

STOCK DATA

Market Cap	Rs5.5bn
Book Value per share	Rs110
Eq Shares O/S (F.V. Rs.10)	16.7mn
Median Vol (12 mths)	63,351 (BSE+NSE)
52 Week High/Low	Rs470/196
Bloomberg Code	PRIL IN
Reuters Code	PRIL.BO

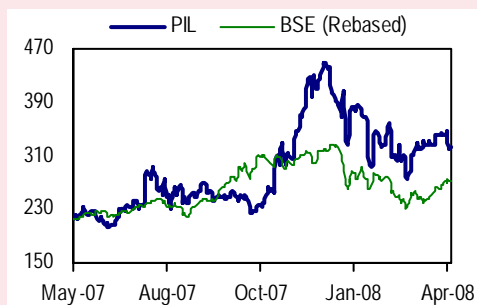
SHAREHOLDING PATTERN (%)

Qtr. Ended	Sep-07	Dec-07	Mar-08
Promoters	70.3	60.2	60.2
MFs/FIs	4.4	10.4	10.5
FIIIs	6.9	17.3	17.7
PCBs	5.9	3.9	3.9
Indian Public	12.5	8.2	8.5

STOCK PERFORMANCE (%)

	1M	3M	12M
Absolute	(0.3)	0.6	48.0
Relative	(9.0)	3.9	19.2

STOCK PRICE PERFORMANCE



KEY HIGHLIGHTS

Pratibha Industries Ltd's (PIL's) sales doubled to Rs2.2bn in Q4FY08. This was on back of a strong order book and increasing contribution from its HSAW pipes division. However, surge in raw material cost/sales by 478bps led to a slide in OPM to 10.3%. This along with higher depreciation contained net profit growth to 61% at Rs103mn.

● **Strong order book**

PIL's current order book (core construction business) stands at Rs20bn, with major chunk (~60%) being accounted for by Water Management Projects (WMPs). While urban infrastructure projects constitute ~32% of the order book, road projects account for the balance.

● **Received API certification for HSAW pipe plant**

PIL's HSAW plant (capacity 92mtpa) commissioned in Q2FY08 received API certification in Q4FY08. With this, PIL can foray into the lucrative oil and gas EPC segment. Also, its 1.7mn sq. mtrs. coating plant became operational in Q4FY08. At full capacity, this should add ~Rs1.2bn to its topline.

● **Raised Rs607mn through QIP**

PIL raised Rs607mn, by offering 1.2mn shares each to Merrill Lynch Capital Markets Espana SASV and Reliance Capital Trustee Co. Ltd. at Rs253/share leading to a dilution of 14.4% (on post issue capital). It plans to utilize the funds for expanding its HSAW pipes division.

● **Group restructuring**

Pratibha Pipes and Structural Ltd. (PPSL), a promoter group company, will become a 100% subsidiary under a scheme of restructuring. This will result in a 14.7% dilution on fully diluted equity capital of Rs19.6mn. PIL will also transfer its HSAW plant to PPSL.

VALUATIONS AND RECOMMENDATION

At the CMP of Rs327, PIL trades at a P/E of 8.2x and EV/EBIDTA of 5.9x FY10E earnings. A healthy order book, strong presence in WMPs and revenues from the pipe manufacturing should enable PIL to capitalise on opportunities in the infrastructure sector. We maintain a 'BUY' recommendation with a 12-month price target of Rs480.

