

Patel Engineering

Performance Highlights

Y/E March (₹ cr)	4QFY11	4QFY10	3QFY11	% chg (yoy)	% chg (qoq)
Net sales	1,596.5	1,197.1	434.6	33.4	267.4
Operating profit	129.9	151.0	58.0	(13.9)	123.9
Net profit after MI	36.0	71.9	8.8	(50.0)	309.6

Source: Company, Angel Research

For 4QFY2011, Patel Engineering (PEL) posted disappointing numbers on a consolidated and standalone basis. Going ahead as well, we believe recovery to the growth path will take time as order inflow concerns loom large and the current order book is plagued with delays. Hence, we are revising our estimates further for FY2012 and FY2013. Also, the company is yet to provide for the recent IT raid (which would accrue in the next few months, thereby increasing the tax rate going ahead); and the hedging loss incurred due to project cancellations, which we believe would materialise and impact the company's financials. **Hence, we maintain our negative stance on the company and Neutral rating on the stock.**

One more disappointing quarter on the operating front; no respite in sight: For 4QFY2011, on a consolidated basis, PEL posted growth of 33.4% yoy and 267.4% qoq in net sales primarily due to real estate revenue booking and low margin outside work. EBITDA margin came in at 8.1% (450/530bp yoy/qoq decline) due to Jogeshwari property sales – adjusting this, EBITDA margin would have been at 3–4%. Reported PAT declined by 50% for the quarter.

Outlook and valuation: PEL's core C&EPC business is currently facing headwinds with its large projects facing delays and disappointing order inflow. Further, the longer gestation nature of its order book, macro headwinds and increasing debt levels put the company's growth visibility for the next few quarters under doubt. Hence, we maintain our Neutral rating with a revised fair value of ₹143/share. Key risks to our recommendation are 1) pick-up in order inflow from the power segment in the near term; 2) early-than-expected execution from its slow-moving orders; and 3) raising of capital and the resultant decline in debt levels.

Key financials (Consolidated)

Y/E March (₹ cr)	FY2010	FY2011	FY2012E	FY2013E
Net sales (incl op. income)	3,191	3,499	3,272	3,587
% chg	29.7	9.7	(6.5)	9.6
Adj. net profit	198.2	128.8	108.6	161.0
% chg	42.4	(35.0)	(15.7)	48.2
FDEPS (₹)	28.4	18.4	15.5	23.0
EBITDA margin (%)	15.9	12.1	12.7	13.1
P/E (x)	5.0	7.8	9.2	6.2
RoAE (%)	16.7	9.1	7.2	9.9
RoACE (%)	12.5	8.9	8.0	8.9
P/BV (x)	0.7	0.7	0.6	0.6
EV/Sales (x)	0.9	1.0	1.0	0.9
EV/EBITDA (x)	5.7	7.9	8.2	6.8

Source: Company, Angel Research

Please refer to important disclosures at the end of this report

NEUTRAL

CMP	₹143
Target Price	-

Investment Period	-
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Stock Info

Sector	Infrastructure
Market Cap (₹ cr)	997
Beta	1.2
52 Week High / Low	452/131
Avg. Daily Volume	106,230
Face Value (₹)	1
BSE Sensex	18,086
Nifty	5,421
Reuters Code	PENG.BO
Bloomberg Code	PEC@IN

Shareholding Pattern (%)

Promoters	45.6
MF / Banks / Indian FIs	12.5
FII / NRIs / OCBs	9.7
Indian Public / Others	32.3

Abs. (%)	3m	1yr	3yr
Sensex	(0.7)	7.2	5.0
Patel	(22.9)	(66.1)	(74.6)

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Exhibit 1: Quarterly performance (Consolidated)

