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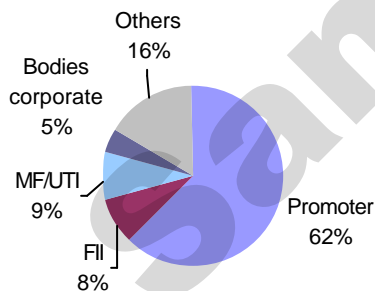
Stock details

BSE code	: 532718
NSE code	: PRATIBHA
Market cap (Rs mn)	: 7010
Free float (%)	: 38.02
52 wk Hi/Lo (Rs)	: 89.75/47.02
Avg daily volume (NSE)	: 177144
Shares (o/s) (mn)	: 95.62

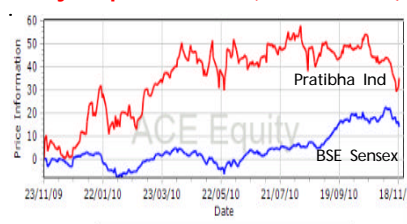
Cons. summary table

(Rs mn)	FY10	FY11E	FY12E
Sales	10,072	14,100	17,625
Growth (%)	25.0	40.0	25.0
EBITDA	1,366	1,904	2,468
EBITDA margin (%)	13.6	13.5	14.0
PBT	766	1,092	1,550
Net profit	565	765	1,085
EPS (Rs)	6.8	7.6	10.7
Growth (%)	26.4	11.7	41.9
CEPS(Rs)	8.5	9.5	13.0
Book value (Rs/share)	33.0	49.0	59.0
DPS (Rs)	0.6	0.6	0.6
ROE (%)	22.6	19.9	19.9
ROCE (%)	21.8	21.6	23.0
Net debt	3,690	3,181	4,101
NW capital (days)	112.0	135.0	135.0
P/E (x)	10.9	9.8	6.9
P/BV (x)	2.2	1.5	1.3
EV/Sales (x)	1.0	0.7	0.6
EV/EBITDA (x)	7.2	5.4	4.4
FY 10/11	Q4FY10	Q1FY11	Q2FY11
Sales	3,002	3,274	2,578
EPS (Rs)	2.5	1.9	1.6

Source: Company & Kotak Securities - Private Client Research

Shareholding pattern as on 30th Sep 2010

Source: ACE Equity

One-year performance (Rel to sensx)

Source: ACE Equity

Pratibha Industries Ltd

PRICE : Rs.74
TARGET PRICE : Rs.101

RECOMMENDATION : BUY
CONS. FY12E PE: 6.9x

Pratibha industries is a well established player in the construction industry with its core expertise in water supply and environment engineering, urban infrastructure, road related projects as well as manufacturing of saw pipes. Saw pipe division provides backward integration for the company and enables the company to maintain better margins. Company has a diversified business model across segments as well as geographies and we expect it to benefit from expected order inflows in water, urban infrastructure as well as road segment.

With an order book of Rs 36 bn, we expect revenues to grow at a CAGR of 32% between FY10-FY12. Inhouse fleet of equipments, focus towards higher margin segments as well as backward integration enables the company to maintain better margins. Net profits are expected to grow at a CAGR of 39% between FY10-FY12. At current price of Rs.74, stock is trading at very attractive valuations of 9.8x and 6.9x P/E multiples on FY11 and FY12 respectively. We recommend a BUY on the stock with a price target of Rs.101 on FY12 estimates.

Key investment arguments

- **One of the leading players in the infrastructure segment.** Pratibha Industries has emerged as one of the leading players in the infrastructure segment in past 28 years with its focus towards a wide range of projects in water supply, surface transport, urban infra as well as BOT projects. With its expertise in executing diverse projects, we expect Pratibha industries to benefit from the upcoming opportunities in the infrastructure segment.
- **Healthy order book provides revenue visibility for next 2 years.** Company has an order book of Rs 36 bn diversified across water and irrigation (60%) and urban infrastructure (40%). It is also lowest bidder in Rs.9 bn worth of new projects which are likely to be awarded soon. Company will continue to remain focused on water supply but will also simultaneously diversify into other segments such power, hydro carbon etc going forward. We thus expect order book to grow at a CAGR of 26% between FY10-FY12.
- **Diversification in other geographies.** Pratibha Industries initially started as a focused player in Maharashtra but has now diversified across different states in past few years. Out of the total order book, 58% comes from states like Bihar, Karnataka, MP, UP, New Delhi and Rajasthan while the rest is being contributed by Maharashtra. We expect company to continue to expand across geographies and maintain its order book growth
- **Excellent growth trajectory.** Company has been on a high growth trajectory since past few years and has managed to grow revenues at a CAGR of 34% and profits at a CAGR of 29% between FY08-FY10. With a robust order book and strong order pipeline, we expect revenues of the company to grow at a CAGR of 32% between FY10-FY12. Net profits are expected to grow at a CAGR of 39% between FY10-FY12 primarily led by excellent revenue growth and healthy operating margins.

