

Petron Engineering Construction Ltd



Key Stock Indicators

NSE Ticker :	PETRONENGG	CMP (as on 31 Mar 2011 —Rs/share):	302.8	Shares outstanding (mn) :	7.5
Bloomberg Ticker :	PTEC:IN	52-week range up to 31 Mar 2011 (Rs)(H/L):	500.00/255.20	Free Float (%) :	47.5
Face value / Share :	10.0	Market Cap as on 31 Mar 2011 (Rs mn):	2,283	Average daily volumes (12 months) :	6,898
Div. Yield (%) :	0.6	Enterprise Value as on 31 Mar 2011 (Rs mn):	2,577	Beta (2 year) :	1.4

Petron Engineering Construction Limited (PECL) was incorporated in 1976. The company is engaged in the business of engineering and construction of plants for oil refineries, power, cement, petrochemical, fertilizer and other industries. PECL is engaged in only one business segments i.e. engineering, procurement and construction (EPC).

KEY HIGHLIGHTS

Established position in Engineering, Procurement and Construction (EPC) business

PECL is amongst the leading engineering and construction companies in India operating in this sector for more than three decades. The company has executed around 600 projects for public as well as private sector companies in this space. These projects were in diversified sectors like refineries (reformers and crackers), oil & gas, power, cement, fertilizer & petrochemical, fabrication work along with electrical & instrumentation work. During FY10, the company has executed EPC contracts including mechanical and piping work for naphtha cracker project and piping, steel structural and other works for MEG Project of IOCL, lump sum turnkey projects of HCU/DHT heaters for Bharat Oman refinery Ltd and many more.

Strong order book position

PECL has a strong order book worth Rs.14.3 billion (bn) as on 1 July, 2010 out of which in the first four months of FY11, the company has booked orders worth Rs.6.2 bn. The company has ongoing major EPC contracts for heaters and construction orders from refineries such as HPCL-Mittal Energy Limited (HMEL) - Bathinda refinery, Indian Oil Corporation Ltd (IOCL)- Paradeep refinery, Nagarjuna Oil Corporation Limited (NOCL) - Cuddalore refinery and Bharat Oman Refineries Limited (BORL) - Bina refinery totaling about Rs.7.9 bn. The company also has substantial order backlog in the power sector of ~Rs.5.5 bn. In addition to this the company is executing some construction contracts in cement sector worth ~Rs.750 (million) mn.

KEY RISKS

- Intense competition from the organised players in the industry
- Cost and time overruns in execution of projects could affect profitability
- Volatility in the prices of raw materials (spares and consumables)

Stock Performances vis-à-vis market

	Returns (%)			
	YTD	1-m	3-m	12-m
PETRONENGG	-13	0	-20	-11
NIFTY	10	9	-5	11

Note:

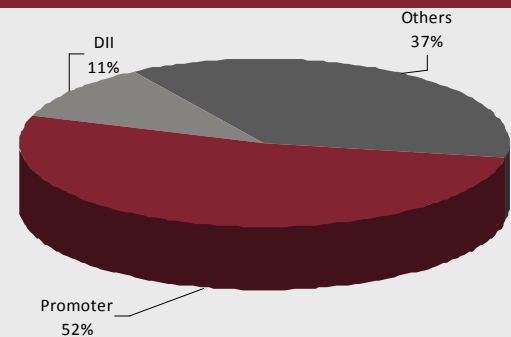
- 1) YTD returns are since April 1, 2010 to Mar 31, 2011.
- 2) 1-m, 3-m and 12-m returns are up to Mar 31, 2011.

