

JV CAPITAL SERVICES PVT. LTD

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PRATIBHA INDUSTRIES

CMP: 199

BUY

SECTOR: CONSTRUCTION

Risk Profile: Medium

TARGET: 300

NSE Symbol : Pratibha Ind

Key Data

52 Week High	241
52 Week Low	167
Market Cap	500.43 crore
Face Value	10
Beta	0.63
P/E Ratio	5.8
Dividend Yield %	1.01%
Book Value	134.68

Pratibha Industries is a mid-sized construction and infrastructure development company. The company is particularly strong in sanitation and, water treatment and transportation. This places the company in a sweet spot as there is an increasing focus on improving and renewing urban amenities. The company also weathered the slowdown much better than its peers as demonstrated by ~30% increase in consolidated net profits in FY09.

Investment Rationale

Excellent Performance – Strong Visibility of Earnings Ahead

Pratibha had an excellent FY09 even during the downturn. The company reported a record turnover of Rs.565 Crores, 85% increase y-o-y. The order book position of the company also saw a substantial growth. The order book surged to a record level and crossed the mark of Rs.2000 Crores and stood at Rs.2050 Crores. Around Rs.1,47,000 crore worth of water supply, sanitation, and irrigation projects, would be implemented by the Government of India during the next 3 years whereas around Rs.40,300 crore worth of projects (Government and Private) is expected to be implemented in the airports (city side development), high-rise commercial and institutional buildings, tunneling construction and car parks.

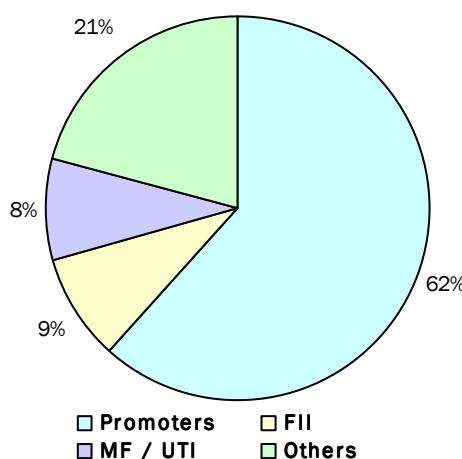
Diversifying into new areas to expand

The company is exploring various options to expand the base of activities. Accordingly, in recent past, the company has ventured into relatively new segments viz. building and airport modernisation, subcontracting large buildings and shopping malls, development of urban infrastructure etc.

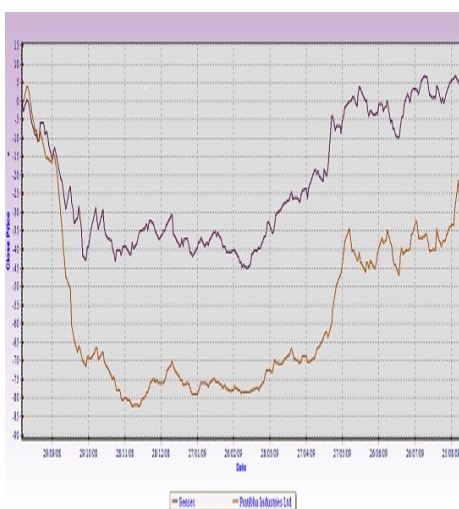
Won some big ticket orders recently

The company won some big ticket orders recently. It won a Rs.406 crore order from Municipal Corporation of Mumbai for replacement of pipeline. The company has also secured an order worth Rs.523.40 from National Building Construction Corporation Ltd. for construction of ESIC Medical College at Patna. The project is expected to be executed over 24 months.

Share Holding Pattern (%)