- ❑ **Margins likely to be sustained at current levels.** Operating margins of the company stood around 13.6% in FY10 and company expects to improve margins by 0.5% going forward due to its focus towards high margin segment of water supply and irrigation as well as backward integration. We thus expect company's operating margins to be around 13.5% for FY11 and 14% for FY12.
- ❑ **Backward integration aids better margins.** Saw pipe manufacturing division of company provides backward integration for water and oil&gas pipeline projects and has a capacity of 92,000 TPA. Company is planning to enhance its focus in the hydro carbon segment going forward and thus the saw pipe division will cater to the huge demand of pipes for inhouse projects and will also enable the company to meet pre-qualification criteria for upcoming tenders.
- ❑ **Joint ventures with international players to bag larger sized projects.** Pratibha industries has gained technical expertise for executing large and complex projects by entering into joint ventures or alliances with international or domestic players. This had enabled the company to achieve necessary pre-qualifications for bidding for complex projects. We believe that company will continue to enter into JV's to bag bigger as well as complex projects.
- ❑ **BOT segment to add further value to order book.** Company has also ventured into BOT segment in road - toll and annuity as well as multi-level car parking. Post completion of construction of these BOT projects, company would achieve desired expertise to bid for large sized projects on its own. It would continue to enhance its presence across PPP projects especially in the road segment.
- ❑ **Healthy balance sheet.** Company has been able to enhance its networth in past few years with IPO as well as QIP issue along with ploughing back of the profits. Funds raised through QIP will be deployed to reduce high cost borrowings, meet capex and working capital requirements of the company going forward. We thus expect leverage for the company to come down going forward post this fund raising. Company also has excellent return ratios with ROE expected to be around 19.9% and 20% for FY11 and FY12 and ROCE expected to be around 21.6% and 23.0% for FY11 and FY12 respectively.
- ❑ **Future growth strategy.** Pratibha Industries will continue to focus on increasing the order book across diverse segments. Company has identified new growth areas such as hydro carbon as well as power projects and would continue to tap opportunities in this space. It would also continue to expand its presence across geographies as well as segments to maintain a hedged business model going forward
- ❑ **Attractive valuations.** At current price of Rs.74, stock is trading at 9.8x and 6.9x P/E and 5.4x and 4.4x EV/EBITDA multiples for FY11 and FY12 respectively. We value the company at 9x FY12 estimated earnings and add value of BOT investments and arrive at a target price of Rs.101 on FY12 estimates. Our target valuations are based on 30% discount to the core business valuations of larger and diversified players to factor in relatively smaller size. We thus recommend **BUY** on the stock.

Key risks and concerns

- ❑ **Slowdown in order inflows** - Any kind of slowdown in order inflows is likely to impact order book growth as well as revenue growth for the company going forward.
- ❑ **Delays in execution** - Execution delays related to land acquisition as well as environmental clearance may impact project completion schedule and thereby impact revenue growth.
- ❑ **Increase in interest rates** - Increase in interest rates may result in increasing the overall borrowing cost for the company and hence may impact profitability adversely.

Sample Report

ABOUT THE COMPANY

Pratibha Industries, established in 1982 by Mr Ajit B Kulkarni, as a manufacturing company for pre-cast products, has now diversified into one of the leading players in infrastructure sector. Company is an established player in water supply, water treatment and water distribution related projects and has also enhanced its presence across urban infrastructure as well as road segment. It also proposes to have a strong presence in road, urban, oil and gas transmission and power segment, apart from water supply segment going forward. Company's pipe division Pratibha Pipes and Structural Ltd also provides backward integration for water and oil and gas related projects.

With its diversified order book of Rs.36 bn and geographical presence across regions, we expect company to be a key beneficiary of upcoming projects in water supply and urban infrastructure and maintain a high growth trajectory going forward.

BUSINESS OVERVIEW

Company's business can be classified in two categories – Infrastructure and saw pipe division. Infrastructure division carries out projects in water and irrigation segment, surface transport, urban infrastructure, hydro carbon and BOT projects. Details of these divisions are mentioned below –

Current order book of Rs.36 bn is diversified across water and irrigation (60%) and urban infrastructure (40%)

■ **Infrastructure** – Company has an order book of Rs.36 bn in the infrastructure segment, diversified across water and irrigation (60%) and urban infrastructure (40%). Surface transportation forms a very small portion of the order book. In the water segment, company has executed a range of projects such as laying of water pipelines, sewerage treatment plant, water reservoirs, water storage systems, tunnelling etc. Though water segment contributes a significant proportion of the order book, company had also ventured into new segments such as building and modernisation of airports, construction of high rises and shopping malls as well as BOT/BOOT projects. Going forward, company plans to capture the upcoming opportunities in thermal and hydro power as well as oil and gas transmission. Key projects executed by company in the infrastructure segment include –

- **Water supply** - NMMC Pipeline project, Sarita Vihar Water Supply project, Barve Ambarnath Pipeline project, Indore water supply and Gujarat water supply project
- **Urban infra** - Mumbai, Delhi and Amritsar airport, Airoli and Ghansoli Railway station, Nirmal Lifestyle mall, Lanco mall, Imperial Height building at Andheri,
- **Surface transport** - Pune Solapur Highway road, Sangamwadi bridge, Katraj road and bibewadi to Kondhwa Road etc

