

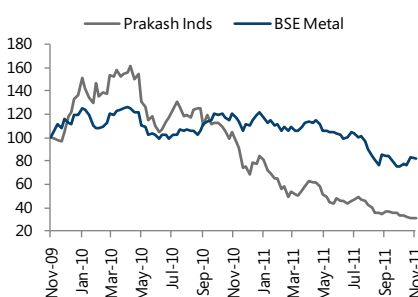
## Result Update - Q2FY12

### Buy

Reco	Maintained
CMP	₹ 46
Target Price	₹ 96
Upside Potential	108%

#### Price Performance

52 wk Hi/Lo	155/42
All time Hi/Lo	355/1
6 mnth Average Vol	234386
Stock Beta	1.19



#### Valuation

	FY11	FY12P	FY13P
P/E (x)	2.32	2.64	1.78
P/BV (x)	0.37	0.33	0.28
RONW (%)	15.5	12.1	15.3
ROCE (%)	11.7	8.4	11.5

#### Peer Valuation (FY12)

	Adhunik	Godawari
PE	4.8	3.6
EV/EBIDTA	7.1	3.2

#### Equity Data

Market Cap. (bln)	6
Face value (₹)	10
No of shares o/s (mln)	134

	Jun'10	Jun'11	Δ%
Promoters	51.07	46.15	-9.63
DFI's	4.54	3.78	-16.74
FII's	13.16	11.03	-16.18
Public	31.23	39.04	25.01

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## Prakash Industries

### Inline Numbers

Prakash Industries (PIL) top line came higher than our estimates due to slightly higher realization. However EBITDA and PAT came in line with expectation as positive impact of higher realization has been mitigated by higher material cost.

#### Higher realization led to improved top line

PIL's Net Sales for Q2FY12 grew by 8.8% y-o-y to ₹ 4580mln due to higher realizations which offset the impact of lower volumes. Sequentially, Net Sales de-grew by 8.1% due to fall in volumes. We believe that Net Sales growth in coming quarters could be higher as production has resumed at normal levels and realization for all products will remain more or less stable.

#### Cost pressure not easing off

PIL's EBITDA for Q2FY12 de-grew by 15.5% y-o-y to ₹ 769mln due to higher iron ore and coal cost. Iron ore cost during the quarter has shot up to ₹ 7000/ton as against ₹ 4500/ton during the last quarter. Coal cost has also increased by almost 50% due to higher linkage and E-auction prices. As a result, PIL's EBITDA Margin for Q2FY12 fell by 480 bps to 16.8%. Despite stable prices EBITDA and EBITDA Margin fell sequentially by 15.3% & 140 bps respectively due to lesser production in higher margin Wire rod segment.

#### PAT de-grew by 22.7%

PAT for the quarter de-grew by 22.7% y-o-y & 22.9% q-o-q to ₹ 548mln due to dismal operating performance and higher interest outgo. Interest cost is expected to move up from here on due to capitalization of current capex.

#### Valuation & outlook

At CMP of ₹ 46, the stock is trading at 2.6x & 1.7x of its FY12E & FY13E earnings and it is trading at 4.9x & 3.6x of its FY12E & FY13E EV/EBIDTA. The stock looks grossly undervalued at these valuations and seems to have more than factored in all the negative news flows. Delays in opening captive resources, considerable delays in commissioning of new capacities and CBI enquiry news has taken toll on the company and the stock has been hammered down very badly. We believe that things are set for a change for PIL from here on as cost headwinds have peaked and the company is very close to commission its capex program. Moreover healthy balance sheet and stable business model places PIL above its peers. Thus we continue to remain bullish on the company and believe that the company is grossly undervalued and trading at an unwarranted discount. Hence we maintain our 'BUY' recommendation with a price target of ₹ 96.

