

**STOCK DATA**

Market Cap	Rs3.4bn
Book Value per share	Rs66
Eq Shares O/S (F.V. Rs.10)	14.3mn
Median Vol (12 mths)	86,803 (BSE+NSE)
52 Week High/Low	Rs300 /141
Bloomberg Code	PRIL IN
Reuters Code	PRIL.BO

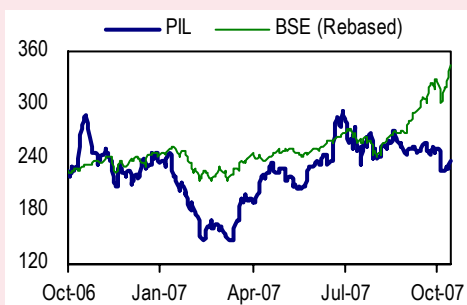
**SHAREHOLDING PATTERN (%)**

Qtr. Ended	Mar-07	Jun-07	Sep-07
Promoters	70.3	70.3	70.3
MFs/FIs	2.1	1.8	4.4
FIIIs	2.7	3.8	6.9
PCBs	6.1	7.9	5.9
Indian Public	18.9	16.2	12.5

**STOCK PERFORMANCE (%)**

	1M	3M	12M
Absolute	(4.9)	(14.1)	5.3
Relative	(17.6)	(33.1)	(31.4)

**STOCK PRICE PERFORMANCE**



**KEY HIGHLIGHTS**

**Pratibha Industries Ltd's (PIL) reported sales of Rs959mn (up 82% YoY) in Q2FY08. Commencement of operations at its 92k HSAW plant, a portion of which is consumed by its Infrastructure & Construction (I&C) division, enabled a 558 bps OPM expansion to 16.6%. Consequently, net profit grew 81% to Rs68mn.**

**● Robust order book**

PIL's current order book stands at Rs23bn, with major chunk (~52%) being accounted for by Water Management Projects (WMPs). While urban infrastructure projects constitute 39% of the order book, the remainder is from road projects. Tunneling projects, which are part of the urban infra projects vertical, form 15% of the order book. Currently, the order book is well diversified geographically across 9 states. PIL is in the process of securing orders worth Rs1.5-2bn, where it has L1 status.

**● Commenced production of HSAW pipes**

PIL has commenced commercial production of HSAW pipes at Wada, in Mumbai in Q2FY08. With a capacity of 92k mtpa, this will not only cater to PIL's requirements, but also enable it to foray into oil and gas EPC segment, which offers higher margins. Plans are afoot to tap overseas markets of Middle East and North/East Africa. PIL is also setting up a coating plant (capacity 1.7mn sq. mtrs.), to be operational in Q4FY08.

**VALUATIONS AND RECOMMENDATION**

At CMP of Rs241, its valuation metrics comprising of a P/E of 7.7x and EV/EBIDTA of 5.8x discounting its FY09E earnings, are at a marked discount to its peers. Considering its healthy order book & revenues from the pipe manufacturing business, PIL should be able to substantially scale up by capitalising on the huge opportunities thrown up by the infrastructure investments. Hence, we upgrade our recommendation to 'BUY' with a 9-month price target of Rs358.

**KEY FINANCIALS (CONSOLIDATED)**

Rs mn	Quarter Ended			Yr Ended (March)		
	Mar-07	Jun-07	Sep-07	2007	2008E	2009E
Net Sales	1,099	745	959	3,004	4,612	6,966
YoY Gr (%)	59.4	36.0	81.6	72.5	53.5	51.0
Op. Profits	135	93	159	367	603	918
Op. Marg(%)	12.3	12.4	16.6	12.2	13.1	13.2
Net profits	64	60	68	204	268	445
Eq Capital	143	143	143	143	143	143

**KEY RATIOS**

	Yr Ended (March)		
	2007	2008E	2009E
Diluted EPS	14.3	18.8	31.2
ROCE (%)	21.4	22.5	25.9
RONW (%)	23.1	25.4	32.6
PE (x)	16.9	12.8	7.7
EV/Sales (x)	1.5	1.1	0.8
EV/EBDIT (x)	11.9	8.6	5.8

## Q2FY08 Performance Overview

PIL posted revenues of Rs959mn, a growth of 82% YoY. While a major chunk (70%) of the revenues came from WMPs, urban infrastructure contributed ~29% of the revenues.

