MSFL Research

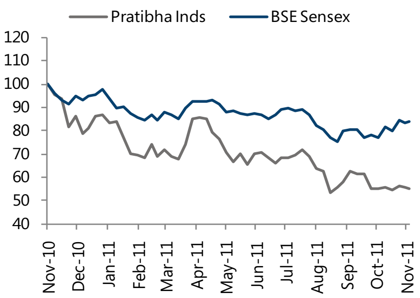
Result Update - Q2FY12

Buy

Reco	Maintained
CMP	₹ 44
Target Price	₹ 66
Upside Potential	50%

Price Performance

52 wk Hi/Lo	82/39
All time Hi/Lo	94/9
6 month Average Vol	100316
Stock Beta	0.95



Valuation

	FY11	FY12P	FY13P
P/E (x)	6.2	5.4	4.5
P/BV (x)	0.9	0.8	0.7
RONW (%)	18.8	15.9	16.3
ROCE (%)	13.8	11.9	11.9

Peer Valuation (FY12)

	Unity	ACIL
PE	2.9	9.0
P/BV	0.4	1.7

Equity Data

Market Cap. (₹ bln)	4.3
Face value (₹)	2
No of shares o/s (mln)	99

	Sep'10	Sep'11	Δ %
Promoters	61.98	52.26	-15.68
DFI's	8.58	5.49	-36.01
FII's	8.34	17.33	107.79
Public	21.10	24.92	18.10

Rahul Metkar
rahul.metkar@msflibg.in
(+ 91 22 30947115)

Ashish Kumar
ashish.kumar@msflibg.in
(+ 91 22 30947116)

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Pratibha Industries Limited

Steady state execution;capital management a challenge

Pratibha Industries continued its steady pace of execution and is on track to achieve consolidated revenue growth of 22-25%. An otherwise positive growth picture is marred by increasing challenges on balance sheet management which is evident from working capital cycle stretching to 161 days & increase in leverage to 1.5x (net debt/equity – 1.2x). The management attributes the same to capex for two big ticket project wins (Delhi Metro & Delhi Jal Board) in Q1FY12 and is confident of containing the same as the execution on these projects gathers pace. However, we expect the capital requirements to remain at the current elevated levels in FY12E and decline in FY13E. In addition, the hangover of pipe manufacturing division is restricting improvement in return ratios which we expect to improve only marginally in FY13E. Nevertheless, Pratibha Industries, with a strong focus in water & urban infrastructure development, delivery capability across scale which is demonstrated in its recent Delhi Metro & Delhi Jal Board project wins, remains a compelling play on the country's investment in water & urban infrastructure. A 17% CAGR in earnings over FY11-13E and attractive valuations presents a compelling investment case in Pratibha Industries. We maintain our Buy rating with a price target of ₹ 66. Worsening balance sheet & declining return ratios poses a risk to our recommendation.

Strong visibility; well placed for orders from Delhi Metro, river pollution control prjs

The order book stands at ₹ 58.4bln with a revenue visibility of 3.7yrs (based on FY12E revenue). The company booked an order inflow of ₹ 26.2bln and is L1 in projects worth ₹ 8bln while it targets to close FY12 with an order backlog of ₹ 60bln. In the near term the company expects momentum in orders from Delhi Metro phase III and Yamuna River Action Plan. Recent project wins from these two clients places it in a comfortable position for any future orders.

Operating margins to remain stable; JV orders to gain traction

As highlighted in our Q2FY12 Result First Cut we expect execution in orders being executed by Pratibha's JV's to pace up mainly driven by execution in Delhi Metro, Delhi Jal Board, Modak Sagar projects & Malabar Hill tunneling projects. We expect the operating margins to remain stable in 13-13.5% range. However, net profit growth may lag revenue growth due to increase in contribution from JV's and lower net profitability of JV's.

Maintain Buy; capital management remains key risk

A strong order book with a visibility of 4 years, demonstrated capabilities in water infrastructure segment, attractive valuations & possible trigger from sale of pipe manufacturing division are the highlights of our investment thesis. Given the recent big ticket order wins the company is comfortably placed for any opportunities from the same clients. We maintain our Buy rating with a price target of ₹ 66 based on 8xFY12E. Inability on the part of management to contain capital requirements & declining return profile pose risk to our TP & recommendation.

