Pratibha Industries

Ugly Duckling

Stock Update

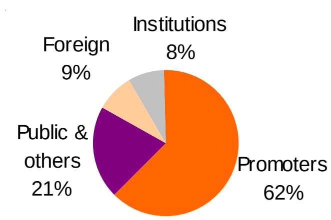
Results marginally below expectations

Buy; CMP: Rs83

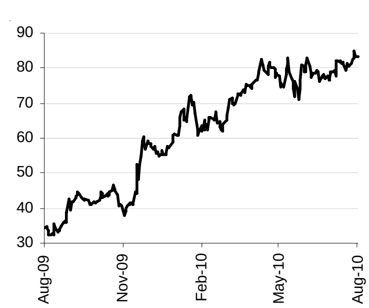
Company details

Price target:	Rs102
Market cap:	Rs695 cr
52 week high/low:	Rs87/30
NSE volume: (No of shares)	72,500
BSE code:	532718
NSE code:	PRATIBHA
Sharekhan code:	PRATIND
Free float: (No of shares)	3.2 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	8.8	7.6	34.3	145.7
Relative to Sensex	7.7	4.9	21.7	112.5

Result highlights

- **Revenue growth of 25%:** Pratibha Industries (Pratibha) registered a 24.8% growth in net sales for Q1FY2011 to Rs327.4 crore, which is above our estimates. Top-line growth was supported by very good performance from the construction division. This division reported a growth of 67.5% year on year (yoy) led by strong order book position. The company had a strong order inflow of more than Rs2500 crore in FY2010, the revenue booking of which has started kicking in. However, the manufacturing division reported a fall in revenue by 51%. Actually the company produced pipes worth Rs20 crore but dispatch of the same could not be executed before June end. Hence sales were not booked in Q1FY2011. Sales for this production will be booked in Q2FY2011.
- **PAT growth of 16.3%:** Despite revenue being above our estimates, profit after tax (PAT) was marginally below our estimates of Rs18.7 crore. Pratibha in its Q1FY2011 posted an adjusted net profit of Rs.16.2 crore, up by 16.3% yoy. The lower than expected earnings growth is mainly on account of lower than expected operating profit margin (OPM) despite revenue growth being above our estimates.
- **OPM below estimate:** The OPM expanded by 126 basis points yoy to 12.6% due to lower construction costs as a percentage of revenues. However, it was down by 254 basis points quarter on quarter (qoq) and was also lower than our estimates of 14.5% which resulted in lower PAT.

Results table Rs (cr)

Particulars	Q1FY2011	Q1FY2010	% yoy
Net sales	**327.4**	**262.3**	**24.8**
Cost of work done	242.8	196.9	23.3
Staff costs	16.6	10.3	61.1
Other expenditure	26.9	25.4	5.8
Total operating expenses	286.3	232.6	23.1
Operating profit	**41.2**	**29.7**	**38.8**
Other income	1.1	1.6	-28.0
Depreciation	4.0	2.2	82.6
Interest	15.5	9.9	56.5
PBT	**22.7**	**19.1**	**19.0**
Prior period income/expenses	0.0	0.0	-
Taxes	6.5	5.1	26.2
APAT	**16.2**	**14.0**	**16.3**
Adjusted EPS (Rs)	1.9	1.7	16.3
No of shares (cr)	8.3	8.3	
Margin (%)			
OPM (%)	12.6	11.3	
NPM (%)	5.0	5.3	
Effective tax rate	28.5	26.9	

- **High depreciation and interest costs:** Depreciation during the quarter increased by 82.6% yoy to Rs40 crore on account of capex to the tune of Rs150 crore incurred in FY2010. However on qoq basis, it's flat. Interest cost surged by 56.5% yoy to Rs155 crore on the back of Rs186 crore raised during last year in anticipation of repaying it out of the QIP proceeds in FY2011. Pratibha had passed an enabling resolution in FY2010 to raise upto Rs200 crore via QIP.