Saw pipes division has an installed capacity of 92000 TPA

■ **Saw pipes** – The saw pipe division of the company has an installed capacity of 92000 TPA which caters to requirements from water and oil and gas related projects. The pipe division also has a crucial coating division viz 3 LP coating plant having capacity of 1.7 mn sq meters per annum. This division operated at nearly 47% capacity utilization in FY10 and produced 42470 TPA, out of which 55% were being used for internal consumption and remaining is supplied for outside orders. Current output capacity is approximately 60000 TPA. The company has also obtained various certification including prestigious American Petroleum Institute (API) certifications for its manufacturing facilities which enables it to meet qualification criteria of various upcoming projects. For Saw Pipes division, company had also secured contract from GAIL for supply of API Grade Pipes for its Bawana Nangal pipeline project.

INDUSTRY SCENARIO

Planned investment of US\$450-500 bn over FY07-12 is likely to result in increase order inflow across segments

According to planning commission, during eleventh five year plan, total investment in the infrastructure sector is expected to be around \$450-500 bn over FY07-FY12. This is expected to translate into huge investments in various segments of roads, electricity, telecom, railways, irrigation, water supply, ports, airports and gas. These investments are likely to be achieved through a combination of public investment, public-private partnerships and exclusive private investment.

Break up of infrastructure sector investments in XIth five year plan

Sector	(Rs bn)
Electricity	6665
Roads	3142
Telecom	2584
Railways	2618
Irrigation	2533
Water supply and sanitation	1437
Ports	880
Airports	309
Storage	223
Gas	168
Total	20559
Total (US \$ bn)(Rs/\$ 45)	457

Source: Planning Commission

Progress in irrigation infrastructure is likely to be lead by states such as AP, Maharashtra, Gujarat, MP, Orissa, Rajasthan and Karnataka

Irrigation

Planned investments under XI th five year plan for irrigation is expected to be Rs 2.53 trillion. These investments represent a growth of 182 per cent as against previous five year plan and will be primarily led by states focusing on improving water and irrigation infrastructure such as AP, Maharashtra, Gujarat, MP, Orissa, Rajasthan and Karnataka. Progress of projects in AP in FY10 slowed down considerably due to lack of funding as well as issues related to separate state of Telangana. These projects are likely to pick up pace going forward.

Investments in urban infrastructure would be spread across tier-1, tier-2 and tier-3 cities

Urban infrastructure

Urban infrastructure projects would comprise of a range of projects from water supply and sanitation, urban transport, MRTS, bus rapid transport system, parking lots etc. Under JNNURM, investments worth Rs 1.2 trillion have been planned over FY05-FY12. These investments would be spread across tier 1, tier 2 and tier 3 cities. Along with this, large opportunities are likely to come from upcoming projects in airport and railways segment. Under XIth five year plan, Rs 300 bn is likely to be invested for modernization of 4 metro airports, 35 non-metro airports as well as setting up of green field airports. In railways segment, a large number of projects in setting up of new rail facilities, gauge conversion, dedicated freight corridors, modernization of stations as well as MRTS are likely to be announced and total investment is estimated to be Rs 2.6 trillion.

Award of road projects is likely to pick up going forward

Transportation

NHAI has targeted to award road projects for 37,050 km over next three-four years in order to achieve the target of constructing 20 km per day. Since progress in FY10 had been below par, NHAI reduced the target for FY11 to 9000 km from earlier estimated target of 11092 km. This pace of 9000 km is likely to be maintained for next 2-3 years.

Since Pratibha Industries is largely focussed in these segments, we expect it to benefit from the planned investments in these segments.

KEY INVESTMENT POSITIVES

Pratibha Industries has the required expertise to tap upcoming opportunities in the infrastructure segment going forward

Leading player in the infrastructure segment

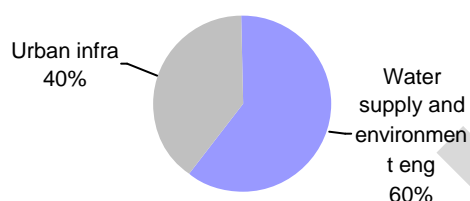
Pratibha Industries has emerged as one of the leading players in the infrastructure segment in past 28 years with its focus towards a wide range of projects in water supply, surface transport, urban infra as well as BOT projects. Company has successfully executed a wide range of projects such as pipeline, water supply, bridges, flyovers, tunnels, high rise structures and shopping malls, construction of airport and railway stations. Thus we believe that Pratibha Industries has the required expertise to tap upcoming opportunities in the infrastructure segment going forward.