Summary Financials

₹ in Mln	FY10	FY11	FY12P	FY13P
Net Sales	10072	12681	15591	19421
OPBDIT	1367	1720	2086	2586
Net Profit	565	714	828	983
FDEPS	6.8	7.1	8.2	9.7
Net Worth	2754	4835	5576	6457
Debt	4348	4389	7988	8638
Fixed Assets	3004	3703	5728	5647
Net Current Assets	4176	5702	8017	9629

Exhibit 1: Quarterly Financials

(Figures in ₹ mln)	Q2FY12	Q2FY11	% chg	H1FY12	H1FY11	% chg
Net Sales	**3378**	**2596**	**30.1%**	**6992**	**5881**	**18.9%**
Total Expenditure	2924	2208	32.4%	6050	5071	19.3%
Construction Exp's	2293	1798	27.5%	4769	4226	12.8%
(% of sales)	67.9	69.3		68.2	71.9	
Staff Cost	218	151	44.1%	407	318	28.0%
(% of sales)	6.5	5.8		5.8	5.4	
Other Expense	454	388	60.0%	874	527	65.9%
(% of sales)	12.2	9.9		12.5	9.0	
EBIDTA	**454**	**388**	**17.0%**	**943**	**810**	**16.4%**
EBIDTA Margin	13.5	15.0		13.5	13.8	
Interest	194	149	29.9%	387	305	27.0%
Depreciation	54	42	27.0%	97	82	17.8%
PBT From Operations	206	197	4.5%	459	423	8.2%
Other Income	7	0	-	9.2	1	-
PBT after Extra items	**214**	**197**	**8.7%**	**468**	**424**	**10.4%**
Taxation	51	61	-16.7%	118	126	-6.1%
PAT	**163**	**136**	**20.0%**	**350**	**299**	**17.3%**
(% of Sales)	4.8	5.2		5.0	5.1	

Source: Company, MSFL Research

Exhibit 2: Segmental data

	Q2FY12	Q2FY11	% chg	H1FY12	H1FY11	% chg
Infrastructure & Construction	3241	2640	22.8%	6948	6976	-0.4%
Manufacturing	234	275	-14.8%	486	489	-0.7%
Unallocated	10	0		11	1	
Total	**3485**	**2915**	**19.6%**	**7444**	**7466**	**-0.3%**
Less: Inter-segment revenue	100	318		443	1586	
Net Sales	**3385**	**2597**	**30.4%**	**7001**	**5880**	**19.1%**
Segmental EBIT						
Infrastructure & Construction	395	327	20.6%	829	690	20.0%
Manufacturing	16	28	-43.0%	40	55	-28.5%
Unallocated	10	0		11	1	
EBIT Margin						
Infrastructure & Construction	12.2%	12.4%		11.9%	9.9%	
Manufacturing	6.9%	10.3%		8.2%	11.3%	

Source: Company, MSFL Research

JV orders gain traction in execution

We observe that over H1FY12 the contribution of JV executed orders to the consolidated topline has increased y-o-y from 6% to 16%. Hence the gap of 10% in revenue growth in standalone & consolidated levels. But since the profitability of the JV's has been substantially lower, the growth in revenues has not translated into growth at the operating level while the contribution by JV's at net profit level drops to nil. Hence, if the trend of higher execution in JV's continue then we may see high topline growth but comparatively lower net profit growth. This could change only if the JV profitability improves significantly to the standalone levels or standalone contribution to consolidated increases.

Higher interest cost on account of capex funding and increased working capital requirement

Company bagged big ticket projects viz. Yamuna River pollution abatement project (₹ 12.5bln) & Delhi Metro (₹ 4.5bln) during H1FY12 which required higher upfront investment in the form of machinery & working capital. The company incurred a capex of ₹ 1.28bln in H1FY12 which along with ~₹ 3bln increase in working capital was funded by debt resulting in higher interest cost. Management has guided for a total capex of ₹ 1.6-1.70bln for FY12E.

