Emkay Research

Result Update

Prakash Industries Ltd.

4QFY08 Result Update

12th May 2008

Not Rated

Price	Target Price
Rs217	NA

Sensex – 16,737

Price Performance

(%)	1M	3M	6M	12M
Absolute	(5)	(8)	29	274
Rel. to Sensex	0	(8)	15	353

Source: Bloomberg

Stock Details

Sector	Metals & Mining
Reuters	PKI.BO
Bloomberg	PRKI@IN
Equity Capital (Rs mn)	1127
Face Value (Rs)	10
Number of shares o/s (mn)	113
52 Week H/L (Rs)	221/212
Market Cap (Rs bn/USDmn)	25/588
Daily Avg Vol (No of shares)	256641
Daily Avg Turnover (US$ mn)	1.4

Shareholding Pattern (%)

	31/3/08	31/12//07	30/9/07
Promoters	52.6	57.2	59.7
FII/NRI	10.4	4.5	4.1
Institutions	2.7	3.4	3.2
Private Corp.	20.1	17.9	17.3
Public	14.2	17.1	15.8

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Prakash Industries Ltd (PIL) reported 4QFY08 and FY08 results. For the quarter, PIL reported net sales of Rs3,587mn (yoy up 29.3%, qoq up 9%). However, adjusted PAT declined by 13.2% on a sequential basis to Rs481mn. The decrease was primarily on account of increase in interest cost by 121.4% to Rs251mn. The interest cost increased due to additional loans taken by the company in 4QFY08 to the tune of Rs2.35bn. PIL has been allocated an iron ore mine in Chhattisgarh, which it expects to be operational in 12-15 months. The company plans to set up 1,000MW Independent Power Plant (IPP) in 2 phases and is planning to increase steel capacity from 0.5mtpa to 1mtpa by Mar. '10 in modular fashion. PIL has a total debt of Rs3.51bn and cash balance of Rs0.7bn. The management has guided for EBITDA of Rs8bn for FY10. As per the guidance, which includes operation of iron ore mine from 2HFY10, the stock trades at EV/EBITDA of 9x FY09 and 4.5x FY10 estimates. The valuation appears to be expensive on FY09 basis. However, on FY10, assuming the company delivers on mining front, valuation appears to be reasonable.

We attended the conference call of the company for briefing of the results.

The key takeaways from the concall are as under:-

- PIL has been allocated 4 coal mines. Out of these 4 mines, Chotia-I having total reserves of 22mt was operational for full year FY08 at an annual rate of 0.7-0.8mtpa. The other three mines (one in Chotia-II having reserves of 28mt, one in Madanpur (north) having reserves of 50mt, alloted to PIL in consortium with 7 other players, and Fatehpur mine having total reserves of 46mt) are expected to be operational in next 2-3 years.
- The company has been allocated an iron ore mine in Chhattisgarh. Forest approval for the same is pending. The mine has total reserves of 75mt (66%+Fe content). PIL expects the mine to be operational within 12-15 months.
- PIL expects a capex of Rs250-300mn for the development of mines. The landed cost of ore to the plant is expected to be Rs1,000/t.
- PIL is planning to increase steel capacity from 0.55mtpa to 1mtpa and captive power generation capacity from 90MW to 190MW by Mar. '10 in modular fashion.

Capacities (t)

	Existing	Mar '10
Sponge Iron	450,000	1,000,000
Billets	550,000	1,000,000
Wire rods	180,000	360,000
Ferro Alloys	36,000	72,000
Structurals	300,000	300,000
Captive Power Plant	90MW	190MW

Source: Company

- The company expects a capex of Rs5.5bn for its expansion plans (excluding capex for mines), which will be entirely funded through internal accruals. Equity already raised.
- PIL is planning to set up 1,000MW IPP in two phases at an estimated capex of Rs35bn, which will be funded through a debt/equity ratio of 7:3. The company expects the phase-I of 700MW to be operational by Sep. '11 and phase-II of 300MW by Mar. '12.
- The company plans to sell 50% of the power through long term contracts and balance 50% in the open market. PIL expects to generate power at a total cost of Rs1.5/unit. The company is yet to achieve financial closure of the IPP.
- Out of the total capex of Rs40.8bn (Rs5.5bn + Rs 35bn + Rs0.30bn), PIL expects to spend Rs4bn in FY09, Rs10bn in FY10, Rs15bn in FY11 and balance Rs11.8bn in FY12.
- PIL does not expect any further dilution.

