next few years. In addition to this 39 Hydro PSPs of 47 GW is expected to get commissioned by the 2030
Irrigation	Pradhan Mantri Krishi Sinchayee Yojana (PMKSY) for 2021-26 there has been an outlay allocation of Rs931bn
	Ministry of Jal Shakti Ministry got the major chunk from this year's budget outlay as Finance Minister Nirmala Sitharaman allocated Rs 98,418 crore in the interim budget for 2024-25 with its flagship Jal Jeevan Mission getting a 71 percent share

*Source: Company*

## Financial Summary

### Profit & Loss Account

	(Rs mn)				
Year-end: March	FY19	FY20	FY21	FY22	FY23
<b>Net sales</b>	<b>20,699</b>	<b>23,331</b>	<b>17,191</b>	<b>30,298</b>	<b>38,171</b>
<i>Change (yoY, %)</i>		13	(26)	76	26
Operating expenses	(17,929)	(22,084)	(15,503)	(25,723)	(32,766)
<b>EBITDA</b>	<b>2,770</b>	<b>1,247</b>	<b>1,689</b>	<b>4,575</b>	<b>5,405</b>
<i>Change (yoY, %)</i>		(55)	35	171	18
<i>Margin (%)</i>	13.4	5.3	9.8	15.1	14.2
Depreciation	(409)	(586)	(639)	(683)	(806)
<b>EBIT</b>	<b>2,361</b>	<b>660</b>	<b>1,049</b>	<b>3,892</b>	<b>4,598</b>
Interest paid	(3,225)	(3,309)	(3,694)	(3,934)	(3,997)
Other income	2,862	3,149	1,433	1,349	1,443
<b>Pre-tax profit</b>	<b>1,154</b>	<b>612</b>	<b>(2,150)</b>	<b>883</b>	<b>1,983</b>
Tax	(325)	(240)	767	(328)	(427)
<i>Effective tax rate (%)</i>	28.2	39.3	35.6	37.1	21.6
Minority Interest	-	-	-	-	-
<b>Net profit</b>	<b>829</b>	<b>372</b>	<b>(1,384)</b>	<b>555</b>	<b>1,556</b>
<i>Change (yoY, %)</i>		(55)	(472)	(140)	180
EPS	5.0	0.9	(3.0)	1.2	2.0
Dividend per sh	-	-	-	-	-
<i>Dividend Payout %</i>	-	-	-	-	-

Balance Sheet						(Rs mn)
Year-end: March	FY19	FY20	FY21	FY22	FY23	
<b>Shareholders' funds</b>	<b>23,039</b>	<b>25,701</b>	<b>24,924</b>	<b>23,525</b>	<b>28,578</b>	
Share capital	164	408	466	479	774	
Reserves & surplus	22,875	25,293	24,458	23,046	27,804	
<b>Total Debt</b>	<b>21,837</b>	<b>18,689</b>	<b>19,091</b>	<b>19,907</b>	<b>15,422</b>	
Other liabilities	9,385	8,958	14,016	14,685	14,261	
<b>Curr Liab &amp; prov</b>	<b>17,389</b>	<b>21,482</b>	<b>16,683</b>	<b>19,246</b>	<b>23,054</b>	
Current liabilities	17,377	21,460	16,621	19,188	23,004	
Provisions	12	22	62	59	50	
<b>Total liabilities</b>	<b>48,611</b>	<b>49,129</b>	<b>49,791</b>	<b>53,839</b>	<b>52,737</b>	
<b>Total equity &amp; liabilities</b>	<b>71,650</b>	<b>74,830</b>	<b>74,714</b>	<b>77,364</b>	<b>81,314</b>	
Net fixed assets	2,728	3,119	3,656	10,754	11,974	
Investments	6,005	6,692	6,540	2,578	2,257	
Other non-curr assets	22,266	23,328	22,746	20,141	19,265	
<b>Current assets</b>	<b>40,650</b>	<b>41,691</b>	<b>41,773</b>	<b>43,891</b>	<b>47,818</b>	
Inventories	28,741	28,242	28,523	29,219	32,592	
Sundry Debtors	2,108	3,111	3,359	3,826	4,332	
Cash and Bank	1,098	1,066	1,139	1,915	1,706	
Loans and advances	8,702	9,272	8,752	8,931	9,189	
<b>Total assets</b>	<b>71,650</b>	<b>74,830</b>	<b>74,714</b>	<b>77,364</b>	<b>81,314</b>	

<b>Cash Flow Statement</b>						(Rs mn)
<b>Year-end: March</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	
Pre-tax profit	1,541	372	(1,384)	555	1,556	
Depreciation	502	586	639	683	806	
Tax paid	695	619	(122)	(708)	(790)	
Chg in working capital	2983	1954	328	-1021	446	
Other operating activities	2,635	405	2,958	3,598	3,440	
<b>Cash flow from operations (a)</b>	<b>8,357</b>	<b>3,935</b>	<b>2,418</b>	<b>3,108</b>	<b>5,458</b>	
Capital expenditure	(3,125)	(656)	(1,035)	(607)	(1,597)	
Chg in investments	(44)	-	(5)	116	62	
Other investing activities	(105)	13	818	374	145	
<b>Cash flow from investing (b)</b>	<b>(3,274)</b>	<b>(643)</b>	<b>(223)</b>	<b>(117)</b>	<b>(1,390)</b>	
Equity raised/(repaid)	7	178	-	-	3,158	
Debt raised/(repaid)	(2,167)	(1,068)	712	560	(4,523)	
Dividend (incl. tax)						
Chg in monorities						
Other financing activities	(2,968)	(2,595)	(2,775)	(2,848)	(3,086)	
<b>Cash flow from financing (c)</b>	<b>(5,127)</b>	<b>(3,485)</b>	<b>(2,063)</b>	<b>(2,289)</b>	<b>(4,451)</b>	
<b>Net chg in cash (a+b+c)</b>	<b>(45)</b>	<b>(193)</b>	<b>132</b>	<b>703</b>	<b>(384)</b>	

### Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22	FY23
Book Value (Rs)	140.3	63	54	49	37
<i>Adj EPS (Rs)</i>	5.0	0.9	-3.0	1.2	2.0
<i>Adj EPS growth (%)</i>		-82	-427	-139	74
<i>EBITDA margin (%)</i>	13.4	5.3	9.8	15.1	14.2
<i>Pre-tax margin (%)</i>	5.6	2.6	-12.5	2.9	5.2
<i>Net Debt/Equity (x)</i>	0.9	0.7	0.7	0.8	0.5
<i>ROCE (%)</i>	11.4	2	2	9	10
<i>ROE (%)</i>	14.5	1	-2	4	6
DuPont Analysis					
Asset turnover (x)	0.6	0.3	0.2	0.4	0.5
Leverage factor (x)	3.1	3.0	3.0	3.1	3.0
<i>Net margin (%)</i>	8.1	1.1	-2.6	3.2	4.2
Working Capital & Liquidity ratio					
Inventory days	507	442	606	352	312
Receivable days	37	49	71	46	41
Payable days	180	216	264	178	165

### Valuations

Year-end: March	FY19	FY20	FY21	FY22	FY23
PER (x)	5.6	89.4	-59.7	27.9	27.3
Price/Book value (x)	0.4	0.9	1.1	1.2	1.5
EV/Net sales (x)	0.8	1.2	1.8	1.0	1.2
EV/EBITDA (x)	6.2	22.8	18.3	6.5	8.3
<i>Dividend Yield (%)</i>	-	-	-	-	-

Source: Company; IDBI Capital Research



# Notes

Dealing

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**Key to Ratings Stocks:****BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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