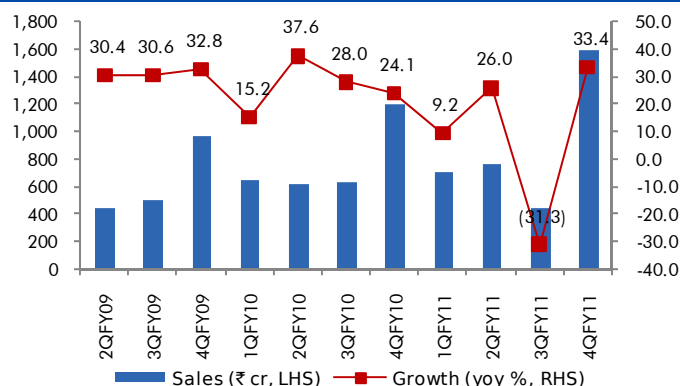
Y/E March (₹ cr)	4QFY11	4QFY10	3QFY11	% Chg (yoy)	% Chg (qoq)	FY2011	FY2010	% Chg
Net Sales	1,596.5	1,197.1	434.6	33.4	267.4	3,499.3	3,081.1	13.6
Total Expenditure*	1,466.6	1,046.1	376.6	40.2	289.5	3,076.7	2,591.7	18.7
Operating Profit	129.9	151.0	58.0	(13.9)	123.9	422.6	489.4	(13.7)
OPM (%)	8.1	12.6	13.4	(450)bp	(530)bp	12.1	15.9	(380)bp
Interest*	72.8	46.1	36.2	58.0	100.8	171.5	127.2	34.8
Depreciation	16.0	29.6	18.6	(45.8)	(13.8)	86.5	125.1	(30.9)
Non Operating Income	15.8	37.1	7.1	-	122.8	30.7	60.2	(49.0)
Nonrecurring items	-	-	-	-	-	-	-	-
Profit Before tax	57.0	112.5	10.3	(49.4)	453.1	195.3	297.3	(34.3)
Tax	13.3	37.4	2.7	(64.5)	400.8	54.4	91.7	(40.6)
Net Profit before MI	43.7	75.1	7.6	(41.8)	471.2	140.9	205.6	(31.5)
PAT (%)	2.7	6.3	1.8	(360)bp	90bp	4.0	6.7	(270)bp
Minority Interest (MI)	7.7	3.2	(1.1)	145.7	(785.0)	12.5	12.3	1.3
Reported Net Profit after MI	36.0	71.9	8.8	(50.0)	309.6	128.4	193.3	(33.6)
Adj. PAT (%)	2.3	6.0	2.0	-	-	3.7	6.3	-
FDEPS	5.1	10.3	1.3	(50.0)	309.6	18.4	27.7	(33.6)

Source: Company, Angel Research; Note: *Reported numbers for 3QFY2011 include ₹50cr as hedging loss in interest cost, which has been credited to the top line as well. We have considered the same as normal cost and included in the total operating expenditure, therefore excluded the same from interest cost. The company has claimed it will receive the same from the client in next 6–8 months but we do not expect the same.

Top line continues to reel under pressure

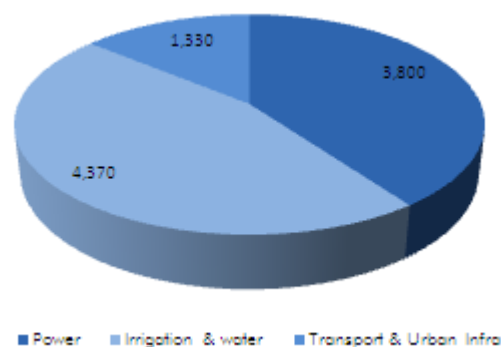
For 4QFY2011, on a consolidated basis, PEL posted growth of 33.4% yoy and 267.4% qoq in net sales primarily due to real estate revenue booking (₹450cr) and low margin outside work (₹300cr–400cr) taken up for better utilisation of idle resources. On a standalone basis, PEL posted growth of 9.4% yoy and 211.8% qoq. Order inflow for the quarter stood at meager ₹160cr – continuing the weak trend of order inflow in the earlier quarters. Order book stood at ₹9,500cr (including L1 orders) with irrigation (46%) and hydro power (35–40%), contributing the lion's share. The balance order book is contributed by transportation and others. Teesta and Parbati projects have not picked up as expected and guided by the management. Further, L1 orders continue to form a high share of the overall order book at ₹1,800cr (₹1,500cr of Kotli-Behel pending since the last few quarters).