Order book of Rs.36 bn provides revenue visibility for next two years

Healthy order book provides revenue visibility for next 2 years

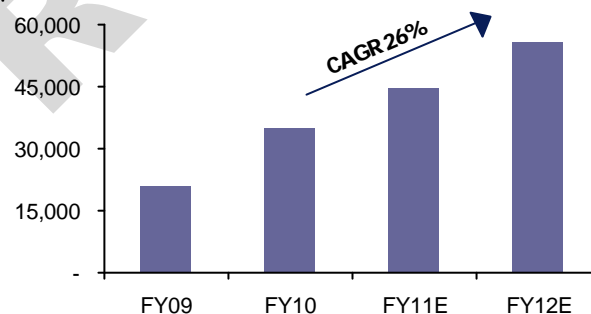
Company has an order book of Rs.36 bn diversified across water and irrigation (60%) and urban infrastructure (40%). Surface transportation forms a very small portion of the order book. It is also lowest bidder in Rs.9 bn worth of new projects which are likely to be awarded in this financial year. It has been able to grow its order book at a CAGR of 35% between FY08-FY10 and with strong order pipeline, we expect order book to grow at a CAGR of 26% between FY10-FY12. Company will continue to remain focused on water supply but will also simultaneously diversify into other segments such as power, hydro carbon etc going forward.

Current Order book break up



Source: Company

Order book growth trend FY09-FY12 (Rs mn)



Source: Company, Kotak Securities - Private Client Research

Company is L1 in Rs.9 bn worth of projects

Strong order pipeline

Pratibha industries places bids worth Rs 25 bn every month. Company is currently L1 in Rs 9 bn worth of orders - Rs 6 bn from Middle East and Rs 3 bn from India. It is trying to tap upcoming opportunities in Middle East and has placed the bids in Oman, Abu Dhabi, Dubai electricity and water authority etc. It is currently L1 in project worth nearly Rs 3.6 bn from Al Ghafat reservoirs and in another project worth Rs 3.6 bn in water supply pipeline project.

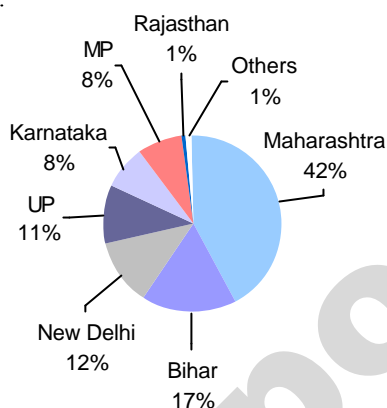
Along with this, Pratibha industries in consortium with Kakade Infrastructure and Malaysia-based Inai Kiara is also the lowest bidder in Rs 12 bn worth of BOT project for water transportation from MSRDC. This project would entail construction of waterway between Nariman Point to Versova in Mumbai and company would be required to run the catamarans for transporting passengers. Project would be awarded to the company after getting cabinet approvals and will be developed in four phases. As per initial estimates, company expects 30,000 passengers daily with an average toll rate of Rs 250. Along with this, the consortium will also get 40 acres of water development – out of which 4-5 acres will be required for the ferry services while remaining would be leased out for commercial and retail development.

Pratibha Industries has diversified its presence across several states

Diversification in other geographies

Pratibha Industries initially started as a focused player in Maharashtra but has now diversified across different states in past few years. Out of the total order book, 58% comes from states like Bihar, Karnataka, MP, UP, New Delhi and Rajasthan while the rest is being contributed by Maharashtra. We expect company to continue to expand across geographies and maintain its order book growth.

Geographical break up



Source: Company

We expect revenues to grow at a CAGR of 32% and net profits to grow at a CAGR of 39% between FY10-FY12

Excellent growth trajectory

Company has been on a high growth trajectory since past few years and has managed to grow revenues at a CAGR of 34% and profits at a CAGR of 29% between FY08-FY10. With a robust order book and strong order pipeline, we expect revenues of the company to grow at a CAGR of 32% between FY10-FY12. Net profits are expected to grow at a CAGR of 39% between FY10-FY12 primarily led by excellent revenue growth and healthy operating margins.

Margins likely to be sustained at current levels

Operating margins of the company stood around 13.6% in FY10 and company expects to improve margins going forward due to its focus towards high margin segment of water supply and irrigation as well as backward integration. Urban infrastructure segment also entails good margins where company has in the past executed and completed projects in airport, tunnelling, high rise buildings segment. Water supply related projects have operating margins in the range of 16% while urban infra related projects have margins between 10-13%.

We expect company's operating margins to be around 13.5% for FY11 and 14% for FY12.

Along with this, company also owns a large fleet of owned machinery and equipment such as tunnel boring machines, batching plants, concrete mixers, transit mixers, heavy mobile cranes, tower cranes, loaders, compressors, DG sets etc. This enables the company to complete projects on time and also achieve higher operating margins. Along with this, with completion of low margin road projects, company expects margins to improve by 0.5% going forward. We thus expect company's operating margins to be around 13.5% for FY11 and 14% for FY12.

Backward integration also aids better margins

We expect significant proportion of Saw Pipes production to be used internally for its projects and thus it will help in maintaining better margins

Saw pipe manufacturing division of company provides backward integration for water and oil&gas pipeline projects and has a capacity of 92000 TPA. Company is planning to enhance its focus in the hydro carbon segment going forward and thus the saw pipe division will cater to the huge demand of pipes and thus will also enable the company to meet pre-qualification criteria for upcoming tenders. Saw pipe facility is currently operating at nearly 65% capacity utilization and we expect it to continue to operate at similar utilization levels going forward. We expect significant proportion of production to be used internally for its projects and thus it will help in maintaining better margins.

