

Prakash Industries

A strong quarter

Higher power volumes boost profits

Prakash Industries (PKI) reported a strong performance in Q3FY12 backed by higher power sales. The revenues for the quarter increased 36.2% YoY and 13.7% QoQ backed by higher realizations in the steel division and higher volumes as well as realizations in the power division. PKI partly commissioned its first phase of merchant power plant during FY12 which boosted the sales volumes for the power division during the quarter. The EBITDA for the quarter increased 26.9% YoY and 18.4% QoQ on the back of increased revenues and higher realizations in the steel division and higher power volume sales. The adjusted PAT for the quarter increased 21.4% YoY and 21.9% QoQ backed by higher EBITDA despite higher interest expense.

Capex & mining update

The possibility of PKI starting is coal as well as iron ore mines remains very bleak. The management of the company hasn't guided for any certain timelines for the start of any of the mines under various clearance stages and hence, we haven't factored in any increment in the backward integration levels of the company in the years to come. Besides, PKI has also shelved its merchant power capacity expansion plan till the time, coal mines get clearance and hence, we haven't factored in any further expansion of merchant power capacity beyond the first phase of 125MW. PKI has nearly completed sponge iron capacity expansion to 800,000 tonnes and will undertake next phase of sponge iron capacity expansion of 200,000 tonnes which is likely to be complete in FY13. Besides, it is also investing in expansion of its silico manganese capacity by 24,000 tonnes which will be complete in the middle of FY13.

Valuation and recommendation

Despite recent run up in the stock, it continues to trade at 3.0x FY13E EV/EBITDA. We have valued the company at 4.5x FY13E EV/EBITDA and arrive at our target price of INR75. We continue to maintain our **Buy** recommendation with unchanged target price of INR75.

Rating : Buy

Target Price : INR75

Upside : 35%

CMP : INR56 (as on 3 February 2012)

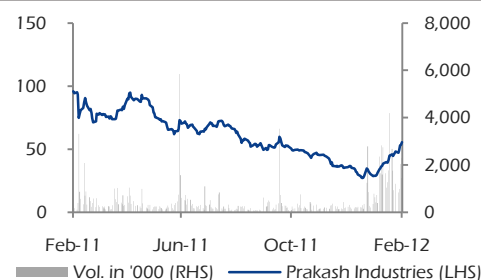
Key data*

Bloomberg /Reuters Code	PKI IN /PRKI.BO
Current /Dil. Shares O/S (mn)	134/134
Mkt Cap (INRbn/US\$mn)	7/153
Daily Vol. (3M NSE Avg.)	514,210
Face Value (INR)	10

1 US\$= INR48.7

Source: Bloomberg; * As on 3 February 2012

Price & volume



Source: Bloomberg

Share holding(%)	Q4FY11	Q1FY12	Q2FY12	Q3FY12
Promoter	45.9	46.2	46.6	46.5
Institutional Investors	16.0	14.8	14.5	11.8
Other Investors	21.9	21.7	21.7	22.9
General Public	16.2	17.3	17.3	18.8

Source: BSE

Price performance (%)	3M	6M	12M
Sensex	0.7	(1.9)	(4.6)
Prakash Industries	22.2	(11.6)	(42.0)

Source: Bloomberg

Y/E March (INR mn)	Q3FY12	Q3FY11	YoY(%)	Q2FY12	QoQ (%)
Net Sales	5,207	3,823	36.2	4,581	13.7
Operating Expenses	4,297	3,106	38.4	3,812	12.7
% of Sales	82.5	81.2	1.6	83.2	
EBITDA	910	717	26.9	769	18.4
EBITDA Margins (%)	17.5	18.8	(6.8)	16.8	4.1
Other Income (Net)	13	7	74.3	4	200.0
Interest	47	2	2,368.4	32	47.9
Depreciation	188	172	9.7	173	9.0
PBT	688	551	24.9	569	20.9
Tax	20	0	19,400.0	20	(4.4)
Effective Tax Rate (%)	2.8	0.0	15,514.7	3.6	
Adjusted PAT	668	551	21.4	548	21.9
NPM (%)	12.8	14.4	(10.9)	12.0	
Extra ordinary items	(7)	(7)	0.0	0	-
Reported PAT	661	544	21.6	548	20.7

