

Prakash Steelage : Average Issue; Cash flow negative in last 3 years

Note: Plans to foray into speciality pipes/tubes, will increase profitability in future

Rating : **

Issue details

Price band (Rs)	Rs.100-110
IPO Opening Date	05/08/10
IPO Closing Date	09/08/10
Issue Size	Rs.62.50-68.75 Crore

Valuations & Recommendation

The net revenue for FY 2010 grew 50% y-o-y to Rs 438.58 crore while net profit surged 142% y-o-y to Rs 17.81 crore. However, it is to be noted that the revenue from manufactured products increased 36% y-o-y to Rs 217.72 crore and that from trading business increased 68% y-o-y to Rs 219.38 crore (where the gross margin is 3% and net margin is 1.5%). The OPM for FY 2010 improved 230 bps to 10.1%. We feel the IPO offers long term value for investment on grounds of sustained growth in domestic and export demand, capacity expansion on the cards and in-house backward integration capability. **At the price band PSL is available at 9.8x times at lower band & 10.8x times at the upper band to the FY-10 EPS, which is at a slight discount to its industry peers. Overall fundamentals are not so much impressive but looking to the growth opportunities in industry and company's expansion plans investors with high risk aptitude can take small exposure in this issue.**

Highlights

- ◆ A Govt. Recognized Star Export House exporting to several MNC's into more than 40 countries across the Globe.
- ◆ It propose a backward integration cum expansion of manufacturing facilities at their existing unit in Umbergaon, Gujrat
- ◆ Plans to foray into certain new products like Duplex, Super Duplex and Super Austenitic pipes / tubes
- ◆ Capacity utilization level was low in past three years – FY 2008 to FY 2010
- ◆ Negative cash flows at operating level for FY 2009, 2008, 2007 and 2006 of Rs 12.06 crore, Rs 30.34 crore, Rs 5.36 crore and Rs 0.39 crore, respectively
- ◆ The management expects capacity utilization of 85% and 93%, respectively, in FY 2011 and FY 2012

Company Introduction

Incorporation & Promoters

Prakash Steelage was incorporated by Prakash C Kanugo, a first generation entrepreneur, as a private company in 1991 in Mumbai mainly for trading in stainless steel sheets, coils and plates. In 1997 it was converted into a public limited company following the setting up in 1996 its first plant in the Union Territory of Dadra and Nagar Haveli, with a capacity of 4000 MT per annum, for manufacturing of welded & seamless stainless steel pipes, tubes and U-tubes. In 2007 the company started its second unit at Umbergaon, Gujarat, with a capacity of 8200 MT with total capacity reaching to 12,200 MT.

Export and Competitors

Prakash Steelage is an a government recognized Star Export House,

Financial Summary

Particulars	0803 (12)	0903 (12)	1003 (12)
Sales	220.03	292.06	438.58
OPM%	7.9	7.8	10.1
Op. Profit	17.45	22.91	44.40
EPS (Rs)*	4.7	4.2	10.2

* On post issue equity of Rs 17.50 crore, Face Value: Rs 10/-

RANKING METHODOLOGY

WEAK	*
AVERAGE	**
GOOD	***
VERY GOOD	****
EXCELLENT	*****

though the export turnover is not quite significant (6.5% of net revenue in FY 2010). In the domestic market the company has competitors like Ratnamani Metal, Suraj Stainless, Rajendra Engineering and Mechanical Industries.

Outlook

Demand for stainless steel seamless pipes and tubes is mainly derived from important sectors like hydrocarbon, petrochemical, power generation engineering, sugar, dairy, pharmaceutical, chemicals & fertilizers, infrastructure, automobile and railway sectors. The stainless steel welded pipes and tubes find application in petrochemical, fertilizer, power and nuclear plants along with other corrosion resistant applications.

Expansion

To meet the increasing demand, the company started backward integration cum expansion of manufacturing facilities at its existing unit in Umbergaon to 19000 tonnes. Out of incremental 6800 MT capacity the company installed 3400 MT of capacity in FY 2009. The company is also creating facilities for Hot Finishing Hollows (10,000 MT) to ensure backward integration.

IPO & Proceed

The company is entering the capital market to raise money in the range of Rs 62.50 crore to Rs 68.75 crore by issuing around 62.50 lakh equity share of face value of Rs 10 each in the price range of Rs 100 to Rs 110 per share. Till 30 May 2010 the company had deployed Rs 49.25 crore on expansion (including Rs 20 crore working capital requirement), which it sourced as Rs 5 crore by allotting equity shares to promoters at Rs 40 per share and the balance from secured and unsecured loans (including interest free loan from promoters). Out of the proceeds from the issue Rs 19-20 crore will be used for capex and balance will go towards working capital, general corporate purpose and issue expenses.

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