KEY FINANCIALS (CONSOLIDATED)

Rs mn	Quarter Ended			Yr Ended (March)				
	Sept-07	Dec-07	Mar-08	2006	2007	2008E	2009E	2010E
Net Sales	959	1,754	2,192	1,741	3,004	5,651	9,742	12,317
YoY Gr.(%)	81.6	111.5	99.5	43.4	72.5	88.1	72.4	26.4
Op. Profits	159	183	226	220	367	662	1,104	1,397
Op. Marg.(%)	16.6	10.4	10.3	12.7	12.2	11.7	11.3	11.3
Net Profits	68	111	103	123	204	343	637	782
Eq. Capital	143	167	167	143	143	167	196	196

KEY RATIOS

	Yr Ended (March)				
	2006	2007	2008E	2009E	2010E
EPS (Rs)	6.3	10.5	17.5	32.6	40.0
ROCE (%)	23.2	21.4	20.0	23.0	25.3
RONW (%)	24.4	23.1	24.6	29.8	27.9
P/E (x)	52.1	31.3	18.7	10.0	8.2
EV/Sales (x)	3.0	1.9	1.3	0.9	0.7
EV/EBDIT (x)	22.8	15.2	10.7	7.5	5.9

Q4FY08 Performance Overview

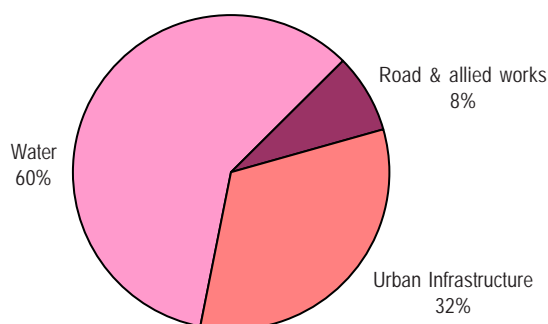
PIL's revenues doubled to Rs2.2bn, riding a strong orderbook in core construction business. While infrastructure and construction segment contributed Rs1.7bn (~79%), revenues from HSAW pipes division were at Rs466mn (21% of revenues).

The company is executing a water supply project (on deferred payment basis) worth Rs2bn for Navi Mumbai Municipal Corporation (NMMC). In Nov07, PIL securitised its receivables of Rs 1.46bn with Reliance Capital Ltd. for Rs1.4bn. With the 1st instalment being paid by NMMC in Q4FY08, PIL booked the entire loss on securitisation to the tune of Rs64mn. This led to higher other expenditure to Rs884mn. Also material costs as a percentage of sales rose to 478 bps to 83.1% on a YoY basis. The spike in raw material costs coupled with loss on securitisation put OPM under pressure, which shrank by 198bps to 10.3%. Consequently operating profit rose 67% to Rs226mn.

With its HSAW plant getting commissioned, depreciation quadrupled to Rs11mn. Also interest cost increased marginally to Rs74mn. Other income was negative to the tune of Rs26mn. Hence net profit growth was contained at 61% with PIL posting net profit of Rs103mn.

Order Book as on FY08

Order book break up



Source: Company

Net sales doubled riding on back of a strong order book and contribution from the HSAW pipes division...

WMPs remain the key business segment for PIL accounting for a substantial part of the order book...

The current order book stands at Rs20bn and PIL's strong presence in WMPs has ensured that ~60% of order book is from WMPs. These orders are expected to be executed over 3 years. ~80% of the orders are from various government agencies, with the balance coming from private sector.

API certification for the SAW pipe division

PIL commenced commercial production of HSAW pipes (Rated Capacity:92k mtpa) at its new facility located at Wada in Thane District in Q2FY08. The HSAW plant was accredited by API (American Petroleum Institute) in Mar'08 where it obtained 'API 5L' certification. The same has made pipes manufactured by PIL eligible for oil & gas EPC contracts where it can undertake lucrative oil and gas EPC contracts with better margins.

The management has indicated the HSAW division has an order book for water supply projects, which would translate into more than effective annual capacity of ~65k mt.

Group restructuring

Promoters of Pratibha group currently own 83.3% in *Pratibha Pipes and Structural Ltd. (PPSL)* with a capacity of 36k mt of LSAW pipes through a holding company Pratibha Shareholding Pvt. Ltd. (PSPL). PPSL received PE funding of Rs150mn from *One Metro India Pvt Ltd* (OMIPL) for a 16.8% stake. Under the scheme of restructuring, PSPL and OMIPL will be merged in PIL, thereby making PPSL a 100% subsidiary of PIL. Shareholders of PSPL and *One Metro* will receive shares of PIL in lieu of their shareholding in these two companies.

