Patel Engineering (PATEN)

CMP: ₹ 42 | Target: ₹ 50 (19%) | Target Period: 12 months | **BUY**

May 26, 2025

Muted topline in FY26; Order inflows key 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.

- It has an order book of ₹15,218 crore as of FY25, implying 3x book to bill.

Q4/ FY25 Performance: Patel Engineering reported consolidated revenue of ₹1612 crore, up 20% YoY owing to healthy execution. Operating EBITDA was reported at ₹218.3 crore with EBITDA Margin at 13.5% was down 420 bps YoY as base quarter had one-off claims benefits. PAT was reported at ₹32.8 crore, down 73.4% YoY owing to impairment of loans and advances in subsidiaries and receivables of ₹87 crore. For FY25, consolidated revenue stood at ₹5093.4 crore, up 19% YoY. EBITDA stood at ₹733.2 crore with margins at 14.4%, down 80 bps YoY. PAT for the year stood at ₹242 crore, down 12.3% YoY.

Investment Rationale

- **Order inflows to improve in FY26; Revenue growth to follow in FY27:** The order book stood at ₹ 15218 crore as of Q4FY25, implying 3x book to bill. Around 66% of order book comprises of hydropower projects, ~23% from irrigation sector, ~8% from tunnelling sector, and remaining from roads and others. The awarding activity was muted as of FY25 with inflows of only ₹550 crore. However, the company expects the awarding momentum to pick up through FY26 with huge tailwind from Hydro/PSP and irrigation ordering ahead. The company has indicated a bid pipeline worth ₹40000-50000 crore. It has already bagged projects worth in excess of ₹2000 crore, in recent months. Given the robust inflow potential, the company expects inflows of ₹10000 crore for FY26. Nonethless, amid muted inflows in FY25, the company revised its topline guidance for FY26 indicating flat revenues (vs. 10% earlier) and FY27 revenue growth pegged at 10-15%. Consequently, we now expect revenue CAGR of ~5.8% (vs. ~11%, earlier) over FY25-27E to ₹ 5705 crore.

- **Stable margins and interest costs to drive earnings ahead:** 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 13.5%/14.2% in FY26/FY27, respectively. Topline growth coupled with stable margins and interest expense is likely to drive earnings growth ahead.

Rating and Target Price

- Order inflows will be the key near term trigger for the stock price recovery We expect the same to drive revenues and earnings growth ahead, coupled with stable balance sheet.

- We maintain BUY rating and assign a target price of ₹ 50 (vs. 60, earlier), thereby valuing it at 12x on FY27 EPS

Patel Since 1949

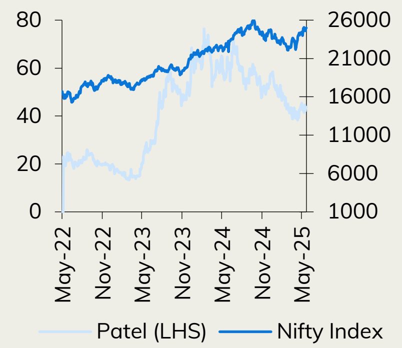
Particulars

Particular	Amount
Market Cap (₹ crore)	3,249
Debt (FY25) (₹ crore)	1,615
Cash (FY25) (₹ crore)	405
EV (₹ crore)	4,459
52 week H/L (₹)	74 / 36
Equity capital (₹ crore)	77.4
Face value (₹)	1.0

Shareholding pattern

	Jun-24	Sep-24	Dec-24	Mar-25
Promoters	36.1	36.1	36.1	36.1
DII	6.2	4.5	4.5	4.5
FIIs	3.7	3.1	4.7	4.7
Other	54.0	56.4	54.6	54.6

