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CMP : INR529

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COMPANY VISIT

PSP Projects Limited

Yet another big-ticket project is on its way!

We met PSP Projects (PSPPL), an Ahmadabad-based civil contractor. Over the past four years, PSPPL's order backlog has grown six-fold. Meanwhile, even including for a stellar FY18, the revenues, unreported as of now, may have moved up only by ~2.5x. Even without winning new orders, the existing order backlog can help the company achieve an annual revenue run-rate of INR10.8bn. But then, there are two scenarios ahead: first, PSPPL guides for recurring, quarterly order inflow rate of INR2.5bn - scouted from Ahmadabad and peripherals of the city. And second, the company is strategically contemplating to undertake yet another Surat Diamond bourse (SDB) type of project in another state. Either way, for a high-RoE business that PSPPL is in, at the current valuation, the stock has factored all but one.

Even in the worst case, a 40% revenue growth is plausible

After winning INR15bn construction contract from SDB, the order backlog has swelled in excess of INR27bn. And the blended order backlog, company reckons, will be executed under 24-30 months. This should pave the way for a revenue run-rate of INR10.8bn-as against INR4.1bn in FY17. As a precursor for higher revenue growth ahead, given a stellar backlog now, the reported numbers affirms a shoring up of execution. Yet with 9MFY18 revenues in excess of INR4.7bn, up a near double from the base year, the numbers are short of achievable annual revenue run-rate of INR10.8bn, one could argue. But then, there are no deviations from execution schedule, paving the way for nominal growth rate of 40% ahead, at the least.

Base orders and strategic forays should dispel investor concerns

Minus SDB orders, investors are concerned about the future-specifically at the current valuation. Now here is what the company says: notwithstanding the SDB order, company is confident to add another recurring annual order inflow in excess of INR10bn. And these works will be sourced from Ahmadabad/Surat and other clusters of Gujarat. Thereby, the revenue run-rate of INR10.8bn will be secular and sustainable. Now here is the big catalyst: PSPPL is contemplating to strategically foray in different states - steering the way clear for another SDB-like order. Put this strategy with high RoE in excess of 30%, the days are brighter ahead, one can argue.

Stellar achievement in short time

Just within a decade of operating history, PSPPL has completed 97 public and private projects. The employee addition reflects the sustainable strength of the company. For instance, with 15 full-time employees in 2008 to more than 725 in 2018 and 7,000 contract employees, PSPPL has proved its scalable quotient. Thereby, the questions on agility of multi-location project management skills are widely misplaced. Adding to the scalable quotient, the ticket size of an average order has moved to multi-level highs. With INR85mn in FY12, PSPPL has moved to INR1.1bn per project threshold in FY18. Even if a statistical outlier of SDB is knocked off, the ticked size has moved three-fold, we note.

Valuation and outlook

Over the past four years, PSPPL's order backlog has grown six-fold. Meanwhile, even including for a stellar FY18, the revenues, unreported as of now, may have moved up only by ~2.5x. Plus company is guiding for base orders of INR10bn annually. Adding to that, PSPPL is strategically contemplating to enter in another state - with an order size matching SDB. If these events materialize, the current financials do not reflect the steady-state scenario, one could argue. And with enviable RoE intact, the stock makes a pressing investment case.

Market data

Sensex	:	33,789
Sector	:	Infra
Market Cap (INRbn)	:	18.9
Market Cap (USDbn)	:	0.291
O/S Shares (m)	:	36.0
52-wk HI/LO (INR)	:	595/189
Avg Daily Vol ('000)	:	108
Bloomberg	:	PSPPL IN

Source: Bloomberg

Valuation

	FY15	FY16	FY17
EPS (INR)	3.9	7.0	11.5
P/E	135.2	75.6	46.2
P/BV 54.8	40.6	28.8	17.7
EV/EBITDA	82.6	46.9	28.1
EV/Sales	6.6	4.0	4.6

Source: Bloomberg

Returns (%)

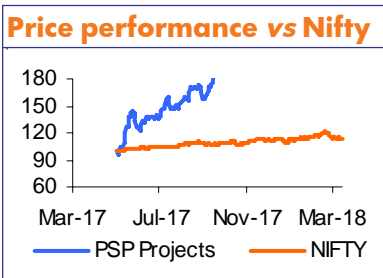
	1m	3m	6m	12m
Absolute	12	(6)	43	NA
Relative	11	(4)	35	NA

