Pratibha Industries Ltd. (PIL)

January 17, 2012 | **HOLD** | **MEDIUM RISK** | **PRICE Rs.42** | **TARGET Rs.48**

INFRASTRUCTURE

EARLIER RECO

Buy	
Price	Rs.35*
Target	Rs.48
Date	Jan 06, 2012

*Short Note

SHARE HOLDING (%)

Promoters	52.3
FII	21.9
FI / MF	5.5
Body Corporate	7.0
Public & Others	13.3

STOCK DATA

Reuters Code	**PRTI.BO**
Bloomberg Code	**PRIL IN**
BSE Code	**532718**
NSE Symbol	**PRATIBHA**
Market Capitalization*	**Rs. 4,244.1 mn** **US$ 83.2mn**
Shares Outstanding*	**99.4mn**
52 Weeks (H/L)	**Rs.74 /28**
Avg. Daily Volume (6m)	**41,136 Shares**

Price Performance (%)

1M	3M	6M
41	(5)	(27)

200 Days EMA: Rs.47

***On fully diluted equity shares**

ANALYST
Shreyas Bhukhanwala | +91 22 4093 5096
shreyas.bhukhanwala@sushilfinance.com

SALES
Devang Shah | +91 22 4093 6060/61
devang.shah@sushilfinance.com

STRENGTH: Revenue Visibility with Robust Order Book, Strong execution skills, Superior Margins, Healthy Return Ratios **WEAKNESS:** Geographical Concentration **OPPORTUNITIES:** Entering into Lucrative Water and Urban Infrastructure segments **THREAT:** Delay in Govt. Spending, Elevated Interest Rates, Shortage of Skilled Labor and delay in execution.

Healthy order-book position provides strong growth visibility

Pratibha Industries Ltd. (PIL) has a healthy order-book position of ~Rs.65 bn (excl. L1 orders worth Rs.5 bn), which is ~5.1x FY11 revenues, thus providing strong revenue growth visibility over the next few years. Despite muted order inflow in the industry in FY12, PIL has been successful in bagging contracts worth ~Rs.33 bn in FY12 (~90% of FY11 O/B) which is highest ever in the history of the Company. Order-book has grown at a CAGR of ~34% over the last 4 years from merelyRs.20 bn in FY08 to ~Rs.65 bn in FY12, thus representing the credibility of the management to constantly secure fresh orders.

Well-diversified Business Model

The Company over a period of time has well-diversified across sectors such as water infrastructure, civil construction, tunnel, roads etc. This diversification across verticals will not only help PIL to tap opportunities in different segments, but would also help the Company in reducing risk of slowdown in any particular segment. Also after strong foothold in Maharashtra, the Company has gradually diversified in various other states like Delhi, Bihar, Rajasthan, Karnataka, UP etc, thus mitigating the regional risk.

Higher Margins likely to Sustain in Future

Better business mix, lower sub-contracting of work coupled with existence of price escalation clause will enable the Company to maintain higher margins in future. Of the total order-book position, ~63% is from Infrastructure segment, having comparatively higher EBITDA margin of ~14-15%. Also strong order-backlog would enable the company to shun away from irrational bidding, thus avoiding low-margin orders. However, on conservative basis, we have assumed marginal decline in net margins from FY12 onwards.

New Ventures to open huge opportunities in future

With leveraging its expertise, the company historically has been foraying into newer areas, thus opening new avenues. Recently the Company entered into areas like Metro Rail & Micro-tunneling & has bagged contracts worth Rs.16 bn from these segments. Foray into such niche segments would not only enable the Company to widen its reach but would also provide first-mover advantage which in turn could open huge opportunities for the Company in future.

OUTLOOK & VALUATION

PIL is one of the leading players in the Infrastructure segment. Healthy order-book position of ~Rs.65 bn (~5.1 x FY11 revenue) coupled with strong execution capabilities provides strong revenue visibility for next few years. Also diversification across verticals & geographies would not only provide huge opportunities but would also act as cushion against slowdown in any particular segment. At the CMP of Rs.42, the stock is quoting at 5.3x and 4.7x its FY12E & FY13E EPS of Rs.7.9 and Rs.8.9 respectively. Hence considering, healthy order-book position, its ability to win orders in such challenging economic environment coupled with its well diversified business model, we recommend 'HOLD' on the stock with a price target of Rs.48.