Key Financial Indicators

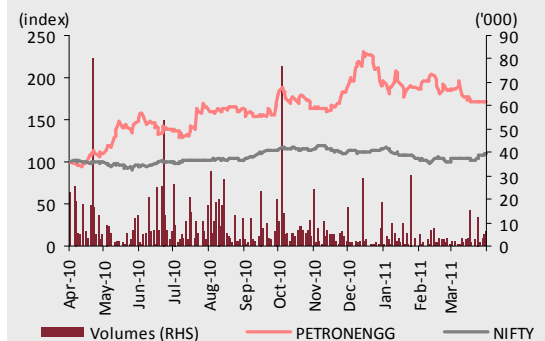
	Mar-08	Mar-09	Mar-10
Revenue (Rs mn)	2,668.7	4,028.2	5,209.7
EBITDA margins (%)	10.2	5.3	10.4
PAT (Rs mn)	44.0	64.7	238.8
PAT margins(%)	1.6	1.6	4.6
Gearing (x)	0.7	0.7	0.5
EPS (Rs/share)	5.8	8.6	31.7
PE (x)	37.8	7.6	9.6
P/BV (x)	2.6	0.7	2.5
RoCE (%)	18.2	17.2	35.0
RoE (%)	7.1	9.6	29.3
EV/EBITDA (x)	7.0	3.9	4.7

n.m. : Not meaningful

Shareholding (As on December 31, 2010)



Indexed price chart



Petron Engineering Construction Ltd

BACKGROUND

PECL was incorporated in 1976 and was promoted by technocrats Mr. R.S. Ambekar, Mr. M.K. Nair and Mr. S. Chuckerbutty. Petron Investments Private Limited (PIPL) is the holding company of PECL and holds ~52% stake in the company. PECL operates in one business segment i.e. engineering, procurement and construction (EPC). The company is engaged in the business of construction and engineering, mechanical fabrication, electrical & instrumentation installation and insulation. The company works for oil & gas, power, cement, chemical, petrochemical, fertilizer and other sectors. The company has delivered over 120 fire heater projects and more than 45 power plant projects so far. The company caters to the top clients in the industry like ACC, Grasim Industries, Madras Cement Limited, National Cement (Yemen), National Cement (Dubai), IPCL, Reliance Industries Limited, IOCL, BPCL, TATA Electric, BHEL, Adani Power, NTPC and many more. With the acquisition by Kazstory Service Limited (KSS) (UK) in 2008, PECL has entered the group of global engineering majors. The growth plans of PECL and KSS are complimentary and the partnership has plans to explore the Middle East, Far East and Turkmenistan markets. The company has two divisions- Petron mechanical division located at Thane (Maharashtra) and Petrofab division located at Baroda (Gujarat).

COMPETITIVE POSITION

Peer Comparison

	Petron Engineering Construction Ltd.	Hindustan Dorr-Oliver Ltd.	Mcnally Bharat Engg. Co. Ltd.	Technofab Engineering Limited
Period Ends On	Mar-10	Mar-10	Mar-10	Mar-10
Revenue (Rs mn)	5,209.7	8,791.9	18,130.8	2,016.2
EBITDA margins (%)	10.4	12.4	9.7	16.8
PAT (Rs mn)	238.8	571.8	566.6	191.6
PAT margins (%)	4.6	6.5	3.1	9.5
Gearing (x)	0.5	1.4	1.6	0.4
EPS (Rs/share)	31.7	7.9	18.2	25.5
PE (x)	9.6	10.0	12.0	7.0
P/BV (x)	2.5	3.7	3.2	2.7
RoCE (%)	35.0	38.4	33.8	57.2
RoE (%)	29.3	36.8	31.9	46.5
EV/EBITDA (x)	4.7	6.6	5.1	4.2

n.m.: Not meaningful

FINANCIAL PROFILE

Increase in Top line, margins and PAT in FY10

In FY10, PECL's top line grew by 29.3% year-on-year from Rs 4.0 bn in FY09 to Rs 5.2 bn in FY10. Growth in top line was largely on account of increase in revenues from construction contracts/ projects by ~ 33%. During FY10, the company has booked orders aggregating Rs. 6.9 bn. The order backlog increased by 55% to Rs. 10.2 bn by the end of FY10 over the pending order backlog of Rs. 6.6 bn in FY09.