Working capital deteriorates & so does leverage

Working capital for the company on a consolidated basis has deteriorated sequentially from 127days as on Mar'11 to 161 days as on Sep'11 primarily due to increase in inventory and Loans & Advances days by 24 & 30 respectively. In addition, capital expenditure of ~₹ 1.3bln has led to standalone & consolidated leverage increasing to 1.2 (Net debt/Equity – 0.9x) & 1.5 (Net debt/Equity – 1.2x) respectively from 0.8 & 0.9 respectively as on Mar'11

Order book at ₹ 58.4bln – 3.7x FY12E revenue

The current order backlog stands at ₹ 58.4bln which provides revenue visibilty for next 3.7 years based on FY12E revenues. The company recorded inflow of ₹ 26.2bln for H1FY12, besides that company is L1 in orders worth ₹ 8.0bln (between urban Infra & building segment). Company expects to achieve orderbacklog of ₹ 60bln by FY12. Water & Environment engineering dominates the order book and contributes 63% of total order book, while Urban Infrastructure contributes the rest. The company is bidding for orders worth ₹ 25.0-30bln on a monthly basis which indicates company could meet its order book guidance for FY12E.

Water segment to remain the key segment

Management indicated that water segment shall remain the key segment for the company and shall drive the order inflow in next two years. Management is upbeat about orders from the Ganga & Yamuna Action Plan. According to the management, both these plans together provide an opprotunity to the tune of ₹ 400bln, out of which orders worth of only ₹ 25.0bln have been awarded till date. Besides, the company is bidding for water projects in Gujarat and Rajasthan.

NCR/Mumbai dominating regions

Management indicated the new orders are expected to come in from NCR and Mumbai regions. Currently, 67% of total order inflow of H1FY12 has come in from NCR region. However in order to reduce the concentration risk, company has now started bidding in new geographies in the Buildings segment. Recently company has bid for projects in Bengaluru, Pune and Hyderabad in the Buildings segment and expects orders from these geographies to flow-in from Q4FY12.

