

2 November 2010

Pratibha Industries

*Strong orderbook; execution to pick up in 2HFY11; Buy*Rating: **Buy**

Target Price: ₹108

Share Price: ₹78

- **2QFY11.** Pratibha's revenue, EBITDA and profit grew 24%, 37% and 28% yoy respectively. The strong orderbook, execution pick-up (in 2HFY11) and better-than-industry OPM augurs well. Buy.
- **Order book at 3.9x FY10 revenue.** The ₹36bn order book is 3.9x FY10 revenue. The company is also L1 for projects worth ₹9bn. An average execution period of two and a half years offers strong revenue visibility over FY11-12. The construction division revenue grew 27% yoy. The pipes division revenue declined 33% yoy due to less demand from outside projects.
- **Operating performance.** Pratibha's high-margin water and urban infra segments gave it a good 15.1% OPM (up 140bp yoy and 200bp qoq). For FY11-12, the company targets OPM of 15%; our estimate is based on 14%. The EPC division's PBIT margin was 14.3% (up 140bp yoy); that of the pipes division was 10.3% (down 560bp yoy).
- **Equity issue; change in estimates.** We have revised our estimates to factor in the 1HFY11 performance and lower interest (recent equity issue; ₹1.5bn at ₹85/share). We have raised FY11/12 profit estimates 5%/7% and, post-dilution, cut EPS estimates 13%/12%.
- **Valuation.** Our new target of ₹108 (earlier ₹110) is based on 9x (earlier 8x) FY12e earnings, a 25% discount to the target multiple of mid-cap construction companies. We believe a lower discount is justified, given the de-leveraged balance sheet post-QIP, industry-leading return ratios (even after dilution) and ability to bag big ticket orders with the increased net worth.

Key data	PRIL IN/PRTI.BO
52-week high/low	₹90/₹37
Sensex/Nifty	20324/6119
3-m average volume	US\$1.7m
Market cap	₹7.8bn/US\$173m
Shares outstanding	101.0m
Free float	48.8%
Promoters	51.2%
Foreign Institutions	21.6%
Domestic Institutions	11.0%
Public	16.2%

Quarterly results

Year-end 31 Mar	2Q10	2Q11	% yoy	1HFY10	1HFY11	% yoy
Sales (₹m)	1,976	2,457	24.4	4,399	5,522	25.5
EBITDA (₹m)	271	371	36.9	573	772	34.7
EBITDA margin (%)	13.7	15.1	139bp	13.0	14.0	95bp
Interest (₹m)	93	144	54.5	185	294	58.6
Depreciation (₹m)	30	36	18.8	50	70	39.9
Other income(₹m)	-	-	NA	0	1	234.1
PBT (₹m)	147	191	29.6	338	409	21.0
Tax (₹m)	41.0	54.9	33.9	92.4	110.9	20.0
Tax rate (%)	27.8	28.7	93bp	27.3	27.1	(21)bp
PAT (₹m)	106	136	27.9	246	299	21.3

Source: Company, Anand Rathi Research

Financials

Year-end 31 Mar	FY11e	FY12e
Sales (₹m)	14,783	19,416
Net profit (₹m)	879	1,211
EPS (₹)	8.7	12.0
Growth (%)	55.6	37.7
PE core (x)	9.0	6.5
PBV (x)	1.6	1.3
RoE (%)	22.6	21.7
RoCE (%)	23.0	22.8
Dividend yield (%)	1.1	1.4
Net gearing (%)	80.2	72.8

Source: Anand Rathi Research

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹m)

Year end 31 Mar	FY08	FY09	FY10	FY11e	FY12e
Net sales	4,759	7,544	9,349	14,783	19,416
Sales growth (%)	161.2	58.5	23.9	58.1	31.3
- Op. expenses	4,160	6,651	7,983	12,715	16,689
EBIDTA	599	893	1,366	2,068	2,727
EBITDA margins (%)	12.6	11.8	14.6	14.0	14.0
- Interest	202	318	493	623	773
- Depreciation	35	59	109	135	150
+ Other income	37	34	0	2	2
- Tax	57	103	199	433	596
PAT	343	447	565	879	1,211
PAT growth (%)	67.7	30.6	26.3	55.6	37.7
Consolidated PAT	343	447	565	879	1,211
FDEPS (₹/share)	4.1	5.4	6.8	8.7	12.0
CEPS (₹/share)	4.7	6.6	8.9	10.9	14.5
DPS (₹/share)	0.4	0.4	0.6	0.8	1.1