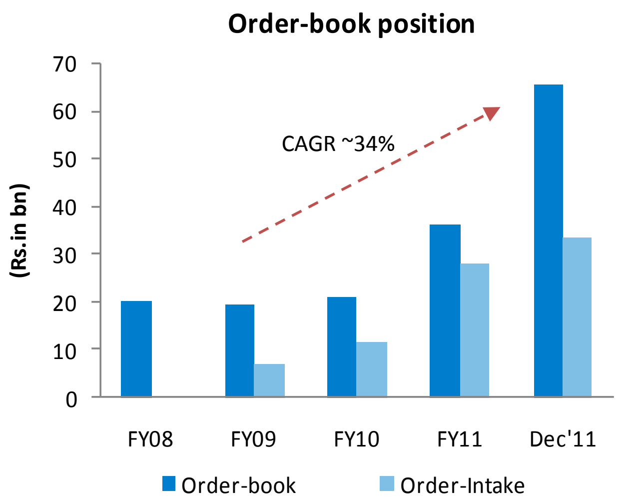
KEY FINANCIALS

Y/E Mar.	Revenue (Rsmn)	APAT (Rsmn)	AEPS (Rs)	AEPS (% Ch.)	P/E (x)	ROCE (%)	ROE (%)	P/BV (x)
FY11	12681.0	714.5	7.2	6.1	5.8	19.0	19.2	0.9
FY12E	**15118.4**	**794.8**	**7.9**	**9.4**	**5.3**	**16.3**	**15.6**	**0.8**
FY13E	**18469.8**	**901.1**	**8.9**	**13.4**	**4.7**	**15.6**	**15.2**	**0.7**

Sushil Financial Services Private Limited
Regd. Office : 12, Homji Street, Fort, Mumbai 400 001.
Member : BSEL, SEBI Regn.No. INB/F010982338 | NSEIL, SEBI Regn.No.INB/F230607435.
Phone: +91 22 40936000 Fax: +91 22 22665758 Email : info@sushilfinance.com

INVESTMENT ARGUMENTS

Healthy order-book position provides strong growth visibility



Source: Company

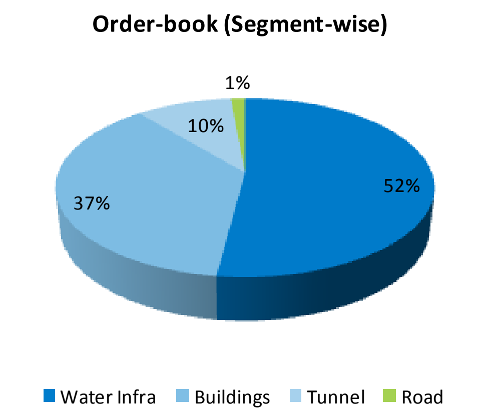
Pratibha Industries Ltd. (PIL) has a healthy order-book position of ~Rs.65 bn (excl. L1 orders worth Rs.5 bn), which is ~5.1x FY11 revenue, thus providing strong revenue growth visibility over the next few years. Order-book has grown at a CAGR of ~34% over the last 4 years from merely Rs. 20 bn in FY08 to ~Rs.65 bn in FY12, thus representing the credibility of the management to constantly secure fresh orders. Moreover, despite muted order inflow in industry in FY12, PIL has been successful in bagging contracts worth ~Rs.33 bn in FY12 (~90% of FY11 O/B) which is highest ever in the history of the Company.