Source: Bloomberg

Shareholding pattern

Promoters	:	72%
Public	:	28%
Others	:	0%

Source: Bloomberg



Source: Bloomberg

Indexed to 100

PSPPL expects to execute the current backlog in 2.5 years

<i>In INRbn, stated otherwise</i>	FY18
Base-case Order Backlog	12
Lumpy Projects in order backlog	15
Execution time-line (years)	2.5

Source: Antique

Scenario 1: Without Big-ticket orders

<i>In INRbn, stated otherwise</i>	FY19	FY20
Opening Order Backlog	24	23
New orders	10	10
Revenue	11	15
Closing order backlog	23	18

Source: Antique

Revenue Break-up without big-ticket orders

<i>In INRbn, stated otherwise</i>	FY19	FY20
Base orders	5	5
Lumpy Projects	6	6
New orders of FY19	0	4
	11	15

Source: Antique

Scenario 2: With Big-ticket orders

<i>In INRbn, stated otherwise</i>	FY19	FY20
Opening Order Backlog	24	33
New orders	10	10
SDB like orders	15	15
Revenue	16	20
Closing Order Backlog	33	38

Source: Antique

Revenue Break-up with big ticket orders

<i>In INRbn, stated otherwise</i>	FY19	FY20
Base-case Order Backlog	10	13
Lumpy Projects in order backlog	4	4
New orders of FY19	3	3
	16	20

Source: Antique

What does the valuations Indicate?**Scenario 1: Without Big-ticket orders**

<i>In INRbn, stated otherwise</i>	FY19	FY20
Execution	10.8	14.8
EBITDA margins	14%	14%
EBITDA	1.5	2.1
Net Profit	0.9	1.2
Market Cap		18.7
Implied PE (x)		16
Estimated RoE	27%	24%

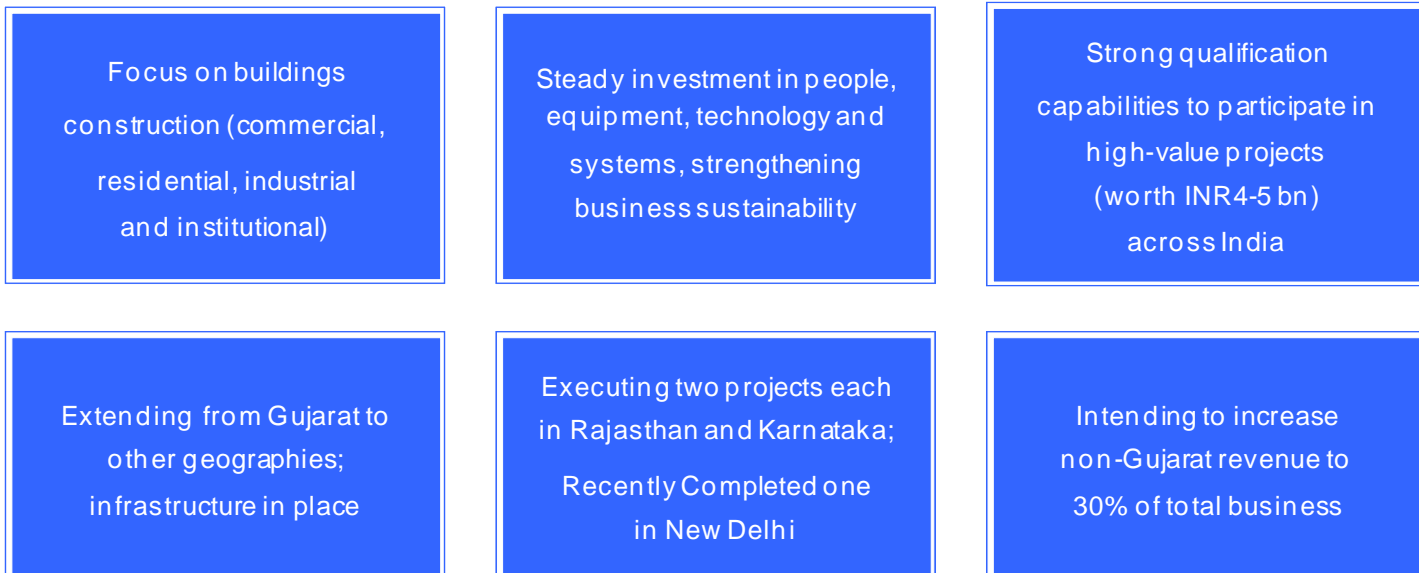
Source: Antique

Scenario 2: With Big-ticket orders

<i>In INRbn, stated otherwise</i>	FY19	FY20
Execution	15.9	19.5
EBITDA margins	14%	14%
EBITDA	2.2	2.7
Net Profit	1.3	1.6
Market Cap		18.7
Implied PE (x)		12
Estimated RoE	40%	34%