*Net sales rose sharply riding a strong order book especially in WMPs...*

While material costs as a percentage of sales dropped to 46% from 57% on a YoY basis, establishment & selling expenses more than doubled to Rs326mn from Rs152mn. The personnel expenses too witnessed a 2x rise from Rs19mn to Rs38mn due to additions to the existing workforce and escalating wages. Despite these, savings in material costs helped PIL boost its margins by 558 bps to 16.6% and operating profit reported a 174% jump to Rs159mn.

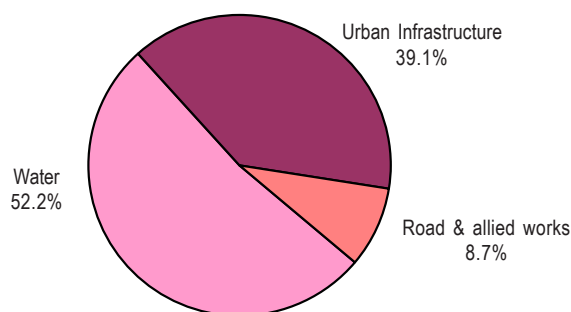
Interest cost more than trebled to Rs71mn on the back of increase in debt to Rs2bn. With the HSAW plant coming onstream (which added ~Rs600mn to gross block), depreciation rose from Rs3mn to Rs10mn. However, improved operating performance ensured that PIL posted net profit of Rs68mn, up 81% YoY.

## Order Book

The current order book stands at Rs23bn. Strong presence in WMPs has ensured that ~52% of order book is from WMPs. While the current order book is expected to be executed over 3 years, the same is expected to grow at a ~25% CAGR.

*Order book growth expected to be ~25% CAGR...*

Order book break up (in %)



Source: Company

## Projects Awarded in Q2FY08

### Water Supply Schemes, Mumbai:

PIL bagged two contracts from BMC, Mumbai for installing water supply schemes. The projects are part of Middle Vaitarna water supply scheme & involve providing & laying 3,000 mm diameter pipeline over 21 kms. To be executed in 45 months, the project is valued at Rs4.3bn.

*Rs4.3bn Middle Vaitarna Water Supply project is the largest order bagged...*

### Project Uday, Indore:

PIL secured contracts from Indore Municipal Corporation for two water supply schemes under *Project Uday*. This involves supplying, laying & commissioning of pure water pumping main at Indore. Valued at Rs978mn, the project is to be executed over 18 months.

### Road Construction, Indore:

PIL secured a contract from Indore Development Authority for road construction worth Rs1.4bn, the project will be executed in a JV with Niraj Cement Structurals Ltd. The project is schedule to be completed in 24 months.

## SAW pipe division

PIL has commenced commercial production of HSAW pipes at its new facility located at Wada in Thane District. The plant has a capacity of 92k mtpa and has been set up at a capital outlay of Rs811mn and is funded in a debt:equity ratio of 60:40.

*Commissioning of H-SAW pipes plant to facilitate entry into the oil and gas EPC segment...*

PIL plans to tap EPC opportunities in the oil and gas sector with the commencement of this facility and is in the process of obtaining 'API 5L X80' certification from the American Petroleum Institute (API), which shall make pipes manufactured by PIL eligible for Oil & Gas EPC contracts. This will need to be followed up by certification from the clients. PIL expects the required certification to be received by end-Q3FY08. The HSAW division also ensures in-house supplies to PIL's burgeoning water supply projects.

PIL has already booked orders of 208 km of HSAW pipes to be used in water supply projects, which would translate into a requirement of ~60k mt. Of this, ~ 35% will be consumed captive and execution of these orders is over 12-14 months.

### **PPP/BOT projects**

PIL along with Unity Infraprojects Ltd. in a 50:50 JV is executing a water supply BOT project awarded by Ulhasnagar Municipal Corporation (UMC) worth Rs940mn. To be executed in 18 months, the project will be funded in a debt:equity of ~70:30 and is estimated to earn an IRR of ~18-20%. The JV will supply 118mn litres/day of treated water to UMC (to be increased to 188mn litres/day) and earn a rate of Rs5.28/m<sup>3</sup>. The payment is slated to increase by Rs0.2/m<sup>3</sup> every year thereafter. The land acquisition for the project will be completed by Dec'07. The concession agreement will be signed & the construction for the project will commence in Jan'08.