#### Summary Financials

₹ in Mn	2010	2011	2012P	2013P
Net Sales	15,669	16,641	19,093	22,654
OPBDIT	3,571	3,466	3,261	5,107
Net Profit	2,662	2,671	2,341	3,474
EPS	21.9	19.9	17.4	25.8
Networth	14,308	17,188	19,371	22,688
Debt	2,301	6,766	11,246	12,746
Fixed Assets	13,773	19,228	26,531	33,001
Net Current Assets	3,423	4,763	4,122	2,470

**Still evaluating between Steel and Power**

In past one year PIL has changed its capex plans twice. In the beginning of the year the company has changed configuration of its power plants and deferred steel capex as merchant power market was looking more attractive than steel. However with merchant power rates falling substantially, the company has deferred its all power projects except the ongoing 125 MW. Moreover, the management has indicated that it will only revive power capex once its own coal mine gets operational. Now the company is also going slow on steel capex due to higher raw material prices and tepid demand.

Product	Unit	Existing Capacity	Expansion	Total	Investment (₹ mln)	Old Schedule mt/date	New Schedule mt/date
Sponge	mtpa	0.60	0.60	1.20	5,300	.2 - June 11	Completed
						.2 Deferred	Deferred
						.2 Deferred	Deferred
Steel	mtpa	0.7	0.30	1	1,000	Deferred	.15 by Dec 11
							.15 - Deferred
Power	MW	112	50 MW	775	25,000	125 - Sep-11	Will complete by Q4FY12
			WHRS,			100 - Sep-Dec	Deferred
			625 MW			100 - Sep-Dec	Deferred
			coal based			150 - Sep-Dec	Deferred
						150 - Sep-Dec	Deferred

Source - Company, MSFL Research

**Still no clarity on Iron ore and Coal Mines**

PIL is very resource rich company; however except one coal mine no other assets are operational. Iron ore mine in Kawardha is yet to receive forest clearance. However management expects that Sirkaguttu mine in Orissa would commence its operation by the end of this financial year. The landed cost of ore from this mine is expected to be ₹ 1500/ton. The Madanpur coal block is in 'No Go' category of environment ministry and the issue is not going to resolve any time soon. However Fatehpur mine is progressing well and will be operational within next two years.

**Operational highlights**

- ✓ During the quarter, the sponge iron production de-grew by 7.5% q-o-q to 107765 ton due to shut down in one of its kiln. The outside purchase of Sponge iron is almost nil due to lower in-house requirements. Thus the company has started selling sponge iron in outside market and sold 13730 tons during the quarter.
- ✓ Steel and wire rod production de-grew by 26.5% & 32.6% y-o-y to 99358 & 76135 ton respectively as the company has decided to sell power into merchant market to maximize returns. The conditions are still same, thus steel and wire rod volumes for Q3FY12 are expected to remain low.
- ✓ The company has partially commissioned its 125 MW power plant and started selling power into merchant market since October1. The company has sold close to 40 MW power in the month of October.

## Production, Sales & Realization Details

Production (tons)	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12
Sponge Iron	104015	114354	92757	116511	107765
Steel	135163	117986	95965	115252	99358
Structure mill/ TMT			14426	23411	
Wire Rod	112944	100990	75211	92019	76135
Ferro	10951	8091	9984	9814	10535
Power (units mln)	158.6	161.7	154.8	162.4	156.2
<b>Total</b>	<b>363073</b>	<b>341421</b>	<b>288343</b>	<b>357007</b>	<b>293793</b>
<b>Sales (Q)</b>					
Sponge		11073	2875	3007	13730
Steel	18420	13006	5114	8687	27923
Structure mill/ TMT			12455	23806	767
Wire Rod	110650	98598	76242	91144	78969
Ferro	8469	6160	8295	8197	8488
<b>Total</b>	<b>137539</b>	<b>128837</b>	<b>104981</b>	<b>134841</b>	<b>129877</b>
<b>Gross Realization ₹/ton</b>					
Sponge		19769	20626	21516	21959
Steel	25896	26465	30876	31438	32221
Structure mill/ TMT			35383	35621	34289
Wire Rod	30159	29883	36296	37583	37482
Ferro	59051	57419	57492	57167	55184