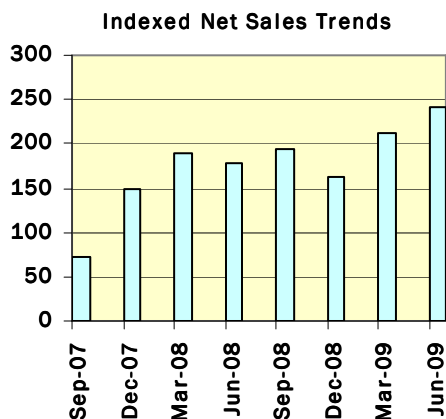


Relative Performance Analysis

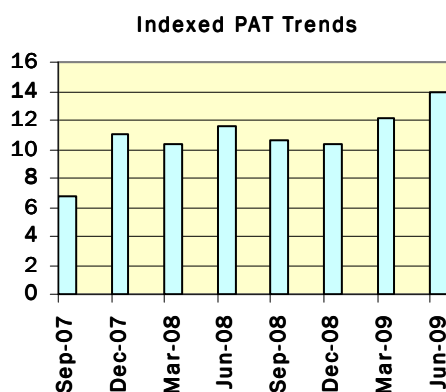


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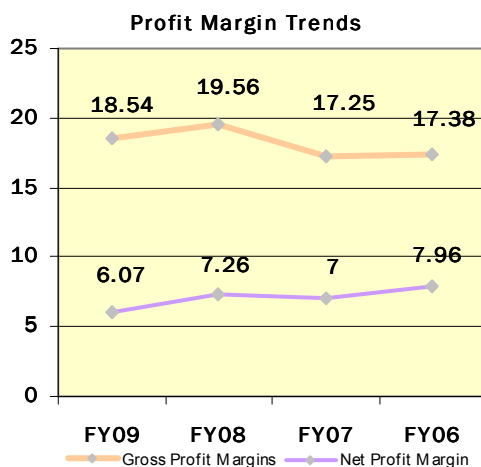
JV CAPITAL SERVICES



Sales have more than quadrupled over past five quarters



PAT has more than doubled in last two years despite tough operating environment and slowing economy



Profit margins have largely remained stable despite higher operating expenses

Infrastructure Industry in India has been experiencing a rapid growth in different segments due to the increase in urbanization and ever increasing foreign investments in this sector as a whole. With rapid growth of the economy in recent years, the importance and urgency of putting in place a quality infrastructure has increased. The Indian infrastructure/ construction industry is expected to continue its northward movement in the future as well. As per estimated figure the infrastructure and construction industries will contribute 16.98% to Indian GDP by 2012.

Excellent Performance in the downturn

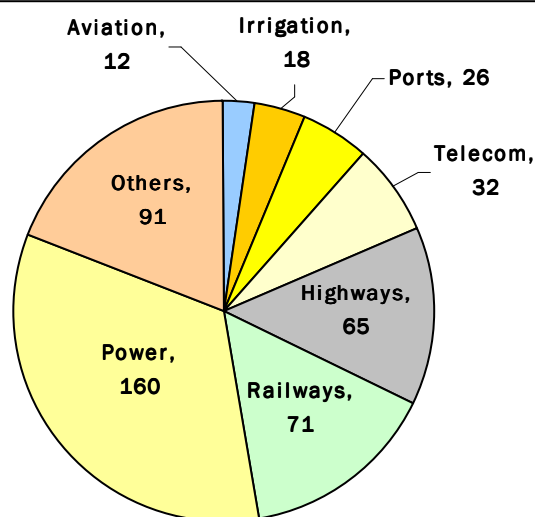
Pratibha had an excellent FY09 even during the downturn. The company reported a record turnover of Rs.565 Crores, 85% increase y-o-y. The order book position of the company also saw a substantial growth. The order book surged to a record level and crossed the mark of Rs. 2000 Crores and stood at Rs.2050 Crores. The execution period of these orders ranges from one year to four years. The management is positive on getting more big ticket orders, which will have substantial positive impact on the working and profitability of the company in the coming years.

Diversifying into new areas to expand

The company is exploring various options to expand the base of activities. Accordingly, in recent past, the company has ventured into relatively new segments viz. building and airport modernisation, subcontracting large buildings and shopping malls, development of urban infrastructure etc. In pursuit of this the Company is executing two major airport projects viz., Amritsar Airport and Ahmedabad Airport, two tunneling projects for the Brihanmumbai Municipal Corporation, Mumbai. The Company's foray into relatively new fields is an indication of the Company's desire to diversify, increase its revenue streams and lower the operational risks. Moving up the engineering value chain will also help the company to bid for and execute complex and high ticket projects which have higher margins.

One of the strongest players in its area of expertise

The Company, despite increasing its base and diversifying activities, has maintained its edge and efficiency in the niche area of water treatment and transportation. Water supply and sanitation in India continue to be inadequate, despite long standing efforts by the various levels of government and communities at improving coverage. The situation is particularly inadequate for sanitation, since only one of three Indians has access to basic sanitation facilities. While the share of those with access to an improved water source is much higher than for sanitation, the quality of service is poor and most users that are counted as having access receive water of dubious quality and only on an intermittent basis. In Water sector, the prevailing conditions and trends in Urban India indicates that 85% of population in general have access to safe water supply, which is even less (65%) in slums. Urban Water and Sanitation Services are characterized by inefficiency and poor service quality. So far there is no provision for 24 hour quality water supply in any Indian city. In fact most cities are having intermittent water supply of varying periodicity and quantity. Government of India has created fund for assisting the State Governments and the Urban Local Bodies in the economic reform, with the water and sanitation reforms forming a core of the approach.



