

Pratibha Industries Ltd.

Sensex: 19561

CMP: INR 44

Target: INR 68



Infrastructure

PIL declared healthy set of numbers for the quarter ended December 12, which were inline with our estimates. While the company reported a topline growth of 36.3% to INR 6143 mn driven by strong execution of order book, net profit grew at a slower pace growing by 6.4% to INR 203 mn restricted by sharp hike in depreciation expenses. Operating margins declined by 149 bps to 11.3%. Order inflow remained strong in 9MFY13 as PIL booked orders of ~INR 20 bn leading to total order backlog ~INR 65 bn (3.5x TTM revenues), thereby ensuring healthy revenue visibility for the next couple of years. We retain our BUY recommendation on the stock with a target of INR 68.

Superior execution driving revenues

PIL reported strong consolidated revenue growth of 36.3% to INR 6143 mn in Q3FY13 led by strong execution of ongoing projects and ramp up of revenue recognition from some of the large orders bagged in the last financial year including Delhi Metro. Execution of the Delhi Jal Board project which faced some hiccups due to monsoons is expected to ramp up in the current quarter. The manufacturing division continued to disappoint with 91.8% decline in revenues. 42.5% of the revenue was from water segment, 38.0% from building segment and the balance 19.5% from Urban Infrastructure segment.

EBIDTA margin declined by 149 bps

EBIDTA margin declined by 149 bps to 11.3% in the last quarter largely due to 295 bps increase in cost of goods sold as % of sales to 73.7%. Total expenses surged by 38.6% % to INR 5448 mn on a YoY basis. We expect margins to improve due to execution of high margin water projects and commencement of revenue recognition from some of the large projects bagged in the last financial year.

Higher depreciation expenses restricts profitability

Lower other income of INR 20 mn (YoY decline of 61.4%) coupled with 71.8% surge in depreciation expenses restricted the net profit growth to 6.4% at INR 203 mn. PAT margin declined by 93 bps to 3.3% due to higher raw material costs and higher borrowing costs.

Healthy order book provides sound revenue visibility

PIL has a robust and well diversified order backlog of ~INR 65 bn (3.5 x its TTM revenues) with an average execution period of 30

months, which offers strong revenue visibility for PIL over the next couple of years. 40% of orders are from water space, 30% from urban infra and 30% are from building. Order inflow remained strong at ~INR 20 bn in 9MFY13. The company has placed bid for several projects (focusing on bidding for large projects) and is L1 in projects worth INR 20 bn. PIL is looking to bag orders from Dubai and Saudi Arabia, which would aid the company in improving its balance sheet, since these projects typically have 20% advance and also enjoys better margin profile of about 16%.

Shareholder approval for hive off Pratibha Pipes & Structures

PIL has obtained shareholder approval to sell off the pipes division for ~INR 1.5 bn. Any sale proceeds from this would provide the company additional liquidity to meet the working capital needs and will enable it to focus on its core contracting business.

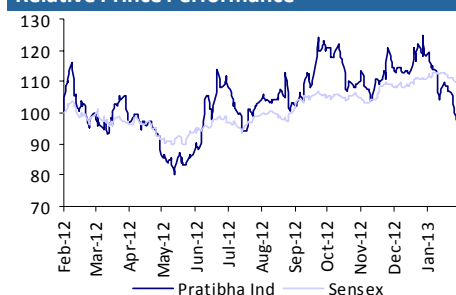
Outlook & Valuations

We remain positive on the infrastructure sector and PIL with proven track record & efficient project delivery mechanisms is expected to be one of the prime beneficiaries of emerging opportunities in the sector. With the expected economic recovery, we expect sharp rerating of the stock with market pricing in its focused approach, strong order backlog and sustainable high margins.

At the CMP of INR 44, the stock trades at a P/E and EV/EBIDTA of 3.6x and 4.4x its FY14E earnings respectively. We retain our BUY recommendation and target of INR 68 (using three stage DCF based valuation method) on the stock.