EBITDA margins stood at 10.4% in FY10 as compared to 5.3% in FY09, a growth of ~ 510 basis points. This increase was on account of reduction in employee cost and manufacturing cost as a percentage of sales.

PAT stood at Rs.238 mn in FY10 vis-à-vis Rs.64 mn in FY09, principally due to higher operating profits which grew by ~154%.

Key Financial Indicators

	Units	Mar-08	Mar-09	Mar-10
Revenue	Rs million	2,668.7	4,028.2	5,209.7
EBITDA margins	Per cent	10.2	5.3	10.4
PAT	Rs million	44.0	64.7	238.8
PAT margins	Per cent	1.6	1.6	4.6
Revenue growth	Per cent	4.9	50.9	29.3
EBITDA growth	Per cent	31.1	-21.7	153.6
PAT growth	Per cent	-31.2	47.1	269.3
Gearing	Times	0.7	0.7	0.5
RoCE	Per cent	18.2	17.2	35.0
RoE	Per cent	7.1	9.6	29.3

INDUSTRY PROFILE

Engineering

The heavy engineering industry comprises electrical equipment, earthmovers, mining equipment and defence equipment, amongst others. It also includes companies working on turnkey projects that require skills from conception to execution. The industry is characterised by low competition and moderate capital intensity, and its growth is linked to growth in gross domestic product (GDP) and capital formation in the country.

Further, although the sector is not capital-intensive, it needs technical expertise and skilled manpower. In India, there are about 40-50 companies in the heavy engineering sector. The demand for heavy engineering equipment is derived from user industries such as power, construction, cement, steel, chemicals, petrochemicals and refining. In addition, significant investments in power generation, and transmission and distribution (T&D) have driven growth of the engineering goods sector. With investment demand picking up, the engineering sector is expected to register higher growth.

Construction (erection and commissioning)

The construction (erection and commissioning) sector comprises infrastructure and industrial construction. Infrastructure construction incorporates design and construction of roads, bridges, canals, dams, ports and airports, while industrial construction includes construction activities in key industries such as automobiles, textiles, petrochemicals, and oil and gas. In construction (erection and commissioning) sector, demand is determined by expected investments in the sector. The increase in investments has been driven primarily by the roads and power sector, followed by irrigation and urban infrastructure.

Petron Engineering Construction Ltd

ANNUAL RESULTS

Income Statement

(Rs million)	Mar-08	Mar-09	Mar-10
Net Sales	2,617.5	3,913.0	5,114.5
Operating Income	2,668.7	4,028.2	5,209.7
EBITDA	273.3	214.0	542.8
EBITDA Margin	10.2	5.3	10.4
Depreciation	62.1	68.3	90.3
Interest	103.2	94.4	119.4
Other Income	0.2	53.3	22.3
PBT	89.0	110.8	358.7
PAT	44.0	64.7	238.8
PAT Margin	1.6	1.6	4.6
No. of shares (Mn No.)	7.6	7.6	7.5
Earnings per share (EPS)	5.8	8.6	31.7

Cash flow

(Rs million)	Mar-08	Mar-09	Mar-10
Pre-tax profit	108.2	104.6	355.5
Total tax paid	-36.4	-21.5	-121.4
Depreciation	62.1	68.3	90.3
Change in working capital	-34.0	-41.2	-140.7
Cash flow from operating activities	99.9	110.2	183.7
Capital Expenditure	-100.0	-201.1	-116.2
Investments and others	0.0	0.0	0.0
Cash flow from investing activities	-100.0	-201.1	-116.2
Equity raised/(repaid)	0.0	0.0	-0.1
Debt raised/(repaid)	51.6	86.4	-54.0
Dividend (incl. tax)	0.0	0.0	-17.6
Others (incl extraordinary)	-19.2	6.2	3.3
Cash flow from financing activities	32.4	92.6	-68.4
Change in cash position	32.3	1.7	-0.9
Opening cash	129.2	161.5	163.3
Closing cash	161.5	163.3	162.5

n.m : Not meaningful;