Exhibit 2: Revenue aided by non-core operations



Source: Company, Angel Research

Exhibit 3: Order book break-up (₹9,500cr including L1)

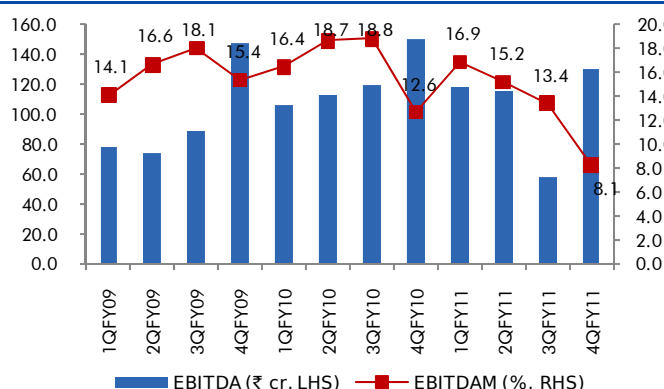


Source: Company, Angel Research

Bottom line in green; on account of sale of property at Jogeshwari

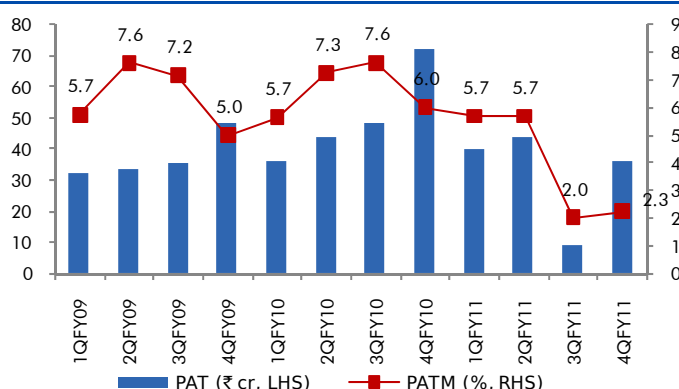
EBITDA margin came in at 8.1% (450 yoy/530bp qoq decline) due to Jogeshwari property sales – adjusting this, EBITDA margin would have been at 3–4%. Lower EBITDA margin depicts the business environment and the pressure faced by the company on the operating front. The margin was also impacted due to writing-off ₹13cr for backing out of order won from NHAI. Reported PAT declined by 50% for the quarter; but adjusting for the property sale, PAT would have been negative. We had earlier highlighted (in our 3QFY2011 Result Update) that the company is facing pressures on the operating front and our fears have come true. Further, going ahead as well we believe business will continue to reel under pressure given that major segments of PEL (power and irrigation) are facing major headwinds and the smoke does not look to get cleared in the near to medium term.

Exhibit 4: Expect EBITDAM to be under pressure...



Source: Company, Angel Research

Exhibit 5: ...same goes for PATM



Source: Company, Angel Research

Project updates

PEL has invested equity of ₹270cr in its power ventures, which we have valued at 0.5x. Land for the first phase (1,050MW plant in Nagapatnam district, Tamil Nadu) has been acquired and coal linkages are in place from the Mahanadi coal fields. Management had earlier expected financial closure by December 2010 and construction work was likely to start in 2QFY2012. However, pending final clearance from the Tamil Nadu government to commence construction activity, the project has witnessed delays and can only be expected in 2HFY2012.

