

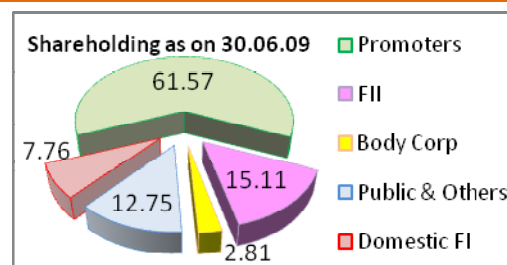


Pratibha Industries Limited (PIL)  
(High Risk High Return)

CMP Rs.205 (FV 10)  
Date: 24 September 2009



Key Data	
NSE Code	PRATIBHA
Face Value	Rs.10
52 Week High	285
52 Week Low	48
Av. Volume (Qtr Basis)	39000



## Company background

Mumbai based Pratibha Industries (PIL) was started in 1982. It provides construction services to infrastructure development like roads, Commercial buildings & Housing, oil and gas transmission, power segments, water supply segment etc. These projects are executed on both, EPC & PPP basis.

It has also ventured in SAW Pipe segment to cater to demand from Petrochemicals, Water & Waste Management etc. industries, besides meeting own requirements.

## Investment Rationale

### Infrastructure Investment Potential in INDIA

- About US\$ 500 billion needs to be spent over the 11th Five Year Plan period of 2007-08 to 2011-12 on building India's infrastructure (The Planning Commission, Estimates).
- The major investments projected are as: US\$ 60 billion for Roads, US\$ 75 billion for Power, US\$ 22 billion for Telecom, US\$ 10 billion for Ports, US\$ 70 billion for Railways, US\$ 9.25 billion for Civil Aviation (Source:Crisil)
- In recent times, major initiatives have been taken to maximize the role of public-private partnerships (PPPs). This includes creation of Special Purpose Vehicles and a Viability Gap Funding scheme for financing infrastructure projects. There is a growing trend of Public-Private Partnership (PPP) in implementation of infrastructure projects in India.

## Water Supply & Sewage

- In urban India about 85 percent of population in general have access to drinking water supply, which is even lesser (65 percent) in slums. There is no provision for 24 hour quality water supply in any Indian city.
- The situation is particularly inadequate for sanitation, since only one of three Indians has access to basic sanitation facilities. About 700 million Indians do not have access to a proper toilet. Open defecation is widespread even in urban areas of India.
- Water supply and sanitation in India continue to be inadequate, despite long standing efforts at various levels of government and several agencies at improving coverage.

## Urban Infrastructure

- Indian cities and towns need adequate quality infrastructure facilities, specifically, in the areas of water management, sanitation, sewage, roads, transportation, housing, etc.
- Keeping this in mind, the government is targeting an investment of US\$ 20.38 billion over the next two years in the infrastructure sector.

## Roads

India has the world's second largest road network, aggregating over 3.34 million kilometers (km). The 11<sup>th</sup> 5-year plan envisages at total outlay of Rs. 3 Lakh Crores for roads. Apart from construction of Highways, the Govt is also upgrading thousands of kilometers under National Highway Development Programme (NHDP) Phase-III.

Government in Union Budget 2010, laid emphasis on higher allocation for roads. The expenditure provision from the Central Road Fund for the year 2009-10 are as:

Proposed in Union Budget 2010	Rs. Crore
Grants to States	1988.55
Grants to States for Inter-State & Economic Importance Roads	213.97
Grants to UT Governments	81.51
Grants to UTs for Inter-State & Economic Importance Roads	16.03
Investment in NHAI	8578.45
Rural roads	4843.13
<b>Total Rs. Crore</b>	<b>15721.64</b>

## Power

- Due to power shortages, there are wasteful expenses in generating power from costlier ways by industry. If there were no power deficit, it is believed productivity of the economy will improve and more jobs can be created
- According to the 17th Electric Power Survey, India's peak demand will reach approximately 152,746 MW with an energy requirement of approximately 968 billion units by fiscal year 2012. By the fiscal year 2017, peak demand is expected to reach 218,209 MW with an energy requirement of 1,392 billion units.
- Presently, the country has about 1.5 Lakh MW of capacity, with an expected addition of about 70000 MW addition coming by 2012, terminal year of 11<sup>th</sup> 5-year plan.
- Total Investment in Indian Power sector (including generation, transmission and distribution) is estimated to be Rs 8500 Billion (US\$ 170 Billion) during 2007-2012.