Price Chart



Key risks

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

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Result Update

ICICI Securities – Retail Equity Research

Key Financial Summary

(₹ Crore)	FY22	FY23	FY24	FY25E	5 Year CAGR (FY20-25)	FY26E	FY27E	2 Year CAGR (FY25-27E)
Net Sales	3,380.3	3,891.1	4,544.1	5,093.4	14.2	5,062.4	5,704.9	5.8
EBITDA	527.7	561.6	690.3	733.2	31.7	684.0	810.6	5.1
EBITDA Margin (%)	15.6	14.4	15.2	14.4		13.5	14.2	
Rep Net Profit	62.2	167.2	281.8	242.1	102.0	267.1	345.1	19.4
Adj. Net Profit	81.0	139.0	218.0	352.0	LP	267.1	345.1	(1.0)
EPS (₹)	1.3	2.2	3.6	2.9		3.2	4.1	
P/E (x)	51.9	19.3	11.5	14.6		13.2	10.2	
EV/EBITDA (x)	9.9	8.5	6.9	6.0		5.4	4.5	
RoCE (%)	12.4	13.2	13.8	15.2		12.4	14.1	
RoE (%)	3.4	4.8	6.9	9.3		6.6	7.8	

Source: Company, ICICI Direct Research

Performance highlights and outlook

- **Guidance** – Given the muted order inflows in FY25, the company has revised its topline guidance for FY26 indicating flat revenues (vs. 10% growth earlier). For FY27, it is guiding for a growth of 10-15%. The company expects to maintain similar EBITDA margins in the range of 13-14% for FY26.
- **Hydro-power opportunity** - Amid the rising tensions between India and Pakistan and the suspension of the Indus water treaty, the government is looking to fast-track the clearance of large hydro-power projects and is also considering accelerating work on existing projects and exploring ways to maximize its hydro power potential and improve the storage of water by construction of larger dams. furthermore, the management indicated Hydro and Pump storage projects have an opportunity of 30000 MW each, with hydropower alone potentially witnessing a total opportunity of ₹1.5 lakh crore in the next 2-3 years, followed by PSP with a total opportunity of around ₹1 lakh crore.
- **Orderbook and bid pipeline** – As of FY25, the orderbook stood at ₹15218 crore, 3x book to bill, with 66% coming from hydro power, 23% from irrigation, 8% from tunnelling and balance from roads and other sectors. The management indicated that awarding activity was muted for FY25 due to an election led year, with the company bagging merely ₹550 crore worth of orders. However, the company expects strong inflows from large-scale projects in FY26, having indicated a bid pipeline of ₹40000-50000 crore of projects across hydro power/PSP, irrigation and tunnelling sectors. The company has already bagged orders worth in excess of ₹2000 crore indicating strong ordering momentum. Given the robust inflow potential, the company expects order inflows to the tune of ₹10000 crore in FY26.
- **Debt and Working Capital** – The consolidated debt stood at ₹1600 crore as of FY25, down 15% YoY from previous levels of ₹1885 crore in FY24. Hence, the debt/equity ratio now stands at 0.42x vs. 0.6x in FY24. Subsequently interest costs have come down by ₹40 crore as of FY25. The debt includes around ₹600 crore of term debt, repayable over the next 2-3 years and balance of around ₹1000 crore is working capital debt. The net working capital days after adjusting for investments, bank borrowings, arbitration claims and bank balances is around 110 days.
- **Claims and receipts -** The management has indicated that arbitration awards in favour of the company are at ₹750 crore. Apart from that, ₹2250 crore worth of claims are under various stages of arbitration. The company expects the awards to start coming in, cash flow wise, from non-core assets it expects ₹200 crore realization year on year.
- **Monetization of non-core assets** – The company plans to monetize a few land parcels over the course of next 2-3 years. The total value of the land bank amounts to ₹800-1000 crore.