With the growing trend of projects being awarded via the Public Private Partnership (PPP) route, we believe that PIL's experience of UMC project will help it achieve more business in the PPP space.

#### **UMC water supply project (50:50 JV b/w PIL and Unity Infraprojects Ltd.)**

Cost of the project (Rs mn)	940
Equity (Rs mn)	300
Debt (Rs mn)	640
IRR of the project	19%
Completion of land acquisition	Dec-07
Concession agreement & Financial closure	Jan-08
Construction period	18 months
Concession period	30 Yrs
NAV of the project (Rs mn)	411
PIL's share in the NAV	206
PIL equity capital (shares mn)	14.3

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**NAV/share (Rs) 14**

*Assumption: Discount rate 14%*

*Forayed into PPP projects where the returns could be better...*

## OUTLOOK

PIL has a strong presence in its niche of WMPs and as these projects yield better margins (~12-14%), OPM sustainability is ensured. PIL has sizable presence in Mumbai Metropolitan Region and is expanding aggressively in states like Rajasthan, Jammu and Kashmir and the NCR region. It is also establishing itself in the Urban Infrastructure space where it undertakes tunneling projects, building structurals projects, airport infrastructure etc. Its new HSAW facility will strengthen margins in WMPs and also allow an entry into a lucrative space of oil and gas EPC contracts.

## VALUATIONS

We expect net sales to grow by 54% to Rs4.6bn in FY08 and by 51% in FY09 to Rs7bn on the back of a robust order book. With its HSAW plant having commenced production, margins should stabilize at around 13-13.5%. Consequently, we expect operating profits to grow by 65% to Rs603mn in FY08 and by 52% to Rs918mn in FY09. However, with higher interest & depreciation charges, net profit should grow at 31% in FY08 to Rs268mn. The same is expected to grow by 66% in FY09 to Rs445mn.

*Scale up in core construction business and pipes division will boost performance...*

*At the CMP of Rs241, PIL trades at a P/E of 7.7x and EV/EBIDT of 5.8x FY09 estimates. These parameters have ample scope for upward revision upon comparison with peers like Sadbhav Engineering and Unity Infraprojects, given its strong presence in niche segments (WMPs), strong scale up of pipe manufacturing division and stable margins. Hence, we upgrade our recommendation to 'BUY' with a 9-month price target of Rs 358.*

PIL Valuation	
FY09E EPS (Rs)	31.2
PE (x)	11.0
Value/share of core business 'A'	343.2
NAV/share from UMC project 'B'	14.4
<b>Total Value/share (Rs) (A+B)</b>	<b>358</b>
CMP (Rs)	241
<b>Potential upside</b>	<b>48%</b>

Peer Comprison					
Company (Cons.FY08E)	Tantia Cons.	Sadbhav	Pratibha	Unity	JMC
Revenues	3,421	7,378	4,612	7,980	8,504
Op. Profit	401	835	603	1,026	810
Net Profit	150	411	268	552	408
OPM%	11.7	11.3	13.1	12.9	9.5
EPS (Rs)	8.1	37.7	18.8	41.3	18.5
P/E	15.3	23.2	12.8	16.0	25.4

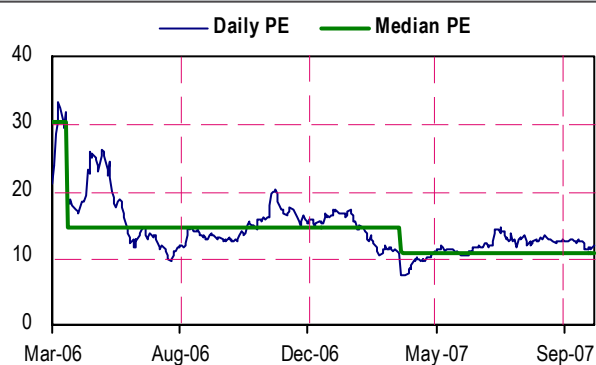
### Company description

PIL is the flagship company of Pratibha Group, incorporated in 1983. It initially focussed on precast products (mainly SRFC manhole covers & frames) and has subsequently graduated to being a multifunctional construction & infrastructure development company. Recently, PIL undertook backward integration by setting up an HSAW facility to enter into the lucrative oil and gas EPC segment.