## Oil & Gas: Opportunity for Pipes

- The oil and gas industry has been instrumental in fuelling the rapid growth of the Indian economy. The petroleum and natural gas sector which includes transportation, refining and marketing of petroleum products and gas constitutes over 15 per cent of the GDP.
- In November 2008, the Cabinet Committee on Economic Affairs awarded 44 oil and gas exploration blocks under the seventh round of auction of the New Exploration Licensing Policy (NELP-VII). The overall number of blocks brought under exploration now exceeds 200.
- The allocation is likely to bring in investments worth US\$ 1.5 billion, which will open large opportunities for the pipe industries as transport of oil and gas through pipe lines is much cheaper than the surface transport mode.
- More blocks

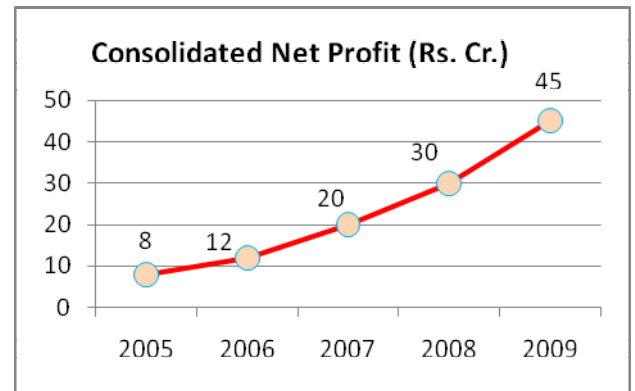
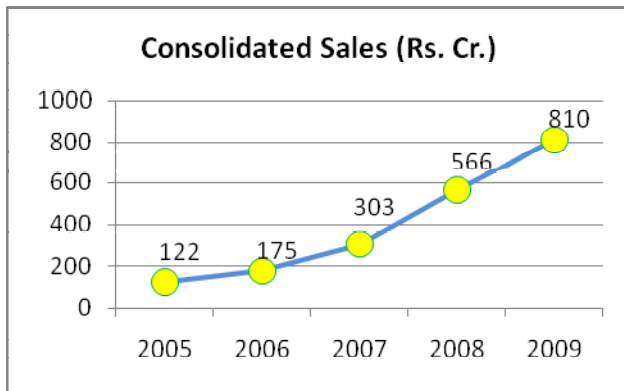
## Airports

- By 2020, Indian airports are expected to handle more than 100 million passengers including 60 million domestic passengers and around 3.4 million tonnes of cargo per annum.
- The government plans to invest US\$ 9 billion to modernize existing airports by 2011. The government is also planning to develop around 300 unused airstrips.
- Over the next five years, AAI has planned a massive investment of US\$ 3.07 billion for upgrading non-metro airports and modernizing the existing aeronautical facilities.

There is good scope in Ports, Railways etc. but PIL has no major exposure to these sectors. We expect it to get orders from these sectors also.

## Advantage PIL

- PIL provides infrastructure facilities, including Urban Infrastructure, City Roads & Highways, mass housing, Airports, Irrigation projects, Water projects, Sewage, Sanitation etc.
- The company's turnover has grown by 60% compounded between FY 2005 and FY 2009. Its Net Profits have grown by 54% compounded between FY 2005 and FY 2009. Fresh infusion of funds through the equity issue in 2006, also contributed to this growth.



- The company has an order book of about Rs.2900 Crore, which is about 3.5 times its FY 2009 Consolidated Sales. Its FY 2009 Sales stands at about 2.4 times its Market Cap of Rs.342 Crore (At CMP Rs.205/Share). Its Order Book is about 8.5 times its Market Cap.
- It won orders worth Rs.1100 Crore during Q2 FY10. Order booking is expected to increase as industry is expecting order flows to improve from Q3 FY 2010 onwards.
- The Company has successfully commissioned its Coating Pipes Division and commercial production has started. With commissioning of the plant, the company is manufacturing Spirally Welded Mild Steel Pipes (H- Saw Pipes) API 5 grade. The Saw Pipes division has a capacity of 92000 TPA. The capacity of 3 LP coating plant is 1.7 million sq. mtrs. Per annum.
- Its Pipes are approved by agencies in USA, Iran, Oman etc.
- Credit Analysis & Research Ltd (CARE) has assigned a credit rating of 'CARE A' (Single A) to the Company for its proposed long-term non-convertible debenture issue of Rs. 60 Crores with a tenure of five years. The rating shows adequate safety for timely servicing of debt obligations and carry low credit risk.

## Financial Highlights (Consolidated)

Rs. Crore	Q1 FY09	Q1 FY10	% Y-o-Y	Q4 FY09	% Q-o-Q	FY09	FY10E	% Change
Net Sales	195	262	34.36	224	16.96	807	1075	33.21
Other Income	1	1				3	4	33.33
Total Sales	196	263	34.18	224	17.41	810	1079	33.21
Raw Material	156	197	26.28	166	18.67	615	811	31.80
Employee	7	10	42.86	12	-16.67	34	45	32.35
Other Expenses	13	25	92.31	19	31.58	64	95	48.44
Total Expenses	176	232	31.82	197	17.77	713	951	33.32
PBDIT	20	31	55.00	27	14.81	97	128	32.42
Interest	6	10	66.67	7	42.86	34	45	32.35
Depreciation	1	2	100.00	3	-33.33	7	9	28.57
PBT	13	19	46.15	17	11.76	56	74	32.95
Tax	2	5	150.00	5		11	20	82.74
Net Profit	11	14	27.27	12	16.67	45	54	20.77
Equity (FV 10)	16.7	16.7		16.7		16.7	16.7	
EPS Rs.	6.59	8.38	27.27	7.19	16.67	26.95	32.54	20.77
CMP Rs.	205	205		205		205	205	
PE (X)	31.12	24.45		28.53		7.61	6.30	
PBDIT (%)	10.26	11.83		12.05		12.02	11.95	
NPM (%)	5.61	5.32		5.36		5.56	5.04	