Exhibit 3: Strong order book

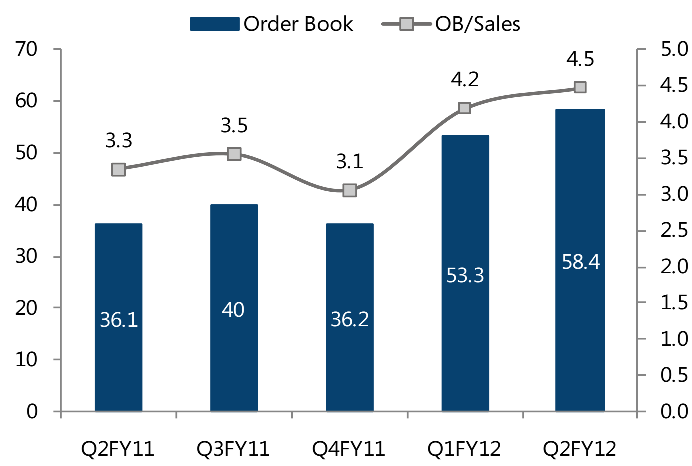


Exhibit 4: Segmentwise order backlog breakup

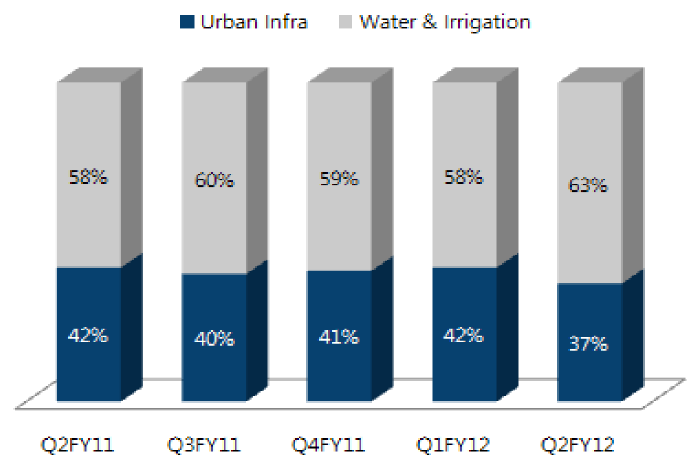


Exhibit 5: Order book protected from price escalation

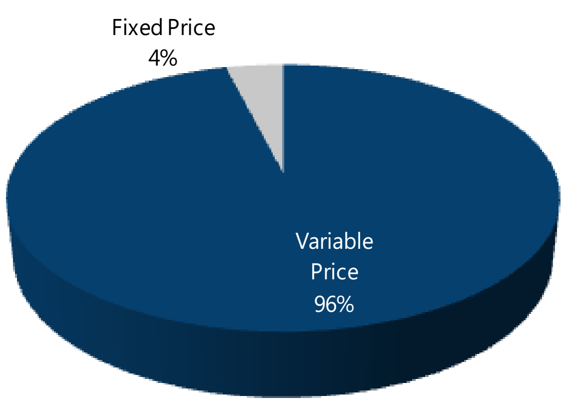


Exhibit 6: Segmentwise revenue contribution

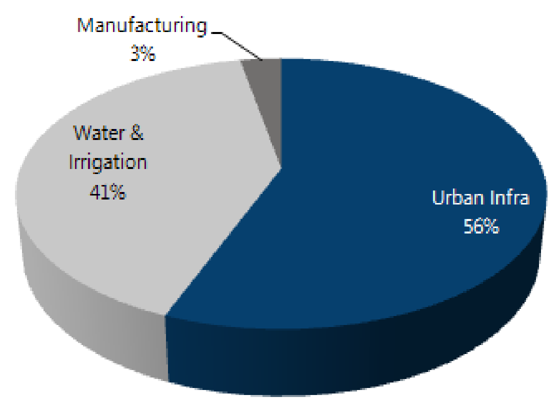


Exhibit 7: EBITDA margins under pressure

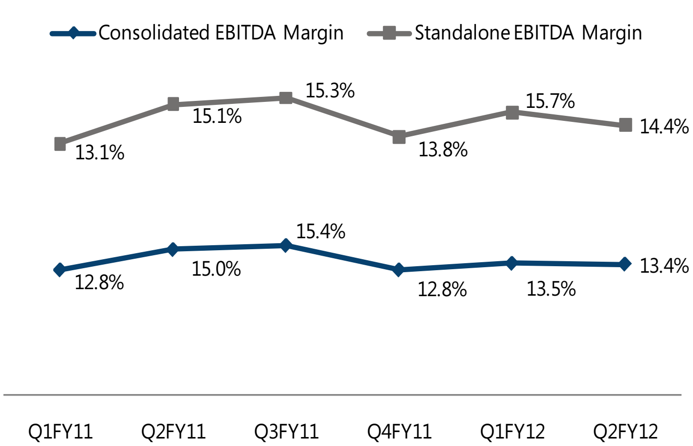


Exhibit 8: Declining PAT margin

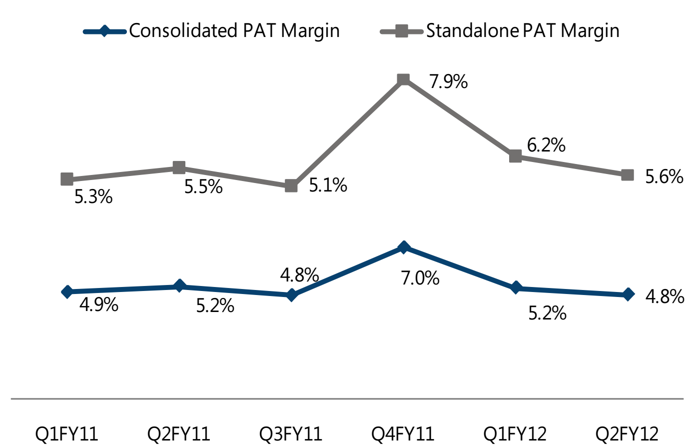


Exhibit 9: Deteriorating Working capital cycle

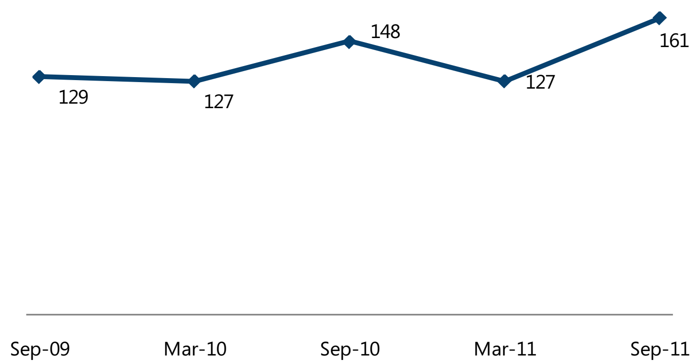
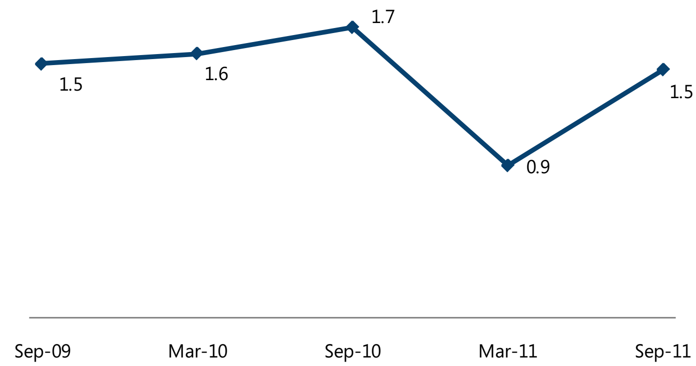


Exhibit 10: Increase in levergae



Source: Company, MSFL Research

Key takeaway from conference call

- Management maintained 25% reveune growth for FY12E & FY13E. Robust order inflow in H1FY12 should support revenue growth for FY13E.
- EBITDA margin to remian above 13% for FY12E & FY13E
- Manufacturing segment shall remain under pressure and will continue to face intense competition. Management indicated a possible exit from this segment in near future.
- Working capital to remain above 160 days fro FY12E & FY13E
- Revenue recognition from DMRC and Delhi Jal Board to start in Q3FY12 & Q4FY12.
- DMRC Car Parking project: Company expects to complete the project by end of next quarter. Company is now looking to lease out the available space. Company has infused ₹ 0.30bln equity in the project
- Bhopal Sanchi project: Company has achieved the financial closure for the project and the cost of debt is 11.5%.

Revision in estimates

Factoring in higher order inflow, higher revenue recognition from recently bagged projects in NCR and higher interest expense, our revised FY12E & F13E estimates stands as follows