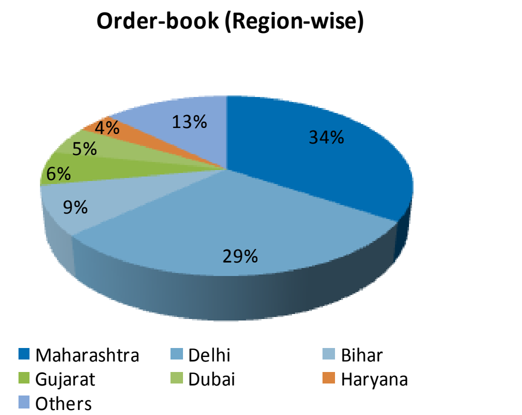
The following are the details of few key projects bagged by the Company in FY12:

Projects	Segment	Order Value (Rs.in bn)
Design & Construction of Interceptor Sewers along main drains – Yamuna – DJB	Water	12.5
Construction of Tunnels/Stations – MRTS Delhi	Urban Infra	4.7
Laying of cross-country pipeline – Gujarat Water Infra Ltd.	Water	4.0
Const. of residential building at Mulund – Runwal Homes Pvt Ltd.	Buildings	3.6
Const. of 58 buildings at Dombivli – Lodha Group	Buildings	1.8
Residential buildings at Juhu – Rustomjee Realty Pvt.Ltd.	Buildings	1.5
Construction of 23 buildings at Kalyan – Tata Housing Development Co.Ltd.	Buildings	1.4

Source: Company

Major portion of the order-book is attributed towards water infra and civil construction, which accounts for ~52% and 37% respectively, while the remaining comes from tunnel & road segments. Also amongst the orders won in FY12, ~56% is from water segment while 30% was from building segment, thus implying traction in key growth segments.

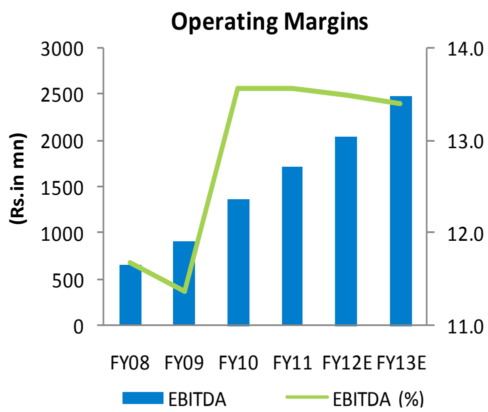


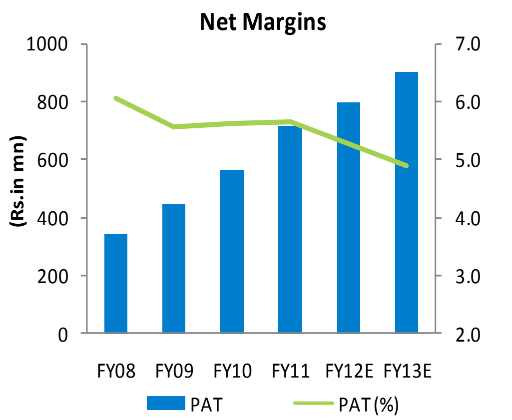


Source: Company

After strong foothold in Maharashtra, the Company has gradually diversified in various other states like Delhi, Bihar, Gujarat, Rajasthan, Karnataka, UP etc, thus mitigating the regional risk. This diversification across verticals & geographies will not only help PIL to tap opportunities in different segments, but would also help the Company in reducing risk of slowdown in any particular segment.

Higher Margins likely to Sustain in Future





Source: Company

Better business mix, lower sub-contracting of work coupled with existence of price escalation clause will enable the Company to maintain higher margins in future. Of the total order-book position, ~63% is from Infrastructure segment, having comparatively higher EBITDA margin of ~14-15%. Also ~90% of the contracts have in-built price escalation clause, which is linked to WPI Index, which in turn would partly mitigate the risk of adverse fluctuations in commodity prices. Moreover strong order-backlog would enable the company to shun away from irrational bidding, thus avoiding low-margin orders.

Over the last few years, Operating margins have improved from ~12% to 13.5% while Net margins have remained stable at 5.5%. However, considering the high interest rate scenario, we have assumed marginal decline in net margins from FY12 onwards.

New Ventures to open huge opportunities in future

While leveraging its expertise, the company historically has been foraying into newer areas, thus opening new avenues. Recently the Company has entered into areas like Metro Rail & Micro-tunneling. The following is the brief description of the contracts bagged by the Company:

1. **Construction of Interceptor Sewers – Delhi Jal Board – Rs.12.5 bn**
   Scope of the order includes design & construction of interceptor sewers covering 3 major drains (i.e. Najafgarh, Supplementary & Shahadra) in Delhi for the abatement of pollution in Yamuna River. The project work entails micro-tunneling, civil & structural work and would also include complete design & installation of the interceptor sewers, interceptor chambers & sewerage pumping stations. The project is scheduled to be completed in 3 years & also includes an O&M spanning over 11 years. This initiative is first-of-its-kind to be undertaken in India & if successful can have a total outlay of Rs.300-400 bn by the government which could be huge opportunities for players like PIL.

