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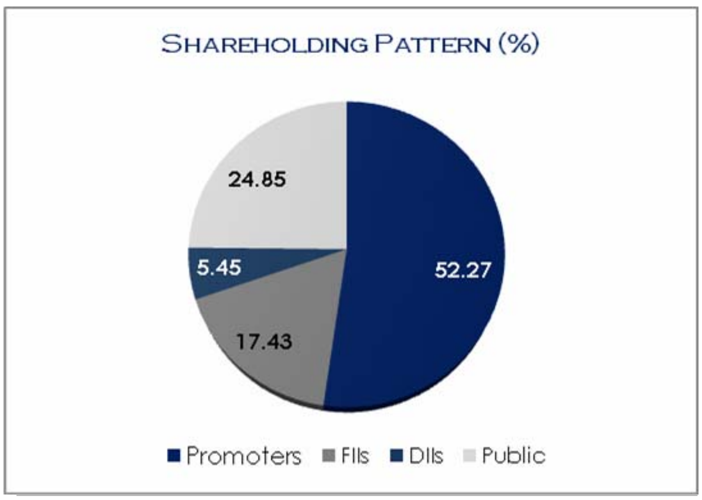
INVESTOR'S DELIGHT

14TH FEBRUARY, 2011

COMPANY	PRATIBHA INDUSTRIES LTD.
NSE Code	PRATIBHA
BSE Code	532718
FV	Rs. 2
Equity Capital (Rs in mn)	199
Market Capitalization (Rs in mn)	5,742
CMP	**Rs. 58**
Target Price	**Rs. 80**
Upside	**38%**



ABOUT THE COMPANY

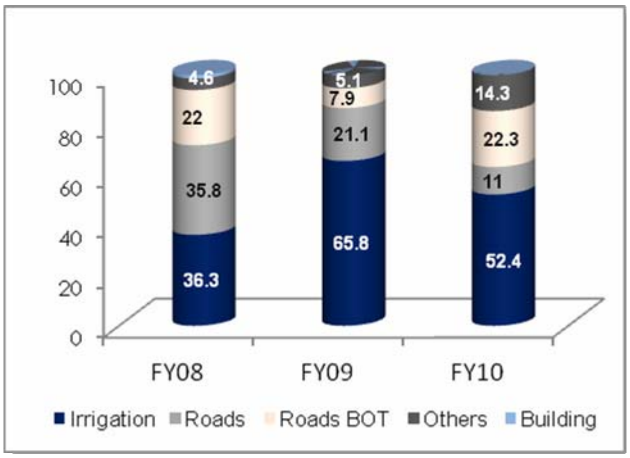
Established in 1982, Pratibha Industries Ltd. (PIL) is engaged in the infrastructure development business with a niche in the water management projects, road construction, airport terminals, mass housing projects, commercial complexes, railway stations and tunneling projects. It also manufactures SAW pipes for captive consumption and for Oil & Gas players. PIL has a pan India presence and operates in 14 states across the country. The company operates in the states of the Jammu and Kashmir, Punjab, Haryana, National Capital Territory of Delhi, Rajasthan, Gujarat, Maharashtra, Karnataka, Madhya Pradesh, Uttar Pradesh, Bihar and Assam, with Maharashtra accounting for 42% of total order book.

INVESTMENT RATIONALE

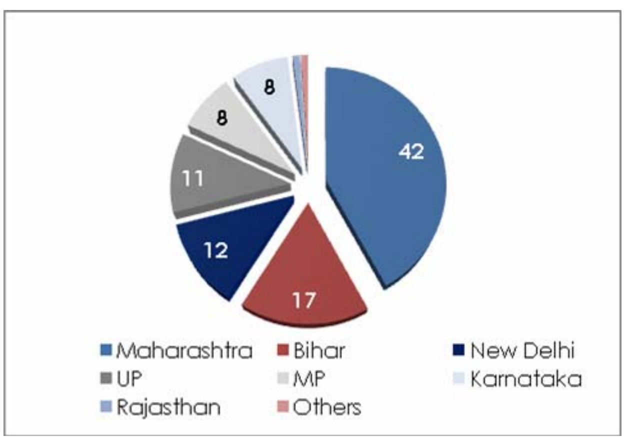
1) Strong order book, good revenue visibility

Presently, the company's order book stands at Rs. 36 bn (3.87x FY10 revenues), excluding L1 positions worth Rs. 9 bn. The company expects an order book of Rs. 50 bn. by FY11 end. This provides revenue visibility over the next two years. To mitigate against the risk of specific segment slowdown, the company has a well diversified order book. It has gradually shifted its focus from roads segment to high margin irrigation segment from FY08 onwards. Irrigation segment accounted for 52.4% of total order book in FY10.