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹m)

Year end 31 Mar	FY08	FY09	FY10	FY11e	FY12e
Share capital	167	167	167	202	202
Reserves & surplus	1,690	2,142	2,718	5,065	6,246
Shareholders' fund	1,857	2,309	2,885	5,267	6,448
Debt	1,318	2,354	4,230	4,449	6,429
Minority interests	-	-	-	-	-
Capital employed	3,175	4,663	7,115	9,716	12,877
Fixed assets	1,224	1,946	2,802	2,967	3,117
Investments	1,035	148	136	528	528
Working capital	885	2,528	4,101	5,862	7,308
Cash	32	40	76	359	1,923
Capital deployed	3,175	4,663	7,115	9,716	12,877
No. of shares (m)	16.7	16.7	16.7	20.2	20.2
Net Debt/Equity (%)	0.2	1.0	1.5	0.8	0.7
W C turn (days) #	97	83	129	123	124

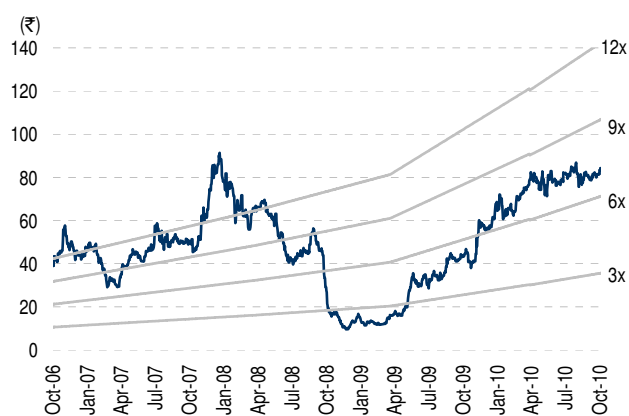
Source: Company, Anand Rathi Research

Fig 3 – Cash flow statement (₹m)

Year end 31 Mar	FY08	FY09	FY10	FY11e	FY12e
PAT	343	447	565	879	1,211
+ Depreciation	35	59	109	135	150
+Deferred tax	13	44	69	100	100
Cash profit	391	550	743	1,114	1,461
-Inc/(Dec) in WC	(766)	1,643	1,573	1,761	1,446
Operating cash flow	1,157	(1,093)	(829)	(647)	15
-Capex	766	782	965	300	300
Free cash flow	391	(1,875)	(1,794)	(947)	(285)
-Dividend	39	39	59	97	130
+Equity raised	607	-	-	1,500	-
+Debt raised	(10)	1,036	1,876	219	1,980
-Investments	916	(887)	(12)	392	-
-Miscellaneous items	20	0	0	-	-
Net cash flow	13	9	36	283	1,565
+Opening cash	19	32	40	76	359
Closing cash	32	40	76	359	1,923

