

CMP : Rs. 390\*

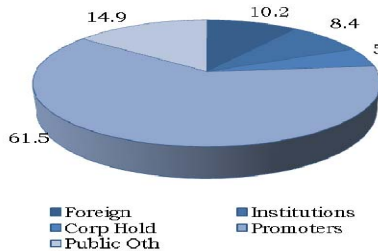
### Key Data

BSE Code	532718
NSE Code	PRATIBHA
Reuters	PRTLBO
Bloomberg	PRIL IN
Industry -	Construction - Civil
Mar Cap (Rs. bn)	6.5
Equity (Rs. mn)	166.7
Face Value (Rs.)	10
52 Wk H/L (Rs)	434/78
Sensex	17400.7
Nifty	5203.7

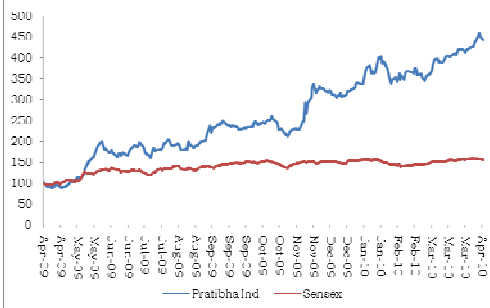
### Share Holding Pattern for Last 3 Quarters

	Dec-09	Sep-09	Jun-09
Foreign	10.2	13.3	15.1
Institutions	8.4	8.1	7.8
Corp Hold	5.0	3.2	2.8
Promoters	61.5	61.6	61.6
Public Oth	14.9	13.8	12.8
Totals	100	100	100

### Shareholding Pattern As on 31<sup>st</sup> Dec 09(%)



### Chart



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\*As of 19th April, 2010

Pratibha Industries Ltd. (PIL) has seen an increase in its order book with its recent Rs.3.6 bn order announcements. PIL's prospects seem to have improved with a higher allocation for irrigation projects being pursued by the central government, and the Government of Maharashtra in particular. Moreover, the Mumbai pipeline bursts have pushed the Brihanmumbai Municipal Corporation (BMC) into a damage control exercise prompting a renewed look at the existing pipeline infrastructure in the city. PIL looks poised to gain orders linked to them. In this update, we provide Q4FY10 expectations, marginally lower our EPS estimates and retain our revenue forecast for PIL. With the company still quoting at a discount to its peers, we foresee an upside of 23% to the stock over the CMP of Rs.390. We reiterate **BUY** rating on the stock.

### Key Highlights

**Order inflow continues to accelerate:** PIL's order book in March 2007 stood at Rs.14.7 bn. In the span of over two years, the company has raised its order book to Rs.33.4 bn as of December 2009. During the year PIL has bagged two new orders: - Rs.1.6 bn for design and construction of 500 mini water supply schemes from the Government of Bihar and a Rs.2.0 bn water segment order from the Navi Mumbai Municipal Corporation. We note substantial orders are accruing to PIL and believe it provides strong visibility to its revenue over the next few years.

**Mumbai water pipeline bursts present an opportunity:** The recent water pipeline bursts in Mumbai has been worrying the BMC. It is under pressure to tackle these bursts and also resolve the water woes in the city. The BMC is proposing to replace its over 100 years old pipelines with the new ones. This would present a business opportunity to PIL since it is a major contractor for BMC.

**Maharashtra budget raises capital outlay towards irrigation:** Over the past two years, the Maharashtra government has increased its irrigation outlay by 35% from Rs.54.5 bn(A) in FY08 to Rs.73.7 bn(P) in FY11 due to water supply constraints and maintenance of existing water supply networks. PIL sources a majority of its orders from this outlay. In fact 41.7% of PIL's current order book as of December 2009 constitutes projects to be executed in Maharashtra.

**Expect a robust quarter ahead:** PIL's PAT is expected to increase 59% YoY to Rs.193.1 mn in Q4FY10 as compared to Rs.121.4 mn in Q4FY09 with a healthy revenue growth of 44.3% YoY.

**Valuations:** With healthy order inflow and strong economic outlook, we expect PIL's sales and net profit to grow at a CAGR of 34.1% and 33.9 % respectively between FY09-12. Our profit estimates though have been revised lower. Yet, PIL remains a BUY given that its valuations trade at a discount to its peers. Our target price of Rs.480 (earlier Rs490) provides an upside of 23% over the CMP. It is based on a PE multiple of 10x FY 11 earnings. At the target price PIL will trade at EV/EBIDTA of 5.8x FY11E.

