



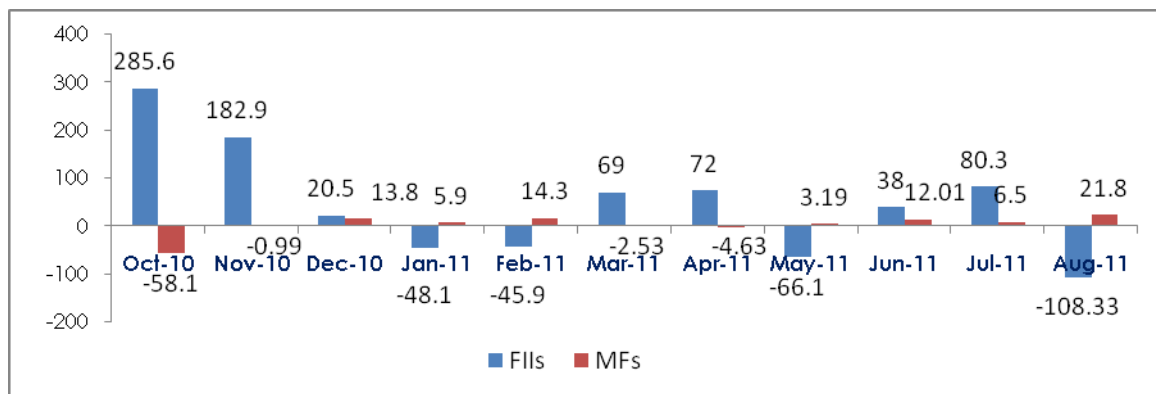
“A month of turmoil”

The month of August 2011 started with poor economic reports and concerns over high public debt in United States and Europe. Negative sentiments in the first week of the month has S&P (rating agency) downgraded the long-term U.S. credit rating to AA+ from AAA on concerns about growing budget deficits. In addition, domestic factors like high interest rates, high commodity prices, political unrest in terms of fight for corruption and delay in implementation of reforms were continuously plaguing the markets which were playing in the mind of the investors.

In Q1FY12, Gross Domestic Product (GDP) growth moderated to 7.7% from 8.8% in Q1FY11. Slowdown in investment and private consumption growth is evident from several lead indicators such as industrial credit off-take and retail loans disbursements. While investment growth moderated compared to last year, it was healthier-than-anticipated. Private consumption growth slowed down sharper-than-expected due to high base and rising interest rates. The slowdown in mining growth is worrying and if the trend continues this can have adverse impact on other sectors particularly manufacturing. Given high inflationary pressure as well as a need for fiscal consolidation, there is little room for fiscal and monetary stimulus, even if the external environment turns riskier.

FIs during the month “August – 2011” turned sellers and sold worth Rs. 108.3bn. On the other hand, Mutual Funds bought worth Rs. bn.

Trend in FII and MF activity in equity (Rs. bn)



Source: SEBI, Money control, Note: Aug 2011 MF data is up to 26th Aug, 2011

Monthly indices

Index	30 th August, 2011	29 th July, 2011	% change
Dow Jones	11,493.5*	12,143	(5.35)
FTSE	5,418.6*	5,815.19	(6.82)
Hang Seng	20,423.9*	22,783.97	(10.35)
Nikkei	8,960.5	10,015.04	(10.5)
Nifty	5,001	5,482	(8.77)
Sensex	16,676.751	18,197.2	(8.35)
BSE -Midcap	6,273.6	6,915.3	(9.3)
BSE-500	6,487.2	7,111.3	(8.7)

Source: Ajcon Research, * as on 1st September, 2011

Ajcon's view

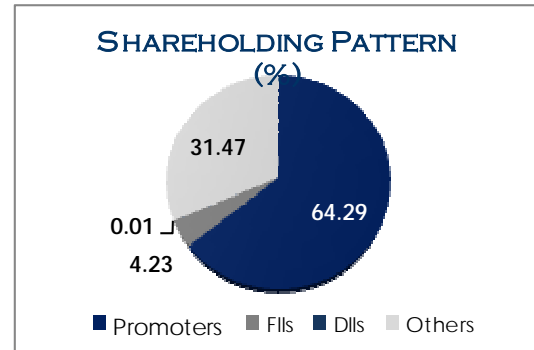
Persistent higher inflation levels have remained a headwind for a long time. India's July 2011 inflation of 9.22% was the highest in Asia after 11 successive rate hikes. On the other hand, Asian economies reported lower inflation levels. China's inflation stood at 6.5% whereas inflation levels in the economies of Indonesia, South Korea and Thailand stood between 4-5%.

We believe markets would take a cue from RBI's action in the policy meet scheduled on September 16, 2011. Any rate hike can affect market sentiments. However we believe, investors sitting on cash can slowly accumulate blue chip companies like Infosys, SBI, RIL, BHEL, Larsen and Toubro, Engineers India and Siemens. In the midcap space we prefer stocks which provide higher margin of safety on the valuation front, strong revenue visibility and healthy cashflow. We prefer companies like Jubilant Lifescience, GSFC and Eros International Media Ltd. We are bullish on Eros International Media Ltd. because of its risk free model and expectation of handsome earnings from RA ONE being released around Diwali this year.

In this newsletter, we have touched upon a company from the midcap space - "Prakash Steelage Ltd." Please find a brief study on Prakash Steelage Ltd.