Diversified order book



Region wise order book - %



Source: Company, Ajcon Research

2) Strong momentum of order inflows

YTD order inflows stand ~Rs. 13.9 bn. The company is the only bidder for Rs.12 bn prestigious order of passenger water transport programme to link Nariman Point and Borivali from Maharashtra State Road Development Corporation (MSRDC)

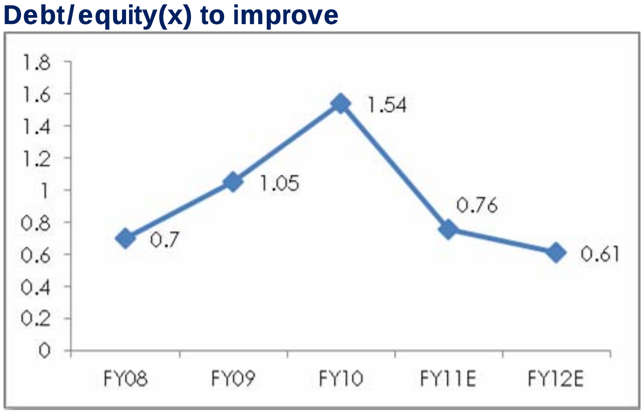
3) **Impressive Q3FY11 performance:** Revenues of the company witnessed yoy growth of 23% to touch Rs. 2,753 mn in Q3FY11. OPMs improved by 51 bps on a yoy basis to touch 15.3% mainly on account of contribution from high margin segments like irrigation and urban infrastructure. EPC segment registered significant improvement by 400 bps to touch 15.3%.

4) **Backward integration:** It is one of the few infrastructure companies in India having backward integration into manufacturing of saw pipes, primarily used for its water projects. The company manufactures saw pipes at its API (American Petroleum Institute) 5L licensed facility at Wada (Thane) with an installed capacity of 90,000 MTPA with a coating division of 1.8 million square meters per annum. ~60% saw pipes manufactured are consumed internally for its construction/ EPC projects and the balance output is sold to players in water supply and oil and gas industry.

5) **BOT projects gaining traction:** The company has presently three BOT projects in hand. Baramati toll road project has already begun operations. Phase I of DMRC car project is expected to be commissioned by September 2011. Bhopal-Sanchi road project will commence by January 2012.

6) **Improving balance sheet, debt/equity to improve:** It has taken good efforts to improve the quality of its balance sheet. It recently raised Rs. 1 bn. by issuing 12.2 mn equity shares at Rs. 82 per share to qualified institutional buyers. In addition, it raised Rs. 500 mn by issuing 3.8 mn equity shares and 1.6 mn compulsorily convertible participatory preference shares (CCPS) for Rs. 92 each to Van Dyck which is a subsidiary of Chryscapital V, LLC. The CCPPS will be convertible in 18 months at price of Rs. 92. This would enable the company to reduce its leverage levels and meet capex requirements. PIL's debt/equity is expected to improve from 1.54x in FY10 to 0.61x in FY12E.

Debt/equity(x) to improve



Source: Company, Ajcon Research

Financial summary

Income statement (Rs. in mn.)

Particulars	FY09	FY10	FY11E	FY12E
Total Income	**7,462**	**9,298**	**11,623**	**13,948**
Operating Profit	**812**	**1,315**	**1,685**	**2,092**
OPM(%)	***10.8***	***14.1***	***14.5***	***15.0***
Other Income	115	51	55	60
Depreciation	(59)	(109)	(154)	(169)
Interest	(318)	(493)	(578)	(526)
PBT	**550**	**765**	**1,008**	**1,458**
Tax	(103)	(199)	(272)	(437)
PAT	**447**	**565**	**736**	**1,020**
PAT (%)	***5.9***	***6.1***	***6.3***	***7.3***
Outstanding shares (mn)	**83**	**83**	**99**	**101**
EPS	**5.4**	**6.8**	**7.4**	**10.1**
P/E(x)	**10.8**	**8.6**	**7.8**	**5.7**
ROE(%)	**21.9**	**22.6**	**19.6**	**19.3**
ROCE(%)	**22.2**	**21.4**	**20.3**	**22.1**

Source: Company, Ajcon Research

Balance Sheet (Rs. in mn.)

Particulars	FY09	FY10	FY11E	FY12E
Sources of Funds				
Equity Capital	167	167	199	202
Preference capital	-	-	150	-
Reserves	2,080	2,587	4,560	5,605
Borrowings	2,354	4,230	3,480	3,530
Deferred Tax Liability	62	131	131	131
Total	**4,663**	**7,115**	**8,520**	**9,468**
Application of Funds				
Net Fixed Assets	1,455	2,688	2,835	2,966
CWIP	491	114	114	114
Investments	148	136	100	250
Net Current Assets	**1,877**	**3,560**	**4,760**	**5,407**
Cash	**692**	**617**	**711**	**731**
Total	**4,663**	**7,115**	**8,520**	**9,468**

Source: Company, Ajcon Research

Cash flow statement (Rs. in mn.)

Particulars	FY09	FY10	FY11E	FY12E
Profit before tax	550	765	1,008	1,458
Operating profit before WC	927	1,366	1,740	2,152
Cash flow from operations (a)	(552)	(447)	267	1,068
Cash flow from investments (b)	105	(952)	(264)	(450)
Cash flow from financing (c)	678	1,324	91	(598)
Net Inc/(Dec) in cash (a+b+c)	231	(75)	94	20
Cash at the beginning of the year	**460**	**692**	**617**	**711**
Cash at the end of the year	**692**	**617**	**711**	**731**

Source: Company, Ajcon Research

Outlook and Valuation

At the CMP, the sock is valued at 5.7x at estimated at FY12 EPS. We expect the company to witness revenue CAGR of 22.5% and earnings CAGR of 34.4% over the period FY10-12E. OPM are expected to improve. With net debt/equity to improve, PAT margin is expected to improve and touch 7.3% by FY12E.

With due consideration to factors like a) robust and diversified order book, b) strong revenue visibility for FY12, c)impressive Q3FY11 performance, we recommend **'BUY'** with a target price of Rs. 80 for investors with a horizon of 12 months.

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