Year*	Net sales (Rs. mn)	PAT (Rs. mn)	EPS (Rs. )	EPS growth (%)	P/E (x)	ROE (%)	ROCE (%)
FY08	5,651	343	20.5	45.3	19.0	18.6	19.3
FY09	8,058	447	26.8	30.6	14.6	19.9	17.1
FY10E	10,314	508	30.4	13.6	12.8	18.7	16.6
FY11E	14,955	798	47.8	57.1	8.2	23.0	17.9
FY12E	19,442	1,074	64.4	34.6	6.1	23.8	18.3

Source: Fortune research, \* Consolidated financial

**Q4 FY10 expectation**

Particulars (Rs. mn)	Q4 FY10E	Q4 FY09	YoY (%)	Q3 FY10	QoQ (%)
<b>Revenue</b>	3244.3	2247.8	44.3	2365.4	37.2%
<b>Total expenditure</b>	2845.2	1976.5	44.0	2013.2	41.3%
<b>EBITDA</b>	399.1	271.3	47.1	352.5	13.2%
<b>Less: depreciation</b>	35.5	29.6	19.8	38.5	-7.9%
<b>EBIT</b>	363.6	241.7	50.4	314.0	15.8%
<b>Less: interest</b>	140.6	69.8	101.4	177.1	-20.6%
<b>Other income</b>	19.3	0.2	NM	0.4	NM
<b>PBT and exceptional items</b>	242.4	172.1	40.8	137.3	76.5%
<b>Exceptional items</b>	0.0	0.0		0.0	
<b>Profit before tax</b>	242.4	172.1	40.8	137.3	76.5%
<b>Tax expenses</b>	49.3	50.7	-2.7	27.5	79.3%
<b>PAT</b>	193.1	121.4	59.0	109.8	75.8%

Source : Company, Fortune research

- We expect net income for Q4FY10 to increase by 44.3% to Rs.3244.3 mn as compared to Rs.2247.8 mn in Q4FY09.
- Interest cost is expected to be higher by 101.4% to Rs. 140.6 mn and PBT would increase to 40.8% to Rs.242.4 mn mainly due to better EBIDTA margins.
- The net profit margin is expected to expand by 50 bps to 5.9 % in Q4FY10 as compared to 5.4 % in Q4FY09 mainly due to lower effective tax rate and better EBIDTA.

**Estimates Revised**

	(Rs. mn)					
	Revised		Earlier		% Change	
	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E
<b>Revenue</b>	14955.4	19442.0	14955.4	19442.0	NA	NA
<b>EBIDTA</b>	1966.6	2566.3	1936.7	2566.3	1.5	0.0
<b>PAT</b>	798.0	1073.7	817.9	1152.3	-2.4	-6.8

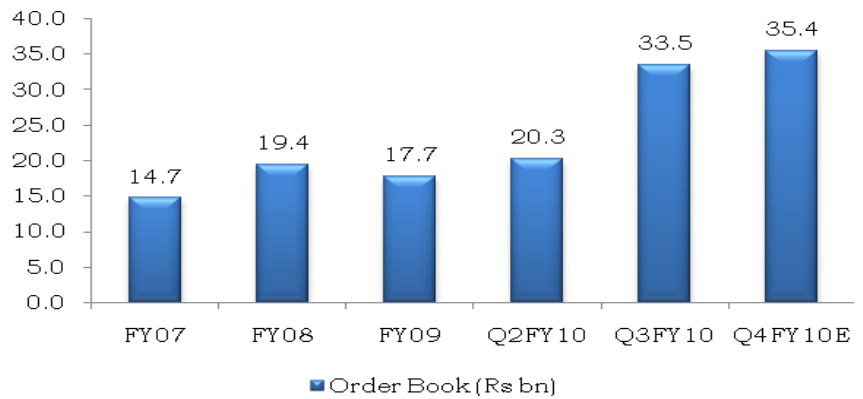
Source : Company, Fortune research

- We have revised our EBIDTA margins estimates by 20 bps to 13.2% as compared to the earlier estimates of 13.0% for FY11E on account of better realization
- PAT has decreased from Rs.817.9 mn to Rs.798.0 mn on account of higher interest cost and tax expense.

