

Prakash Industries (Steel & PVC Pipes)
Q1FY19 Result Update
Q4FY18 result update

During Q1FY19, Sales volume of steel billets stood at 35,260 Tonnes against a sales volume of 33,913 Tonnes in Q4FY18. Sales volume of finished steel stood at 191,899 Tonne in Q1FY19 vs. 177,219 Tonnes in Q4FY18.

The realization of finished steel products rose by 8.6% sequentially. In Q1FY19, average realization of finished steel products stood at INR 39,536 per tonne against INR 36,406 per tonne in Q4FY19.

The company's PVC segment has also witnessed significant growth, During Q1FY19, the sales volume stood at 11,692 Tonnes against 9,712 Tonnes in Q4FY17, a rise of 20% QoQ.

An improved sales realization on account of ~9% surge in steel prices, higher volumes & cost savings helped the company post strong Q1 results. Revenue rose by 8.2% QoQ in the first quarter to INR 9,854 Mn while EBITDA was at INR 2,403 Mn, an increase of 18% QoQ. The net profit margin was at 17% at INR 1,687 Mn, an increase of 11% QoQ.

Iron ore mine

The Company has taken the steps to commence operations at the Sirikaguttu iron ore mine by Sep 2018. The company has received Stage 1 approval for diversion of revenue forest land from MEFC.

Flexible packaging business update

The flexible packaging plant has been successfully commissioned to manufacture high performance barrier films, laminates and other packaging products.

Valuation: Our TP of 260 is based on 3.8(x) FY20e EV/EBITDA on the back of 90% capacity utilization of installed finished steel capacity, strong steel prices in domestic market & an uninterrupted supply of Iron Ore from Odisha.

Q1FY19 Financial summary

Rs Mn	Q1FY19	Q4FY18	QoQ (%)	Q1FY18	YoY (%)	FY18
Net Sales	9,854	9,105	8.2	6,505	51.5	29,348
Total Raw Materials	5,851	5,675	3.1	4,188	39.7	19,079
Personnel Cost	541	568	-4.8	474	14.0	1,960
Other cost	1,060	823	28.7	762	39.1	955
EBITDA	2,403	2,038	17.9	1,081	122.3	5,811
Depreciation	336	307	9.5	271	24.0	1,209
EBIT	2,067	1,732	19.4	810	155.1	4,601
Interest & Finance charges	212	255	-16.6	206	3.2	86
EBT (w/o other income)	1,855	1,477	25.6	604	206.8	3,735
Other Income	16	65	-74.8	13	27.1	148
EBT (as reported)	1,871	1,542	21.3	617	203.1	3,883
Tax	184	21	780.9	23	693.5	21
PAT	1,687	1,521	10.9	594	183.9	3,863

BUY

Bloomberg	PKI.IN
CMP	Rs. 147.30
Target	Rs 260
Potential Upside	76%

Market Data

Market Cap. (Rs. Mn)	25,133
Market Cap. (\$ Mn)	390
Outstanding Shares (Mn)	156.88
52 Week High / Low (Rs.)	276/91
Face Value (Rs.)	10

Shareholding (%)

Promoters	39.7
FII	7.3
Others	53.0

Financial Ratios

	FY19E
ROE (%)	25.4
ROA (%)	19.6
PE (x)	4.85
D/E	0.23

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Quarterly numbers:

Sequentially company's steel billets and finished steel sales volume grew by 3.1% and 8.22% respectively.

Sales Volume (Tonne)	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Steel Billets	14,613	26,288	15,958	33,913	35,260
<i>% of steel billets production</i>	<i>8.3</i>	<i>15.6</i>	<i>8.1</i>	<i>15.8</i>	<i>15.6</i>
Structural/TMT	33,239	18,844	25,280	27,664	22,054
<i>% of steel billets production</i>	<i>18.8</i>	<i>11.2</i>	<i>12.8</i>	<i>12.9</i>	<i>9.7</i>
Wire rods	1,17,484	1,20,502	1,49,756	1,49,625	1,69,845
<i>% of steel billets production</i>	<i>66.5</i>	<i>71.7</i>	<i>75.6</i>	<i>69.6</i>	<i>75.0</i>
Silico manganese	10,003	13,553	10,563	10,913	1,250
<i>% of steel billets production</i>	<i>5.7</i>	<i>8.1</i>	<i>5.3</i>	<i>5.1</i>	<i>0.6</i>
PVC	10,355	8,815	9,890	9,712	11,692

PKI will witness a higher volume growth in coming quarters because of capacity expansion and high demand of domestic steel.

The company is expected to earn a revenue of INR 10,317 Mn, 9,186 Mn, 11.616 Mn, 12,500 Mn in Q1FY19, Q2FY19, Q3FY19 and Q4FY19 respectively. The EBITDA margin will be sustained at a level of 22%.