2. **Design and Construction of Tunnel & Stations – DMRC – Rs.4.7 bn**
   Scope of work includes design, engineering & construction of 2 sections of underground twin tunnels for the Metro phase 3 project of Delhi Metro Rail Corp. (DMRC). One section is from Janpath to Mandi House & the second section is from Janpath to Central Secretariat, including the construction of one station at Janpath & extension of a station at Mandi House. The project is scheduled to be completed in 36 months.

Foray into such niche segments would not only enable the Company to widen its reach but would also provide first-mover advantage which in turn could open huge opportunities for the Company in future.

BOT projects to enhance value

PIL has two BOT projects under its kitty i.e. Bhopal-Sanchi Road BOT project & DMRC's Multi-level car parking project. Intense competition coupled with lack of experience has kept PIL away from Road BOT projects. Going ahead, management is likely to focus on its core competencies & would remain cautious while bidding for Road BOT projects.
The following are the few details of BOT projects which are bagged by the Company in last 2 years.

Particulars (Rs.in mn)	Bhopal-Sanchi Road BOT Project	DMRC (Multi-level Car Parking Project)
Revenue	Annuity	Leasing of commercial space & Parking Fees
Authority	NHAI	DMRC
Length (in kms)	54	----
Equity Stake (%)	51	100
Project Cost	1450	1644
D:E	85:15	80:20
Avg. Cost of Debt (%)	12.5	13.5
Concession Period	15 Yrs	30 Yrs
Construction Period	24 months	18 months
EPC	----	100%
Revenues (Commencement)	FY14	FY13
Expected Revenues	130	350

Source: Company

Apart from Road BOT project, the Company has also secured Multi-level Car Parking project in 2010 wherein it has constructed four levels of car parking and two levels of commercial space above New Delhi Railway Station cum Airport Terminal of Airport Express Line. It has a concession period of 30 years & construction cost of ~Rs.1.6 bn. The Company would receive revenues through lease rentals of commercial property & car-parking charges.

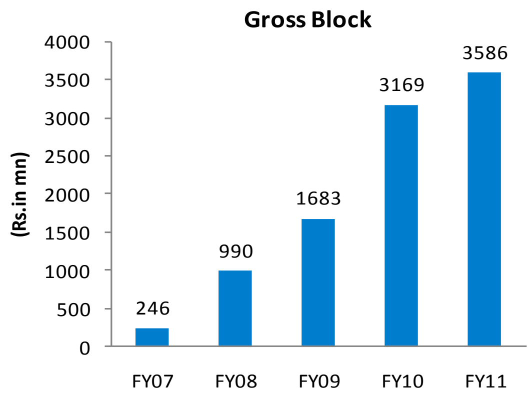
The total commercial space is ~0.2 mn sq.ft. which management expects to lease out by FY13 at an expected lease rentals of ~Rs.150-170/sq.ft./month. Also it would get revenue sharing from Car parking project which has the total car parking capacity of ~1000 cars/day. However we have not factored in any contribution from these projects in our earnings estimates.

Strong Clientele base

Superior quality, cost effectiveness coupled with timely execution of projects has led to strong relationship with the existing clients, thus enabling the Company to get repeat orders from them. The Company caters to both, government and private sector and has set high standards in meeting the special needs and demands of every project. Also of the total order-book position, ~80% comes from government and hence, the risk of cancellation of orders is highly mitigated. The following are few of the important clients of PIL.

	Clients
Government	MCGM, Delhi Jal Board, AAI, Pune Municipal Corp, Gujarat Water Infrastructure Ltd, MMRDA etc.
Private	Rustomjee Realty, Tata Houing Development Ltd., Raymond, Nirmal life-style, Runwal Homes Ltd, Lodha Group etc.

