

Company Details

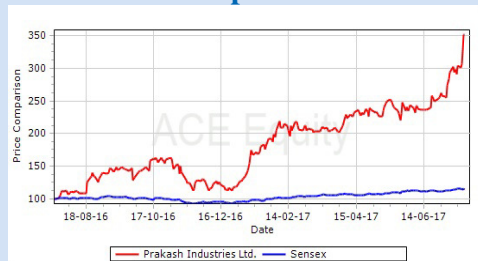
CMP:	Rs.135.65
Face value:	Rs.10.00
Market cap:	Rs.2017.12 Crs.
EPS	Rs.8.45
52 week high:	Rs.120.80
52 week low:	Rs.35.95
BSE Code:	506022
NSE Code:	PRAKASH
Sector	Steel & Iron

Financial Highlights (YoY)

Rs. in crores			
	FY17	FY16	% Var
Net Sales	2,414.80	2,281.20	5.86
Total Expendit	2,153.62	2,091.36	2.98
PBDIT	261.18	189.84	37.58
Op.Profit	264.50	194.65	35.88
OPM (%)	10.95	8.53	28.37
PBT	88.40	23.39	277.94
PAT	81.00	23.38	246.45
EPS (Rs.)	5.83	1.68	246.45
Equity	139.05	139.05	-

Q1FY18 vs. Q1FY17

Rs. in crores			
	Q1FY18	Q1FY17	% Var
Net Sales	722.33	638.96	13.05
Total Expendit	614.23	582.90	5.37
PBDIT	108.10	56.06	92.83
Op.Profit	109.39	56.52	93.54
OPM (%)	15.14	8.85	71.20
PBT	61.73	14.04	339.67
PAT	59.41	14.04	323.15
EPS (Rs.)	4.27	1.01	323.15

Share Price Graph**Research Analyst**

Sumit Kumar Shrivastava

sumit.shrivastav@satco.co.in

Satco Capital Markets Ltd.

Board Line: +91 022 2645 6666 |

Ext: 288 | Fax: +91 022 2651 6783

Company Background

Prakash Industries Ltd., a Haryana-based company incorporated in 1980, is engaged in Steel, Power and PVC Pipes businesses. It manufactures wire rods, TMT bars, structural steel, ferro alloys, PVC pipes, billets, ingots, and blooms. Its steel, PVC Pipes and Power divisions contributed around 77%, 10% and 13%, respectively, of total sales during FY17. Its manufacturing plants are located at Orissa, Tamil Nadu, Chhattisgarh and Dadra & Nagar Haveli.

Financial Performance

The net sales and PAT of the Company at Rs.2414.80 crores and Rs.81 crores during FY17 were up by 5.9% and 246.5%, respectively, compared to those during FY16. Its operating profit margin had improved from 8.5% during FY16 to 11% during FY17. The EPS, on face value of Rs.10, had increased from Rs.1.68 for FY16 to Rs.5.83 for FY17.

The Company has also reported an improved performance during Q1FY18 where its net sales and PAT at Rs.722.23 crores and Rs.59.41 crores, respectively, are up by 13.1% and 323.2% over those during Q1FY17. **The EPS has gone up from Rs.1.01 for Q1FY17 to Rs.4.27 for Q1FY18 against full year EPS of Rs.5.83 for FY17** The growth in the profitability is backed by better sales realization and major cost saving measures taken by the Company.

Investment Rationale

- India is 3rd largest producer of crude steel and production is expected to reach at 300 million tonnes by 2030 on the back of rising infrastructure construction and the booming automobile and railways sectors from the current 92 million tonnes. Production and consumption of finished steel increased in FY17 as compared to previous year and is expected to increase in FY18, backed by an increase in infrastructure allocation in the Budget. In addition, lower per capita steel consumption and falling imports will be a major boost for the industry.
- The Company is one of the largest integrated steel manufacturers in India and its plants are strategically located in Chhattisgarh, one of the major coal and iron ore belts. Its captive iron ore mines in Odisha & Chhattisgarh, its step towards backward integration, 230MW captive power plant and strong brand presence in north India for PVC Pipes & Fittings are likely to improve top and bottom lines of the Company.
- It produces steel through coal based sponge iron route which in technical collaboration with Lugri GmbH, Germany. It secured supply of key raw material for Iron Ore through allotted mines in the States of Chhattisgarh & Odisha and Coal through long term linkage from Coal India. The Company secured additional Long Term Coal Linkage of 0.57 million tonnes from Coal India Ltd. to meet the fuel requirement of its captive power, which is expected to contribute significantly to its bottom line in the coming quarters.
- The Company has successfully commissioned its new sponge iron rotary kiln and power co-generation capacity, which has since stabilised. The full impact of operation of new kiln and additional power generation therefrom, will result in further improved margins from the current quarter onwards.
- Its PVC Pipes segment has plant strategically located in Uttarakhand with strong brand presence in the states of UP, Uttarakhand, Delhi, Haryana & Punjab. It has enhanced product portfolio with PVC fittings and Garden Pipes and adding 10000 MTPA by the end of FY18 to the existing capacity of 55000 MTPA. This segment is expected to contribute double digit growth in sales in the coming years. The Company has also engaged with PricewaterhouseCoopers as advisors for demerger of PVC Pipes Division to unlock value.
- Its power business is Operating with capacity of 230 MW captive power at its Integrated Steel Plant. It generates power through harnessing waste gases emanating from Sponge Iron process and partly through Thermal route. It's newly commenced Sponge Iron Rotary Kiln is likely to generate additional 15MW power by end of FY19.
- The Company debt:equity ratio at comfortable level of 0.3:1 at the end of FY17.

- The promoters hold 42% equity capital of the Company, followed by institutions 7.5% and the balance 50.5% shares are held by the public.

Concerns

Increase in input costs and competition from other players are some of the concerns.

Valuation

The share of the Company is trading at a lower P/E of 11.3x on estimated EPS of Rs.12 for FY18, against that of sector at 14.8x. Keeping in view the positive outlook for steel & power sectors, improved performance of the Company during FY17 & Q1FY18, rapid growth in PVC pipe segment, improved margins, captive power plants and lower PE ratio, we recommend a buy on the share of this company with an expected price appreciation of about 30% over the next 12 months.

Disclaimer: This document has been prepared by SATCO Capital Market Ltd., a registered broker dealer, and is being distributed to its clients. The information in the document has been compiled by the research department. Due care has been taken in preparing the above document. However, this document is not, and should not be construed, as an offer to sell or solicitation to buy any securities. Any act of buying, selling or otherwise dealing in any securities referred to in this document shall be at investor's sole risk and responsibility. This document may not be reproduced, distributed or published, in whole or in part, without prior permission from the Company. © Satco Capital Markets Ltd