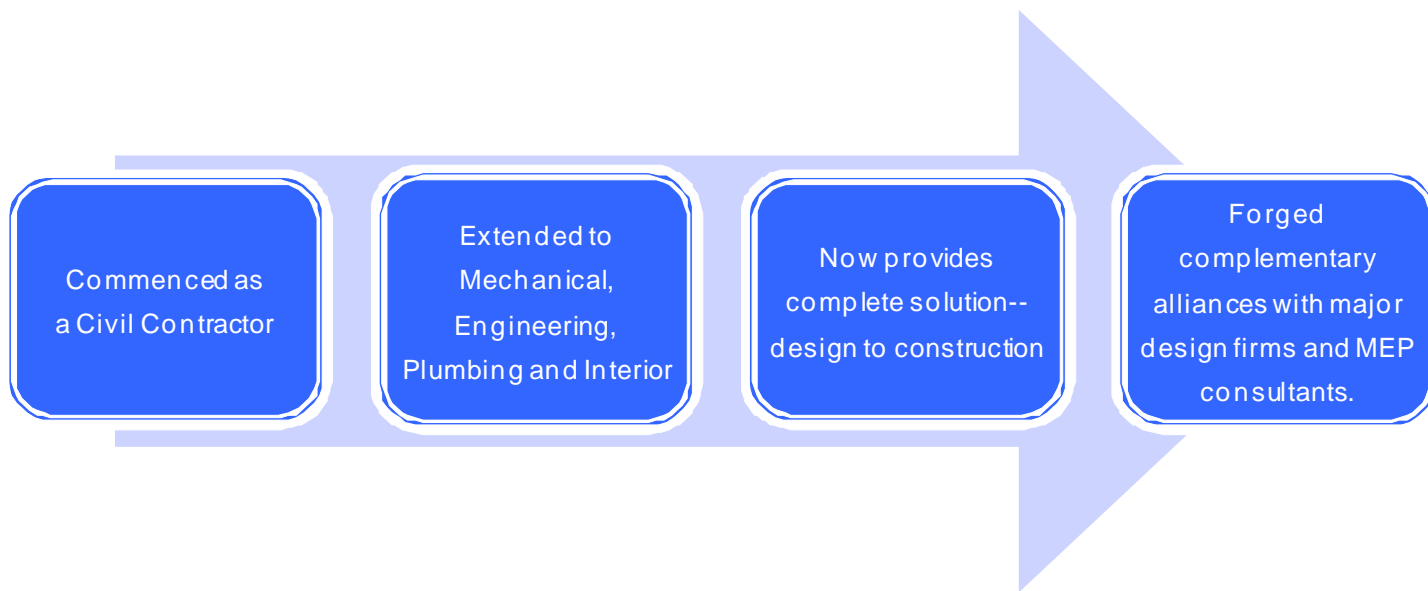
Source: Antique

The six areas of focus and how company would shape the future course of action



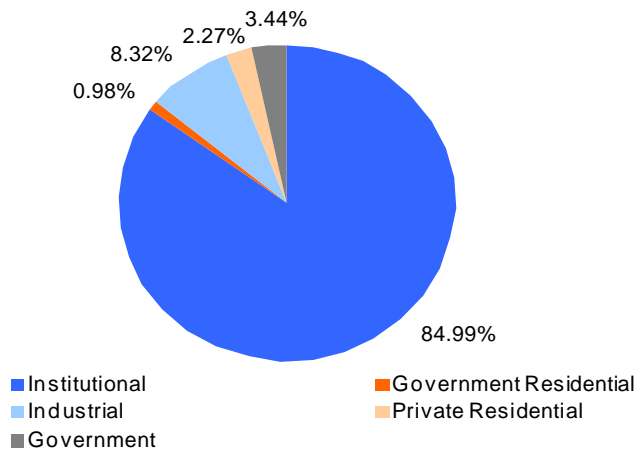
Source: Company, Antique

The transition of PPSL over a period of time



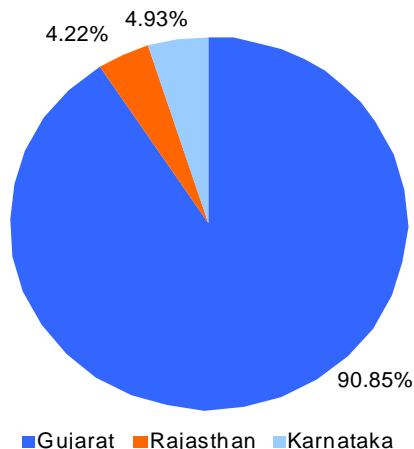
Source: Company, Antique

Order backlog and its segment breakup



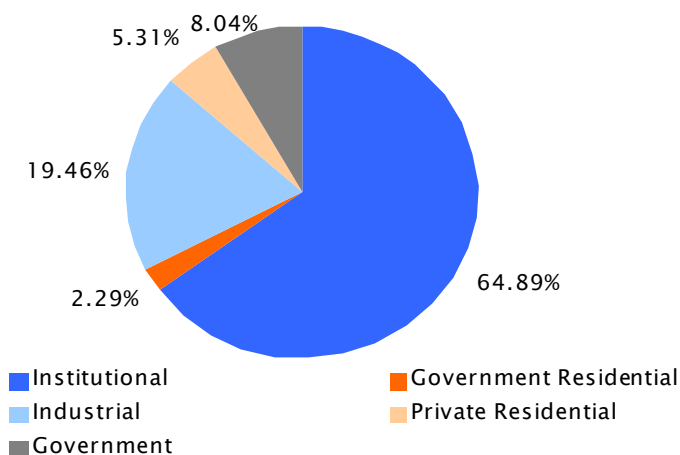
Source: Company, Antique