Quarterly results summary

	4QFY08	4QFY07	% yoy	3QFY08	% qoq	FY08	FY07	% yoy
Net Sales	**3,587**	**2,775**	**29.3%**	**3,291**	**9.0%**	**12,536**	**9,319**	**34.5%**
Expenditure								
Raw Material cost	2,082	1,612	29.1%	1,892	10.0%	7,237	5,425	33.4%
Change in stock	-77	81	-194.9%	-8	887.2%	-95	33	-390.8%
Net Raw Material Cost	2005	1693	18.4%	1884	6.4%	7142	5457	30.9%
Gross profit	**1582**	**1082**	**46.2%**	**1408**	**12.4%**	**5394**	**3862**	**39.7%**
Gross margin	***44.1%***	***39.0%***	***512bps***	***42.8%***	***135bps***	***43.0%***	***41.4%***	***159bps***
Staff Cost	140	111	26.4%	105	33.7%	439	354	24.2%
Other Expenditure	560	407	37.7%	523	7.1%	1952	1412	38.3%
Total operating exp	700	518	35.3%	628	11.5%	2391	1765	35.4%
EBITDA	**882**	**565**	**56.2%**	**780**	**13.1%**	**3003**	**2096**	**43.3%**
Ebitda margin	***24.6%***	***20.3%***	***425bps***	***23.7%***	***90bps***	***24.0%***	***22.5%***	***146bps***
Depreciation & amortization	131	139	-5.3%	124	6.1%	502	554	-9.4%
EBIT	**751**	**426**	**76.3%**	**656**	**14.5%**	**2502**	**1543**	**62.2%**
EBIT margin	***20.9%***	***15.3%***	***558bps***	***19.9%***	***100bps***	***20.0%***	***16.6%***	***340bps***
Interest	251	100	152.1%	113	121.4%	415	258	61.3%
Other income	18	10	93.7%	13	42.6%	37	24	56.5%
Exceptional items	101	-219				101	-219	
PBT	417	555	-24.7%	555	-24.9%	2022	1528	32.4%
Provision for tax	2	196	-99.1%	1	112.5%	5	200	-97.6%
ETR (%)	0.4%	35.4%	-3499bps	0.1%	26bps	0.2%	13.1%	-1284bps
Current tax/MAT	48	62	-23.2%	63	-24.0%	229	171	33.8%
Deferred tax		195					195	
Fringe benefit tax	2	1		1		5	4	
MAT	-48	-62	-23.2%	-63	-24.0%	-229	-171	33.8%
PAT	**416**	**358**	**16.0%**	**555**	**-25.1%**	**2018**	**1328**	**51.9%**
Net margin	***11.6%***	***12.9%***	***-132bps***	***16.9%***	***-526bps***	***16.1%***	***14.2%***	***185bps***
Add/Less: E/o item	66	-142		0		66	-142	
Adj PAT	**481**	**216**	**122.8%**	**555**	**-13.2%**	**2083**	**1186**	**75.7%**
Adj Net margin	***23.1%***	***13.4%***	***972bps***	***29.3%***	***-620bps***	***28.8%***	***21.9%***	***693bps***
Equity capital	1155	1038	11.3%	1092	5.7%	1155	1038	11.3%
F.D. Equity	1510	1038	45.5%	1510	0.0%	1510	1038	45.5%
Reported EPS								
Basic	3.60	3.45	4.3%	5.08	-29.1%	17.47	12.80	36.6%
Diluted	2.75	3.45	-20.3%	3.67	-25.1%	13.36	12.80	4.4%
Adjusted EPS								
Basic	4.17	2.08	100.2%	5.08	-17.9%	18.04	11.43	57.9%
Diluted	**3.19**	**2.08**	**53.1%**	**3.67**	**-13.2%**	**13.80**	**11.43**	**20.7%**

All fig. in Rs mn except percentage and per share data

Common size ratios

	4QFY08	4QFY07	(%) yoy	3QFY08	(%) qoq	FY08	FY07	(%) yoy
Net Sales	100%	100%	-	100%	-	100%	100%	-
Raw Material cost	58%	58%	-5 bps	57%	56 bps	58%	58%	-48 bps
Change in stock	-2%	3%	-507 bps	0%	-191 bps	-1%	0%	-111 bps
Net Raw Material Cost	56%	61%	-512 bps	57%	-135 bps	57%	59%	-159 bps
Staff Cost	4%	4%	-9 bps	3%	72 bps	4%	4%	-29 bps
Other expenses	16%	15%	96 bps	16%	-28 bps	16%	15%	42 bps
EBITDA	25%	20%	425 bps	24%	90 bps	24%	22%	146 bps
Depreciation	4%	5%	-134 bps	4%	-10 bps	4%	6%	-194 bps
Interest expense	7%	4%	341 bps	3%	355 bps	3%	3%	55 bps
Other income	0.5%	0.3%	17 bps	0.4%	12 bps	0.3%	0.3%	4 bps
PAT	12%	13%	-132 bps	17%	-526 bps	16%	14%	185 bps