Reputed client base

Pratibha industries has a reputed client base and hence company doesn't face significant delay in receiving payments. Also, out of the total order book, government contracts constitute 89% while remaining is from private sector. This helps in maintaining efficient working capital cycle in comparison with other industry peers.

Client profile table

Segments	Key clients for which Pratibha Industries has worked
Water supply management	MCGM, Navi Mumbai Municipal Corp, Indore Municipal Corp, Delhi Jal Board, Karnataka Urban Water supply and drainage board, Gujarat water supply and sewerage board, Jabalpur Municipal Corporation
Urban Infrastructure	Indira Gandhi International Airport, Nirmal Lifestyle, Raymond, Runwal group, IREO, NBCC, Delhi Metro Rail Corporation, AAI, Wadhwa Developers
Surface Transport	NHAI, MMRDA, Indore Development Authority, Pune Municipal Corp, MSRDC
Saw Pipes	GAIL, Petron Civil Engineering, L&T, IOCL, Kalpataru Power Transmission

Source: Company

We believe that company will continue to enter into JV's to bag bigger as well as complex projects

Joint ventures with several players to bag larger sized projects

Pratibha industries has gained technical expertise for executing large and complex projects by entering into joint ventures or alliances with international or domestic players. This had enabled the company to achieve necessary pre-qualifications for bidding for complex projects in airport, tunnelling, road BOT projects and hydro power segment. Following below are the details of existing JV's of the company –

Joint Ventures

	Segment	Nature
Ostu Stettin JV, Austria	Tunnels and urban infra	Exclusive long term
ITD, Bangkok	Airports	Project specific
China State	Urban infra	Project specific & long term
Huamei, China	Urban infra	Project specific
Zhuhai, China	Sewerage	Project specific
Kirloskar Brothers Ltd	Pumping station	Project specific
KJI GIN Grandfos	Pumping station	Project specific
UNEGA, Ukraine	Hydrocarbon	Project specific
Chirkeigesstroy, Russia	Hydropower	Project specific
Naringidroenergostroy, Kyrgyzstan	Hydropower	Project specific
Aydinar, Turkey	Hydropower	Project specific

Source: Company

Among the domestic players, company has worked or formed consortium with a large number of players as Unity Infraprojects, Gammon, Patel Engineering etc. We believe that company will continue to enter into JV's to bag bigger as well as complex projects.

Bhopal - Sanchi project details

Road BOT - Annuity	Rs mn
Project cost	1180
Debt:Equity	85:15
Debt	1003
Equity	177
Pratibha Ind share (%)	51
Semi Annual Annuity	129.5

Source: Company

Baramati project details

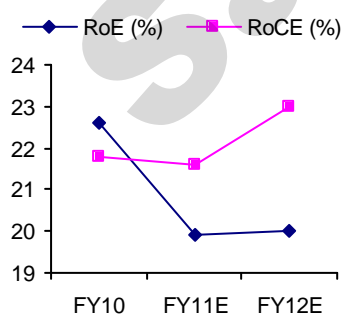
Road BOT - Toll	Rs mn
Project cost	1000
Debt:Equity	85:15
Debt	850
Equity	150
Pratibha Ind share (%)	50
Expected toll collection per day	0.15

Source: Company

Car parking project details

	(Rs mn)
Project cost	1500
Debt:Equity	85:15
Debt	1275
Equity	225
Pratibha Ind share (%)	100
Comm. development area (mn sqft)	0.225

Source: Company

ROE and ROCE trend

Source: Company, Kotak Securities - Private Client Research

BOT segment to add further value to order book**■ Road Annuity project from NHAI**

Pratibha Industries has bagged an annuity road project from NHAI in joint venture with Abhyudaya Housing and Construction Pvt Ltd. The project involves 2-laning with paved shoulders of Bhopal-Sanchi section of NH-86 of 53.77 km to be executed as BOT (Annuity) project under NHDP Phase III. Construction period is of two years and post completion of construction, payments shall be made through semi-annual annuities of Rs 129.5 mn for 13 years totalling Rs 3.37 bn. EPC is likely to be done by Abhyudaya Housing. Pratibha industries would be required to invest Rs.90-100 mn over next two years as equity investment in this project.

■ Road BOT toll project from MSRDC

Company has also bagged a BOT project for construction of bridges in Baramati City including maintenance of roads from MSRDC worth Rs 1 bn. The project involves construction of 2 bridges, along with maintenance of bridges as well as road length of 34 km within Baramati City. Company would also be given rights for commercial development of 8.4 hectares of land and toll collection at 5 entry points of Baramati City for a period of 19 years and 4 months. This project has commenced toll collection from 25th Oct, 2010 and company expects toll collection to be around Rs 1.5 lakh per day from this project.

■ Multi level car parking project

Pratibha Industries had last year secured a BOT project for multi-level parking with commercial development at New Delhi Railway Station cum Airport terminal of Airport Express Line from Delhi Metro Rail Corporation Ltd for a total cost of Rs 1.5 bn. Project involves construction of four levels of car parking and two levels of commercial space above the proposed station. This project had a construction period of 15 months and concession period of 30 years. Company would also get the right to collect parking charges and lease rentals during the concession period.