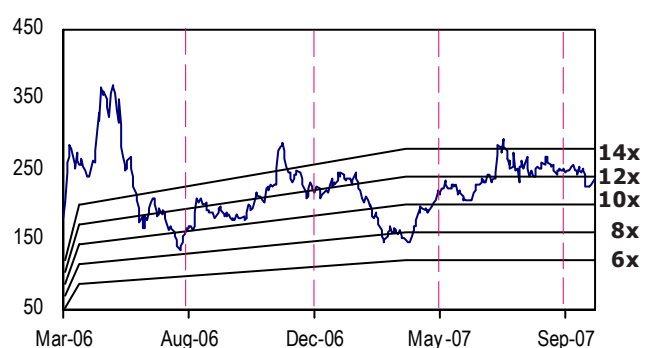
## Financial Results for the quarter & half year ended 30 September 2007 (Consolidated)

Particulars (Rs mn)	Quarter Ended			Half Year Ended			Year Ended
	30/09/07	30/09/06	Gr %	30/09/07	30/09/06	Gr %	31/03/07
<b>Net Sales</b>	<b>959</b>	<b>528</b>	<b>81.6</b>	<b>1,704</b>	<b>1,076</b>	<b>58.4</b>	<b>3,004</b>
<b>Total Expenditure</b>	<b>800</b>	<b>470</b>	<b>70.3</b>	<b>1,453</b>	<b>959</b>	<b>51.5</b>	<b>2,637</b>
(Inc.)/Dec in stock in trade	(352)	(2)		(555)	(88)		
Consumption of raw materials	788	300	46.0	1,199	669	10.9	2,383
Personnel Expenses	38	19	102.6	67	32	109.3	83
Eshtablishment Selling & Other expenses	326	152	113.9	742	346	114.4	173
Share of JV Partners	-	-		-	-		(2)
<b>Operating profit</b>	<b>159</b>	<b>58</b>	<b>173.8</b>	<b>252</b>	<b>117</b>	<b>114.8</b>	<b>367</b>
Other Income	-	2	(87)	-	2	(84)	4
<b>PBDIT</b>	<b>159</b>	<b>60</b>	<b>165.0</b>	<b>252</b>	<b>119</b>	<b>110.9</b>	<b>370</b>
Interest	71	21	236	84	35	139	123
Depreciation	10	3	252	13	5	169	11
<b>PBT &amp; extra-ordinary items</b>	<b>79</b>	<b>36</b>	<b>117.5</b>	<b>155</b>	<b>79</b>	<b>95.0</b>	<b>236</b>
Provision for current tax	11	(1)	(1,325)	27	5	503	26
Provision for deferred tax	-	-		-	-		4
Fringe benefits	-	-		-	-		2
Tax provisions of earlier years	-	-		-	-		(1)
<b>Net Profit</b>	<b>68</b>	<b>37</b>	<b>81.4</b>	<b>127</b>	<b>75</b>	<b>70.3</b>	<b>204</b>
Equity Capital (F.V. Rs 10)	143	143		143	143		143
Reserves (excl. rev. res.)	-	-		-	-		806
<b>EPS for the period (Rs)</b>	<b>4.7</b>	<b>2.6</b>		<b>8.9</b>	<b>5.2</b>		<b>14.3</b>
Book Value (Rs)	-	-		-	-		66
<b>OPM (%)</b>	<b>16.6</b>	<b>11.0</b>		<b>14.8</b>	<b>10.9</b>		<b>12.2</b>
NPM (%)	7.0	7.0		7.5	7.0		6.8
<b>Expenditure (% of Net Sales)</b>							
Consumption of raw materials	45.5	56.8		37.8	62.2		79.3
Personnel Expenses	4.0	3.6		3.9	3.0		2.8
Eshtablishment Selling & Other expenses	34.0	28.9		43.5	32.2		5.8

### Median PE v/s Daily PE



### PE Band



Year Ended March (Figures in Rs mn)