Order backlog and its geographical breakup



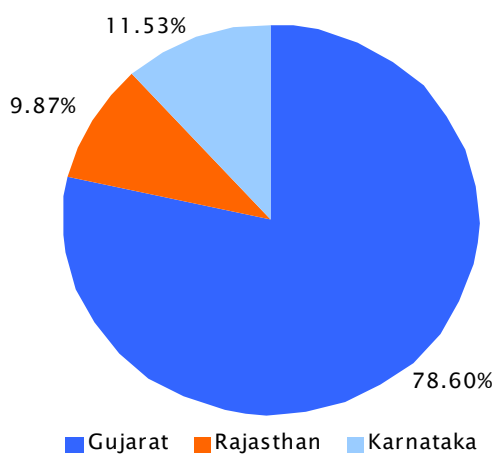
Source: Company, Antique

Order backlog, excluding SDB and its segment break-up



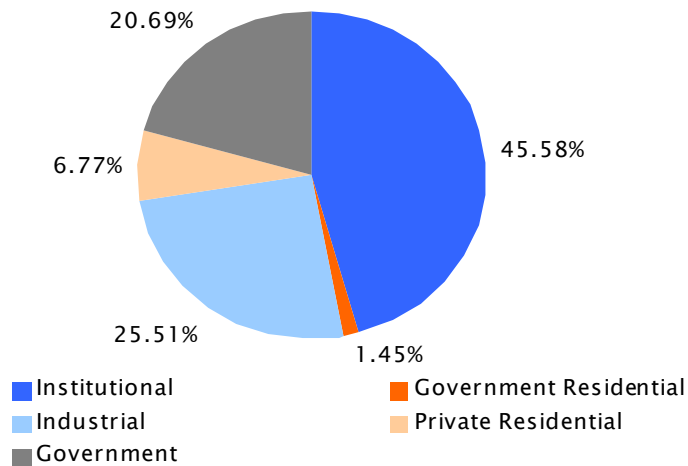
Source: Company, Antique

Order backlog, excluding SDB and its geographical break-up

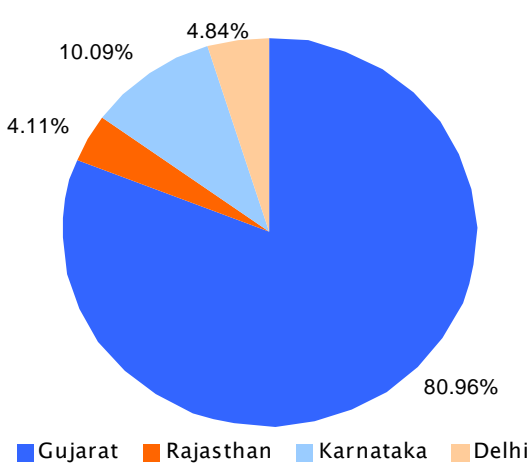


Source: Company, Antique

9MFY18 revenue break-up for INR4.6bn, sorted segment-wise ...and sorted geographically