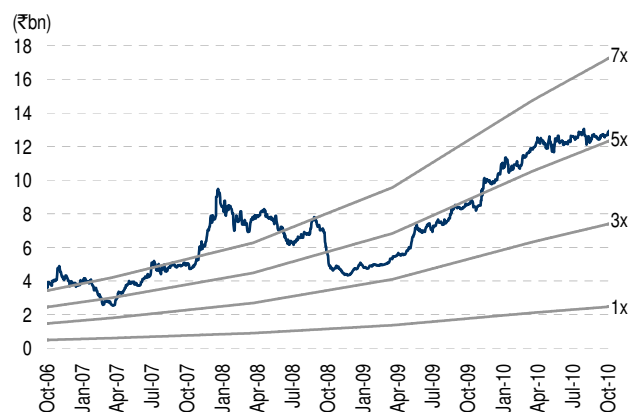
Source: Company, Anand Rathi Research

Fig 4 – PE Band



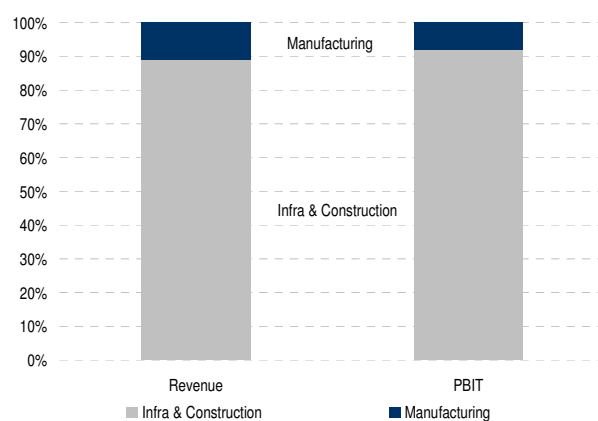
Source: Anand Rathi Research

Fig 5 – EV/EBITDA Band



Source: Anand Rathi Research

Fig 6 – Revenue and PBIT Break up – 2QFY11



Source: Anand Rathi Research

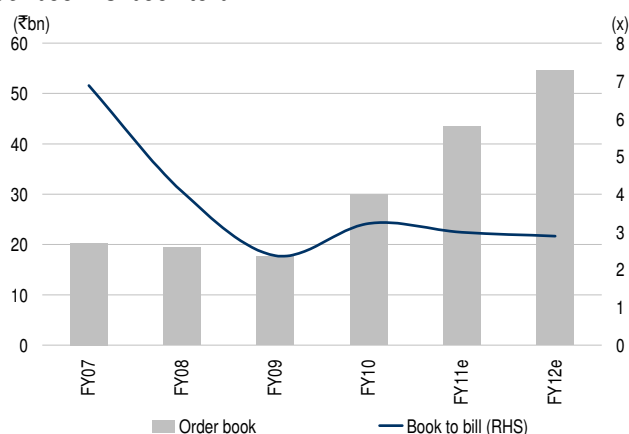
2QFY11: Results Review

Pratibha's revenue, EBITDA and profits grew 24%, 37% and 28% yoy respectively. Lower-than-expected revenue growth was partly offset by higher margins. The strong order book, pick-up in execution (in 2HFY11) and better-than-industry OPM augurs well for the company.

Order-book position

Pratibha's current order book stands at ₹36bn, which is 3.9x FY10 revenue. Water projects make up 60% of the order book, 40% comes from the urban infra division. The company is also L1 for EPC projects worth ₹9bn. It plans to make a foray into the water segment in the Middle East and has L1 orders of ~₹6bn in this space. An average execution period of two and a half years offers good revenue visibility over FY11-12.

Fig 7 – Order book vs. book-to-bill



Source: Company, Anand Rathi Research

Pratibha's all-India scale, high-margin water and urban infra segments gave it a good 15.1% OPM (up 140bp yoy and 200bp qoq). For FY11-12, the company targets an OPM of around 15%; our estimates are based on 14%. PBIT margin of the construction division was 14.3% (up 140bp yoy) and that of the SAW pipes division was 10.3% (down 560bp yoy).

BOT Projects. Pratibha has three BOT projects, concession agreements for which have been signed. The first phase of its DMRC car-park project is likely to be commissioned in Sep '11 and the Bhopal-Sanchi road project will commence by Jan '12. The Baramati toll-way project has already begun operating this month and the company expects to collect ₹0.15m a day. Of the total equity outlay of ~₹540m, Pratibha has so far invested ₹220m as equity towards its three BOT projects.

QIP and Preferential Issue. Pratibha raised equity capital through a QIP of ₹1bn, at ₹82 a share. Also, it allotted to Chrys Capital compulsory convertible participatory preferential shares (CCPPS) of ₹0.5bn at ₹92 each, thereby raising equity of ₹1.5bn. The funds would be utilised for the working capital required for its EPC business and for capex for FY11-12.