Source - Company, MSFL Research

## Q1FY12 Result Update

Description (INR Mln)	Q2FY12	Q2FY11	Y-o-Y	H1FY12	H1FY11	Q-o-Q
Gross Sales	5011	4611	8.7%	10469	9690	8.0%
Excise Duty	430	401	7.2%	902	835	8.1%
<b>Net Sales</b>	<b>4581</b>	<b>4210</b>	<b>8.8%</b>	<b>9566</b>	<b>8854</b>	<b>8.0%</b>
Other Operating Income	0	0		0	0	
Total Income	4581	4210	8.8%	9566	8854	8.0%
<b>Expenditure</b>						
Raw Material Consumed	2985	2533	17.8%	6309	5333	18.3%
Stock Adjustment	80	-17	-566.1%	34	25	34.9%
Employee Expenses	202	167	20.8%	380	350	8.6%
<b>Manufacturing Expenses</b>	<b>428</b>	<b>490</b>	<b>-12.7%</b>	<b>919</b>	<b>1051</b>	<b>-12.6%</b>
Other Expenses	118	126	-6.7%	248	257	-3.5%
Total Expenditure	3812	3300	15.5%	7890	7016	12.5%
<b>EBITDA</b>	<b>769</b>	<b>910</b>	<b>-15.5%</b>	<b>1676</b>	<b>1838</b>	<b>-8.8%</b>
EBITDA Margin (%)	16.8%	21.6%	-480bps	17.5%	20.8%	-330bps
Interest	25	4	573.0%	28	40	-28.4%
Depreciation	173	171	1.0%	337	340	-0.7%
Extra-ordinary Items	7	7	0.0%	14	14	0.0%
Other income	4	8	-44.9%	10	25	-62.6%
<b>PBT</b>	<b>569</b>	<b>736</b>	<b>-22.7%</b>	<b>1307</b>	<b>1471</b>	<b>-11.2%</b>
Total Tax	114	147	-22.4%	261	293	-10.9%
Net Profit (+) / Loss (-) before MI	548	709	-22.7%	1259	1406	-10.4%
EPS (INR)	4.1	5.8	-30.1%	9.4	11.6	-19.0%

## Financial Summary

### Profit & Loss

Particulars (₹ in mln)	2009	2010	2011	2012P	2013P
<b>Sales</b>	<b>15,256</b>	<b>15,669</b>	<b>16,641</b>	<b>19,093</b>	<b>22,654</b>
Total Expenditure	12,253	12,098	13,262	15,832	17,547
<b>EBIDTA</b>	<b>3,003</b>	<b>3,571</b>	<b>3,466</b>	<b>3,261</b>	<b>5,107</b>
EBIDTA Margin (%)	19.7%	22.8%	20.8%	17.1%	22.5%
Depreciation	425	568	673	696	1,031
EBIT	2,579	3,003	2,793	2,565	4,076
Interest cost	605	255	57	141	480
Operating Profit	1,974	2,748	2,736	2,424	3,596
Other Income	39.8	30.5	0.0	19.5	32.0
Extraordinary Item	34.4	46.2	0.0	27.5	28.0
<b>PBT</b>	<b>2,048</b>	<b>2,733</b>	<b>2,736</b>	<b>2,416</b>	<b>3,600</b>
Tax	6	71	65	75	126
<b>PAT (After MI)</b>	<b>2,042</b>	<b>2,662</b>	<b>2,671</b>	<b>2,341</b>	<b>3,474</b>
PAT Margin (%)	13.4%	17.0%	16.1%	12.3%	15.3%
EPS	17.68	21.87	19.86	17.41	25.83
Sales Growth (%)	21.7%	2.7%	6.2%	14.7%	18.7%
EBITDA Growth (%)	1.3%	18.9%	-2.9%	-5.9%	56.6%
PAT Growth (%)	2.7%	30.4%	0.4%	-12.4%	48.4%