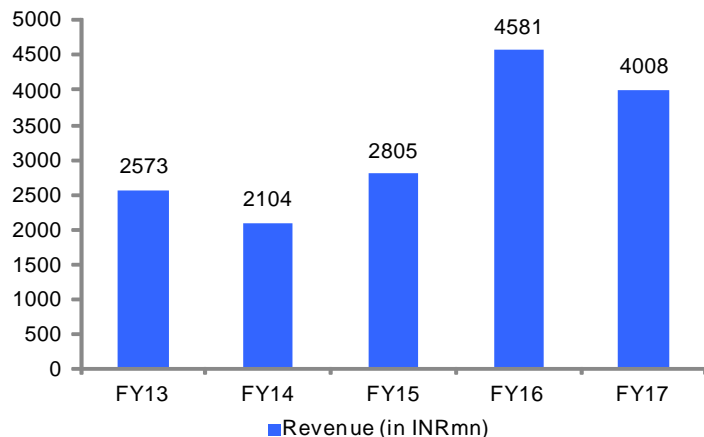


Source: Company, Antique



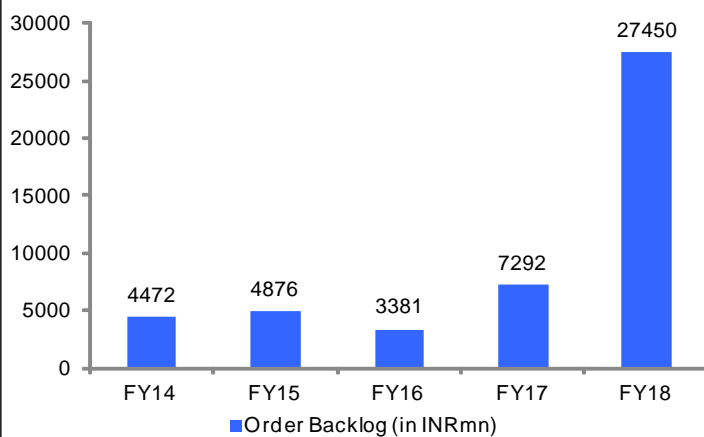
Source: Company, Antique

Revenue performance over last four years...



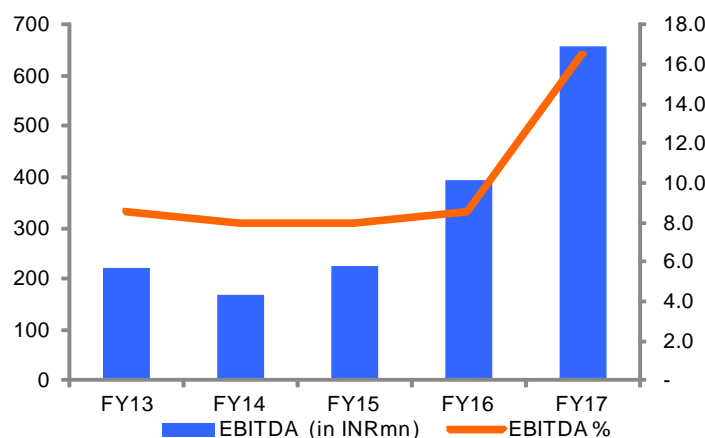
Source: Company, Antique

...does not reflect the potential with current backlog



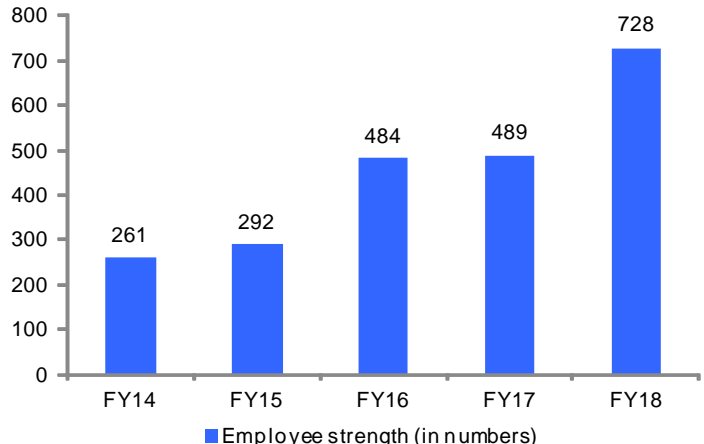
Source: Company, Antique

PSPPL compromised margins to make a mark...