2QFY11: Segment-wise performance

Fig 8 – Segment-wise performance

	2QFY10	2QFY11	% yoy	1QFY11	% qoq	FY10	FY11e	FY12e
Segment Revenue								
- Infra and Construction	1,743	2,217	27.2%	2,919	-24.1%	8,240	14,531	18,890
- Manufacturing	411	275	-33.0%	214	28.5%	1,827	1,543	2,204
- Unallocated	-	-	-	1.0	-100.0%	0.7	-	-
Gross Sales	2,154	2,492	15.7%	3,134	-20.5%	10,068	16,074	21,094
Less: Inter-segment	178	34	-80.6%	69	-49.8%	719	1,291	1,678
Net Sales	1,976	2,457	24.4%	3,066	-19.9%	9,350	14,783	19,416
Segment PBIT								
- Infra and Construction	224	316	40.9%	349	-9.4%	1,074	1,787	2,352
% of Revenue	12.9%	14.3%		12.0%		13.0%	12.3%	12.5%
- Manufacturing	19	28	46.2%	27	5.0%	201	158	238
% of Revenue	4.7%	10.3%		12.6%		11.0%	10.2%	10.8%
- Unallocated	-	-	0.0%	1.0	-100.0%	0.0	-	-
% of Revenue	NA	NA		100.0%		0.3%	NA	NA
Total	244	345	41.3%	377	-8.6%	1,275	1,945	2,589
less: Interest	93	144	54.5%	150	-4.1%	493	623	773
Less: Other Unalloc. Exp.	3	10	203.6%	8	12.9%	18	10	10
PBT	147	191	29.6%	218	-12.6%	764	1,312	1,807

Source: Company, Anand Rathi Research

Change in Estimates and Valuation

We have revised our estimates to factor in the 1HFY11 performance and lower interest (recent equity issue; ₹1.5bn at an average of ₹85/share). We have raised FY11/12 profit estimates 5%/7% and, post-dilution, cut EPS estimates 13%/12%. Also, we have lowered our target price marginally to ₹108 (earlier ₹110) and maintain a Buy.

Revised estimates

We have lowered our revenue estimates 4% for FY11 and FY12 to factor in the lower-than-expected performance in the pipes division in 1HFY11. We have raised our EBITDA margin estimate, by 35bp, to factor in the stronger EBITDA margin. Management has, however, guided to a margin of ~15%. We have raised our profit estimate 5%/7%. Based on the revised profit (due to interest savings) post the recent equity issue, our FY11/12 diluted EPS estimate declines by 13%/12%.

Fig 9 – Change in estimates

(₹m)	FY11e			FY12e		
	Old	New	% Chg	Old	New	% Chg
Net Sales	15,444	14,783	(4.3)	20,209	19,416	(3.9)
EBITDA	2,107	2,068	(1.9)	2,767	2,727	(1.4)
EBITDA Margins (%)	13.6	14.0	34bp	13.7	14.0	36bp
Depreciation	135	135	0.0	150	150	0.0
Interest	744	623	(16.2)	948	773	(18.5)
Other income	20	2	(90.0)	20	2	(90.0)
Tax	412	433	5.1	557	596	7.0
PAT	837	879	5.1	1,132	1,211	7.0
FDEPS (₹)	10.0	8.7	(13.2)	13.6	12.0	(11.6)