In real estate, management indicated that the progress is satisfactory with Smondoville-1 completely sold out (total 1,123 apartments), which also implies that the project does not require cash and would be self funded. During 4QFY2011, PEL booked ₹450cr from real estate from its Smondoville Bangalore project (₹120cr) and Noida project (₹330cr). Phase II, III of Smondoville and service apartments are nearly sold out. In Mumbai, PEL has sold out the 80,000 sq. ft. Jogeshwari property for ₹76cr to Milestone Fund and has booked PBT of ₹45cr during the quarter.

Outlook and valuation

PEL's core C&EPC business is currently facing headwinds with its large projects facing delays and disappointing order inflow. Further, the longer gestation nature of its order book, macro headwinds and increasing debt levels put the company's growth visibility for the next few quarters under doubt. Hence, we are revising our estimates for FY2012 and FY2013.

Exhibit 6: Change in estimates

	FY2012			FY2013		
	Earlier estimates	Revised estimates	Variation (%)	Earlier estimates	Revised estimates	Variation (%)
Revenue (₹ cr)	2,776	3,272	18	3,248	3,587	10
EBITDA margin (%)	15.0	12.7	(230)bp	13.8	13.0	(80)bp
PAT (₹ cr)	104	109	4	165.0	161.0	(2)

Source: Company, Angel Research

Further, PEL has not provided for the recent IT raid (which would accrue in the next few months, thereby increasing the tax rate going ahead); and the hedging loss incurred due to project cancellations, which we believe would materialise and impact its financials (though we have not factored these developments due to uncertainty). Further, return ratios are going to be dampened by increasing net debt/equity on account of stretched working capital and requirement of equity for power projects. **Hence, we maintain our Neutral rating with a revised fair value of ₹143/share. Key risks to our recommendation are 1) pick-up in order inflow from the power segment in the near term; 2) early-than-expected execution from its slow-moving orders; and 3) raising of capital and the resultant decline in debt levels.**

Exhibit 7: Derivation of SOTP-based fair value for PEL (FY2013E)

Business segment	Methodology	Remarks	₹ cr	₹/share	% to TP
Core Construction	P/E	6x FY2013E Const. Earnings	424	60.7	42.6
Real Estate	NAV/BV	30% Discount	327	46.8	32.8
BOT Assets	BV	1.0x P/BV	109	15.7	11.0
Power Venture	BV	0.5x P/BV	135	19.3	13.6
Total			996	142.5	100.0
CMP (₹)				143.0	
Upside (%)				(0.4)	

Source: Company, Angel Research

Exhibit 8: Angel EPS forecast vs. consensus

	Angel forecast	Bloomberg consensus	Variation (%)
FY2012E	15.5	18.2	16.9
FY2013E	23.0	24.3	5.6