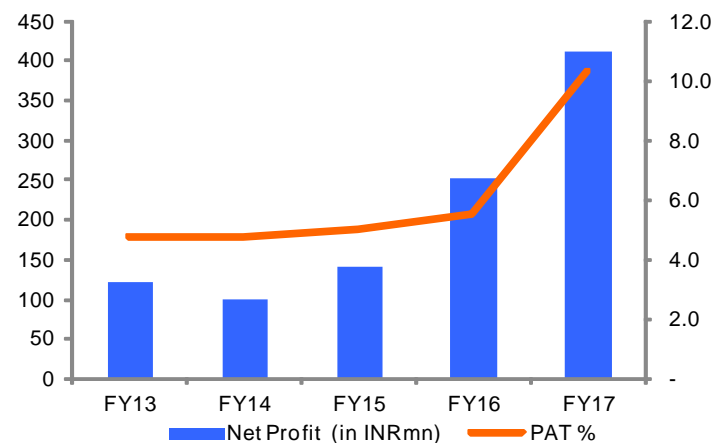
Source: Company, Antique

...with stronger employee addition...



Source: Company, Antique

...the net profit and margins will be higher than in past.



Source: Company, Antique

Industrial Projects:

PSPPL constructs industrial buildings for pharmaceutical/FMCG plants, food processing units, engineering units as well as manufacturing and processing facilities. For instance, PSPPL has constructed industrial facilities for Torrent Pharmaceuticals, Nirma, Intas Pharmaceuticals, Cadila Healthcare, Claris Injectables, KHS Machinery and Inductotherm (India) among others.

Source: Company, Antique

Institutional Projects:

PSPPL has constructed buildings for hospitals and healthcare services, educational institutes, malls, hospitality services and corporate offices.

Track record spans across Zydus Hospital, GCS Medical College, Hospital and Research Centre, Nirma Vidya Vihar and hostel building for PDP, among others.

Source: Company, Antique

Government Project:

Here, PSPPL has executed projects like Swarnim Sankul 01 and 02 at Gandhinagar; and Sabarmati riverfront development project and ICEM building interiors works in Ahmadabad.

Source: Company, Antique

Government residential projects:

PSPPL has executed government affordable residential projects, which includes design-build of affordable high-rise residential buildings-cum-commercial units in Gujarat. This project comes under the Mukhya Mantri GRUH Yojana.

Source: Company, Antique

Residential Projects:

PSPPL is engaged in construction of buildings for group housing and townships. Here, PSPPL is engaged in construction of independent residences for selected private customers.

Source: Company, Antique

Surat Diamond Bourse



Source: Company, Antique

Swarnim Sankul 1 & 2 Construction and interior work



Source: Company, Antique

Sabarmati river front



Source: Company, Antique

Hospital, residential building and GCS Medical College, Research Centre



Source: Company, Antique

Zydus Hospital

Kaira District Co-operative Milk Producers' Union Limited (Amul Dairy)

Gujarat Housing Board, Naranpura, one of the largest affordable housing project in Gujarat



Source: Company, Antique

Source: Company, Antique



Source: Company, Antique

Private clientele



Source: Company, Antique

Financials

Profit and loss account (INRm)

Year ended 31 Mar	2013	2014	2015	2016	2017
Net Revenue	2,573	2,104	2,805	4,581	4,008
Op. Expenses	(2,353)	(1,937)	(2,581)	(4,187)	(3,349)
EBITDA	220	168	225	393	658
Depreciation	(37)	(37)	(52)	(71)	(76)
EBIT	183	131	173	323	583
Other income	37	44	65	103	132
Interest Exp.	(38)	(20)	(25)	(31)	(75)
Reported PBT	182	154	213	395	639
Tax	(59)	(53)	(72)	(143)	(226)
Reported PAT	123	101	141	252	413
Net Profit	123	101	141	252	413
Adjusted PAT	123	101	141	252	413
Adjusted EPS (INR)	3.4	2.8	3.9	7.0	11.5