First phase of four levels of car parking is expected to be ready by Feb, 2011 while second phase of building 0.225 mn sq ft of commercial development above railway station is expected to start by next year. Company expects average rentals to be around Rs 125-130 per sq ft per month post completion of the development.

Thus in all these projects, total equity investments are expected to be nearly Rs 550 -600 mn and corresponding stake of Pratibha's equity investment would stand at nearly Rs 390 mn to be invested over next two years. We currently value this investment at P/BV of 1x since projects are in the initial stages and arrive at a value of Rs 4 per share for Pratibha Industries.

Healthy balance sheet

Company has been able to enhance its networth in past few years with IPO as well as QIP issue along with ploughing back of the profits. Funds raised through QIP will be deployed to reduce high cost debt as well as to meet equity requirements and working capital needs going forward. We thus expect leverage for the company to come down going forward. Company also has excellent return ratios with ROE expected to be around 19.9% and 20% for FY11 and FY12 and ROCE expected to be around 21.6% and 23.0% for FY11 and FY12 respectively.

Fund raising through QIP has enhanced company's network

Fund raising to boost network

Company has raised funds through QIP by issuing 12.195 mn shares at a price of Rs 82 per share thereby raising Rs 1 bn. It has also approved a preferential allotment of equity shares and compulsorily convertible participatory preference shares amounting to approximately Rs. 500 mn to "Van Dyck" a subsidiary of "ChrysCapital V, LLC", upto Rs. 92 per equity share and CCPPS of face value upto Rs. 92/-. Thus total fund raising would stand at nearly Rs 1.5 bn which is likely to be utilized for core construction activities such as capex, retiring high cost debt as well as to meet working capital requirements.

We believe that this fund raising has enhanced company's network and hence would enable it to participate in larger ticket size orders.

Company will continue to tap opportunities across various segments as well as geographies

Future growth strategy

Pratibha Industries will continue to focus on increasing the order book across diverse segments. Company has identified new growth areas such as hydro carbon as well as power projects and would continue to tap opportunities in this space. It would also continue to expand its presence across geographies as well as segment to maintain a hedged business model going forward.

We recommend BUY on Pratibha Industries with a price target of Rs.101

Attractive valuations

At current price of Rs.74, stock is trading at 9.8x and 6.9 P/E and 5.4x and 4.4x EV/EBITDA multiples for FY11 and FY12 respectively. We value the company at 9x FY12 estimated earnings and add value of BOT investments and arrive at a target price of Rs.101 on FY12 estimates. Our target valuations are based on 30% discount to the core business valuations of larger and diversified players to factor in relatively smaller size. We thus recommend **BUY** on the stock.

Key Risks and concerns

- **Slowdown in order inflows** – Any kind of slowdown in order inflows is likely to impact order book growth as well as revenue growth for the company going forward.
- **Delays in execution** – Execution delays related to land acquisition as well as environmental clearance may impact project completion schedule and thereby impact revenue growth.
- **Increase in interest rates** - Increase in interest rates may result in increasing the overall borrowing cost for the company and hence may impact profitability adversely.

RESULTS REVIEW – H1FY11

Revenues of the company registered a growth of 24% YoY during H1FY11 primarily led by excellent growth seen in the construction division. Order inflow in H1FY11 stood at nearly Rs 4.8 bn and is expected to increase significantly going forward given company's strong L1 status. Operating margins stood at 13.4%, inline with our expectations. Net profits reported growth of 22.3% YoY, though it was impacted by higher depreciation and higher interest charges. Company had incurred a capex of nearly Rs 1 bn in FY10 and thus correspondingly depreciation charges witnessed an increase. Interest charges are likely to come down since the company has raised funds through QIP to retire high cost debt as well as for meeting working capital requirements.

Financial highlights of H1FY11

Consolidated financials			
(Rs mn)	H1FY11	H1FY10	YoY (%)
Net sales	5,852	4,725	23.9
Expenditure	5,071	4,146	
Raw Material Consumption	4,226	3,500	
As a % of net sales	72.2	74.1	
Staff Cost	318	215	
As a % of net sales	5.4	4.6	
Other expenditure	527	430	
As a % of net sales	9.0	9.1	
EBITDA	782	579	34.9
EBITDA margin	13.4	12.3	
Depreciation	83	63	
EBIT	699	517	35.3
Interest	305	198	
EBT (exc other income)	394	318	23.9
Other income	30	20	
EBT	424	339	25.2
Tax	126	95	
Tax (%)	29.6	28.0	
PAT	298	244	22.3
NPM (%)	5.1	5.2	
No. of shares	83.43	83.43	
EPS (Rs)	3.58	2.92	22.3

