Patel Engineering (PATEN)

ICICI direct Research

CMP: ₹ 63 | Target: ₹ 80 (28%) | Target Period: 12 months | **BUY**

May 22, 2024

Healthy show; Arbitration claims boost margins...

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 ₹ 18,663 crores as of FY24, implying 4.2x book to bill

Q4 & FY24 Performance: Patel reported topline of ₹ 1343 crore was up 11.5% YoY driven by stable execution. The major surprise was on EBITDA margins, which at 17.7% were up 367 bps YoY, owing to arbitration claims benefit of ₹ 50 crore. Adjusted Margins at 14%, was stable YoY. PAT at ₹ 125.3 crore was up 53% YoY. For FY24, topline at ₹ 4544 crore was up 16.8% YoY. Margins at 15.2% was up 76 bps YoY. PAT at ₹ 270 crore was up 61% YoY

Investment Rationale:

- **Ordering to kick in ahead; Heathy Revenue growth likely:** The order book stood at ₹ 18,663 crore as of FY24, implying 4.2x book to bill. Around 62% of order book comprises of hydropower projects, ~21% from irrigation sector, ~11% from tunnelling sector, and remaining from roads and others. The company expect the order momentum to pick up post Q1FY25 (post-election results) with huge tailwind from Hydro Power ordering ahead. The company believes that with bid pipeline of ₹ 80000-1 lakh crore, currently, it should translate into order inflows of ₹ 10,000-15,000 crore in FY25. It has guided for topline growth of 10-15% in FY25 and 20-25%, in FY26. Given the robust inflow potential, we expect strong revenue CAGR of ~16.2% over FY24-26E to ₹ 6136 crore
- **Stable margins; interest costs to drive strong earnings growth ahead:** The company expects similar levels of margins at 14-15%, going ahead. With strong execution, stabilised raw material prices, we expect margins to remain stable at 14.2/14.5% in FY25/FY26%, respectively. Strong topline growth coupled with stable margins and stable interest expense is likely to drive 23.1% earnings CAGR over FY24-26E

Rating and Target Price

- Given the strong opportunity from the key segment driving the topline and earnings growth visibility 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 ₹ 80, thereby valuing it at 16x FY26 P/E

Patel Since 1949

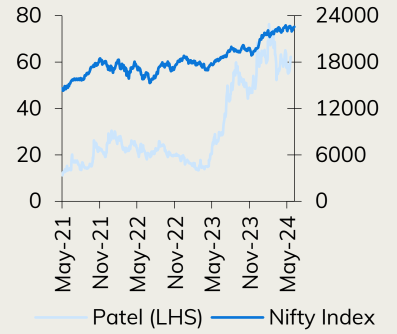
Particulars

Particular	Amount
Market Cap (₹ crore)	5,282
Debt (FY23) (₹ crore)	1,885
Cash (FY23) (₹ crore)	339
EV (₹ crore)	6,828
52 week H/L (₹)	78 / 24
Equity capital (₹ crore)	84.4
Face value (₹)	1.0

Shareholding pattern

	Sep-23	Dec-23	Mar-24	Apr-24
Promoters	39.4	39.4	39.4	36.1
DII	6.3	5.6	4.5	7.1
FIIs	2.4	2.8	3.4	8.5
Other	52.0	52.2	52.7	48.3

Price Chart



Key risks

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

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Key Financial Summary

(₹ Crore)	FY21	FY22	FY23	FY24	5 Year CAGR (FY19-24)	FY25E	FY26E	2 Year CAGR (FY24-26E)
Net Sales	1,994.8	3,380.3	3,891.1	4,544.1	14.0	5,115.0	6,136.2	16.2
EBITDA	234.6	527.7	561.6	690.3	14.2	726.8	890.2	13.6
EBITDA Margin (%)	11.8	15.6	14.4	15.2		14.2	14.5	
Net Profit	(302.7)	62.2	167.2	269.8	12.7	268.9	409.1	23.1
EPS (₹)	(6.5)	1.3	2.2	3.5		3.2	4.8	
P/E (x)	(16.0)	77.7	28.9	17.9		19.6	12.9	
EV/EBITDA (x)	31.3	13.8	12.1	9.9		9.0	7.3	
RoCE (%)	6.1	12.4	13.2	13.8		13.2	15.5	
RoE (%)	(3.8)	3.9	4.6	6.2		7.0	9.7	