Balance sheet (INRm)

Year ended 31 Mar	2013	2014	2015	2016	2017
Share Capital	8	8	8	32	288
Reserves & Surplus	258	340	461	631	788
Networth	266	348	469	663	1,076
Debt	138	256	335	450	668
Net deferred Tax liabilities	1	(3)	(5)	(9)	(11)
Capital Employed	405	601	800	1,104	1,733
Gross Fixed Assets	272	308	507	768	836
Accumulated Depreciation	(87)	(123)	(175)	(245)	(318)
Capital work in progress	-	-	2	-	-
Net Fixed Assets	185	185	335	522	518
Investments	76	142	256	303	499
Non Current Investments	76	142	256	303	499
Current Assets, Loans & Adv.	747	1,032	1,269	1,454	2,101
Inventory	18	16	42	40	30
Debtors	122	138	239	103	533
Cash & Bank balance	446	684	848	1,064	1,250
Loans & advances and others	161	195	140	246	288
Current Liabilities & Prov.	606	759	1,059	1,175	1,408
Liabilities	596	739	1,035	1,141	1,290
Provisions	10	20	24	34	118
Net Current Assets	141	273	209	279	692
Miscellaneous expenses	3	-	-	-	24
Application of Funds	405	601	800	1,104	1,733

Per share data

Year ended 31 Mar	2013	2014	2015	2016	2017
No. of shares (m)	36	36	36	36	36
Diluted no. of shares (m)	36	36	36	36	36
BVPS (INR)	7.4	9.7	13.0	18.4	29.9
CEPS (INR)	4.4	3.8	5.3	8.8	13.4

Margins (%)

Year ended 31 Mar	2013	2014	2015	2016	2017
EBITDA Margin(%)	8.5	8.0	8.0	8.6	16.4
EBIT Margin(%)	7.1	6.2	6.2	7.0	14.5
PAT Margin(%)	4.7	4.7	4.9	5.4	10.0

Source: Company, Antique

Cash flow statement (INRm)

Year ended 31 Mar	2013	2014	2015	2016	2017
PBT	182	154	213	394	639
Depreciation & amortisation	36	36	52	71	73
(Inc)/Dec in working capital	129	115	244	148	(225)
Tax paid	(61)	(55)	(74)	(147)	(229)
Less: Interest/Dividend Income Received	-	-	-	-	-
Other operating Cash Flow	(23)	(55)	(135)	(56)	(247)
CF from operating activities	264	195	300	411	11
Capital expenditure	(41)	(37)	(201)	(258)	(68)
chg in investments	60	(369)	(54)	(175)	(1)
Add: Interest/Dividend Income Received	-	-	-	-	-
CF from investing activities	19	(406)	(256)	(433)	(70)
Inc/(Dec) in share capital	-	-	-	24	232
Inc/(Dec) in debt	(107)	118	79	114	218
Dividend Paid	-	-	-	-	-
Others	(29)	(23)	(39)	(113)	(291)
CF from financing activities	(136)	94	41	25	160
Net cash flow	147	(116)	85	3	101
Opening balance	359	446	684	848	1,064
Closing balance	446	684	848	1,064	1,250

Growth indicators (%)

Year ended 31 Mar	2013	2014	2015	2016	2017
Revenue(%)	44.0	-18.2	33.3	63.3	-12.5
EBITDA(%)	42.6	-23.8	34.0	75.2	67.3
Adj PAT(%)	46.8	-17.8	39.9	78.9	63.8
Adj EPS(%)	46.8	-17.8	39.9	78.9	63.8

Valuation (x)

Year ended 31 Mar	2013	2014	2015	2016	2017
P/E	155.4	189.1	135.2	75.6	46.2
P/BV	71.7	54.8	40.6	28.8	17.7
EV/EBITDA	85.3	111.2	82.6	46.9	28.1
EV/Sales	7.3	8.9	6.6	4.0	4.6

Financial ratios

Year ended 31 Mar	2013	2014	2015	2016	2017
RoE (%)	58.5	32.8	34.4	44.4	48.1
RoCE (%)	45.5	26.0	24.5	33.6	41.1
Asset/T.O (x)	2.7	1.8	1.7	2.2	1.5
Net Debt/Equity (x)	-1.2	-1.2	-1.1	-0.9	-0.6
EBIT/Interest (x)	5.82	8.54	9.55	13.86	9.49

Source: Company Antique

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