PIL will thereafter demerge its HSAW pipes division into PPSL. The restructuring will result in a 14.7% dilution on a fully diluted equity capital of Rs19.6mn. Pratibha management has indicated that PPSL generated revenues of ~Rs1.8bn in FY08 with an NPM of ~5%. We expect the scheme to be earnings accretive for FY08. (Refer our update dated 24th Mar'08).

Ulhasnagar BOT project

PIL, in a 50:50 JV along with Unity Infraprojects Ltd., was awarded a water supply BOT project worth Rs94mn by Ulhasnagar Municipal Corporation (UMC). The project was scheduled to be executed in 18 months starting Jan'07. However, the JV is still awaiting the right-of-way from UMC. We believe that the project could face issues in land acquisition (which is the responsibility of UMC) and also heavy cost escalation. Considering the delays and uncertainty, we are not factoring in any value accruing from the project while valuing PIL. In our earlier update we estimated the value of the project at Rs11/sh of PIL.

OUTLOOK

PIL has a dominant position in WMPs with significant presence in Maharashtra (~50% of the current orderbook) especially Mumbai Metropolitan Region. It has also expanded in states like Rajasthan, Madhya Pradesh, Gujarat, Jammu & Kashmir and the NCR region. While WMPs offer margins of ~12-14%, PIL's HSAW facility could further strengthen margins in WMPs and also help PIL to establish its presence in the oil and gas EPC contracts. PIL is also establishing itself in tunneling projects, building structurals projects, airport infrastructure etc. and these segments/projects offer new growth avenues.

We expect net sales to surge at 60% CAGR to Rs12.3bn in FY10 on the back of a robust order book. While we expect PIL to earn ~12.5% margins in core construction business, margins in pipes business could face pressure due to rising steel prices. Hence, we estimate average OPM to be ~11.3-11.5% in FY09 and FY10. Accordingly, we expect net profits to grow by 56% CAGR to Rs782mn in FY10. However, with the expected dilution due to group restructuring, EPS is estimated to grow by 41% CAGR to Rs40 in FY10.

VALUATIONS AND RECOMMENDATION

At the CMP of Rs327, PIL trades at a P/E of 8.2x and EV/EBITD of 5.9x FY10 estimates. Given its strong presence in WMPs (offering higher margins in core construction business) and significant scale up in pipe manufacturing, PIL offers scope for upward revision in valuations. Thus, we maintain our 'BUY' recommendation with a 12-month price target of Rs480.

With its HSAW pipes plant receiving API certification, PIL is set to enter the oil and gas EPC segment...

Peer Comprison					
Company (Cons.FY09E)	Gayatri	Sadhbhav	Pratibha	Unity	Tantia
Revenues	12,844	12,117	9,742	11,026	5,459
Op. Profit	1,708	1,490	1,104	1,395	614
Net Profit	696	815	637	795	320
OPM%	13.3	12.3	11.3	12.7	11.2
EPS (Rs)	54.8	62.2	32.6	59.5	21
P/E	8.9	17.7	10.0	10.1	4.9
CMP	485	1,102	327	598	100

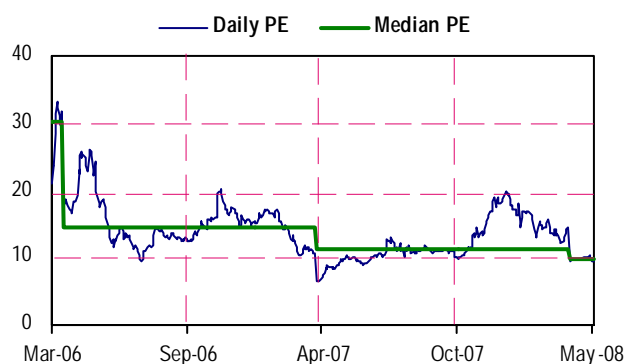
Company description

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 & year ended 31 March 2008 (Consolidated)

