

CMP: ₹ 57

Target: ₹ 70 (24%)

Target Period: 12 months

BUY

December 4, 2024

## Steady show; Awaiting Order inflows ahead...

**About the stock:** Patel Engineering is an EPC player which specialises in technology-intensive areas like hydro, tunnelling, irrigation, water supply, urban infrastructure, and transport.

- The company enjoys an order book of ₹ 17260 crore as of Q2FY25, implying 3.8x book to bill

**Q2 FY25 Performance:** Patel reported consolidated revenue of ₹1174 crore, up 15% YoY owing to healthy execution despite monsoon period. Operating EBITDA was reported at ₹162.2 crore, up 15.8% YoY. EBITDA margin at 13.8% was up 10 bps YoY. PAT was reported at ₹73.4 crore, up 93% YoY owing to healthy growth in total income and lower interest cost.

### Investment Rationale:

- Ordering to kick in ahead; Healthy Revenue growth likely:** The order book stood at ₹ 17,260 crore as of Q2FY25, implying 3.8x book to bill. Around 64% of order book comprises of hydropower projects, ~21% from irrigation sector, ~10% from tunnelling sector, and remaining from roads and others. The company expects the order momentum to pick up through H2FY25 with huge tailwind from Hydro/PsP and irrigation ordering ahead. The company has bid for projects worth ~₹10,000 crore and has identified projects worth ₹40,000 crore which are expected to be available for bidding soon. Given the ordering opportunity, the company expects inflows of ₹10,000-12,000 crore for FY25. It has guided for topline growth of 10-15% in FY25 and 15-20%, in FY26. Given the robust inflow potential, we expect revenue CAGR of ~14.7% over FY24-27E to ₹ 6857 crore.
- Strong earnings growth ahead amid stable margins and interest costs:** The company expects similar levels of margins at 13-14%, going ahead. With strong execution, stabilised raw material prices, we expect margins to remain stable at 14%/14%/14.5% in FY25/FY26/FY27, respectively. Strong topline growth coupled with stable margins and stable interest expense is likely to drive 18% earnings CAGR over FY24-27E.

### Rating and Target Price

- Given the strong opportunity from the key segment coupled with stable balance sheet, we maintain our BUY rating on the stock. Order inflows will be the key near term trigger for the stock
- We assign a target price of ₹ 70, thereby valuing it at 14x on the average of FY26 and FY27 EPS

### Key Financial Summary

(₹ Crore)	FY22	FY23	FY24	5 Year CAGR (FY19-24)	FY25E	FY26E	FY27E	3 Year CAGR (FY24-27E)
Net Sales	3,380.3	3,891.1	4,544.1	14.0	4,918.4	5,731.5	6,856.7	14.7
EBITDA	527.7	561.6	690.3	14.2	689.0	802.9	994.7	12.9
EBITDA Margin (%)	15.6	14.4	15.2		14.0	14.0	14.5	
Net Profit	62.2	167.2	281.8	13.7	244.0	322.5	462.7	18.0
EPS (₹)	1.3	2.2	3.6		3.2	4.2	6.0	
P/E (x)	70.4	26.2	15.6		18.0	13.6	9.5	
EV/EBITDA (x)	12.1	10.5	8.6		8.4	7.4	6.1	
RoCE (%)	12.4	13.2	13.8		13.4	14.8	17.1	
RoE (%)	3.9	4.6	6.2		7.2	8.7	11.1	

Source: Company, ICICI Direct Research



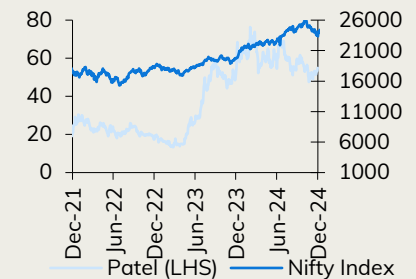
### Particulars

Particular	Amount
Market Cap (₹ crore)	4,384
Debt (FY24) (₹ crore)	1,910
Cash (FY24) (₹ crore)	247
EV (₹ crore)	6,047
52 week H/L (₹)	79 / 46
Equity capital (₹ crore)	77.4
Face value (₹)	1.0

### Shareholding pattern

	Dec-23	Mar-24	Jun-24	Sep-24
Promoters	39.4	39.4	36.1	36.1
DII	5.6	4.5	6.2	4.5
FII	2.8	3.4	3.7	3.1
Other	52.2	52.7	54.0	56.4

### Price Chart



### Key risks

- Lower than expected order inflows
- Heightened competitive intensity impacting margins

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## Performance highlights and outlook