Balance sheet

(Rs million)	Mar-08	Mar-09	Mar-10
Equity share capital	75.5	75.5	75.4
Reserves and surplus	563.2	627.9	849.2
Tangible net worth	638.7	703.4	924.6
Deferred tax liability:[asset]	44.7	69.4	67.9
Long-term debt	67.9	11.6	71.1
Short-term-debt	356.6	499.3	385.8
Total debt	424.4	510.9	456.9
Current liabilities	1,339.7	1,524.1	1,645.0
Total provisions	45.0	30.5	31.3
Total liabilities	2,492.5	2,838.3	3,125.7
Gross block	1,080.8	1,226.3	1,347.7
Net fixed assets	440.0	572.8	598.6
Investments	0.0	0.0	0.0
Current assets	2,052.6	2,265.4	2,527.0
Receivables	1,100.9	1,100.1	1,611.7
Inventories	445.4	670.8	421.7
Cash	161.5	163.3	162.5
Total assets	2,492.6	2,838.2	3,125.6

Ratio

	Mar-08	Mar-09	Mar-10
Revenue growth (%)	4.9	50.9	29.3
EBITDA growth(%)	31.1	-21.7	153.6
PAT growth(%)	-31.2	47.1	269.3
EBITDA margins(%)	10.2	5.3	10.4
Tax rate (%)	40.9	19.4	33.8
PAT margins (%)	1.6	1.6	4.6
Dividend payout (%)	0.0	0.0	6.3
Dividend per share (Rs)	0.0	0.0	2.0
BV (Rs)	84.6	93.2	122.7
Return on Equity (%)	7.1	9.6	29.3
Return on capital employed (%)	18.2	17.2	35.0
Gearing (x)	0.7	0.7	0.5
Interest coverage (x)	2.6	2.3	4.5
Debt/EBITDA (x)	1.6	2.4	0.8
Asset turnover (x)	2.6	3.5	4.0
Current ratio (x)	1.2	1.1	1.2
Gross current assets (days)	275	197	171