**Enhanced outlook:**

**Order inflow continues to accelerate:**

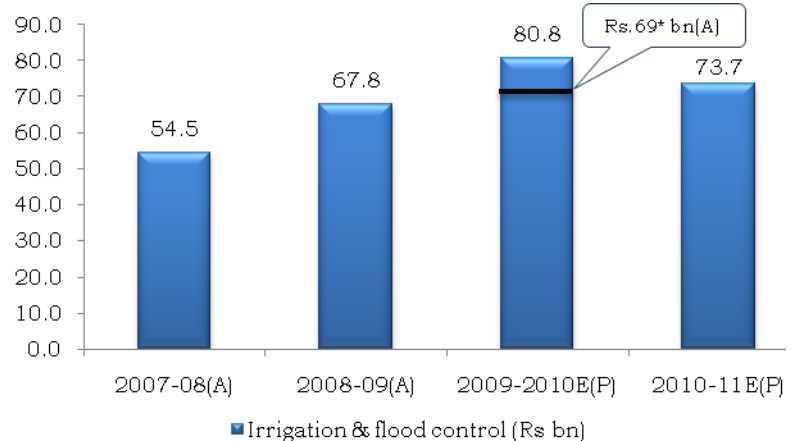
PIL's order book in March 2007 stood at Rs.14.7 bn. In the span of over two years, the company has raised its order book to Rs.33.4 bn as of December 2009.



Source : Company, Fortune research

**Maharashtra budget raises capital outlay towards irrigation**

Over the past two years, Maharashtra government has increased its irrigation outlay by 35% from Rs.54.5 bn(A) in FY08 to Rs.73.7 bn(P) in FY11 due to water supply constraints and maintenance of existing water supply networks.



Source : Director of economic affair, Fortune research, \*Our estimates

**Valuations:**

At the CMP of Rs.390, PIL trades at P/E of 12.8x and 8.2x P/E with EPS of Rs. 30.4 and Rs.47.8 for FY10E & FY11E respectively.

We revised our estimate on PIL with Buy rating and target price of Rs.480 based on a PE multiple of 10x on FY 11 earnings. At the target price PIL will trade at EV/EBIDTA of 5.8x FY11E. Any incremental projects bagged will add further upside to our price target.



Source :Bloomberg, Fortune research

**Financials (Consolidated)**

Income statement (Rs mn)	FY08	FY09	FY10E	FY11E	FY12E	Balance sheet (Rs mn)	FY08	FY09	FY10E	FY11E	FY12E
Net sales	5,650.5	8,057.9	10,314.1	14,955.4	19,442.0	Equity share capital	166.9	166.9	166.9	166.9	166.9
Change (%)	88.1	42.6	28.0	45.0	30.0	Reserves	1672.1	2080.3	2548.9	3307.5	4341.9
Cost of works done	4,449.7	6,152.7	7,735.6	11,179.2	14,581.5	Networth	1838.9	2247.1	2715.7	3474.3	4508.7
Personnel expenses	173.0	345.5	443.5	643.1	836.0	Minority interest	0.0	0.0	0.0	0.0	0.0
Establishment, selling & other expenses	367.9	643.4	825.1	1,166.5	1,458.2	Loans	1328.1	2484.5	3034.5	4034.5	5034.5
EBITDA	659.9	916.2	1,309.9	1,966.6	2,566.3	Net deferred tax liability	17.8	61.7	61.7	61.7	61.7
Change (%)	80.8	38.9	43.0	50.1	30.5	<b>Sources of funds</b>	3184.8	4793.3	5811.9	7570.5	9604.9
Depreciation	36.0	71.3	136.8	177.0	214.4	Gross fixed assets	989.8	1683.2	2378.4	3078.4	3728.4
EBIT	623.9	845.0	1,173.1	1,789.6	2,352.0	Less: depreciation	68.7	139.6	276.3	453.4	667.7
Interest	222.7	340.5	515.9	628.6	784.4	Net fixed assets	921.1	1543.6	2102.1	2625.1	3060.7
Other income	0.6	49.9	20.0	30.0	35.0	Capital WIP	315.2	607.5	607.5	607.5	607.5
PBT	401.7	554.4	677.3	1,191.1	1,602.6	Investments	853.0	0.9	0.0	0.0	0.0
Tax	59.1	107.1	169.3	393.0	528.9	Curr. assets	4378.4	5617.6	6950.9	9756.3	12992.9
Rate (%)	14.7	19.3	25.0	33.0	33.0	Inventory	1832.9	2100.0	2689.0	3951.5	5280.0
PAT before minority interest	342.6	447.3	508.0	798.0	1,073.7	Debtors	775.1	1410.7	1893.3	2745.2	3728.6
Less: minority interest	0.0	0.0	0.0	0.0	0.0	Cash & bank balance	568.3	721.5	625.1	712.6	1006.8
PAT	342.6	447.3	508.0	798.0	1,073.7	Loans & advances	1202.1	1385.4	1743.6	2346.9	2977.5
Change (%)	69.7	30.6	13.6	57.1	34.6	Sundry creditors	1639.0	1667.4	2013.4	2756.5	3595.4
Preference dividend	0.0	0.0	0.0	0.0	0.0	Other liabilities & prov.	222.9	269.0	282.6	409.7	532.7
PAT adj for Preference	342.6	447.3	508.0	798.0	1,073.7	Advances & deposits	1421.4	1040.2	1554.2	2253.6	2929.6
EBITDA margin (%)	11.7	11.4	12.7	13.2	13.2	Net current assets	1095.1	2640.9	3100.8	4336.5	5935.2
PAT margin (%)	6.1	5.6	4.9	5.3	5.5	Misc. exp. (not written off)	0.0	0.0	0.0	0.0	0.0
						<b>Application of funds</b>	3184.8	4793.3	5811.9	7570.5	9604.9