Shareholding (%)	Dec-12
Promoters	51.53
FIIIs	21.80
DIIIs	5.81
Others	20.86

Relative Price Performance

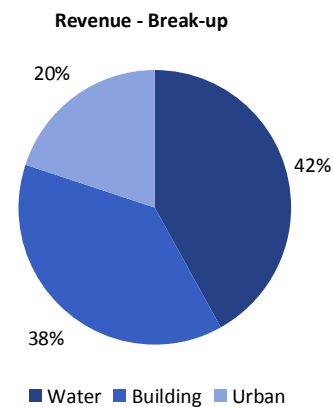
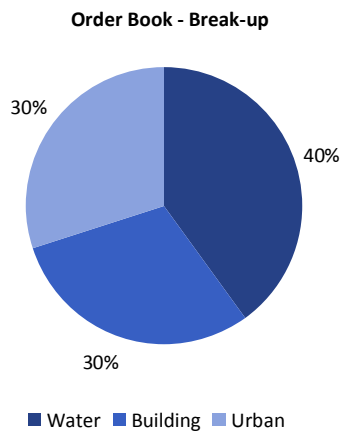


Key Data	
BSE Code	532718
NSE Code	PRATIBHA
Bloomberg Code	PRIL IN
Reuters Code	PRTI.BO
Shares O/S (mn)	101.03
Face Value	2.00
Mcap (INR bn)	4.43
52 Week H/L	58.65/35.25
2W Avg. Qty, NSE	46549
Free Float (INR bn)	2.15
Beta	0.90

Y/E March (INR mn)	FY11	FY12	FY13E	FY14E
Net Sales	12681	16646	20818	25344
Growth (%)	25.91%	31.27%	25.06%	21.74%
EBIDTA Margin (%)	13.57%	13.10%	13.23%	13.41%
APAT	705	811	913	1242
Growth (%)	24.75%	15.00%	12.55%	36.12%
EPS	7.09	8.16	9.03	12.30
P/E	9.49	5.79	4.85	3.57
P/BV	1.38	0.83	0.69	0.59
EV/EBIDTA	5.51	5.62	4.99	4.43
Net Debt-Equity Ratio	0.64	1.45	1.55	1.48
RoACE (%)	19.71	16.53	15.57	17.05
RoAE (%)	18.59	15.48	15.15	17.80

Quarterly Financials

Particulars (INR mn)	Q3FY13	Q3FY12	% YoY	Q2FY13	% QoQ	9MFY13	9MFY12	% YoY
Net Sales	6143	4508	36.28%	4422	38.93%	16163	11471	40.90%
Other Operating Income	40	17	131.98%	12	229.75%	70	42	64.27%
Other Income	20	51	-61.39%	123	-84.11%	144	127	13.48%
Total Income	6202	4575	35.56%	4556	36.12%	16377	11641	40.68%
Total Expenditure	5448	3930	38.62%	3837	41.98%	14081	9979	41.10%
Cost of goods sold	4527	3189	41.96%	2853	58.71%	11415	7958	43.45%
Employee Cost	413	312	32.39%	353	17.07%	1117	719	55.45%
Other Expenses	508	429	18.30%	632	-19.64%	1549	1303	18.86%
EBIDT	755	645	16.96%	719	4.88%	2296	1662	38.18%
EBIDTM	11.32%	12.81%	(149 bps)	13.22%	(191 bps)	12.88%	13.01%	(12 bps)
Interest	358	324	10.50%	327	9.42%	1117	776	43.87%
EBDT	397	321	23.48%	392	1.09%	1179	885	33.20%
Depreciation	95	55	71.84%	86	11.35%	246	152	61.33%
PBT	302	266	13.40%	307	-1.76%	933	733	27.35%
Tax	99	75	31.16%	94	5.24%	288	193	49.25%
APAT	203	191	6.42%	213	-4.83%	645	540	19.52%
APATM	3.31%	4.23%	(93 bps)	4.83%	(152 bps)	3.99%	4.71%	(71 bps)
EPS	2.01	1.92	4.73%	2.11	-4.83%	6.39	5.43	17.63%
Equity	202	199	1.61%	202	0.00%	202	199	1.61%