Source: Company, ICICI Direct Research

Q4 & FY24 Performance highlights and outlook

- **Guidance** – The company believes that bid pipeline is ₹ 80000-1 lakh crore, currently, which should translate into order inflows of ₹ 10,000-15,000 crore in FY25. The topline growth guidance given by the company is ~10-15% growth in FY25 given the subdued order inflow momentum currently. However, the topline growth is likely to accelerate to 20-25% in FY26, driven by new orders in FY25 which will start generating revenue in FY26, post the initial mobilization phase of six to nine months in the current year. Furthermore, currently executed projects would also be at their peak execution stage. The company expects to maintain similar margin guidance of 14-15% going forward. The company has also guided that they are targeting a debt reduction of ₹ 150-200 crore every year.
- **Hydro Opportunity**: The company indicated that 18 GW Hydropower is currently under survey & investigation stage and another 19 GW which has been concurred by CEA and yet to be taken up for construction. These projects are expected to come up for bidding within next one-two years with an aim to complete the same, by 2030. Furthermore, as per the ministry update, there are 39 hydro Pumped Storage Projects (PSPs) of 47 gigawatts being pursued to be commissioned by 2030. This ordering opportunity provides a huge growth avenue for the company, going ahead.
- **Order Book Internals and outlook**: The order book stood at ₹ 18,663 crores as of FY24, implying 4.2x book to bill. During FY25, the company received orders worth ₹ 4027 crore. Around 62% of order book comprises of hydropower projects, ~21% from irrigation sector, ~11% from tunnelling sector, and ~2.7% in road and balance from other segments. Going ahead, the company expects order book to reach ~₹ 25000 crore in FY25, implying order inflows of ₹ 10,000-15,000 crore in FY25.
- **Debt position:** The company's total debt stood at ₹ 1,885 crore. The company witnessed a reduction in the net serviceable debt by ₹ 331 crore in FY24 which stood at ₹2646 crore comprising of contractee advances of ₹ 761 crore (vs. ₹ 2977 crore comprising of contractee advances of ₹ 1236 crore in FY23). This has effectively brought down the interest costs by ₹ 50 crore in FY24 which stood at ₹ 362 crore, out of which ₹ 69 crore is BG/LG Charges, ₹ 80 crore towards interest on contractee advances and ₹ 213 crore towards interest to lenders.
- **Arbitration Claims**: The company has received ~₹ 130 crore in FY25 under the *Vivaad se Vishwas* Scheme which was launched for settlement of pending disputes under ongoing arbitration. Going ahead, it further expects ₹ 150-200 crore in FY26. The realised claim will help lighten the balance sheet and help in reduction of debt.
- **QIP raise** – The company has raised ₹ 400 crore via QIP. The QIP raise will aid in business development as it will bolster the company's financial position, aid in reduction of debt and augment working capital management amid huge order inflow and execution ahead.

Exhibit 1: Quarter Performance

Particulars	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
Total Operating Income	1343.2	1205.1	11.5	1061.0	26.6
Consumption of raw materials	959.5	897.9	6.9	758.3	26.5
Employee benefit expenses	83.3	89.1	-6.5	89.5	-6.9
Other Expenses	62.9	49.1	28.0	71.1	-11.6
EBITDA	237.6	169.0	40.6	142.1	67.2
EBITDA Margin(%)	17.7	14.0	367 bps	13.4	63 bps
Other Income	31.2	25.3	23.2	15.1	106.3
Depreciation	29.0	20.7	40.1	23.1	25.6
Interest	93.1	103.8	-10.3	88.9	4.7
PBT	146.6	69.8	110.1	45.2	224.6
Taxes	49.2	-0.2	-19842	13.5	264.3
PAT	125.3	81.9	53.1	69.1	81.3

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement ₹ crore

(Year-end March)	FY23	FY24	FY25E	FY26E
Operating Revenues	**3,891.1**	**4,544.1**	**5,115.0**	**6,136.2**
Growth (%)	15.1	16.8	12.6	20.0
Construction Expenses	2,848.8	3,292.0	3,749.3	4,479.5
Employee Cost	326.0	354.0	404.1	484.8
Other Expenditure	154.8	207.8	234.8	281.8
Total Operating Exp.	3,329.6	3,853.8	4,388.2	5,246.0
EBITDA	**562**	**690**	**727**	**890**
Growth (%)	6.4	22.9	5.3	22.5
EBITDA Margin (%)	**14.4**	**15.2**	**14.2**	**14.5**
Other income	114.9	88.9	115.6	150.3
Depreciation	80.9	97.6	105.3	112.4
EBIT	595.6	681.6	737.0	928.1
Interest	412.2	362.1	372.3	381.2
PBT	217.7	393.1	364.8	546.9
Tax	38.9	103.5	91.9	137.8
Rep. PAT	**167**	**270**	**269**	**409**
Growth (%)	169%	61%	0%	52%
EPS (₹)	**2.0**	**3.2**	**3.2**	**4.8**