Source: Company, Elara Securities Estimate

Key Financials											
Y/E Mar (INR mn)	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Fully DEPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY09	15,256		3,019	19.8	2,001		14.9	20.3	24.0	3.2	3.7
FY10	15,676	2.7	3,003	19.8	2,140	6.9	15.9	17.1	20.6	2.7	3.5
FY11	16,641	6.2	2,897	19.2	2,190	2.3	16.3	13.7	12.4	4.7	3.4
FY12E	15,041	(9.6)	3,746	17.4	2,209	0.9	16.4	12.1	11.9	3.6	3.4
FY13E	20,812	38.4	4,541	24.9	2,603	17.9	19.4	12.7	13.1	2.9	2.9

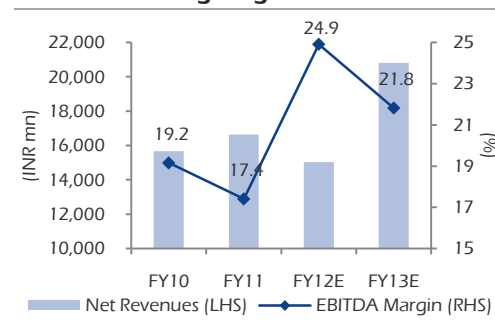
Source: Company, Elara Securities Estimate

Financials (Y/E Mar)

Income Statement (INR mn)	FY10	FY11	FY12E	FY13E
Net Revenues	15,676	16,641	15,041	20,812
EBITDA	3,003	2,897	3,746	4,541
Add:- Non operating Income	30	87	34	35
OPBIDTA	3,033	2,985	3,779	4,576
Less :- Depreciation & Amortization	568	673	802	987
EBIT	2,465	2,312	2,977	3,589
Less:- Interest Expenses	255	57	300	433
PBT	2,211	2,255	2,677	3,156
Less :- Taxes	71	65	469	552
Adjusted PAT	2,140	2,190	2,209	2,603
Add/Less: - Extra-ordinaries	(46)	(27)	0	0
Reported PAT	2,093	2,163	2,209	2,603
Balance Sheet (INR mn)	FY10	FY11	FY12E	FY13E
Share Capital	1,345	1,345	1,345	1,345
Reserves	13413	15843	17899	20349
Borrowings	1,687	6,766	7,016	7,016
Deferred Tax (Net)	772	802	802	802
Total Liabilities	17,217	24,756	27,062	29,512
Gross Block	17,829	18,264	25,064	29,029
Less:- Accumulated Depreciation	7,082	7,802	8,604	9,591
Net Block	10,747	10,462	16,460	19,438
Add:- Capital work in progress	3,026	8,765	4,965	4,000
Investments	22	270	270	270
Net Working Capital (Excl'd Cash)	2,404	4,628	4,382	4,521
Cash & Cash Equivalents	1,018	630	984	1,282
Other Assets	-	-	-	-
Total Assets	17,217	24,756	27,062	29,512
Cash Flow Statement (INR mn)	FY10	FY11	FY12E	FY13E
Cash profit adjusted for non cash items	2,635	3,180	2,858	3,437
Add/Less : Working Capital Changes	(415)	(2,224)	247	(139)
Operating Cash Flow	2,220	956	3,104	3,298
Less:- Capex	(3,200)	(6,175)	(3,000)	(3,000)
Free Cash Flow	(980)	(5,219)	104	298
Financing Cash Flow	1,685	5,079	250	0
Investing Cash Flow	(0)	(248)	0	0
Net change in Cash	705	(388)	354	298
Ratio Analysis	FY10	FY11	FY12E	FY12E
Income Statement Ratios(%)				
Revenue Growth	2.7	6.2	(9.6)	38.4
EBITDA Growth	(0.5)	(3.5)	29.3	21.2
PAT Growth	6.9	2.3	0.9	17.9
EBITDA Margin	19.2	17.4	24.9	21.8
Net Margin	13.6	13.2	14.7	12.5
Return & Liquidity Ratios				
Net Debt/Equity (x)	0.1	0.4	0.4	0.3
ROE (%)	17.1	13.7	12.1	12.7
ROCE (%)	20.6	12.4	11.9	13.1
Per Share data & Valuation Ratios				
Diluted EPS (INR/Share)	15.9	16.3	16.4	19.4
EPS Growth (%)	6.9	2.3	0.9	17.9
DPS (INR/Share)	-	1.0	1.0	1.0
P/E Ratio (x)	3.5	3.4	3.4	2.9
EV/EBITDA (x)	2.7	4.7	3.6	2.9
EV/Sales (x)	0.5	0.8	0.9	0.6
Price/Book (x)	-	-	-	-
Dividend Yield (%)	-	-	-	-