## Peerset Comparison

Rs. Crore (FY 09)	CCCL	PBA	Pratibha	Sadbhav
Total Income	1851	368	811	1112
PBDIT	132	59	97	157
Net Profit	73	11	45	43
Q1 FY10 Sales	414	102	263	302
Q1 FY10 PBDIT	33	17	31	36
Q1 FY10 Net Profit	18	4	14	18
Equity	36.9	13.5	16.7	12.5
Face Value (Rs.)	10	10	10	10
FY 09 EPS (Rs.)	19.78	8.15	26.95	34.40
CMP Rs./Sh	335	80	205	800
PE (X)	16.93	9.82	7.61	23.26
FY 09 PBDIT (%)	7.13	16.03	11.96	14.12
FY 09 NPM (%)	3.94	2.99	5.55	3.87
Div. Rs./Share	2.5	2	2	4
Market Cap	1236	108	342	1000
M Cap/Sales	0.67	0.29	0.42	0.90

## Risks

- Slow down in Infrastructure spending can adversely impact the sector as a whole.
- Projects are acquired after competitive bidding. There may be impact on margins, if projects are acquired at the cost of margins.
- Govt. is changing evaluation criteria for bidding for projects, that may hurt smaller players.
- There is not very high transparency in the sector and margins vary widely for similar businesses.
- The company does not have a long History on exchanges, as it got listed only 4 years back.
- PIL is expanding outside India. There are risks associated with expansion to other countries as currency, execution risks due to geographical, social, political issues with these countries.

## Valuation & Recommendation: BUY on Dips.

PIL is a mid size Infrastructure developer. The company has shown consistent growth in past 5 year. It is likely to show an EPS of Rs.32 in FY2010. At CMP Rs.205, it trades at 6.3 PE based on forward FY 10 estimates. Investors with long term view may BUY in Rs.190-200 range for a target of Rs.256 i.e. 8 PE on FY10 estimates.

## Financial Projections

P&L A/C Rs. Crore	FY 08	FY09	FY 10E	FY11E
Net Sales	565	807	1075	1398
% Change	88.33	42.83	33.21	30.00
Other Income	1	3	4	4
Total Sales	566	810	1079	1402
Raw Material	445	615	811	1078
Employee	17	34	45	55
Other Expenses	37	64	95	105
Total Expenses	499	713	951	1238
PBDIT	67	97	128	164
Interest	22	34	45	55
Depreciation	4	7	9	12
PBT	41	56	74	97
Tax	7	11	20	32
Net Profit	34	45	54	65
% Change	70.00	32.35	20.04	19.69

Bal Sheet Rs. Cr.	FY 08	FY 09	FY 10E	FY11E
Share Capital	17	17	17	17
Reserves	167	208	236	270
Networth	184	225	252	286
Minority Interest	0	0	0	0
Debt	133	248	308	330
<b>Total Liabilities</b>	<b>317</b>	<b>473</b>	<b>560</b>	<b>616</b>
Fixed Assets	92	154	185	225
Capital WIP	32	61	57	57
Investments	85	0	1	1
Net Current Assets	110	264	323	339
Deferred Tax (Less)	2	6	6	6
<b>Total Assets</b>	<b>317</b>	<b>473</b>	<b>560</b>	<b>616</b>

Key Ratio (%)	FY 08	FY09	FY 10E	FY11E
PBDIT	11.86	12.02	11.91	11.70
NPM	6.01	5.56	5.01	4.61
EPS Rs.	20.36	26.95	32.35	38.72
Cash EPS Rs.	22.75	31.14	37.74	45.90
CMP Rs.	205	205	205	205
PE (X)	10.07	7.61	6.34	5.30
Cash PE (X)	9.01	6.58	5.43	4.47

Key Ratio (%)	FY 08	FY 09	FY 10E	FY11E
ROCE	21.16	20.52	22.84	26.52
RONW	18.51	20.03	21.40	22.57
M.Cap /Sales	0.61	0.42	0.32	0.24
Div/Share	2.0	2.0	2.5	3
Payout (%)	9.8	7.4	7.7	6.5
Book Value/Share	110.0	134.6	151.1	171.5
Debt/Equity	0.72	1.10	1.22	1.15

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