	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19E	Q3FY19E	Q4FY19E
Net Sales	6,505	6,479	7,260	9,105	9,854	9,552	11,914	12,518
Total Raw Materials	4,188	4,134	4,477	5,675	5,851	5,741	7,160	7,523
Personnel Cost	474	431	487	568	541	583	727	764
Other cost	762	728	790	823	1,060	869	1,084	1,139
EBITDA	1,081	1,187	1,505	2,038	2,403	2,359	2,943	3,092

Quarterly Segment Performance:

	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Power	1278	1414	1641	1731	1981
Steel	6348	5801	6524	8366	8943
PVC Pipes & Others	864	661	720	732	905
Less: Inter-segment	1266	1396	1625	1725	1975
Net Sales	7223	6479	7260	9105	9854

Company Profile:

Established in 1980, Prakash Industries (PKI) is a low cost steel producer having an integrated steel plant at Champa, Chhattisgarh. The sponge iron kilns installed at Champa work on latest SL/RN technology developed by a German company Lurgi. SL/RN is the only renowned technology in coal based Sponge Iron manufacturing.

The company has a PVC pipes division at Kashipur (Utharkhand) with an existing capacity of 55,000 tonne.

Product portfolio:

Wire rod which is the highest margin product contributes 59% to the overall revenue while other products are in the range of 8 to 12%.

Product offering in Steel	Product offering in PVC
Wire Rods	UPVC Pipes
HB Wire	UPVC Fittings
Structural Steel	Column Pipes
TMT Bars	SWR Pipes
Ferro Alloys	Casing Pipes

Expansion Plans:

Under the capacity expansion in steel, PKI is adding 0.2 MT of additional capacity every two quarters in a phased manner in order to double its existing capacity from 1MTPA to 2MTPA. Installation works for a 6th Kiln is currently on & it will be ready by September 2018. The company is planning to double its PVC pipes production capacity to 1,10,000 tonnes per annum by September 2019 in phases at its existing plant in Kashipur, Uttarakhand. The expansion will be primarily done through internal accruals.

Product	Location	Existing Capacity	Future Capacity	Total Capacity	Timeline
Integrated Steel					
Finished Steel	Raipur, Chhattisgarh	1.1 MT	-	1.1	-
Sponge Iron	Champa, Chhattisgarh	1.0 MT	0.4	1.4	Mar 2019
Steel Billets	Champa, Chhattisgarh	1.1 MT	-	1.1	-
Ferro Alloys	Champa, Chhattisgarh	0.13 MT	-	0.13	-
Power	Champa, Chhattisgarh	230 MW	15 MW	245 MW	Sep, 2018
PVC Pipe	Kashipur, Uttarakhand	55,000 Tons	Phase I – 10,000 Tons	65,000 Tons	Sep, 2018

Business update

- The flexible packaging plant has been successfully commissioned to manufacture high performance barrier films, laminates and other packaging products.
- The Company is in the process of Demerging its PVC Pipes & Fittings business. The Flexible Packaging business will also form part of the resulting company.

Income Statement:

Rs Mn	FY16	FY17	FY18	FY19E	FY20E
Total Sales	20,553	21,735	29,348	43,838	54,849
Total Raw Materials	15,025	15,269	19,079	27,174	35,542
COGS	16,109	1,641	20,623	29,468	38,449
Personnel Cost	1,490	1,549	1,960	2,614	3,346
Other Cost	1,092	1,144	955	959	1,097
EBITDA	1,862	2,612	5,811	10,797	11,957
Depreciation	1,017	1,030	1,209	1,594	1,746
Interest & Finance charges	686	731	866	895	886
Other Income	48	33	148	219	274
EBT	206	884	3,883	8,527	9,600
Tax	00	74	21	853	1,920
PAT	206	810	3,863	7,674	7,680

Balance Sheet:

Rs Mn	2016	2017	2018	2019	2020
Equity Share Capital	134.5	139.1	156.9	156.9	156.9
Equity Warrants	0.0	0.0	208.0	0.0	0.0
FCCB	30.9	23.5	0.0	0.0	0.0
Reserves	1972.1	2058.5	2371.2	3138.6	3906.6
Net worth	2137.5	2221.0	2736.1	3295.5	4063.4
Long term Borrowings	543.8	576.8	600.9	540.6	494.7
Other Financial liabilities	1.3	1.7	0.0	0.0	0.0
Total loans	568.8	607.6	634.8	574.8	529.2
Deferred tax liability (Net)	88.9	86.5	0.0	0.0	0.0
Capital Employed	2795.2	2915.1	3370.8	3870.2	4592.7
Gross Block	2831.1	2873.9	3794.0	4194.0	4594.0
Accumulated Depreciation	1196.1	1295.7	1416.6	1576.0	1750.6
Net block	1634.9	1578.1	2377.3	2617.9	2843.4
CWIP	955.2	1141.5	690.0	760.0	770.0
Financial assets	29.8	54.5	50.4	52.7	56.7
other non current assets	331.5	319.3	245.6	310.0	315.0
Inventories	182.6	187.8	250.9	360.3	450.8
Sundry debtors	79.9	76.3	98.9	180.2	225.4
Cash and bank	20.0	28.1	47.5	53.4	66.6
Short term financial assets	88.2	30.6	41.6	60.1	75.1
Other Current Assets	40.2	86.5	90.5	180.2	180.3
Total Current assets	411.0	409.2	529.3	834.1	998.3
Short term Borrowings	81.1	143.3	115.4	168.1	150.3
Trade Payable	88.9	97.0	140.5	216.2	90.2
Other current financial liabilities	318.0	264.9	158.0	240.2	150.3
Other current liabilities	64.3	51.1	37.5	56.0	0.0
Current Tax liability	3.9	18.5	54.0	0.0	0.0
short term Provisions	11.0	12.8	16.4	24.0	0.0
Total Current liabilities	567.2	587.6	521.8	704.5	390.7
Net Current assets	-156.2	-178.3	7.5	129.5	607.6
Capital Deployed	2795.2	2915.1	3370.8	3870.2	4592.7

Cash Flow statement:

Y/E March	FY16	FY17	FY18	FY19E	FY20E
PAT	206	810	3,863	7,674	7,680
Depreciation & Amortization	859	996	1,209	1,594	1,746
Provision for Taxes	00	-74	-21	-853	-1,920
Incr/(Decr) in Deferred Tax Liability	-03	-24	-865	00	00
(Incr)/Decr in Working Capital	215	302	-1665	-1,161	-4,648
Cash Flow from Operating	1,278	2,084	2,542	8,107	4,777
Capital expenditure	-906	-428	-9,201	-4,000	-4,000
Capital expenses in CWIP	-674	-1,862	4,515	-700	-100
Investment in financial assets	44	-248	41	-23	-40
Investment in non current assets	766	122	737	-644	-50
Cash Flow from Investing	-769	-2,416	-3,909	-5,367	-4,190
Repayment/Proceeded in Debts	-818	388	272	-600	-456
Issue/Buyback in Share Capital	00	46	178	00	00
Cash Flow from Financing	-585	413	1,560	-2,680	-456
Incr/(Decr) in Balance Sheet Cash	-77	81	193	60	132
Cash at the Start of the Year	277	200	281	475	534
Cash at the End of the Year	200	281	475	534	666

Ratios:

	FY16	FY17	FY18	FY19E	FY20E
EPS	1.5	5.6	24.5	48.9	49.0
Reported CEPS	9.1	13.2	32.3	59.1	60.1
BVPS	158.9	159.7	174.4	210.1	259.0

Profitability (%)

EBITDA Margin	9.1	12.0	19.8	24.6	21.8
EBIT Margin	4.1	7.3	15.7	21.0	18.6
PBT Margin	1.0	4.1	13.2	19.5	17.5
ROE	1.0	3.6	15.5	25.4	20.9
ROA	2.5	4.2	12.4	19.6	17.1
ROCE	3.1	5.7	14.8	25.4	24.1

DuPont Analysis (3 stage)

	0.0	0.0	0.0	0.0	0.0
Profit Margin (%)	1.0	3.6	13.1	17.5	14.0
Total Asset Turnover (x)	0.6	0.6	0.8	1.0	1.1
Equity Multiplier (x)	1.6	1.6	1.5	1.4	1.3
ROE (%)	1.0	3.6	15.5	25.4	20.9

DuPont Analysis (5 stage)

	0.0	0.0	0.0	0.0	0.0
Profit/EBT	1.0	0.9	1.0	0.9	0.8
EBT/EBIT	0.2	0.5	0.8	0.9	0.9
EBIT/Sales	0.0	0.1	0.2	0.2	0.2
Sales/Asset	0.6	0.6	0.8	1.0	1.1
Asset/Equity	1.6	1.6	1.5	1.4	1.3
ROE (%)	1.0	3.6	15.5	25.4	20.9

Research Desk

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Disclosure Appendix

BUY: Returns>20%; **ACCUMULATE:** 5%<Returns<20% ; **HOLD:** -5%<Returns<5%, **REDUCE** -20%<Returns<-5% and **SELL:** Returns<-20%

Analyst(s) holding in the Stock : Nil

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