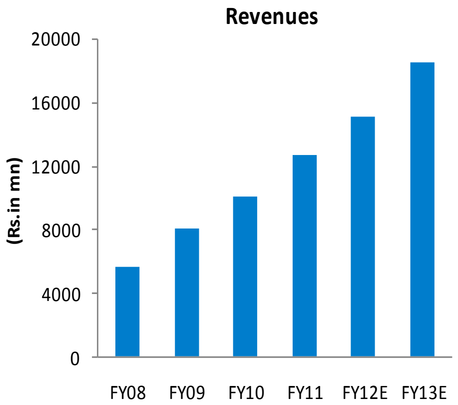
PIL set to capitalize on back of huge Gross-block additions in past 4 years

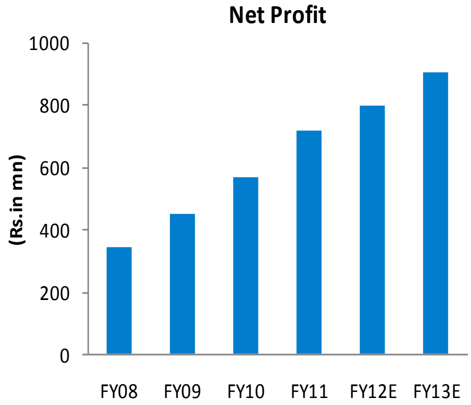


Source: Company

The Gross block of the company has increased at a CAGR of ~95% over the last 4 years from merely Rs.246 mn in FY07 to ~Rs.3586 mn in FY11, thus strengthening its fleet size which not only enables the Company to be cost effective but also helps in timely completion of its projects. Also going ahead, with foray into new segments like micro-tunneling & metro-rail, the Company is likely to incur capex of ~Rs.2 bn by FY13. With huge gross block additions over the past, the Company is now all set to capitalize on the huge opportunities without any major capex in next 2-3 years.

Revenues & PAT to grow at a CAGR of ~21% & 12% over FY11-13E

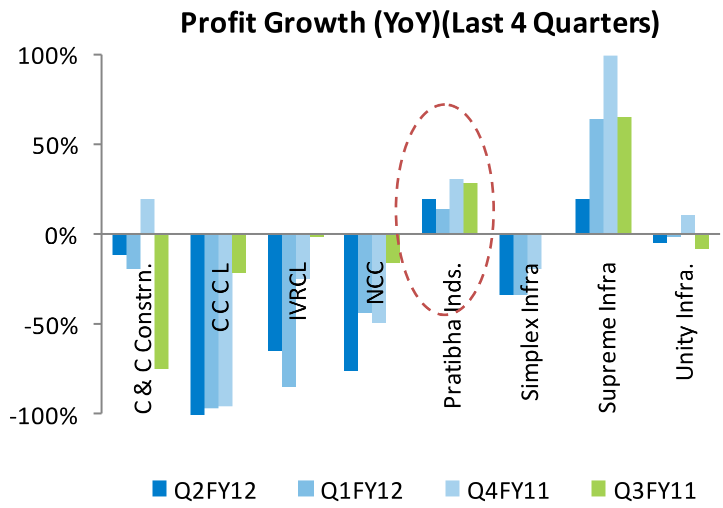




Source: Company, Sushil Finance Research Estimates

Over the last 3 years, Revenues & PAT have witnessed an impressive growth of ~31% & 28% respectively. Despite of slowdown witnessed in 2008-09, the Company grew remarkably by ~70% & ~31% in FY08 and FY09. However going ahead we expect the Revenues & PAT to grow at a CAGR of ~21% & 12% over FY11-13E.

Lower order-inflows, execution delays, policy logjams coupled with high interest rates have been the major concerns for the infrastructure companies over the last 1 year which in turn has resulted into lower growth visibility over the next 1-2 years. The below diagram depicts the quarterly net profit growth (yoy) of various companies over the last 4 quarters, wherein PIL is one of the companies to report the growth over the last 4 quarters.



Source: Capitaline

RISKS and CONCERNS

Pipe Division – 'a drag'

PIL has HSAW pipe division in Wada in Maharashtra with a total capacity of ~90,000 MTPA which was constructed in order to cater to in-house & external demand. However due to excess capacity across the country coupled with softening demand for its product, the operation of this division has become unviable. Hence management is evaluating various options for exiting the business.