Exhibit 11: Revision in estimates

	FY12E			FY13E		
	New	Old	% chg	New	Old	% chg
Sales	15591	15341	1.6%	19421	18783	3.4%
EBIDTA	2086	2056	1.4%	2586	2467	4.8%
PAT	828	832	-	983	1032	-4.7%
EPS	8.2	8.2	-	9.7	10.2	-4.7%

Source: MSFL Research

Outlook: Maintain Buy

A strong order book with a visibility of 4 years, demonstrated capabilities in water infrastructure segment, attractive valuations & trigger from possible sale of pipe manufacturing division are the highlights of our investment thesis. Given the recent big ticket order wins the company is comfortably placed for any opportunities from the same clients. We maintain our Buy rating with a price target of ₹ 66 based on 8xFY12E. Inability on the part of management to contain capital requirements & declining return profile pose risk to our TP & recommendation.

Financial Summary

Profit & Loss

Particulars (₹ in mln)	2008	2009	2010	2011	2012P	2013P
Sales	**5651**	**8058**	**10072**	**12681**	**15591**	**19421**
Total Expenditure	4988	7141	8705	10961	13505	16835
EBIDTA	**662**	**916**	**1367**	**1720**	**2086**	**2586**
EBIDTA Margin (%)	11.7%	11.4%	13.6%	13.6%	13.4%	13.3%
Depreciation	36	72	140	170	225	281
EBIT	626	845	1226	1550	1861	2304
Interest cost	225	341	522	641	826	1041
Operating Profit	401	504	704	909	1035	1264
Other Income	0	50	63	59	83	47
PBT	**403**	**554**	**767**	**968**	**1117**	**1310**
Tax	61	107	201	254	289	328
PAT	**343**	**447**	**565**	**714**	**828**	**983**
PAT Margin (%)	6.1%	5.5%	5.6%	5.6%	5.3%	5.1%
EPS	4.1	5.4	6.8	7.1	8.2	9.7
Sales Growth (%)	88%	43%	25%	26%	23%	25%
EBITDA Growth (%)	81%	38%	49%	26%	21%	24%
PAT Growth (%)	68%	30%	26%	26%	16%	19%