Financial Summary

Exhibit 1: Profit and loss statement ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Operating Revenues	**4,544**	**5,093**	**5,062**	**5,705**
Growth (%)	16.8	12.1	(0.6)	12.7
Construction Expenses	3,292	3,695	3,721	4,165
Employee Cost	354	383	380	428
Other Expenditure	208	283	278	302
Total Operating Exp.	3,854	4,360	4,378	4,894
EBITDA	**690**	**733**	**684**	**811**
Growth (%)	22.9	6.2	(6.7)	18.5
EBITDA Margin (%)	**15.2**	**14.4**	**13.5**	**14.2**
Other income	89	166	133	160
Depreciation	98	100	107	114
EBIT	682	800	710	856
Interest	362	322	356	391
PBT	405	326	354	465
Tax	104	90	93	122
Rep. PAT	**282**	**242**	**267**	**345**
Growth (%)	69%	-14%	10%	29%
EPS (₹)	**3.6**	**2.9**	**3.2**	**4.1**

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement ₹ crore

(₹ Crore)	FY24	FY25	FY26E	FY27E
Profit after Tax	282	242	267	345
Depreciation	98	100	107	114
Interest	362	322	356	391
Others	30	(200)	(133)	(160)
Cash Flow before wc changes	772	465	597	691
Net Increase in CA	(180)	(524)	337	(669)
Net Increase in CL	(73)	251	191	508
Net CF from op. activities	**519**	**192**	**1,125**	**530**
Net purchase of Fixed Assets	(60)	(47)	(182)	(150)
Others	(7)	154	138	83
Net CF from Inv. Activities	**(68)**	**107**	**(44)**	**(67)**
Proceeds from share capital	(16)	389	(0)	0
Proceeds/Repayment of Loan	133	(283)	228	-
Interest paid	(362)	(322)	(356)	(391)
Other	(80)	(16)	-	-
Net CF rom Fin Activities	**(325)**	**(232)**	**(129)**	**(391)**
Net Cash flow	**127**	**66**	**952**	**71**
Opening Cash	212	339	405	1,357
Closing Cash	**339**	**405**	**1,357**	**1,428**

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Liabilities				
Equity capital	77	84	84	84
Reserves & Surplus	3,076	3,700	3,967	4,312
Networth	3,154	3,785	4,052	4,397
Non Controlling interests	8	(8)	(8)	(8)
Loan Funds	1,885	1,602	1,830	1,830
Deferred Tax liability	(94)	(128)	(128)	(128)
Total Liabilities	**4,953**	**5,251**	**5,746**	**6,091**
Assets				
Net Block	1,265	1,283	1,358	1,394
Capital WIP	233	171	171	171
Right of use asset	28	22	22	22
Intangible assets	26	23	23	23
Non-current Investments	155	181	181	181
Othe non-current assets	995	983	978	1,055
Inventories	3,792	4,387	4,153	4,681
Trade Receivables	855	1,081	979	1,103
Cash & Bank Balances	339	405	1,357	1,428
Loans & Advances	85	98	98	98
Other current assets	1,129	819	818	834
Total current assets	6,199	6,790	7,404	8,144
Total Current liabilities	3,949	4,200	4,391	4,899
Net Current Assets	2,251	2,589	3,014	3,246
Total Assets	**4,953**	**5,251**	**5,746**	**6,091**

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios

(Year-end March)	FY24	FY25	FY26E	FY27E
Per share data (₹)				
Reported EPS	3.6	2.9	3.2	4.1
Cash EPS	4.9	4.0	4.4	5.4
BV per share	40.8	44.8	48.0	52.1
Operating Ratios (%)				
EBITDA Margin	15.2	14.4	13.5	14.2
EBIT/ Net Sales	13.0	12.4	11.4	12.2
PAT Margin	4.8	6.9	5.3	6.0
Inventory days	304.6	314.4	299.4	299.5
Debtor days	68.6	77.5	70.6	70.6
Creditor days	201.1	206.2	221.7	223.0
Return Ratios (%)				
RoE	6.9	9.3	6.6	7.8
RoCE	13.8	15.2	12.4	14.1
RoIC	13.7	13.6	13.8	15.7
Valuation Ratios (x)				
P/E	11.5	14.6	13.3	10.3
EV / EBITDA	6.9	6.1	5.4	4.5
EV / Net Sales	1.1	0.9	0.7	0.6
Price to Book Value	1.0	0.9	0.9	0.8
Solvency Ratios (x)				
Debt / EBITDA	2.7	2.2	2.7	2.3
Net Debt / Equity	0.5	0.3	0.1	0.1

Source: Company, ICICI Direct Research

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Sell: <-15%

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