Investor's Delight - Prakash Steelage Ltd. (PSL)

Date	2 nd September, 2011
NSE Code	PRAKASHSTL
BSE Code	533239
FV	Rs. 10
Equity Capital (Rs in mn)	175
Market Capitalization (Rs in mn)	2,153
CMP	Rs. 123
Target Price	Rs. 171
Upside	39 %



FINANCIAL SUMMARY

INCOME STATEMENT (Rs. in mn.)

Particulars	FY09	FY10	FY11	FY12E	FY13E
Operating Income	2,921	4,386	5,462	6,398	7,096
Operating Profit	229	444	550	670	772
OPM (%)	7.8	10.1	10.1	10.5	10.9
PAT	75	176	248	324	375
PAT (%)	2.6	4.01	4.5	5.06	5.3
EPS	6.7	15.7	14.2	18.5	21.4
P/E(x)	18.4	7.9	8.7	6.6	5.7
P/BV (x)	3.9	2.7	1.6	1.3	1.0
ROE(%)	21.5	34.6	18.0	19	18
ROCE(%)	13.6	21.3	17.5	19.3	20.5
Debt/Equity (x)	3.6	2.8	1.1	0.9	0.7

Source: Company, Ajcon Research

Background

Prakash group has completed 35 years since its formation in 1976. The company has evolved from trader to manufacturer of value added stainless steel products. It has a pre eminent position in the importation, stocking and supplying flat and long stainless steel products in India.

The company was incorporated in the year 1991 for manufacturing Stainless Steel Welded and Seamless Pipes and 'U' tubes under one umbrella in India, which commenced production at its Silvassa unit in the year 1996.

It undertakes its production through two state-of-the-art production units situated at Silvasa and Umbergaon (Gujarat) with total installed production capacity of 17,600 MTPA. Initially, the company started with a capacity of 4,000 MTPA in the year 1996, increased its capacity to 12,200 MTPA in the year 2007 by setting up its new state of the art plant in Umbergaon. From the current total capacity of 17,600 MTPA, the company further plans to increase its capacity to 19,000 MTPA by FY12.

INVESTMENT RATIONALE

Strong past performance: The company's revenues have witnessed a CAGR of 37% over FY09-11 whereas over the same period earnings clocked a CAGR of 81%.

Strong client base: It enjoys credible relationship with Bharat Heavy Electrical Ltd., Essar Heavy Engineering Services Ltd., Siemens Ltd., Profins Ltd (UK), Sole A/S (Eggedal).

PSL's customer base includes a diverse set of industries including Oil & Gas, Power, Pharmaceutical, Petrochemical, Sugar, Dairy, Automobile etc. Its products are exported in the markets of North America, South East Asia, Africa, Middle-East and Europe.

Multiple products: PSL manufactures a wide range of products based on the customer specifications. This allows the company to cater to the diverse demands of its customers and to consolidate and establish its presence across regions.

It specializes in meeting specific requirements of customers and offers complete solution for stainless steel welded and seamless pipes and tubes. The products vary according to their type, shape and size. The different products manufactured by the company include the following:

- a) S.S Welded Tubes
- b) S.S Welded Pipes
- c) S.S EFW Pipes
- d) S.S Seamless Tubes
- e) S.S Seamless Pipes
- f) Square
- g) U Bend Tubing
- h) S.S Grades

New Productsto improve margins: The Company has forayed into high margin products like Duplex, Super Duplex and Super Austenitic pipes/tubes (these are kind of pipes/ tubes distinguished on the basis of the materials used in it).

Locational Advantages: PSL's both units are situated at Silvasa and Umbergaon (Gujarat) which is well connected by road and rail and is in close proximity to JNPT port. This facilitates efficient movement of raw materials and finished products. Its location also helps us to service wide array of customers.

Recognized Star export house: PSL is a "Govt. Recognized Star Export House". The company does not have any export obligation but its products are exported to countries round the globe. It exports to several MNC's into more than 40 countries across the Globe. Its products are exported to countries like USA, UK, UAE, South Africa, Belgium, Canada, Columbia, Denmark,

Ecuador, Egypt, France, Germany, Iran, Ireland, Italy, Jordan, Kenya, Kuwait, Mauritius, Mexico, Netherland, Nicaragua, Norway, Peru, Portugal, Saudi Arabia, Singapore, Spain, Sweden, Switzerland, Turkey and Vietnam.

Vendor registration and approvals: The Company is registered vendor of PSU's and larger corporate. PSL is approved by reputed accredited inspecting agencies. In the past, the company has received approvals which are as follows:

- a) Awarded with ISO 9001:2000 for its unit at Silvassa
- b) Certified as PED (Pressure Equipment Directive), AD – 2000 – Merkbatt W O EIL, Llyods and IBR approved company
- c) TUV Certificate for its unit at Umbergaon and Silvassa by TUV Rheinland Industrie Service GmbH, Colonge, Germany
- d) BS OHSAS 18001-2007 by RINA SpA, Genova, Italy
- e) ISO-14001-2004 by RINA SpA, Genova, Italy
- f) Vendor Approval from Kuwait National Petroleum Company (Kuwait)

It has recently received Inspecting Agency - American Petroleum Institute (API)'s approval for its Umbergaon Plant. The said approval opens new gates for export of Company's products: stainless steel tubes & pipes to numerous clients spread over globally who insist on products from API approved Company. The said approval is granted after passing through very rigorous testing processes.

Outlook

With due consideration to factors like:

- a) Past impressive performance,
- b) Strong client base,
- c) Key approvals from various agencies which leads to export opportunities,
- c) Attractively valued at P/E of 5.7x at estimated FY13 EPS, we recommend a "BUY" with a target price of 171 (8x FY13E EPS) within 9-12 months.

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