Source: Company

RELATIVE VALUATIONS

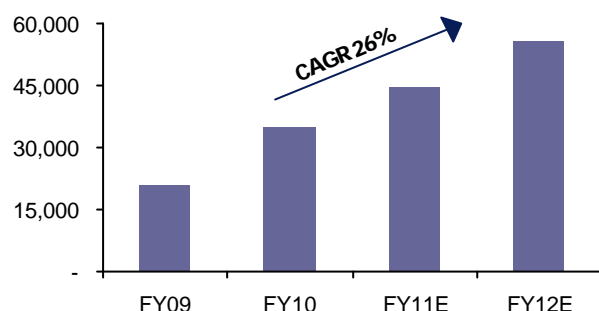
	Price (Rs)	P/E (x)		EV/EBITDA (x)		ROE (%)	
		FY11E	FY12E	FY11E	FY12E	FY11E	FY12E
Pratibha industries	74	9.8	6.9	5.4	4.4	19.9	19.9
Unity Infraprojects	105	7.3	6.7	5.7	5.5	17.4	16.3
Simplex Infra	460	13.9	11.3	6.6	5.8	15.7	16.6
IVRCL	136	17.6	14.8	6.1	5.6	10.6	11.4
NCC	155	16.2	14.8	8.7	8.3	10.5	10.4

Source: Kotak Securities - Private Client Research

FINANCIAL OUTLOOK

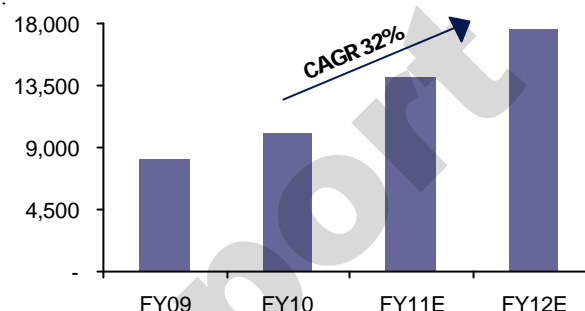
- **Order book** - We expect order book of the company to grow from Rs 35 bn in FY10 to Rs 45 bn in FY11 and Rs 56 bn in FY12 primarily led by order inflows in its key segments such as urban infra, roads and water segment.
- **Revenues** - Revenues of the company are expected to grow at a CAGR of 32% between FY10-FY12. We expect water segment to continue to contribute a significant proportion of the revenues going forward.

Order book (Rs mn)



Source: Company, Kotak Securities - Private Client Research

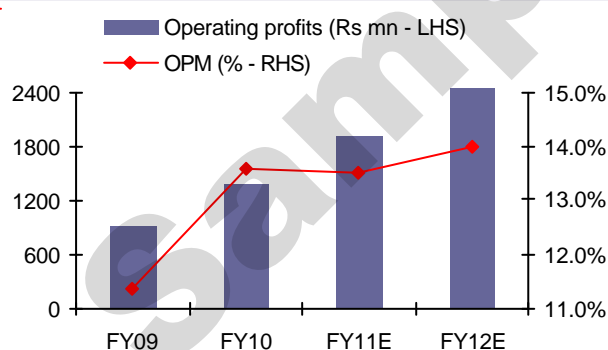
Revenues (Rs mn)



Source: Company, Kotak Securities - Private Client Research

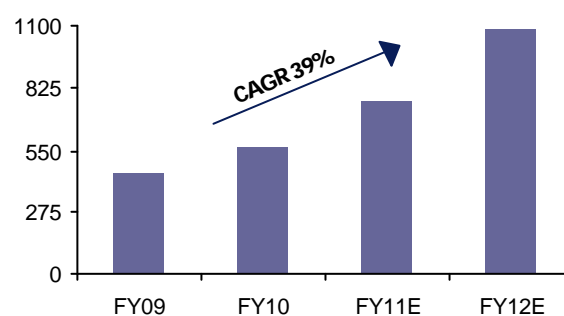
- **Operating margins** - Operating margins of the company are likely to remain strong due to higher proportion of high margin projects in overall order book. Along with this, company also owns a large fleet of owned machinery and equipment which helps in maintaining margins at higher levels. We expect margins to be 13.5% for FY11 and 14% for FY12.
- **Net profits** - With robust order book and strong growth in revenues coupled with excellent margins, we expect net profits to grow at a CAGR of 39% between FY10-FY12.

Operating profits (Rs mn)



Source: Company, Kotak Securities - Private Client Research

Net profits (Rs mn)



Source: Company, Kotak Securities - Private Client Research

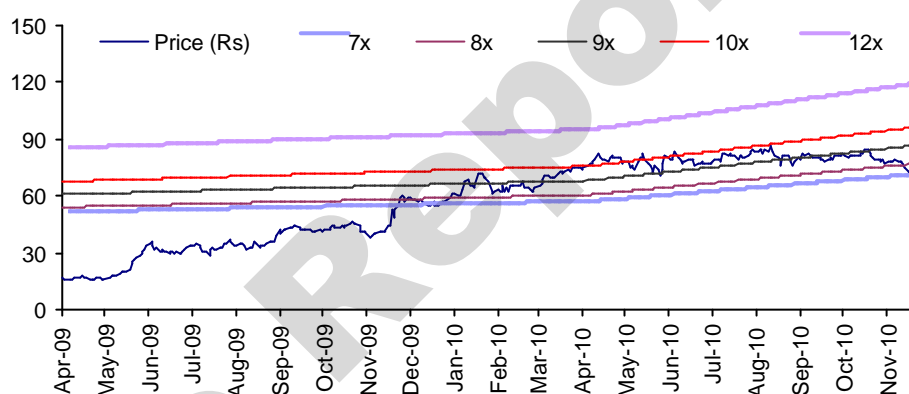
- **Equity Capital** - We have assumed fully diluted equity capital of Rs 202 mn going forward in our estimates as against Rs 167 mn in FY10. Company had raised funds through QIP of nearly Rs 1 bn by issuing 12.195 mn shares. Along with this, we have also taken conversion of CCPPS at Rs 92 per share and arrived at an enhanced equity capital of Rs 202 mn.