Particulars (Rs Mn)	Quarter Ended			Year Ended		
	31/03/08	31/03/07	Gr %	31/03/08	31/03/07	Gr %
Net Sales	2,192	1,099	99.5	5,651	3,004	88.1
Total Expenditure	1,966	964	104.0	4,988	2,637	89.1
Consumption of raw materials	1,821	860	111.7	4,459	2,383	87.1
Personnel Expenses	57	32	78.3	173	83	108.7
Eshtablishment Selling & Other expenses	88	72	23.7	356	173	105.8
Share of JV Partners	-	-		-	(2)	
Operating profit	226	135	67.4	662	367	80.6
Other Income	(26)	1		1	4	(85)
PBDIT	201	137	46.9	663	370	78.9
Interest	74	62	19	225	123	82
Depreciation	11	3	277	36	11	219
PBT & extra-ordinary items	116	72	61.0	402	236	70.4
Provision for current tax	13	8		59	26	
Provision for deferred tax	-	2		-	4	
Fringe benefits	-	1		-	2	
Tax provisions of earlier years	-	(1)		-	(1)	
PAT before extra-ordinary items	103	61	67.8	343	204	67.6
Extra ordinary items	-	3		-	-	
Net Profit	103	64	61.0	343	204	67.7
Equity Capital (F.V. Rs 10)	167	143		167	143	
Reserves (excl. rev. res.)	-	-		1,672	806	
EPS for the period (Rs)	6.2	4.5		20.5	14.3	
Diluted EPS (Rs)	6.2	3.8		20.5	12.2	
Book Value (Rs)	-	-		110	66	
OPM (%)	10.3	12.3		11.7	12.2	
NPM (%)	4.7	5.6		6.1	6.8	
Expenditure (% of Net Sales)						
Consumption of raw materials	83.1	78.3		78.9	79.3	
Personnel Expenses	2.6	2.9		3.1	2.8	
Eshtablishment Selling & Other expenses	4.0	6.5		6.3	5.8	

Median PE v/s Daily PE



PE Band



Segmentwise Results for the quarter & year ended 31 March 2008

Particulars (Rs Mn)	Quarter Ended	Year Ended
	31/03/08	31/03/08
Segment Revenue		
Infrastructure & Construction	1,713	4,713
Manufacturing	466	992
Unallocated	-	-
Gross Total	2,179	5,706
(Less): Intersegment Revenue	12	55
Net Sales	2,167	5,651
Segment Results		
Infrastructure & Construction	128	536
Manufacturing	62	91
Unallocated	-	-
Total PBIT	190	627
Less: Interest	74	225
PBT	116	402
Capital Employed		
Infrastructure & Construction	40	819
Manufacturing	71	451
Unallocated	(44)	570
Total	67	1,839
ROCE (annualised %)		
Infrastructure & Construction	1,283.0	65.4
Manufacturing	351.6	20.1
Total	1,136.4	34.1
PBIT Margins (%)		
Infrastructure & Construction	7.5	11.4
Manufacturing	13.3	9.1
Total	8.7	11.0
Sales Mix (%)		
Infrastructure & Construction	78.6	82.6
Manufacturing	21.4	17.4
PBIT Mix (%)		
Infrastructure & Construction	67.3	85.5
Manufacturing	32.7	14.5