Ratios	FY08	FY09	FY10E	FY11E	FY12E
<b>Basic (Rs)</b>					
EPS	20.5	26.8	30.4	47.8	64.4
Growth (%)	45.3	30.6	13.6	57.1	34.6
Cash EPS	22.7	31.1	38.6	58.4	77.2
Book value	110.2	134.7	162.8	208.2	270.2
DPS	0.0	2.0	2.0	2.0	2.0
Payout (%)	0.0	7.5	6.6	4.2	3.1
<b>Valuation (x)</b>					
P/E	19.0	14.6	12.8	8.2	6.1
Cash P/E	17.2	12.6	10.1	6.7	5.1
Price/Book value	3.5	2.9	2.4	1.9	1.4
EV/Sales	1.5	1.0	0.8	0.6	0.4
EV/EBITDA	12.5	9.0	6.3	4.2	3.2
Dividend yield (%)	0.0	0.5	0.5	0.5	0.5
<b>Return ratios (%)</b>					
RoE	18.6	19.9	18.7	23.0	23.8
RoCE	19.3	17.1	16.6	17.9	18.3
<b>Turnover ratios</b>					
Debtors (days)	50	64	67	67	70
Inventory (days)	145	118	120	122	125
Creditor (days)	134	99	95	90	90
Asset turnover (x)	1.8	1.7	1.8	2.0	2.0
<b>Leverage ratio</b>					
Debt/Equity (x)	0.7	1.1	1.1	1.2	1.1

Cash flow (Rs mn)	FY08	FY09	FY10E	FY11E	FY12E
PBT before EO items	401.7	554.4	677.3	1,191.1	1,602.6
Add : depreciation	36.0	71.3	136.8	177.0	214.4
Less : direct taxes paid	59.1	107.1	169.3	393.0	528.9
(Inc)/dec in WC	833.4	(1,450.1)	(556.3)	(1,148.1)	(1,304.5)
EO, misc. & other items	0.0	0.0	0.0	0.0	0.0
<b>CF from oper. incl. EO items</b>	1,473.7	(523.6)	88.4	(173.1)	(16.4)
(Inc)/dec in FA	(743.9)	(695.2)	(695.2)	(700.0)	(650.0)
(Inc)/dec in capital WIP	(35.4)	(292.2)	0.0	0.0	0.0
(Pur)/sale of investments	(8,248.4)	8,520.3	9.3	0.0	0.0
<b>CF from investments</b>	(1,603.9)	(100.1)	(695.2)	(700.0)	(650.0)
Proceed from issue of Share capital	607.2	0.0	0.0	0.0	0.0
Inc/(dec) in debt	0.0	1,037.0	550.0	1,000.0	1,000.0
Less: dividend paid	(33.2)	(33.3)	(39.4)	(39.4)	(39.4)
<b>CF from fin. activity</b>	295.1	776.9	510.6	960.6	960.6
Inc/dec in cash	164.9	153.2	(96.2)	87.5	294.2
Add: opening balance	403.1	568.3	721.5	625.1	712.6
Closing balance	568.1	721.4	625.3	712.6	1,006.8