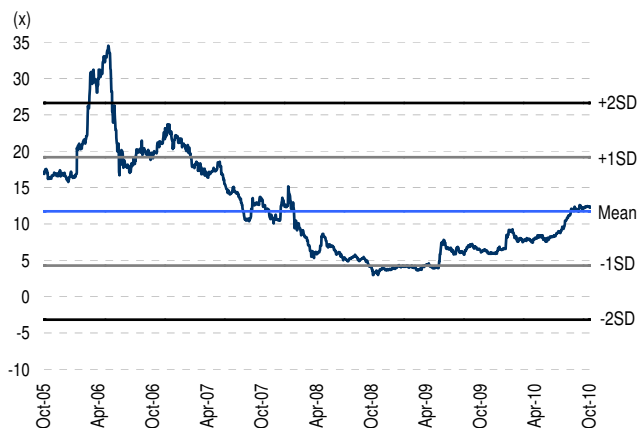
Source: Anand Rathi Research

Valuations

Our new target of ₹108 (earlier ₹110) is based on 9x (earlier 8x) FY12e earnings, a 25% discount to the target multiples of mid-cap construction companies. We believe a lower discount is justified, given the de-leveraged balance sheet post-QIP, industry-leading return ratios (even after dilution) and ability to bag big ticket orders with the increased net worth. In our target price we have not assumed any value for its BOT projects.

Pratibha's past one-year-forward PE multiples have ranged between 3x and 15x. The EV/EBITDA has ranged between 3x and 9x. At the current price of ₹78, the stock trades at PE of 9x and 6.5x FY11e and FY12e earnings respectively, and EV/EBITDA of 5.8x and 4.5x.

Fig 10 – 12-month forward PE – Mean and standard deviations



Source: Bloomberg, Anand Rathi Research

Risks

Project execution. Project execution delays and payment delays are major risks associated with construction companies.

Financial risk. Given the nature of the sector, Pratibha would need to take on additional debt to fund capex or working capital. A spike in interest rates could hit its bottom line.

Political risk. Around 85% of its order book comes from the government. Slowing government expenditure or state elections might impact order flows.

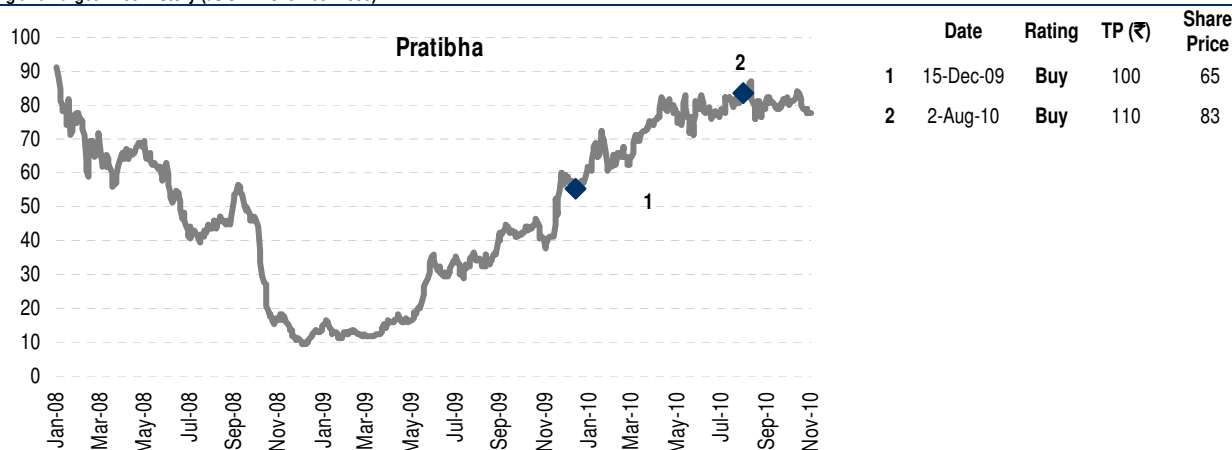
Appendix 1

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report.

Important Disclosures on subject companies

Rating and Target Price History (as of 2 November 2009)



Source: Bloomberg

Anand Rathi Financial Services Limited or its affiliates has received compensation for investment banking services provided within the past 12 months from Pratibha Industries.

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Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US\$1bn) and Mid/Small Caps (<US\$1bn) as described in the Ratings Table below.

Ratings Guide

	Buy	Hold	Sell
Large Caps (>US\$1bn)	>20%	5-20%	<5%
Mid/Small Caps (<US\$1bn)	>30%	10-30%	<10%

Anand Rathi Research Ratings Distribution (as of 20 July 10)

	Buy	Hold	Sell
Anand Rathi Research stock coverage (114)	66%	14%	20%
% who are investment banking clients	8%	0%	0%

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