### Balance Sheet

Particulars (₹ in mln)	2009	2010	2011	2012P	2013P
<b>Sources of Funds</b>					
Share Capital	1,155	1,217	1,345	1,345	1,345
Reserves & Surplus	9,350	13,091	15,843	18,026	21,343
<b>Networth</b>	<b>10,505</b>	<b>14,308</b>	<b>17,188</b>	<b>19,371</b>	<b>22,688</b>
Secured Loans	2,593	1,030	3,291	7,771	9,271
Unsecured Loans	0	1,272	3,476	3,476	3,476
<b>Total Loans</b>	<b>2,593</b>	<b>2,301</b>	<b>6,766</b>	<b>11,246</b>	<b>12,746</b>
Deferred Tax Liability	702	772	802	802	802
Minority Interest	0	0	0	0	0
<b>TOTAL</b>	<b>13,801</b>	<b>17,381</b>	<b>24,756</b>	<b>31,419</b>	<b>36,236</b>

### Application of Funds

Net Fixed Assets	11,285	13,773	19,228	26,531	33,001
Investment	22	22	270	270	270
Current Assets	4,153	5,227	7,102	7,020	6,482
Current Liabilities	1,850	1,804	2,339	2,898	4,013
<b>Net Current Assets</b>	<b>2,303</b>	<b>3,423</b>	<b>4,763</b>	<b>4,122</b>	<b>2,470</b>
Misc Expense not w/o	191	164	495	495	495
<b>TOTAL</b>	<b>13,801</b>	<b>17,382</b>	<b>24,756</b>	<b>31,419</b>	<b>36,236</b>

**Cash Flow**

Particulars (₹ in mln)	2009	2010	2011	2012P	2013P
Internal accruals	3,025	3,581	3,438	3,253	5,111
(Inc)/Dec in Net Current Assets	308	-36	-1,478	1,443	577
<b>Cash flow from Operations</b>	<b>2,689</b>	<b>2,701</b>	<b>1,431</b>	<b>4,621</b>	<b>5,562</b>
Inc/(Dec) in Debt	-921	-1,663	2,261	4,480	1,500
Inc/(Dec) in Equity	0	2,841	158	0	0
<b>Cash flow from Financing</b>	<b>-921</b>	<b>1,177</b>	<b>4,969</b>	<b>4,182</b>	<b>863</b>
Fixed Asset formation	-2,560	-3,202	-6,241	-8,000	-7,500
Inc/(Dec) in Investment	5	9	-250	0	0
<b>Cash flow from Investment</b>	<b>-2,301</b>	<b>-3,174</b>	<b>-6,788</b>	<b>-8,000</b>	<b>-7,500</b>
<b>Net Change in Cash</b>	<b>-532</b>	<b>705</b>	<b>-388</b>	<b>803</b>	<b>-1,075</b>

**Ratio**

Valuation Ratio	2009	2010	2011	2012P	2013P
P/E	2.6	2.1	2.3	2.6	1.8
P/BV	0.5	0.4	0.4	0.3	0.3
EV/EBIDTA	2.5	1.9	3.6	4.9	3.6
EV/Sales	0.5	0.4	0.7	0.8	0.8
Dividend Yield (%)	0.0%	0.0%	2.2%	2.2%	2.2%
EPS	17.7	21.9	19.9	17.4	25.8
DPS	0.0	0.0	1.0	1.0	1.0
Book Value	89	116	124	140	165
Adj. ROE	19.4%	18.6%	16.0%	12.3%	15.3%
Adj. ROCE	20.3%	18.0%	11.7%	8.4%	11.5%

**Solvency Ratio (x)**

Debt/Equity	0.25	0.16	0.39	0.58	0.56
Net Debt/EBIDTA	0.76	0.36	1.77	3.01	2.43

**Turnover Ratio (x)**

Asset Turnover	1.05	0.95	0.92	0.93	0.88
Fixed Asset Turnover	1.47	1.25	1.01	0.83	0.76
Current Ratio	2.2	2.9	3.0	2.4	1.6
Inventory (days)	24	31	24	24	26
Debtors (days)	26.0	19.1	19.0	19.2	19.2
Creditors (days)	64.1	73.6	77.1	73.0	91.3

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Rating	Expected Return
Buy	> 15%
Accumulate	5 to 15%
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Not Rated	-

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