

## NEUTRAL

<b>Price</b>	<b>Rs57</b>
<b>Target Price</b>	-
<b>Investment Period</b>	-

### Stock Info

Sector	Construction
Market Cap (Rs cr)	95
Beta	0.9
52 WK High / Low	400/47
Avg Daily Volume	8,458
Face Value (Rs)	10
BSE Sensex	9,004
Nifty	2,771
BSE Code	532718
NSE Code	PRATIBHA
Reuters Code	PRTI.BO
Bloomberg Code	PRIL@IN

### Shareholding Pattern (%)

Promoters	61.0
MF/Banks/Indian FIs	13.1
FII/ NRIs/ OCBs	16.3
Indian Public	9.6

<b>Abs.</b>	<b>3m</b>	<b>1yr</b>	<b>3yr#</b>
Sensex (%)	5.8	(51.0)	(17.2)
Pratibha (%)	(26.2)	(85.1)	(68.7)

# Since listing on March 16, 2006

### Shailesh Kanani

Tel: 022 – 4040 3800 Ext: 321  
 e-mail: shailesh.kanani@angeltrade.com

### Aniruddha Mate

Tel: 022 – 4040 3800 Ext: 335  
 e-mail: aniruddha.mate@angeltrade.com

## Performance Highlights

- Disappointing Top-line growth at 7.9%:** Pratibha Industries (PIL) registered 7.9% increase in consolidated Top-line to Rs192cr (Rs178cr) in 3QFY2009, which was well below our estimate of Rs243cr. Topline is post factoring in Other Operating loss of Rs1.38cr. Topline de-grew primarily due to slow Order intake and poor execution .
- Operating Margin up 13.9%:** PIL clocked OPM of 13.9% (11.7%) as against our estimate of 11%, which was primarily on account of a decrease in raw material expenses, as a percentage to Sales. Raw material expenses fell on the back of cooling commodity prices.
- Net Profit declines 6.3%:** PIL registered 6.3% de-growth in Net Profit to Rs10.4cr (Rs11cr) during 3QFY2009 as against our estimate of Rs13cr. Net Profit de-grew primarily on account of a 101% increase in Interest costs to Rs13.6cr (Rs6.8cr). The company continues to provide Tax at 19.6% claiming Section 80IA benefits. However, we have factored in Tax rate of 30% in our estimates.
- Slowing Order Book:** PIL has an Order Book of Rs2,039cr, which is 3.6x FY2008 consolidated Revenues. The company has been witnessing slow down in Order inflows since the past few quarters, which is a major concern.

### Key Financials (Consolidated)

Y/E March (Rs cr)	FY2007	FY2008	FY2009E	FY2010E
<b>Net Sales</b>	<b>300.8</b>	<b>565.1</b>	<b>884.7</b>	<b>1,170.0</b>
% chg	72.8	87.9	56.6	32.3
<b>Net Profit</b>	<b>20.4</b>	<b>34.3</b>	<b>44.2</b>	<b>48.8</b>
% chg	65.3	68.3	28.9	10.5
<b>FDEPS (Rs)</b>	<b>12.2</b>	<b>20.5</b>	<b>26.5</b>	<b>29.2</b>
EBITDA Margin (%)	12.3	11.7	12.3	12.0
P/E (x)	4.7	2.8	2.1	1.9
RoE (%)	23.0	24.6	21.7	19.9
RoCE (%)	19.9	23.5	24.9	20.8
P/BV (x)	0.9	0.5	0.4	0.4
EV/Sales (x)	0.7	0.3	0.4	0.4
EV/EBITDA (x)	5.4	2.7	3.1	3.7

Source: Company, Angel Research; Price as on January 27, 2009

## Key Development

### Amalgamation of Pipe Manufacturing Division with PIL 'reversed'

PIL has decided not to go ahead with the merger scheme as decided earlier citing reasons of current market scenario and global recession. PIL had chalked out a scheme of amalgamation of the promoter group company PPSL with itself thereby bringing both the HSAW and LSAW pipe manufacturing under PIL. This was considering the important role that 'Pipes' play in PIL's overall business. However, the Pipe business, which commands lower EV/EBITDA multiple would have diluted core Earnings and depressed valuations. But now with the merger being called off, we do not expect core Earnings to get diluted.