<b>Income Statement</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>	<b>2009E</b>
<b>Revenues</b>	<b>1,741</b>	<b>3,004</b>	<b>4,612</b>	<b>6,966</b>
YoY Gr. (%)	43.4	72.5	53.5	51.0
<b>Total Expenditure</b>	<b>1,521</b>	<b>2,638</b>	<b>4,009</b>	<b>6,048</b>
<b>Operating Profit</b>	<b>220</b>	<b>366</b>	<b>603</b>	<b>918</b>
Interest & dividend income	5	4	5	5
<b>EBIDT</b>	<b>226</b>	<b>370</b>	<b>608</b>	<b>923</b>
(-) Interest	71	123	170	190
(-) Depreciation	7	11	32	59
<b>PBT &amp; extraord. items</b>	<b>148</b>	<b>236</b>	<b>407</b>	<b>674</b>
(-) Tax provision	14	33	138	229
<b>Net Profits</b>	<b>123</b>	<b>204</b>	<b>268</b>	<b>445</b>
Fully dil. Eq. sh. O/s (mn)	14.3	14.3	14.3	14.3
Book Value (Rs)	58	66	82	109
Basic EPS (Rs)	8.6	14.3	18.8	31.2
<b>Diluted EPS (Rs)</b>	<b>8.6</b>	<b>14.3</b>	<b>18.8</b>	<b>31.2</b>

<b>Balance Sheet</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>	<b>2009E</b>
<i>Equity Share Capital</i>	143	143	143	143
<i>Reserves &amp; Surplus</i>	679	806	1,025	1,421
<b>Net worth</b>	<b>822</b>	<b>949</b>	<b>1,168</b>	<b>1,564</b>
Total Debt	503	1,363	1,907	2,014
Deferred Tax liability	1	4	4	4
<b>Capital Employed</b>	<b>1,327</b>	<b>2,316</b>	<b>3,080</b>	<b>3,583</b>
Fixed Assets	135	493	1,371	1,352
Net current assets	854	1,795	1,530	2,052
Investments	295	28	178	178
Misc exp.	43	-	-	-
<b>Total Assets</b>	<b>1,327</b>	<b>2,316</b>	<b>3,079</b>	<b>3,583</b>

<b>Cash Flow Statement</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>	<b>2009E</b>
<b>PBT &amp; Extraord. items</b>	<b>137</b>	<b>236</b>	<b>407</b>	<b>674</b>
Depreciation	7	11	32	59
Interest & dividend inc.	-	-	(5)	(5)
Interest paid	71	123	170	190
Tax paid	(14)	(28)	(138)	(229)
Other Adjustments	12	(1)	(15)	(10)
(Inc)/Dec in working capital	(362)	-	(43)	(479)
<b>Cash from operations</b>	<b>(149)</b>	<b>(357)</b>	<b>407</b>	<b>200</b>
Net capital expenditure	(58)	(376)	(910)	(40)
Net investments	(290)	266	(150)	-
Interest recd	-	-	20	15
<b>Cash from investing activ.</b>	<b>(348)</b>	<b>(110)</b>	<b>(1,040)</b>	<b>(25)</b>
Issue of eq. shares	460	(2)	-	-
Share premium	-	-	-	-
Change in Loans	129	860	544	107
Eq. Dividend paid	-	(33)	(49)	(49)
Interest paid	(71)	(123)	(170)	(190)
<b>Cash from financing activ.</b>	<b>518</b>	<b>702</b>	<b>325</b>	<b>(132)</b>
<b>Inc/Dec. in cash</b>	<b>21</b>	<b>235</b>	<b>(308)</b>	<b>44</b>

<b>Key Ratios</b>	<b>2006</b>	<b>2007</b>	<b>2008E</b>	<b>2009E</b>
EBIDT (%)	13.0	12.3	13.2	13.3
ROACE (%)	25.4	21.4	22.5	25.9
ROANW (%)	29.1	23.1	25.4	32.6
Sales/Total Assets (x)	1.3	1.3	1.5	1.9
Debt:Equity (x)	0.6	1.4	1.6	1.3
Current Ratio (x)	2.6	3.0	2.1	1.9
Debtors (days)	122	192	122	122
Inventory (days)	90	37	81	81
Net working capital (days)	177	215	119	106
EV/Sales (x)	2.2	1.5	1.1	0.8
EV/EBIDT (x)	17.1	11.9	8.6	5.8
P/E (x)	27.6	16.9	12.8	7.7
P/BV (x)	4.1	3.6	2.9	2.2

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