Balance Sheet

Particulars (₹ in mln)	2008	2009	2010	2011	2012P	2013P
Sources of Funds						
Share Capital	167	167	167	199	199	202
CCPS	0	0	0	150	150	0
Reserves & Surplus	1672	2080	2587	4486	5227	6255
Networth	**1839**	**2247**	**2754**	**4835**	**5576**	**6457**
Secured Loans	1284	2179	3048	3270	6870	7520
Unsecured Loans	44	305	1300	1119	1118	1118
Total Loans	**1328**	**2484**	**4348**	**4389**	**7988**	**8638**
DTL	18	62	131	184	184	184
TOTAL	**3185**	**4793**	**7233**	**9408**	**13749**	**15279**
Application of Funds						
Net Fixed Assets	1237	2151	3004	3703	5728	5647
Investment	853	1	51	1	1	1
Current Assets	4379	5618	8279	11169	15787	18797
Current Liabilities	3283	2977	4103	5468	7769	9167
Net Current Assets	**1095**	**2641**	**4176**	**5702**	**8017**	**9629**
Deferred Tax Asset (Net)	0	0	0	0	0	0
Misc. expenditure not w/o	0	0	0	1	1	1
TOTAL	**3185**	**4793**	**7233**	**9409**	**13749**	**15279**

Cash Flows

Particulars (₹ in mln)	2008	2009	2010	2011	2012P	2013P
Internal accruals	379	518	706	884	1053	1264
(Inc)/Dec in Net Current Assets	1062	-1042	-1052	-213	-2490	-1675
Cash flow from Operations	**1441**	**-524**	**-347**	**671**	**-1437**	**-411**
Inc/(Dec) in Debt	-35	1156	1888	44	3599	650
Inc/(Dec) in Equity	607	0	0	1437	0	0
Dividend & Tax	0	-39	-39	-82	-86	-102
Cash flow from Financing	**328**	**777**	**1327**	**758**	**3513**	**548**
Fixed Asset formation	-779	-986	-994	-863	-2250	-200
Inc/(Dec) in Investment	-825	886	-51	56	0	0
Cash flow from Investment	**-1604**	**-100**	**-1044**	**-807**	**-2250**	**-200**
Net Change in Cash	**165**	**153**	**-64**	**623**	**-174**	**-63**

Ratios

Valuation Ratio	2008	2009	2010	2011	2012P	2013P
P/E	10.7	8.2	6.5	6.2	5.4	4.5
P/BV	2.0	1.6	1.3	0.9	0.8	0.7
EV/EBIDTA	6.7	5.9	5.4	4.3	5.4	4.7
EV/Sales	0.8	0.7	0.7	0.6	0.7	0.6
Dividend Yield (%)	0.2%	0.2%	0.3%	1.4%	1.4%	1.4%
EPS	4.1	5.4	6.8	7.1	8.2	9.7
DPS	0.1	0.1	0.1	0.6	0.6	0.6
Book Value	22.0	26.9	33.0	47.1	54.6	63.9
Adj. ROE	18.6%	21.9%	22.6%	18.8%	15.9%	16.3%
Adj. ROCE	16.7%	17.1%	15.0%	13.8%	11.9%	11.9%
Solvency Ratio (x)						
Debt/Equity	0.7	1.1	1.6	0.9	1.4	1.3
Debt/EBIDTA	2.0	2.7	3.2	2.6	3.8	3.3
Turnover Ratio (x)						
Asset Turnover	1.8	1.7	1.4	1.3	1.1	1.3
Fixed Asset Turnover	5.7	4.8	3.2	3.5	2.7	3.2
Current Ratio	1.3	1.9	2.0	2.0	2.0	2.1
Inventory (days)	118.4	95.1	117.3	109.1	145.7	143.7
Debtors (days)	50.1	63.9	70.4	54.6	48.0	50.0
Creditors (days)	197.7	122.6	131.6	137.6	165.0	158.0

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Key ratings:

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

Marwadi Shares & Finance Limited

Institutional Business Group, *MSFL*
@p-sec, 306, Gresham Assurance House
132, Mint Road, Fort, Mumbai - 400 001
Tel : + 91 22 30947100 / 102 Fax : +91 22 2269 0478

Registered Office
Marwadi Financial Plaza, Nava Mava Main Road,
Off 150 FT. Ring Road, Rajkot - 360 005
Tel : + 91 281 2481313 / 3011000