Source: Company, SPA Research

Financials

Income Statement

Y/E March (INR mn)	FY11	FY12	FY13E	FY14E
Net Sales	12681	16646	20818	25344
<i>Growth (%)</i>	<i>25.91%</i>	<i>31.27%</i>	<i>25.06%</i>	<i>21.74%</i>
Other Manufacturing Expenses	9664	7574	16093	19439
Power & Fuel Cost	43	0	79	91
Employees Cost	646	1069	1166	1394
Total Expenditure	10961	14466	18064	21946
EBIDTA (without OI)	1720	2181	2755	3398
<i>Growth (%)</i>	<i>25.91%</i>	<i>26.76%</i>	<i>26.33%</i>	<i>23.35%</i>
<i>EBITDA Margin %</i>	<i>13.57%</i>	<i>13.10%</i>	<i>13.23%</i>	<i>13.41%</i>
Depreciation	170	228	283	341
EBIT	1550	1953	2472	3057
<i>EBIT Margin %</i>	<i>12.22%</i>	<i>11.73%</i>	<i>11.87%</i>	<i>12.06%</i>
Interest Expenses	641	961	1352	1466
Other Income	59	114	123	132
EBT	968	1106	1243	1723
Tax Expenses	254	295	330	481
PAT	714	811	913	1242
Extraordinary Items	9	0	0	0
APAT	705	811	913	1242
<i>Growth (%)</i>	<i>24.75%</i>	<i>15.00%</i>	<i>12.55%</i>	<i>36.12%</i>
<i>APAT Margin (%)</i>	<i>5.56%</i>	<i>4.87%</i>	<i>4.38%</i>	<i>4.90%</i>

Key Ratios

Y/E March	FY11	FY12	FY13E	FY14E
Per Share Data (INR)				
Adjusted EPS	7.09	8.16	9.03	12.30
CEPS	9.34	11.22	12.65	16.17
DPS	0.60	0.60	0.70	0.80
BVPS	48.64	56.80	63.40	74.76
Return Ratios				
RoACE (%)	19.71	16.53	15.57	17.05
RoAE (%)	18.59	15.48	15.15	17.80
Balance Sheet Ratios				
Net Debt-Equity Ratio	0.64	1.45	1.55	1.48
Current Ratio	2.04	1.84	2.17	2.19
Interest Cover Ratio	2.51	2.15	1.92	2.18
Efficiency Ratios				
Total Asset Turnover	1.55	1.33	1.25	1.35
Inventory Days	117	127	126	121
Debtors Days	55	46	47	49
Creditors Days	69	85	82	78
Valuations				
P/E	9.49	5.79	4.85	3.57
P/BV	1.38	0.83	0.69	0.59
Dividend Yield (%)	0.89%	1.27%	1.60%	1.82%
Market Cap / Sales	0.53	0.28	0.21	0.17
EV/EBIDTA	5.51	5.62	4.99	4.43

Balance Sheet

Y/E March (INR mn)	FY11	FY12	FY13E	FY14E
SOURCES OF FUNDS				
Share Capital	349	349	202	202
Reserves	4486	5297	6203	7351
Total Networkth	4835	5646	6405	7553
Secured Loans	3270	7770	8771	9871
Unsecured Loans	1118	2367	2377	2432
Total Debt	4388	10137	11148	12303
Total Liabilities	9223	15783	17553	19856
APPLICATION OF FUNDS				
Net Block	3158	5975	7329	7488
Capital Work in Progress	545	1637	1000	1500
Investments	1	30	30	30
Total Current Assets	11169	18356	17352	20143
Total Current Liabilities	5468	9973	7999	9197
Net Current Assets	5702	8383	9353	10946
Net Deferred Tax	(184)	(241)	(159)	(109)
Total Assets	9222	15784	17552	19855

Cash Flow

Y/E March (INR mn)	FY11	FY12	FY13E	FY14E
EBT	968	1106	1243	1723
Depreciation	170	228	283	341
Interest	641	961	1352	1466
Inc./Dec. in working capital	(902)	(2034)	(1681)	(1701)
Tax paid	(201)	(219)	(249)	(431)
Other Income	(59)	(114)	(123)	(132)
Cash flow from operations (a)	618	(72)	825	1266
Inc./Dec. in investments	50	(28)	0	0
Change in Fixed Assets	(417)	(3045)	(1637)	(500)
Change in CWIP	(431)	(1092)	637	(500)
Others	(641)	(961)	(1352)	(1466)
Cash flow from investing (b)	(1439)	(5126)	(2352)	(2466)
Inc./Dec. in capital	1287	0	150	0
Inc./Dec. in debts	41	5749	1010	1155
Dividend paid	(81)	(60)	(71)	(81)
Interest paid	(641)	(961)	(1352)	(1466)
Others	839	1116	1078	1483
Cash flow from financing (c)	1445	5845	816	1092
Opening cash balance	658	1282	1928	1218
Cash Flow during the year (a+b+c)	623	647	(711)	(107)
Closing cash balance	1282	1928	1218	1110

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Disclosure of Interest Statement

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| 1. Analyst ownership of the stock | - No |
| 2. Group/Directors ownership of the stock | - No |
| 3. Broking relationship with company covered | - No |

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