Source: Company, Angel Research

Exhibit 9: Recommendation summary

Company	CMP	TP	Rating	Top line (₹ cr)				EPS (₹)				Adj. P/E			OB/ Sales(x)
				FY10	FY11E	FY12E	CAGR (%)	FY10	FY11E	FY12E	CAGR (%)	FY10	FY11E	FY12E	
CCCL	36	38	Accu.	2,199	2,433	2,946	15.7	2.5	2.6	4.3	29.4	14.0	13.8	8.4	2.3
HCC	31	-	Neutral	4,084	4,722	5,485	15.9	1.2	1.1	1.6	16.6	0.9	0.9	0.6	4.0
IRB Infra	161	222	Buy	2,460	3,388	4,331	32.7	14.0	13.7	16.9	10.0	4.4	4.5	3.7	-
IVRCL	70	111	Buy	6,031	6,775	8,244	16.9	7.0	7.5	9.3	14.9	4.6	4.3	3.5	4.0
JP Assoc.	82	107	Buy	13,217	15,860	18,708	19.0	3.1	5.1	6.8	48.8	26.7	16.0	12.1	-
Punj Lloyd	58	-	Neutral	8,129	10,048	11,362	18.2	(1.0)	3.1	3.8	-	-	18.9	15.2	3.4
NCC	90	150	Buy	5,365	6,192	7,439	17.8	7.7	8.8	9.6	12.0	7.2	6.3	5.8	3.2
Sadbhav	132	161	Buy	2,209	2,602	2,865	13.9	8.0	8.4	9.7	10.3	7.3	6.9	6.0	3.2
Simplex In.	321	438	Buy	4,842	5,370	6,909	19.5	25.9	24.9	39.8	23.8	12.4	12.9	8.1	2.8
Patel Engg	143	-	Neutral	3,499	3,272	3,587	1.2	18.4	15.5	23.0	11.8	3.3	3.9	2.7	4.1
Madhucon	106	117	Accu.	1,705	2,069	2,632	24.3	6.9	7.5	8.7	12.6	8.6	7.9	6.8	3.7
L&T	1,508	2,034	Buy	44,973	54,785	67,811	22.8	56.1	68.3	83.0	21.7	18.7	15.4	12.6	2.1
ITNL	191	308	Buy	4,049	5,103	7,100	32.4	22.3	24.0	29.7	15.5	0.9	0.8	0.7	5.5

Source: Company, Angel Research

Exhibit 10: SOTP break up

Company	Core Const.		Real Estate		Road BOT		Invst. in subsidiaries		Others		Total ₹
	₹	% to TP	₹	% to TP	₹	% to TP	₹	% to TP	₹	% to TP	
CCCL	38	100	-	-	-	-	-	-	-	-	38
HCC	13	30	23	55	6	15	-	-	-	-	43
IRB Infra	123	55	-	-	95	43	5	2	-	-	222
IVRCL	74	67	-	-	-	-	37	33	-	-	111
JP Assoc.	32	30	31	29	-	-	-	-	44	41	107
Punj Lloyd	94	100	-	-	-	-	-	-	-	-	94
NCC	116	77	2	1	8	6	-	-	25	16	150
Sadbhav	87	54	-	-	73	46	-	-	-	-	161
Simplex In.	438	100	-	-	-	-	-	-	-	-	438
PEL	61	43	47	33	16	11	-	-	19	14	143
Madhucon	70	60	2	2	33	28	-	-	12	10	117
L&T	1,577	78	-	-	-	-	458	22	-	-	2,034
ITNL	136	44	-	-	148	48	-	-	24	8	308

Source: Company, Angel Research

Profit & loss statement (Consolidated)

Y/E March (₹ cr)	FY2008	FY2009	FY2010	FY2011	FY2012E	FY2013E
Net Sales	1,853	2,460	3,191	3,499	3,272	3,587
Other operating income	2	-	-	-	-	-
Total operating income	1,855	2,460	3,191	3,499	3,272	3,587
% chg	42.6	32.6	29.7	9.7	(6.5)	9.6
Total Expenditure	1,557	2,070	2,682	3,077	2,857	3,118
Net Raw Materials	455	427	398	451	753	789
Other Mfg costs	935	1,471	2,011	2,468	1,946	2,143
Personnel	112	128	136	150	152	179
Other	55	44	138	8	6	7
EBITDA	299	390	509	423	415	469
% chg	90.8	30.5	30.5	(16.9)	(1.7)	13.0
(% of Net Sales)	16.1	15.8	15.9	12.1	12.7	13.1
Depreciation & Amortisation	63	120	109	87	87	95
EBIT	236	270	400	336	329	374
% chg	94.0	14.5	47.9	(15.9)	(2.2)	13.8
(% of Net Sales)	12.7	11.0	12.5	9.6	10.0	10.4
Interest & other Charges	61	137	192	238	255	231
Other Income (incl Ass/JV pft)	41	62	98	98	99	113
(% of PBT)	18.9	31.9	32.0	50.0	57.2	44.2
Recurring PBT	216	196	305	195	172	255
% chg	69.1	(9.5)	55.8	(36.0)	(11.7)	48.2
Extraordinary Expense/(Inc.)	-	(41)	-	-	-	-
PBT (reported)	216	237	305	195	172	255
Tax	23	44	93	54	56	83
(% of PBT)	10.7	18.4	30.5	27.6	32.4	32.4
PAT (reported)	193	193	212	141	116	173
Less: Minority interest (MI)	10.9	12.9	13.9	12.5	7.8	11.6
Prior period items	-	-	-	-	-	-
PAT after MI (reported)	182	181	198	129	109	161
ADJ. PAT	151	139	198	129	109	161
% chg	35.4	(8.1)	42.4	(35.0)	(15.7)	48.2
(% of Net Sales)	8.2	5.7	6.2	3.7	3.3	4.5
Basic EPS (₹) (Reported)	30.5	30.2	30.2	18.4	15.5	23.0
Fully Diluted EPS (₹) (Diluted)	21.7	19.9	28.4	18.4	15.5	23.0
% chg	35.4	(8.1)	42.4	(35.0)	(15.7)	48.2