Adverse fluctuations in commodity prices

Steel and Cement are the major raw materials which are required by the construction companies. Hence any sharp spike in the commodity prices could impact the margins of the company.

Highly Concentrated Order-book Position

Maharashtra & Delhi accounts for ~63% of the total order-book position. Hence any slowdown in this region could adversely impact the order-inflows of the Company. However the Company has now started venturing into newer geographies which in turn would mitigate this risk.

Increase in Interest rates

Increasing working capital requirement on back of new order wins is likely to increase its debt over the next few years. Hence any increase in interest rates could negatively impact the earnings of the company.

PEER COMPARISON

Company	Price	P/E	P/BV	OPM (%)	NPM (%)	ROE
Pratibha Industries	42	4.7	0.7	13.4	4.9	15.2%
IVRCL	40	7.7	0.5	9.0	2.1	6.5%
NCC	45	8.8	0.5	9.6	2.2	5.1%
Simplex Infra	210	7.8	0.8	9.6	2.2	11.0%
CCCL	14	7.4	0.4	5.8	1.4	6.4%
Supreme Infra	200	3.6	0.7	15.7	5.9	23.1%
Unity Infra	41	2.7	0.4	13.1	4.8	14.3%
Average		**6.3**	**0.5**	**10.5**	**3.1**	**11.1%**

Source: Bloomberg, Sushil Finance Research Estimates (Based on FY13E earnings)

OUTLOOK & VALUATION

PIL is one of the leading players in the Infrastructure segment. Healthy order-book position of ~Rs.65 bn (~5.1 x FY11 revenue) coupled with strong execution capabilities provides strong revenue visibility for next few years. Also diversification across verticals & geographies would not only provide huge opportunities but would also act as cushion against slowdown in any particular segment. At the CMP of Rs.42, the stock is quoting at 5.3x and 4.7x its FY12E & FY13E EPS of Rs.7.9 and Rs.8.9 respectively. Hence considering, healthy order-book position, its ability to win orders in such challenging economic environment coupled with its well diversified business model, we recommend 'HOLD' on the stock with a price target of Rs.48.

PROFIT & LOSS STATEMENT (Consol.)

(Rs.mn)

Y/E Mar	FY10	FY11	FY12E	FY13E
Net Sales	**10071.6**	**12681.0**	**15118.4**	**18469.8**
Raw Material Cost	4304.8	6006.0	7196.4	8828.6
Construction Cost	2892.1	3093.4	3658.7	4423.5
Personnel Cost	538.5	684.7	854.2	1089.7
SG&A Cost	969.7	1176.4	1368.2	1653.0
EBITDA	**1366.6**	**1720.6**	**2041.0**	**2475.0**
Depreciation	140.4	170.2	210.0	255.0
Interest	522.3	641.2	832.0	1053.5
Other Income	62.7	58.9	75.0	85.0
PBT	**766.6**	**968.0**	**1074.0**	**1251.5**
Tax	201.2	253.5	279.2	350.4
RPAT	**565.4**	**714.5**	**794.8**	**901.1**

BALANCE SHEET STATEMENT (Consol.)

(Rs.mn)

As on 31st Mar.	FY10	FY11	FY12E	FY13E
Equity Share Capital	166.9	198.8	202.1	202.1
Reserves	2586.9	4485.8	5332.7	6139.3
Net worth	**2753.8**	**4684.6**	**5534.8**	**6341.4**
Total Debt	4347.9	4388.4	7689.1	8889.1
Deferred tax liability	131.1	184.0	194.7	219.8
Capital Employed	**7232.8**	**9407.0**	**13418.7**	**15450.3**
Net block	2890.6	3158.4	5898.4	7383.4
CWIP	113.6	544.8	540.0	300.0
Investments	51.4	1.4	1.4	1.4
Sundry debtors	1943.9	1895.3	2402.4	3036.1
Inventories	3236.7	3792.0	4282.5	5373.4
Cash and bank	658.1	1281.5	1435.7	1016.2
Loans and advances	2022.8	3418.3	4142.0	4706.0
Current liabilities	4103.1	5467.6	6183.4	7400.9
Net Current assets	4176.3	5701.8	6978.9	7765.4
Total Assets	**7232.8**	**9407.0**	**13418.7**	**15450.3**

