

BUY

Price	Rs204
Target Price	Rs251
Investment Period	12months

Stock Info	
Sector	Construction
Market Cap (Rs cr)	339
Beta	1.7
52 WK High / Low	242 / 47
Avg. Daily Volume	23367
Face Value (Rs)	10
BSE Sensex	15,896
Nifty	4,712
BSE Code	532718
NSE Code	PRATIBHA
Reuters Code	PRTI.BO
Bloomberg Code	PRIL@IN

Shareholding Pattern (%)	
Promoters	61.6
MF/Banks/Indian FIs	10.6
FII/ NRIs/ OCBs	15.1
Indian Public/others	12.7

Abs.	3m	1yr	3yr
Sensex (%)	3.3	75.8	22.1
Pratibha Ind (%)	18.9	143.1	(9.1)

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Performance Highlights

- Top-line growth disappoints:** Pratibha Industries (PIL) registered a mere 8.1% growth in Top-line growth for 2QFY2010 to Rs210.6cr (Rs194.8cr) as against our estimate of Rs268cr. Top-line growth was primarily suppressed on account of the lackluster performance registered by the Infrastructure Segment, which posted meagre growth of 7.5% to Rs218.6cr. The Manufacturing (HSAW pipes) Division, on the other hand, witnessed de-growth of 12.7% to Rs41.1cr during the quarter. Inter-Segment Revenues accounted for Rs49.1cr (Rs54.9cr).
- EBITDA Margins above estimates:** EBITDA Margins for the quarter came in at 13.6% (10.1%) as against our estimate of 9.9%. Margins improved primarily due to the high proportion of Revenues from the Water Segment as compared to the Road Segment. It should be noted here that Employee cost, as a percentage of Sales, increased by 142bp yoy as the company is hiring aggressively.
- Flat performance on the Bottom-line front:** PIL's 2QFY2010 Bottom-line came in flat at Rs10.6cr in line with our estimate. Interest cost increased 28.4% yoy whereas Depreciation expenses surged 203.6%, which impacted Profits during the quarter.
- Robust Order Book position:** PIL's Order Book position stood at around Rs2,400cr as of 2QFY2010, or 2.1x its FY2010E Revenues. The Order Book has high proportion of Orders from Water Supply related works followed by Building and Road related works.

Key Financials (Consolidated)

Y/E March (Rs cr)	FY2008	FY2009	FY2010E	FY2011E
Net Sales	565	806	1,128	1,426
% chg	87.9	42.6	40.0	26.4
Net Profit	34.3	44.8	54.0	69.7
% chg	68.3	30.7	20.6	29.1
FDEPS (Rs)	20.5	26.8	32.4	41.8
EBITDA Margin (%)	11.7	11.4	12.5	12.7
P/E (x)	9.9	7.6	6.3	4.9
RoE (%)	24.6	21.9	21.7	22.7
RoCE (%)	22.8	21.2	22.5	21.9
P/BV (x)	1.9	1.5	1.2	1.0
EV/Sales (x)	0.7	0.6	0.6	0.6
EV/EBITDA (x)	6.3	5.6	4.8	4.5

Source: Company, Angel Research

Execution worries

Outstanding Order Book is the key guidance provider for Top-line growth of infrastructure companies. Till 1QFY2010, PIL had an Order Book of around Rs1,500cr or 1.9x its FY2009 Revenues, which constrained its Top-line growth. In our 1QFY2010 result review, we had carried a scenario analysis based on possible addition to the Order Backlog (*based on management's guidance on securing orders*).

Our base case scenario had factored in modest order accretion of Rs1,000cr each in FY2010E and FY2011E resulting in muted Top-line CAGR of 22.7% over FY2009-11E to Rs1,212cr as against a CAGR of 63.7% during FY2007-09.

Our best case scenario had factored in Order accretion to the tune of Rs1,500cr each in FY2010E and FY2011E resulting in 37.3% CAGR on Top-line front to Rs1,519cr over the mentioned period.

In light of PIL securing orders worth Rs1,076cr (as per management guidance) during 2QFY2010, we had upgraded the stock from Neutral to Buy in line with our best case scenario analysis. However, 2QFY2010 Top-line growth of mere 8.1% disappoints and raises concerns on the execution capability of the company. Therefore, due to poor Top-line performance we downgrade our Top-line estimates for FY2010E and FY2011E by 12.6% and 6.1% respectively. Based on superior performance on the Margin front for the quarter resulting in good Margins for 1HFY2010, we have marginally upgraded our EBITDA Margin estimates for FY2010E and FY2011E to 12.5% and 12.7%, respectively. However, post the revisions, our revised Bottom-line estimates stand compressed by 15.7% and 5.8% for FY2010E and FY2011E, respectively.

Exhibit 1: 2QFY2010 Performance (Consolidated)

Y/E March (Rs cr)	2QFY2010	2QFY2009	% chg	1HFY2010	1HFY2009	% chg
Net Sales	210.6	194.8	8.1	474.5	390.7	21.4
Total Expenditure	181.9	175.2	3.8	414.6	351.7	17.9
Operating Profit	28.6	19.6	46.1	60.0	39.0	53.6
OPM (%)	13.6	10.1	-	12.6	10.0	-
Interest	9.8	7.6	28.4	19.8	13.2	50.3
Depreciation	4.1	1.3	203.6	6.3	2.6	138.6
Non Operating Inc.	-	1.5	-	0.0	2.1	-
Non recurring items	-	-	-	-	-	-
Profit Before tax	14.8	12.1	21.9	33.9	25.3	33.7
Tax	4.1	1.5	174.6	9.3	3.1	-
Reported PAT	10.6	10.6	0.4	24.6	22.2	10.8
PAT (%)	5.1	5.4	-	5.2	5.7	-
EPS (Rs)	6.4	6.4	0.4	14.7	13.3	10.8

Source: Company, Angel Research

Outlook and Valuation

PIL is a player primarily concentrating on Water Supply related infrastructure projects. The company has also backward integrated, by setting up a 92,000mtpa HSAW pipe manufacturing and pipe coating facilities catering primarily to the Water space. At Rs204, the stock trades at 4.9x FY2011E P/E and 1.0x FY2011E P/BV. We have valued PIL on P/E basis and arrived at a Target Price of Rs251, assigning a Target P/E multiple of 6x on Consolidated FY2011E EPS of Rs41.8. **We maintain a Buy on the stock, with a Target Price of Rs251 (Rs266)**


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Ratings (Returns):	Buy (> 15%) Reduce (-5% to -15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5% to 5%)
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