- **Guidance** – The company has guided for topline growth of 10-15% in FY25 and 15-20%, in FY26. It expects EBITDA margins in the range of 13-14% going forward. The order inflow guidance is pegged at ₹10,000-12,000 crore.
- **Hydro, PSP and irrigation opportunity:** India has 18 gigawatts of hydroelectric projects under construction. The total hydro capacity is expected to reach 67 gigawatts by 2032. The government has recently approved ₹12,460 crore to develop 31350 megawatts of hydropower project over the next few years. Additionally, 39 hydro PSPs of 47 gigawatts are planned to be ready by 2030. Under the Pradhan Mantri Krishi Sinchayee Yojana, around ₹93,000 crore has been allocated to support around 22 lakh farmers. Over ₹70,000 crore has been allocated to the Ministry of Jal Shakti in the 2024-25 budget. This ordering opportunity provides a huge growth avenue for the company, going ahead.
- **Order Book Internals:** The order book as of Q2 FY25 stood at ₹17,260 crore, hydro projects make up 64% of the orderbook, followed by irrigation at 21%, 10% from tunneling and balance 5% from other sectors. During Q2 the company received LOA for the Jigaon Water Lifting project valued at ₹317.6 crore, Patel's share in the project is ₹111 crore. The company has also been declared L-1 bidder for the Teesta-V hydropower project in Sikkim with a contract value of around ₹240 crore from NHPC Limited.
- **Bid Pipeline:** The company has bid for projects worth ~ ₹10,000 crore that are currently under evaluation. Additionally, it has identified projects worth ~₹40,000 crore which are expected to be available for bidding soon. Out of the bid pipeline of ~₹10,000 crore, hydro/PSP projects account for 53%, irrigation is 15-16% and the rest includes tunnelling, roads and other segments.
- **Working capital and Debt:** The gross debt on consolidated basis stood at ₹1438 crore (working capital debt of ₹800 crore and term debt of ₹650 crore). As of March 2024, the debt stood at ₹1885 crore. Over the last year, the company has reduced debt by more than ₹500 crore. Client advances stood at ₹745 crore vs ₹760 crore in FY24. The cash balance stood at ₹247 crore with debt/equity ratio of 0.39. The net working capital days after adjusting for land arbitration awards, borrowings and cash and bank balances stood at 112 days.
- **MoU with RVNL and Ircon:** The company has signed MoU's with major PSU's like RVNL and Ircon International. This partnership is poised to strengthen its ability to deliver infrastructure projects both domestically and internationally, improving project execution through shared expertise.
- **Monetization of non-core assets:** The company has planned to realize around ₹150-200 crore per year from monetizing non-core assets. In Q2, it sold a 5-acre land parcel in Electronic City Bangalore for ₹36 crore. It also received ₹55 crore from an existing arbitration award. In the previous quarter, it had realized around ₹240 crore from arbitration claims. Thus, the total realization from non-core assets during H1 has been around ₹330 crore. Additionally, post Q2, it realized ₹100 crore from the sale of its stake in Welspun Michigan Engineers Private Limited.
- **Claims and receipts:** Arbitration claims and awards cumulatively stood at ₹3500 crore as of Q2FY24 post settlements under Vivaad Se Vishwas. In Q2FY25, the company has received ₹55 crore of arbitration money from the government. In the next 6-12 months, the company is expecting around ₹100-150 crore more.

- **Subhanshree Hydro Power project:** The company received LOA for the hydroelectric project back in 2021. So far, it has completed work worth ₹1500 crore with balance work worth ₹250-300 crore still pending, which it expects to complete in another 12 months' time.

## Financial Summary

Exhibit 1: Profit and loss statement				
₹ crore				
(Year-end March)	FY24	FY25E	FY26E	FY27E
<b>Operating Revenues</b>	<b>4,544.1</b>	<b>4,918.4</b>	<b>5,731.5</b>	<b>6,856.7</b>
Growth (%)	16.8	8.2	16.5	19.6
Construction Expenses	3,292.0	3,615.0	4,212.6	5,005.4
Employee Cost	354.0	388.6	452.8	541.7
Other Expenditure	207.8	225.8	263.2	314.9
Total Operating Exp.	3,853.8	4,229.3	4,928.6	5,862.0
<b>EBITDA</b>	<b>690</b>	<b>689</b>	<b>803</b>	<b>995</b>
Growth (%)	22.9	(0.2)	16.5	23.9
<b>EBITDA Margin (%)</b>	<b>15.2</b>	<b>14.0</b>	<b>14.0</b>	<b>14.5</b>
Other income	88.9	97.8	117.4	140.8
Depreciation	97.6	97.2	112.5	120.0
EBIT	681.6	689.7	807.7	1,015.5
Interest	362.1	357.8	370.7	388.5
PBT	405.1	331.9	437.0	627.0
Tax	103.5	87.0	114.5	164.3
<b>Rep. PAT</b>	<b>282</b>	<b>244</b>	<b>323</b>	<b>463</b>
Growth (%)	69%	-13%	32%	43%
<b>EPS (₹)</b>	<b>3.6</b>	<b>3.2</b>	<b>4.2</b>	<b>6.0</b>