Income Statement	2005	2006	2007	2008	2009E	2010E
Revenues	1,214	1,741	3,004	5,651	9,742	12,317
<i>Growth (%)</i>	48.4	43.4	72.5	88.1	72.4	26.4
Total Expenditure	1,057	1,521	2,637	4,988	8,638	10,921
Operating Profit	157	220	367	662	1,104	1,397
Interest & dividend income	-	5	4	1	5	5
EBIDT	157	226	370	663	1,109	1,402
(-) Interest	66	71	123	225	250	295
(-) Depreciation	5	7	11	36	62	64
PBT & extraordinary items	86	148	236	402	797	1,043
(-) Tax provision	5	14	33	59	159	261
Net Profits	81	123	204	343	637	782
Fully diluted Eq. sh. O/s (mn no)	2.0	14.3	14.3	16.7	19.6	19.6
Book Value (Rs)	93	58	66	110	125	161
Basic EPS (Rs)	40.5	8.6	14.3	20.5	32.6	40.0
Diluted EPS (Rs)	4.1	6.3	10.5	17.5	32.6	40.0

Balance Sheet	2005	2006	2007	2008E	2009E	2010E
<i>Equity Share Capital</i>	20	143	143	167	196	196
<i>Reserves & Surplus</i>	165	679	806	1,674	2,245	2,960
Net worth	185	822	949	1,841	2,440	3,156
Total Debt	375	503	1,363	2,383	2,413	2,573
Deferred Tax liability	1	1	4	4	4	4
Capital Employed	561	1,327	2,316	4,229	4,858	5,733
Fixed Assets	84	135	493	1,467	1,445	1,421
Net current assets	472	854	1,795	2,583	3,235	4,134
Investments	5	295	28	178	178	178
Total Assets	561	1,327	2,316	4,228	4,858	5,733

Cash Flow Statement	2005	2006	2007	2008E	2009E	2010E
PBT & Extraord. items	86	137	236	402	797	1,043
Depreciation	5	7	11	36	62	64
Interest & dividend inc.	(0)	(0)	-	(1)	(5)	(5)
Interest paid	52	71	123	225	250	295
Tax paid	(5)	(14)	(28)	(59)	(159)	(261)
Other Adjustments	18	12	(1)	-	-	-
(Inc)/Dec in working capital	(238)	(362)	-	(417)	(983)	(594)
Cash from operations	(82)	(149)	(357)	186	(39)	542
Net capital expenditure	(16)	(57)	(376)	(1,010)	(40)	(40)
Net investments	(0)	(290)	266	(150)	-	-
Interest recd	-	-	-	1	5	5
Cash from investing activities	(16)	(348)	(110)	(1,159)	(35)	(35)
Issue of eq. shares	-	460	(2)	24	29	-
Share premium	-	-	-	583	-	-
Change in Loans	150	129	860	1,020	30	160
Eq. Dividend paid	0	-	(33)	(57)	(67)	(67)
Interest paid	(52)	(71)	(123)	(225)	(250)	(295)
Cash from financing activities	98	518	702	1,345	(258)	(202)
Inc/(Dec) in cash	1	21	235	371	(332)	305

Key Ratios	2005	2006	2007	2008E	2009E	2010E
EBIDT (%)	12.9	13.0	12.3	11.7	11.4	11.4
ROACE (%)	54.4	23.2	21.4	20.0	23.0	25.3
ROANW (%)	87.5	24.4	23.1	24.6	29.8	27.9
Sales/Total Assets (x)	2.2	1.3	1.3	1.3	2.0	2.1
Debt:Equity (x)	2.0	0.6	1.4	1.3	1.0	0.8
Current Ratio (x)	1.9	2.6	3.0	2.6	2.1	2.2
Debtors (days)	127	122	192	122	122	115
Inventory (days)	94	90	37	81	81	81
Net working capital (days)	140	177	215	165	120	121
EV/Sales (x)	0.8	3.0	1.9	1.3	0.9	0.7
EV/EBIDT (x)	6.5	22.8	15.2	10.7	7.5	5.9
P/E (x)	78.8	52.1	31.3	18.7	10.0	8.2
P/BV (x)	3.5	5.7	4.9	3.0	2.6	2.0

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