FINANCIAL RATIO STATEMENT

Y/E Mar.	FY10	FY11	FY12E	FY13E
Growth (%)				
Total Sales	25.0	25.9	19.2	22.2
EBITDA	49.1	25.9	18.6	21.3
APAT	26.4	26.4	11.2	13.4
Profitability (%)				
EBITDA Margin	13.6	13.6	13.5	13.4
Net Profit Margin	5.6	5.6	5.3	4.9
ROCE	20.7	19.0	16.3	15.6
ROE	22.6	19.2	15.6	15.2
Per Share Data (Rs.)				
AEPS	6.8	7.2	7.9	8.9
CEPS	9.3	9.4	10.0	11.7
BVPS	33.0	47.1	54.8	62.8
Valuation				
PER (x)	6.2	5.8	5.3	4.7
PEG (x)	0.0	1.0	0.6	0.4
P/BV (x)	1.3	0.9	0.8	0.7
EV/EBITDA (x)	5.7	5.1	5.8	5.3
EV/Net Sales (x)	0.8	0.7	0.8	0.7
Turnover				
Debtor Days	61	55	58	60
Creditor Days	92	83	86	88
Gearing Ratio				
D/E	1.6	0.9	1.4	1.4

CASH FLOW STATEMENT

(Rs.mn)

Y/E Mar.	FY10	FY11	FY12E	FY13E
Profit before tax & Extraordinary Items	766.6	968.0	1074.0	1251.5
Depreciation	139.0	148.8	210.0	255.0
Chg. in W/Cap.	(1598.8)	(902.1)	(1122.9)	(1206.1)
CF from Operating	**(825.6)**	**14.4**	**(106.7)**	**(25.0)**
Chg. in Fixed Assets	(1485.8)	(416.6)	(2950.0)	(1740.0)
Chg. in Investments	(50.5)	50.0	0.0	0.0
CF from Investing	**(1042.4)**	**(797.8)**	**(2945.2)**	**(1500.0)**
Chg. in Debt	1863.4	40.5	3300.7	1200.0
Chg. in Share Capital	0.0	31.9	3.3	0.0
Dividend	(58.5)	(90.9)	(94.5)	(94.5)
CF from Financing	**1804.6**	**1406.8**	**3206.2**	**1105.5**
Cash at the End of the Year	**658.1**	**1281.5**	**1435.7**	**1016.2**

Source: Company, Sushil Finance Research Estimates

Rating Scale

This is a guide to the rating system used by our Institutional Research Team. Our rating system comprises of six rating categories, with a corresponding risk rating.

Risk Rating

Risk Description	Predictability of Earnings / Dividends; Price Volatility
Low Risk	**High predictability / Low volatility**
Medium Risk	**Moderate predictability / volatility**
High Risk	**Low predictability / High volatility**

Total Expected Return Matrix

Rating	Low Risk	Medium Risk	High Risk
Buy	**Over 15 %**	**Over 20%**	**Over 25%**
Accumulate	**10 % to 15 %**	**15% to 20%**	**20% to 25%**
Hold	**0% to 10 %**	**0% to 15%**	**0% to 20%**
Sell	Negative Returns	Negative Returns	Negative Returns
Neutral	Not Applicable	Not Applicable	Not Applicable
Not Rated	Not Applicable	Not Applicable	Not Applicable

Please Note

- Recommendations with “Neutral” Rating imply reversal of our earlier opinion (i.e. Book Profits / Losses).
- ** Indicates that the stock is illiquid With a view to combat the higher acquisition cost for illiquid stocks, we have enhanced our return criteria for such stocks by five percentage points.
- **Stock Review Reports:** These are Soft coverage’s on companies where Management access is difficult or Market capitalization is below Rs. 2000 mn. Views and recommendation on such companies may not necessarily be based on management meeting but may be based on the publicly available information and/or attending Company AGMs. Hence Stock Reviews may be just one-time coverage’s with an occasional Update, wherever possible.