Balance sheet (Consolidated)

Y/E March (₹ cr)	FY2008	FY2009	FY2010	FY2011	FY2012E	FY2013E
SOURCES OF FUNDS						
Equity Share Capital	6.0	6.0	7.0	7.0	7.0	7.0
Preference Capital	-	-	-	-	-	-
Reserves & Surplus	840	1,011	1,356	1,456	1,545	1,685
Shareholder's Funds	846	1,017	1,363	1,463	1,552	1,692
Minority Interest	41	22	62	62	62	62
Total Loans	1,194	1,747	2,138	2,476	2,581	2,423
Deferred Tax Liability	15	15	11	11	11	11
Total Liabilities	2,096	2,800	3,574	4,012	4,206	4,189
APPLICATION OF FUNDS						
Gross Block	615	804	861	961	1,061	1,186
Less: Acc. Depreciation	180	303	306	393	479	575
Net Block	435	500	555	568	582	611
Capital Work-in-Progress	235	70	204	254	304	354
Investments	36	50	70	481	681	831
Current Assets	2,045	2,865	3,758	3,919	4,086	4,122
Inventories	824	1,110	1,803	1,893	1,893	1,704
Sundry Debtors	462	583	696	765	880	968
Cash	288	295	232	131	183	208
Loans & Advances	471	878	1,026	1,129	1,129	1,242
Other	-	-	-	-	-	-
Current liabilities	658	692	1,020	1,217	1,454	1,737
Net Current Assets	1,387	2,174	2,738	2,702	2,632	2,385
Misc. Exp. not written off	2	6	7	7	7	7
Total Assets	2,096	2,800	3,574	4,012	4,206	4,189

Cash flow statement (Consolidated)

Y/E March (₹ cr)	FY2008	FY2009	FY2010E	FY2011	FY2012E	FY2013E
Profit before tax (excluding MI)	185.5	237.0	291.1	182.8	164.6	243.8
Depreciation	62.7	119.6	109.0	86.7	86.7	95.3
Change in Working Capital	396.0	662.6	626.9	65.0	(121.7)	(271.9)
Less: Other income	40.8	62.5	97.6	97.6	98.7	112.9
Direct taxes paid	45.2	76.0	108.4	54.0	55.9	82.9
Cash Flow from Operations	(233.8)	(444.5)	(432.8)	52.9	218.3	415.3
(Inc.)/ Dec. in Fixed Assets	(482.3)	(15.1)	(295.0)	(150.0)	(150.0)	(175.0)
(Inc.)/ Dec. in Investments	(1.8)	(51.0)	21.0	(411.4)	(200.0)	(150.0)
Other income	40.8	62.5	97.6	97.6	98.7	112.9
Cash Flow from Investing	(443.3)	(3.6)	(176.4)	(463.8)	(251.3)	(212.1)
Issue of Equity	-	-	344.3	-	-	-
Inc./ (Dec.) in loans	703.0	535.7	391.2	338.3	104.6	(157.7)
Dividend Paid (Incl. Tax)	8.1	5.9	22.8	17.8	19.6	20.5
Others	165.0	(75.0)	(165.8)	(10.9)	-	-
Cash Flow from Financing	860.0	454.7	546.9	309.7	85.1	(178.2)
Inc./ (Dec.) in Cash	182.9	6.7	(62.3)	(101.3)	52.1	25.0
Opening Cash balances	105.1	288.1	294.8	232.5	131.2	183.3
Closing Cash balances	288.1	294.8	232.5	131.2	183.3	208.2

