

Company Name: Patel Engineering Ltd

Management Participants :

- Rahul Agarwal - Chief Financial Officer
- Aditya Bajaj - General Manager Sales and Marketing
- Ganesh Sanwal - Manager -Accounts
- Kushal Kedia - Finance Manager

11th Annual Valorem Conference Highlights:

Key Highlights:

- Company has undergone a major transformation post FY17, shifting from a debt-heavy, diversified model to a focused EPC business in complex infrastructure projects.
- Focus remains on hydro and complex tunneling projects, where competition is limited and margins are superior.
- Significant reduction in debt, with peak levels declining from ~INR 5,000 crore to below INR 1,500 crore, supported by land monetization and improved operating cash flows.
- Strong opportunity in hydropower sector:~30 GW projects expected in near term.
- Order inflow visibility strong:
 - Current order book stands at INR 15,123 crore
 - Target order inflow: INR 8,000–10,000 crore annually
 - Over INR 1 lakh crore opportunity pipeline over next few years.
- Current arbitration awards stand at ~INR 700 crore, with ~INR 450 crore under receivables; realization cycle remains long-ter.

Key Questions & Answers discussed during the Conference:

- **When did the company’s business transformation take place, and what were the key changes?** The transition began around FY16–17 when we underwent debt restructuring. At that time, debt had peaked at around INR 5,000 crore, and we were also involved in real estate and asset ownership. Post restructuring, we exited these non-core segments and shifted our focus entirely to the EPC construction business, while simultaneously monetizing land and reducing debt.
- **What are the new growth areas beyond hydropower?** We are exploring opportunities in segments such as bullet trains and advanced tunneling (TBM-based projects). These areas also involve complex engineering and offer attractive margins, aligning with our core strengths.
- **Is the company considering asset ownership again?** We may selectively evaluate asset-based opportunities if returns are attractive, but our approach remains cautious. Any such investment would be structured carefully with limited equity commitment and potential partnerships.

- What is the strategy for reducing debt further?** We plan to continue monetizing non-core assets, including land parcels and arbitration claims, with a target of generating around INR 200 crore annually. This, along with internal cash flows, will help in reducing debt further while ensuring that incremental working capital requirements do not significantly increase overall leverage.
- What is the status of arbitration claims?** We have total arbitration awards of around INR 700 crore, of which approximately INR 450 crore is currently receivable. These claims are largely long-term in nature, as the realization process typically takes time due to legal and procedural complexities.
- How does the company approach bidding and margins?** We maintain strict discipline in bidding and avoid aggressive pricing. We target sustainable margins of around 14–15% in hydro projects, which we believe are achievable given the long gestation nature of such projects. Our focus remains on maintaining profitability rather than chasing order book growth.
- How competitive is the hydro EPC segment?** The hydro EPC space has limited competition due to high technical complexity. While some new players may enter smaller projects, large and complex projects are typically executed by a handful of experienced players. This limits pricing pressure and supports stable margins.
- How has the company’s execution capability evolved, and what is the current execution capacity?** We have significantly scaled our execution capabilities over the past few years. Our employee base has increased from around 1,500 to 4,500, and we can now handle annual execution of INR 7,000–9,000 crore. With consistent order inflows, we expect to scale further without major incremental investments.
- What is the long-term revenue outlook for the company?** If we continue to secure INR 8,000–10,000 crore of orders annually, we can potentially double our revenue to around INR 10,000 crore over the next five years.
- How has the industry environment improved in recent years?** The industry has seen significant improvements compared to the past. Projects are now better planned, with detailed studies and clearances in place before awarding. Government monitoring has also increased, leading to faster approvals, quicker fund disbursement, and improved receivable cycles.
- Are there execution risks, especially in regions like the Northeast?** Execution risks have reduced over time as the government has improved stakeholder engagement, including local communities. Environmental clearances are now obtained after proper consultations, and awareness programs are conducted to highlight project benefits, which has reduced local resistance.
- How are project funding dynamics evolving in the infrastructure sector?** Funding conditions are improving, with increased acceptance of insurance-backed guarantees in place of traditional bank guarantees. This reduces dependence on banks and improves capital efficiency for infrastructure companies.
- How does the company manage risk while expanding into new projects?** We remain cautious and evaluate projects based on return profile and risk. We avoid entering segments where we lack competitive advantage, such as pure road EPC, and focus on areas where we have strong expertise like hydro and tunneling.

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