In the past few years, the Indian government’s focus has been directed towards improvement of road, housing infrastructure, urban water supply & sanitation and development of airports. As per the estimates of the Planning Commission, about US\$ 500 billion needs to be spent over the 11th Five Year Plan period of 2007-08 to 2011- 12 on building India’s infrastructure. The Government has increased allocations for power, road, water etc. This points to a humungous opportunity for construction companies. Most of the construction companies are growing their order book and revenues. CRISIL Research estimates suggest that these allocations would translate into construction investments of Rs.29,086 crore in the segments of roads, urban infrastructure and irrigation (including water). None of the 35 Indian cities with a population of more than one million distribute water for more than a few hours per day, despite generally sufficient infrastructure.

Owing to inadequate pressure people struggle to collect water even when it is available. According to Indian norms, access to improved water supply exists if at least 40 liters/capita/day of safe drinking water are provided within a distance of 1.6km or 100m of elevation difference, to be relaxed as per field conditions. There should be at least one pump per 250 persons. Most Indians depend on on-site sanitation facilities. Recently, access to on-site sanitation have increased in both rural and urban areas. In rural areas, total sanitation has been successful. In urban areas, a good practice is the Slum Sanitation Program in Mumbai that has provided access to sanitation for a quarter million slum dwellers. Sewerage, where available, is often in a bad state. In Delhi the sewerage network has lacked maintenance over the years and overflow of raw sewage in open drains is common, due to blockage, settlements and inadequate pumping capacities. The capacity of the 17 existing waste water treatment plants in Delhi is adequate to cater a daily production of waste water of less than 50% of the drinking water produced. The situation in other urban cities of the country is also not different, the sanitation and sewerages system needs to be revamped substantially, if not completely.

Valuation & Recommendation

At the CMP of Rs.198.95 the company trades at an annualised PER of nearly 9.5. We expect the company to grow its revenues by ~20% and profits by ~7% on account of higher interest outgo due to costlier debt. However we also believe, the company is undervalued and should trade at a higher PER. Also, there has been informed buying into the stock by stronger hands. This is also a reason of optimism. Our assumption factors in an EPS of Rs.26.97 for the CY09, and a PER of 11. This gives us a target of Rs.300 for a six month time horizon.

(Rs. Crores)	Mar 09	Jun 09	Sep 09E	Dec 09E
Net Sales	164.95	214.63	199.50	220.50
Total Expense	139.77	188.19	171.50	189.50
Operating Income	25.18	26.44	28.00	31.00
Other Income	1.31	-	-	-
Gross Profit	26.49	26.44	28.00	31.00
Interest	12.67	6.74	9.50	14.50
Depreciation	1.41	2.12	2.50	2.50
PBT	12.42	17.58	16.00	14.00
Tax	2.05	5.44	4.5	3.00
Net Profit	10.37	12.14	11.5	11.00
EPS (Rs/Share)	6.21	7.28	6.89	6.59

Source: Company, JV Capital

Research Desk		Tel: 011- 41654860
Sajiv Dhawan	Managing Director	sajiv@jvfinancial.com
Ashit Suri	Head of Research	ashit@jvfinancial.com
Sanjeev Kapoor	Trading Desk	011-41654860
Narendra Singh	Trading Desk	011-41654861
Rajeev Kumar	Trading Desk	011-41654862
Satyendra Singh	Back Office	backoffice@jvfinancial.com
Bijaya Swain	Accounts Dept	011-41654874 / 75
General Enquiries		support@jvfinancial.com

RISK PROFILE:

Low Risk: Fundamentally Sound companies, with low beta. Expected market out-performance is 0–10%

Medium Risk: Expected market out-performance is 10–20%. Preferably for the Investors with a maximum time frame of 6 months.

High Risk: High Beta Stocks, expected market out-performance is more than 20%, Preferably for the investors willing to take advantage of market momentum and are aggressive in nature.

Disclaimer Appendix

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