Key ratios

Y/E March	FY2008	FY2009	FY2010	FY2011	FY2012E	FY2013E
Valuation Ratio (x)						
P/E (on FDEPS)	19.2	20.9	14.7	22.6	26.8	18.1
P/CEPS	13.6	11.3	9.5	13.5	14.9	11.4
P/BV	3.4	2.9	2.1	2.0	1.9	1.7
Dividend yield (%)	0.4	0.4	0.5	0.5	0.6	0.6
EV/Sales	2.1	1.8	1.5	1.5	1.6	1.4
EV/EBITDA	12.8	11.2	9.5	12.4	12.8	10.9
EV / Total Assets	1.8	1.6	1.3	1.3	1.3	1.2
Order Book to Sales	3.1	2.9	3.1	2.6	3.0	3.8
Per Share Data (₹)						
EPS (Basic)	30.5	30.2	30.2	18.4	15.5	23.0
EPS (fully diluted)	21.7	19.9	28.4	18.4	15.5	23.0
Cash EPS	30.6	37.0	44.0	30.8	28.0	36.7
DPS	1.5	1.7	2.0	2.2	2.4	2.5
Book Value	121.1	145.6	195.0	209.4	222.1	242.2
DuPont Analysis						
EBIT margin	12.7	11.0	12.5	9.6	10.0	10.4
Tax retention ratio	0.9	0.8	0.7	0.7	0.7	0.7
Asset turnover (x)	1.3	1.1	1.1	1.0	0.8	0.9
ROIC (Post-tax)	14.4	10.2	9.5	6.7	5.6	6.3
Cost of Debt (Post Tax)	6.4	7.6	6.9	7.5	6.8	6.2
Leverage (x)	0.8	1.3	1.4	1.5	1.6	1.4
Operating ROE	21.1	13.5	13.2	5.6	3.7	6.4
Returns (%)						
ROACE (Pre-tax)	14.2	11.0	12.5	8.9	8.0	8.9
Angel ROIC (Pre-tax)	16.2	12.5	13.7	9.3	8.3	9.3
ROAE	19.5	14.9	16.7	9.1	7.2	9.9
Turnover ratios (x)						
Asset Turnover (Gross Block)	3.8	3.5	3.8	3.8	3.2	3.2
Inventory / Sales (days)	125	144	167	193	211	183
Receivables (days)	75	77	73	76	92	94
Payables (days)	100	99	95	112	144	157
WC cycle (ex-cash) (days)	175.5	220.9	250.8	264.7	280.0	235.4
Solvency ratios (x)						
Net debt to equity	1.1	1.4	1.4	1.6	1.5	1.3
Net debt to EBITDA	3.0	3.7	3.7	5.5	5.8	4.7
Interest Coverage	3.9	2.0	2.1	1.4	1.3	1.6

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Disclosure of Interest Statement

	Patel Engg.
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors.

Ratings (Returns):	Buy (> 15%)	Accumulate (5% to 15%)	Neutral (-5 to 5%)
	Reduce (-5% to 15%)	Sell (< -15%)	