VALUATION AND RECOMMENDATION

We recommend BUY on PratiBha Industries with a price target of Rs.101

- At current price of Rs.74, stock is trading at 9.8x and 6.9x P/E and 5.4x and 4.4x EV/EBITDA multiples for FY11 and FY12 respectively.
- We value the company at 9x FY12 estimated earnings and arrive at a valuation of Rs.97 on FY12 estimates for core construction business.
- Our target valuations are based on 30% discount to the core business valuations of larger and diversified players to factor in relatively smaller size in comparison with players like IVRCL, NCC, Simplex etc
- We currently value BOT investment at P/BV of 1x since projects are in the initial stages and arrive at a value of Rs 4 per share for PratiBha Industries.
- We thus arrive at a price target of Rs.101 on FY12 estimates and recommend **BUY** on the stock.

One year forward PE band



Source: ACE Equity, Kotak Securities - Private Client Research

FINANCIALS

Profit and Loss Statement (Rs mn)			
Year end March	FY10	FY11E	FY12E
Revenues	10,072	14,100	17,625
% change YoY	25	40	25
EBITDA	1,366	1,904	2,468
% change YoY	49	39	30
Other Income	63	63	63
Depreciation	140	198	233
EBIT	1,289	1,768	2,297
% change YoY	44	37	30
Net interest	522	676	747
Profit before tax	766	1,092	1,550
% change YoY	38	43	42
Tax	201	328	465
as % of PBT	26	30	30
Profit after tax	565	765	1,085
% change YoY	26	35	42
Shares outstanding (m)	16.7	101.1	101.1
EPS (reported) (Rs)	6.8	7.6	10.7
CEPS (Rs)	8.5	9.5	13.0
DPS (Rs)	0.6	0.6	0.6

Source: Company, Kotak Securities - Private Client Research

Balance Sheet (Rs mn)			
Year end March	FY10	FY11E	FY12E
Cash and cash equivalents	658	1,166	647
Accounts receivable	1,944	2,897	3,622
Inventories	3,237	4,056	5,070
Others	2,441	2,704	3,380
Current assets	8,279	10,824	12,719
Misc exp.	1	1	1
LT investments	51	301	601
Net fixed assets	3,004	3,306	3,773
Total assets	11,336	14,432	17,095
Payables	3,631	4,443	5,553
Others	165	165	165
Current liabilities	3,796	4,607	5,718
Provisions	307	399	536
LT debt	4,348	4,348	4,748
Other liabilities	131	131	131
Equity	167	202	202
Reserves	2,587	4,745	5,759
Total liabilities	11,336	14,432	17,095
BVPS (Rs)	33.0	49.0	59.0

Source: Company, Kotak Securities - Private Client Research

Cash Flow Statement (Rs mn)			
Year end March	FY10	FY11E	FY12E
EBIT	1,289	1,768	2,297
Depreciation	140	198	233
Change in working capital	(1,801)	(1,225)	(1,304)
Change in other net current assets	272	92	137
Operating cash flow	(100)	833	1,364
Interest	(522)	(676)	(747)
Tax	(212)	(338)	(475)
Cash flow from operations	(834)	(181)	141
Capex	(992)	(500)	(700)
(Increase)/decrease in investments	(51)	(250)	(300)
Cash flow from investments	(1,042)	(750)	(1,000)
Proceeds from issue of equity	-	35	-
Increase/(decrease) in debt	1,863	-	400
Proceeds from share premium	-	1,465	-
Dividends	(50)	(61)	(61)
Cash flow from financing	1,813	1,439	339
Opening cash	721	658	1,166
Closing cash	658	1,166	647

Source: Company, Kotak Securities - Private Client Research

Ratio Analysis			
Year end March	FY10	FY11E	FY12E
EBITDA margin (%)	13.6	13.5	14.0
EBIT margin (%)	12.8	12.5	13.0
Net profit margin (%)	5.6	5.4	6.2
Receivables (days)	60.8	75.0	75.0
Inventory (days)	96.7	105.0	105.0
Sales/assets	3.4	4.3	4.7
Interest coverage (x)	2.5	2.6	3.1
Debt/equity ratio	1.4	1.1	0.8
ROE (%)	22.6	19.9	19.9
ROCE (%)	21.8	21.6	23.0
EV/ Sales (x)	1.0	0.7	0.6
EV/EBITDA (x)	7.2	5.4	4.4
Price to earnings (x)	10.9	9.8	6.9
Price to book value (x)	2.2	1.5	1.3
Price to Cash Earnings (x)	8.8	7.8	5.7

Source: Company, Kotak Securities - Private Client Research

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