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
₹ crore				
(₹ Crore)	FY24	FY25E	FY26E	FY27E
Profit after Tax	282	244	323	463
Depreciation	98	97	113	120
Interest	362	358	371	389
Others	30	(98)	(117)	(141)
Cash Flow before wc changes	772	601	688	830
Net Increase in CA	(180)	(429)	(909)	(1,259)
Net Increase in CL	(73)	489	618	829
<b>Net CF from op. activities</b>	<b>519</b>	<b>661</b>	<b>397</b>	<b>401</b>
Net purchase of Fixed Assets	(60)	(150)	(150)	(150)
Others	(7)	2	(6)	(30)
<b>Net CF from Inv. Activities</b>	<b>(68)</b>	<b>(148)</b>	<b>(156)</b>	<b>(180)</b>
Proceeds from share capital	(16)	-	(0)	0
Proceeds/Repayment of Loan	133	(55)	-	-
Interest paid	(362)	(358)	(371)	(389)
Other	(80)	-	-	-
<b>Net CF rom Fin Activities</b>	<b>(325)</b>	<b>(413)</b>	<b>(371)</b>	<b>(389)</b>
<b>Net Cash flow</b>	<b>127</b>	<b>100</b>	<b>(130)</b>	<b>(167)</b>
Opening Cash	212	339	439	309
<b>Closing Cash</b>	<b>339</b>	<b>439</b>	<b>309</b>	<b>142</b>

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet				
₹ crore				
(Year-end March)	FY24	FY25E	FY26E	FY27E
<b>Liabilities</b>				
Equity capital	77.4	77.4	77.4	77.4
Reserves & Surplus	3,076.3	3,320.2	3,642.7	4,105.4
Networth	3,153.6	3,397.6	3,720.1	4,182.8
Non Controlling interests	8.1	8.1	8.1	8.1
Loan Funds	1,885.5	1,830.1	1,830.1	1,830.1
Deferred Tax liability	(94.4)	(94.4)	(94.4)	(94.4)
<b>Total Liabilities</b>	<b>4,952.8</b>	<b>5,141.4</b>	<b>5,463.9</b>	<b>5,926.6</b>
<b>Assets</b>				
Net Block	1,264.7	1,317.5	1,355.0	1,385.0
Capital WIP	232.7	232.7	232.7	232.7
Right of use asset	28.2	28.2	28.2	28.2
Intangible assets	26.0	26.0	26.0	26.0
Non-current Investments	155.5	155.5	155.5	155.5
Othe non-current assets	995.3	1,090.6	1,213.7	1,384.1
Inventories	3,791.9	4,034.3	4,702.6	5,627.4
Trade Receivables	854.6	980.5	1,142.9	1,367.7
Cash & Bank Balances	338.8	439.0	309.3	142.2
Loans & Advances	84.9	84.9	84.9	84.9
Other current assets	1,129.3	1,190.4	1,269.1	1,378.1
Total current assets	6,199.5	6,729.0	7,508.7	8,600.3
Total Current liabilities	3,948.9	4,438.0	5,055.9	5,885.1
Net Current Assets	2,250.6	2,290.9	2,452.9	2,715.2
<b>Total Assets</b>	<b>4,952.8</b>	<b>5,141.4</b>	<b>5,463.9</b>	<b>5,926.6</b>

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY24	FY25E	FY26E	FY27E
<b>Per share data (₹)</b>				
Reported EPS	3.6	3.2	4.2	6.0
Cash EPS	4.9	4.4	5.6	7.5
BV per share	40.8	43.9	48.1	54.1
<b>Operating Ratios (%)</b>				
EBITDA Margin	15.2	14.0	14.0	14.5
EBIT/ Net Sales	13.0	12.0	12.0	12.8
PAT Margin	4.3	5.0	5.6	6.7
Inventory days	304.6	299.4	299.5	299.6
Debtor days	68.6	72.8	72.8	72.8
Creditor days	201.1	213.3	212.6	210.5
<b>Return Ratios (%)</b>				
RoE	6.2	7.2	8.7	11.1
RoCE	13.8	13.4	14.8	17.1
RolC	13.7	13.4	14.2	15.9
<b>Valuation Ratios (x)</b>				
P/E	15.5	17.9	13.6	9.5
EV / EBITDA	8.6	8.4	7.3	6.1
EV / Net Sales	1.3	1.2	1.0	0.9
Price to Book Value	1.4	1.3	1.2	1.0
<b>Solvency Ratios (x)</b>				
Debt / EBITDA	2.7	2.7	2.3	1.8
Net Debt / Equity	0.5	0.4	0.4	0.4

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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