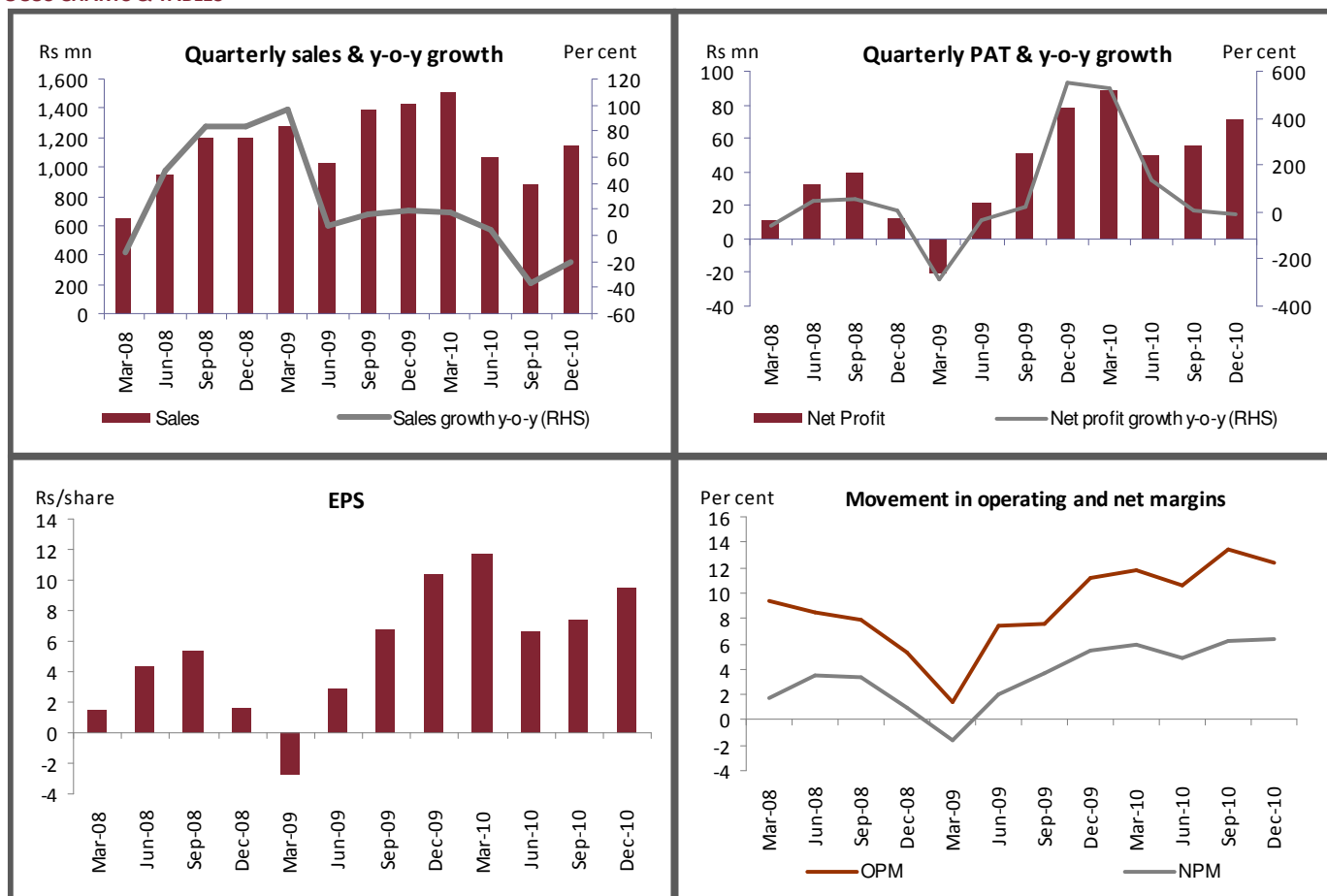
QUARTERLY RESULTS

Profit and loss account

(Rs million)	Dec-10	% of Rev	Dec-09	% of Rev	Sep-10	% of Rev	Dec-10	% of Rev	Dec-09	% of Rev
No of Months	3		3		3		9		9	
Revenue	1,140.5	100.0	1,429.1	100.0	888.8	100.0	3,094.4	100.0	3,832.3	100.0
EBITDA	141.6	12.4	160.4	11.2	117.9	13.3	372.2	12.0	341.2	8.9
Interest	7.0	0.6	16.7	1.2	6.2	0.7	25.9	0.8	51.7	1.3
Depreciation	27.3	2.4	25.4	1.8	29.1	3.3	80.5	2.6	68.0	1.8
PBT	107.4	9.4	118.3	8.3	82.6	9.3	265.8	8.6	221.5	5.8
PAT	71.8	6.3	78.2	5.5	55.3	6.2	177.0	5.7	150.4	3.9

Petron Engineering Construction Ltd

FOCUS CHARTS & TABLES



Shareholding Pattern (Per cent)

	Mar 2010	Jun 2010	Sep 2010	Dec 2010
Promoter	52.5	52.5	52.5	52.5
FII	-	0.1	0.2	0.1
DII	10.5	9.8	10.1	10.7
Others	37.1	37.7	37.3	36.8

Board of Directors

Director Name	Designation
Sadasiva Das Thankappan (Mr.)	Managing Director
Arvind Daulatram Dabar (Mr.)	Non-Executive Director, Promoter-Director
Rama Sankaranarayanan Iyer (Dr.)	Non-Executive Director
Ravi Keswani (Mr.)	Non-Executive Director, Promoter-Director
Sankaran Raghunathan (Mr.)	Non-Executive Director

Additional Disclosure

This report has been sponsored by NSE - Investor Protection Fund Trust (NSEIPFT).

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