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement ₹ crore

(₹ Crore)	FY23	FY24	FY25E	FY26E
Profit after Tax	167	270	269	409
Depreciation	81	98	105	112
Interest	412	362	372	381
Others	(125)	24	(116)	(150)
Cash Flow before wc changes	535	754	631	752
Net Increase in CA	(98)	(95)	(751)	(944)
Net Increase in CL	247	(92)	475	757
Net CF from op. activities	**684**	**567**	**355**	**565**
Net purchase of Fixed Assets	(143)	(124)	(150)	(150)
Others	83	(109)	18	39
Net CF from Inv. Activities	**(60)**	**(233)**	**(132)**	**(111)**
Proceeds from share capital	337	(4)	400	(0)
Proceeds/Repayment of Loan	(521)	145	(25)	-
Interest paid	(412)	(362)	(372)	(381)
Other	16	(80)	-	-
Net CF rom Fin Activities	**(580)**	**(301)**	**2**	**(381)**
Net Cash flow	**45**	**33**	**226**	**73**
Opening Cash	261	306	339	565
Closing Cash	**306**	**339**	**565**	**637**

Source: Company, ICICI Direct Research

Exhibit 4: Balance Sheet ₹ crore

(Year-end March)	FY23	FY24	FY25E	FY26E
Liabilities				
Equity capital	77.4	77.4	84.4	84.4
Reserves & Surplus	2,810.6	3,076.3	3,738.0	4,147.1
Networth	2,888.0	3,153.6	3,822.5	4,231.6
Non Controlling interests	87.8	8.1	8.1	8.1
Loan Funds	1,740.8	1,885.5	1,860.1	1,860.1
Deferred Tax liability	(207.4)	(94.4)	(94.4)	(94.4)
Total Liabilities	**4,509.2**	**4,952.8**	**5,596.3**	**6,005.4**
Assets				
Net Block	1,190.5	1,264.7	1,309.3	1,347.0
Capital WIP	294.4	232.7	232.7	232.7
Right of use asset	14.2	28.2	28.2	28.2
Intangible assets	26.5	26.0	26.0	26.0
Non-current Investments	135.4	155.5	155.5	155.5
Othe non-current assets	914.9	995.3	1,092.4	1,204.1
Inventories	3,676.3	3,791.9	4,360.6	5,014.7
Trade Receivables	864.6	854.6	977.3	1,172.8
Cash & Bank Balances	208.3	338.8	564.6	637.2
Loans & Advances	94.8	84.9	84.9	84.9
Other current assets	1,130.0	1,129.3	1,188.8	1,283.6
Total current assets	5,973.9	6,199.5	7,176.3	8,193.2
Total Current liabilities	4,040.5	3,948.9	4,424.1	5,181.3
Net Current Assets	1,933.3	2,250.6	2,752.2	3,011.9
Total Assets	**4,509.2**	**4,952.8**	**5,596.3**	**6,005.4**

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios

(Year-end March)	FY23	FY24	FY25E	FY26E
Per share data (₹)				
Reported EPS	2.2	3.5	3.2	4.8
Cash EPS	3.2	4.7	4.4	6.2
BV per share	37.3	40.8	45.3	50.1
Operating Ratios (%)				
EBITDA Margin	14.4	15.2	14.2	14.5
EBIT/ Net Sales	12.4	13.0	12.1	12.7
PAT Margin	3.4	4.3	5.3	6.7
Inventory days	344.8	304.6	311.2	298.3
Debtor days	81.1	68.6	69.7	69.8
Creditor days	199.0	201.1	204.3	204.3
Return Ratios (%)				
RoE	4.6	6.2	7.0	9.7
RoCE	13.2	13.8	13.2	15.5
RoIC	12.1	13.7	13.1	15.3
Valuation Ratios (x)				
P/E	28.9	17.9	19.6	12.9
EV / EBITDA	12.1	9.9	9.0	7.3
EV / Net Sales	1.8	1.5	1.3	1.1
Price to Book Value	1.7	1.5	1.4	1.2
Solvency Ratios (x)				
Debt / EBITDA	3.1	2.7	2.6	2.1
Net Debt / Equity	0.5	0.5	0.3	0.3

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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