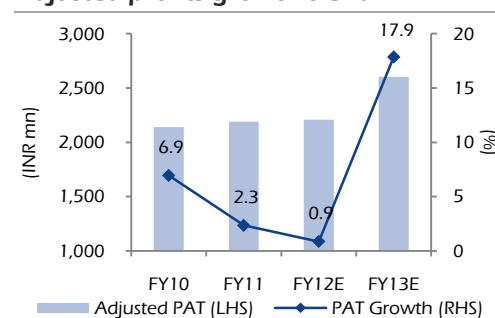
Source: Company, Elara Securities Estimate

Revenue & margins growth trend



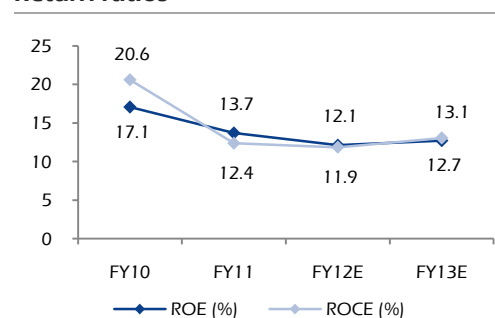
Source: Company, Elara Securities Estimate

Adjusted profits growth trend



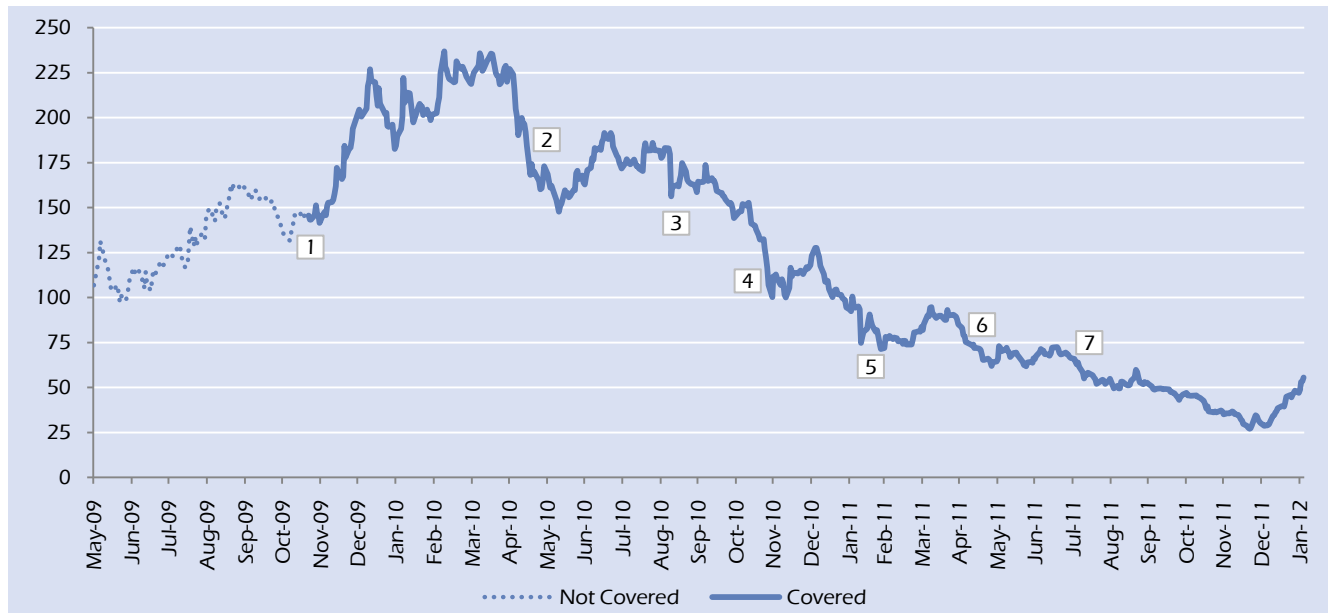
Source: Company, Elara Securities Estimate

Return ratios



Source: Company, Elara Securities Estimate

Coverage History



	Date	Rating	Target Price	Closing Price
1	18-Nov-2009	Buy	INR260	INR145
2	28-May-2010	Buy	INR245	INR173
3	13-Sep-2010	Buy	INR220	INR163
4	12-Nov-2010	Buy	INR200	INR141
5	10-Feb-2011	Buy	INR140	INR78
6	30-May-2011	Buy	INR120	INR65
7	11-Aug-2011	Buy	INR75	INR57

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

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