### Outlook and Valuation

Infrastructure development is top priority with the Government of India. Hence, the government in the XIth Five Year Plan has allocated \$500bn towards the sector. Irrigation, Water Supply and Sanitation together account for almost 20% of this projected outlay. State governments like Andhra Pradesh have also been focusing on developing Irrigation facilities.

PIL stands to gain from the government's focus on the Infrastructure sector particularly Water related segments. Moreover, PIL also has its own pipe manufacturing plants, which we believe would help it improve its Margins. However, considering increasing financial costs (as reflected in the 3QFY2009 results), we have revised our Debt estimate on the higher side for the company. Hence, we estimate Interest costs for FY2009E and FY2010E to increase in turn depressing EPS.

We believe that the large cap players who are straddled across segments and geographies have stronger Revenue visibility and are better placed to ride over the current slowdown in the economy. Such diversified players are also available at attractive valuations. Hence, we prefer bigger infra players to a relatively small player like PIL. At the CMP of Rs57, the stock is trading at 2.1x FY2009E and 1.9x FY2010E EPS of Rs26.5 and Rs29.2. **We remain Neutral on the stock.**

### Exhibit 1: 3QFY2009 Performance (Consolidated)

Y/E March (Rs cr)	3QFY2009	3QFY2008	% chg	9MFY2009	9MFY2008	% chg
<b>Net Sales</b>	<b>192.1</b>	<b>178.0</b>	<b>7.9</b>	<b>582.6</b>	<b>348.4</b>	<b>67</b>
Total Expenditure	165.3	157.1	5	516.4	302.3	71
<b>Operating Profit</b>	<b>26.7</b>	<b>20.9</b>	<b>28</b>	<b>66.1</b>	<b>46.2</b>	<b>43</b>
OPM (%)	13.9	11.7	-	11.3	13.3	
Interest	13.6	6.8	100.8	27.1	15.2	79
Depreciation	1.5	1.2	33	4.2	2.5	67
Non-Operating Income	1.3	0.0		3.4	0.0	
Non-Recurring Items	0.0	0.0				
<b>Profit Before Tax</b>	<b>12.9</b>	<b>12.9</b>	<b>(0.2)</b>	<b>38.2</b>	<b>28.5</b>	<b>34</b>
Tax	2.5	1.9	35.4	5.6	4.6	22
<b>Reported Profit After Tax</b>	<b>10.4</b>	<b>11.0</b>	<b>(6.3)</b>	<b>32.6</b>	<b>23.9</b>	<b>36</b>
PAT (%)	5.4	6.2	-	5.6	6.9	
<b>EPS (Rs)</b>	<b>6.2</b>	<b>6.6</b>	<b>(6.3)</b>	<b>19.5</b>	<b>14.3</b>	<b>36</b>

Source: Company, Angel Research



# Angel Broking Limited

**Research Team Tel: 4040 3800**

**E-mail: [research@angeltrade.com](mailto:research@angeltrade.com)**

**Website: [www.angeltrade.com](http://www.angeltrade.com)**

**DISCLAIMER:** This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions.

Opinion expressed is our current opinion as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true and are for general guidance only. While every effort is made to ensure the accuracy and completeness of information contained, the company takes no guarantee and assumes no liability for any errors or omissions of the information. No one can use the information as the basis for any claim, demand or cause of action.

Recipients of this material should rely on their own investigations and take their own professional advice. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. Certain transactions - futures, options and other derivatives as well as non-investment grade securities - involve substantial risks and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

We do not undertake to advise you as to any change of our views expressed in this document. While we would endeavor to update the information herein on a reasonable basis, Angel Broking, its subsidiaries and associated companies, their directors and employees are under no obligation to update or keep the information current. Also there may be regulatory, compliance, or other reasons that may prevent Angel Broking and affiliates from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

Angel Broking Limited and affiliates, including the analyst who has issued this report, may, on the date of this report, and from time to time, have long or short positions in, and buy or sell the securities of the companies mentioned herein or engage in any other transaction involving such securities and earn brokerage or compensation or act as advisor or have other potential conflict of interest with respect to company/ies mentioned herein or inconsistent with any recommendation and related information and opinions.

Angel Broking Limited and affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.

Sebi Registration No : INB 010996539

**Ratings (Returns) :** Buy (Upside > 15%)  
Reduce (Downside upto 15%)

Accumulate (Upside upto 15%)  
Sell (Downside > 15%)

Neutral (5 to -5%)