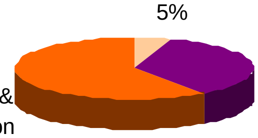
- **Valuation:** We maintain our estimates for Pratibha for FY2011 and FY2012 as the results were only marginally below our estimates. We have not factored in dilution of capital on account of QIP as we do not know as to how much the company would raise; Rs200 crore is only a proposed amount. We continue to like the company given its major presence in the water segment and strong impetus by the government on the same. Further, it diversified its order book by bagging its first NHAI BOT project which shows its efforts to de-risk its business model. At current market price (CMP), the stock is trading at 8.8x and 6.6x its FY2011 and FY2012 earnings. We maintain our BUY recommendation with target price of Rs102.

Robust order book, bags its first BOT project from NHAI

Pratibha's order book currently stands at around Rs4000 crore, which is 4x its FY2010 revenues. During the quarter, the company won ~Rs500 crore worth of orders, which provides strong visibility with regards to order book and thus revenue going forward.

The company secured its first built-operate-transfer (BOT) project on annuity basis from National Highway Authority of India (NHAI) during the quarter. The project involves two laning of Bhopal-Sanchi section of national highway (NH)-86 for 53.7km under National Highway Development Programme (NHDP) phase III. The project is in joint venture with Abhyudaya Housing and Construction Pvt Ltd. The construction period is two years and the payment shall be through semi-annual annuities of Rs12.95 crore for 13 years totaling to Rs336.7 crore. This is the first BOT project bagged by the company from NHAI and will help the company bid for bigger projects in future.

Order book break-up



Further, the project-win fits in well with the company's strategy of diversifying its business model.

The current order Book comprises of 60% of orders from the water supply related works followed by 35% from the urban infra and the balance from the road related works.

Fund raising via QIP in FY2011

The company plans to raise funds via QIP and hence for the same it had passed an enabling resolution in FY2010 to raise upto Rs200 crore. It plans to use the proceeds for repaying some of its debts raised in FY2010 to fund its working capital requirement and investment in its special purpose vehicle (SPV), formed to take up BOT projects. The placement document is under finalization and we expect funds to be raised by end of Q3FY11. However we have not factored in dilution of capital on account of this as we do not know how much funds would be raised. We would wait for some more clarity.

Valuation

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Valuation table

Particulars	FY08	FY09	FY10	FY11E	FY12E
Net sales (Rs cr)	565.1	805.8	1007.2	1435.6	1792.6
% yoy growth	*88.1*	*42.6*	*25.0*	*42.5*	*24.9*
EBITDA (Rs cr)	66.0	91.6	136.6	195.2	243.8
Margin (%)	11.7	11.4	13.6	13.6	13.6
Adj. net profit (Rs cr)	34.3	44.7	56.5	79.0	105.9
% yoy growth	*68.3*	*30.5*	*26.4*	*39.8*	*34.0*
Shares in issue (cr)	8.3	8.3	8.3	8.3	8.3
EPS (Rs)	4.1	5.4	6.8	9.5	12.7
% yoy growth	*44.1*	*30.5*	*26.4*	*39.8*	*34.0*
PER (x)	20.3	15.5	12.3	8.8	6.6
Book Value (Rs)	22.0	26.9	33.0	39.0	48.2
P/BV (Rs)	3.8	3.1	2.5	2.1	1.7
EV/EBIDTA (x)	10.4	9.5	7.7	5.3	4.3
RoCE (%)	19.7	19.5	16.4	16.8	18.7
RoNW (%)	24.6	21.9	22.6	26.3	29.1

Evergreen

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HDFC Bank
Infosys Technologies
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Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
Apollo Tyres
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Bajaj Holdings & Investment
Bank of Baroda
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Crompton Greaves
Glenmark Pharmaceuticals
Godrej Consumer Products
Grasim Industries
HCL Technologies
Hindustan Unilever
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Indian Hotels Company
ITC
Mahindra & Mahindra
Marico
Maruti Suzuki India
Lupin
Piramal Healthcare (Nicholas Piramal India)
Punj Lloyd
Sintex Industries
State Bank of India
Tata Global Beverages (Tata Tea)
Wipro

Cannonball

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Emerging Star

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Axis Bank (UTI Bank)
Cadila Healthcare
Emco
Greaves Cotton
Max India
Opto Circuits India
Patels Airtemp India
Thermax
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Sun Pharmaceutical Industries
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Union Bank of India
United Phosphorus
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Vulture's Pick

Mahindra Lifespace Developers
Orient Paper and Industries
Tata Chemicals
Unity Infraprojects