PSP Projects

Initiating Coverage

Solid Foundation, Enviable Prospects!

October 3, 2018

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PSP Projects

Initiating Note | Regular Coverage

Absolute: LONG
Relative: Overweight
21% ATR in 15 months

Solid foundation, enviable prospects - initiate with LONG

Building Construction

Rating Information	
Price (Rs)	432
Target Price (Rs)	538
Target Date	31st Dec'19
Target Set On	2nd Oct'18
Implied yrs of growth (DCF)	10
Fair Value (DCF)	433
Fair Value (DDM)	230
Ind Benchmark	SPBSMIP
Model Portfolio Position	NA

Stock Information	
Market Cap (Rs Mn)	15,547
Free Float (%)	27.87 %
52 Wk H/L (Rs)	596/337.15
Avg Daily Volume (1yr)	66,117
Avg Daily Value (Rs Mn)	32
Equity Cap (Rs Mn)	360
Face Value (Rs)	10
Bloomberg Code	PSPPL IN

Ownership	Recent	3M	12M
Promoters	72.4 %	0.3 %	0.5 %
DII	8.4 %	-0.2 %	-5.2 %
FII	1.2 %	0.1 %	0.1 %
Public	17.9 %	-0.2 %	4.6 %

Price %	1M	3M	12M
Absolute	-13.7 %	-12.1 %	27.4 %
Vs Industry	-1.6 %	-8.1 %	31.3 %
AHLUCONT	-14.8 %	-22.6 %	-12.5 %
CAPACITE	-21.8 %	-22.3 %	-37.8 %

Standalone Quarterly EPS forecast

Rs/Share	1Q	2Q	3Q	4Q
EPS (18A)	3.8	3.5	4.2	6.4
EPS (19E)	5.9	3.2	5.5	8.1

PSP is a fast-growing medium-sized construction company based out of Ahmedabad, Gujarat, led by a first-generation entrepreneur and technocrat. The company has a strong reputation among Ahmedabad-based private corporates, especially for its construction projects in pharma and FMCG sectors. We are impressed by PSP's execution capabilities and quality focus with stringent WC controls which have helped it generate industry-leading revenue growth and return ratios. PSP currently offers strong revenue visibility (current OB: Rs 24bn) with a 3.3x book-to-bill on FY18 revenues. We expect 32%/27% Revenue/PAT CAGR over FY18-FY21E led by strong execution of current orders and stable EBITDAM of 12-13%. Initiate coverage with LONG and a Dec'19 TP of Rs 538 set at 18x TTM EPS of ~Rs 30.

Strong OB gives visibility for 2-3yrs; incremental orders to aid growth ahead: As on Jun'18, PSP's order book stood at ~Rs 24bn, implying a book-to-bill of 3.3x on FY18 revenues and avg. execution period of 18-30 months (EE: 25-30 months). PSP has secured repeat orders (10-15% of current OB) from marquee clients like Zydus-Cadila, Torrent, Intas, Nirma and Amul; besides, completion of the Rs 15.8bn Surat Diamond Bourse (SDB) project by FY20 will put it into a different orbit in terms of project qualification. PSP is executing 7 of 9 GIFT City projects near Ahmedabad. We feel its order pipeline would continue to swell with robust construction at GIFT, capex by Gujarat corporates and new orders from Gujarat/other states. We thus build in additional order inflows of Rs 11bn/15bn over the next two years.

Cash-rich B/S, stringent WC control gives confidence on capital allocation: PSP has a net cash position of Rs 2.3bn, mostly used as collateral towards bank/performance guarantees for project execution. Strong inventory control, good creditor relations and selective bidding (in projects with upfront interest free mobilization advances of 5-10% while avoiding residential/other govt. projects) has helped in maintaining negative WC over FY12-FY18 — a rarity in EPC construction. While WC cycle would stretch over next three years with a higher avg. ticket size of projects, strict WC control and positive cash flows would keep net cash balance steady at ~Rs 2.5bn by FY21E.

Positive channel checks, track record of stellar return ratios: Our channel checks suggest that due to PSP's timely execution and the promoter's personal involvement in all projects, it enjoys a stellar reputation among Ahmedabad-based corporates. RoEs have remained over 35%+ over FY12-FY18, the highest among peers, even as we expect a moderation to ~28% by 21E as PSP's size and project complexity increase.

View: With a strong order book, solid execution capability, cash-rich B/S and upcoming opportunities in key markets, we remain positive on PSP's long-term business prospects. Initiate coverage with LONG and a TP of Rs 538 at a 18x Dec'19 TTM EPS of ~Rs 30. **Risks:** Key man dependence, below-expected order inflows required to support growth post FY20, addition of margin-dilutive orders.

Consolidated Financials

Rs. Mn YE Mar	FY18A	FY19E	FY20E	FY21E
Sales	7,516	10,531	15,099	16,609
EBITDA	1,046	1,321	1,919	2,160
Depreciation	115	156	175	192
Interest Expense	93	99	116	139
Other Income	186	206	208	210
Reported PAT	655	815	1,176	1,305
Recurring PAT	655	815	1,176	1,305
Total Equity	3,014	3,584	4,420	5,333
Gross Debt	281	335	425	515
Cash	2,431	1,794	1,991	2,519
Rs Per Share	**FY18A**	**FY19E**	**FY20E**	**FY21E**
Earnings	18.2	22.6	32.7	36.3
Book Value	84	100	123	148
Dividends	5.0	5.8	8.1	9.3
FCFF	-12.9	-10.6	14.5	25.5
P/E (x)	23.7	19.1	13.2	11.9
P/B (x)	5.2	4.3	3.5	2.9
EV/EBITDA (x)	12.8	10.7	7.3	6.3
ROE (%)	32 %	25 %	29 %	27 %
Core ROIC (%)	71 %	62 %	51 %	45 %
EBITDA Margin (%)	14 %	13 %	13 %	13 %
Net Margin (%)	9 %	8 %	8 %	8 %

Company Snapshot

How we differ from Consensus

	-	Equirus	Consensus	% Diff	Comment
EPS	FY19E	22.6	24.6	-8 %	
	FY20E	32.7	33.0	-1 %	
Sales	FY19E	10,531	10,931	-4 %	
	FY20E	15,099	14,805	2 %	
PAT	FY19E	815	885	-8 %	
	FY20E	1,176	1,189	-1 %	

Our Key Investment arguments:

- Large OB with 3.3x book-to-bill ratio gives strong revenue visibility over next 3 years. Expect company to post a 32%/29%/27% Revenue/EBITDA/PAT CAGR over FY18-FY 21E.
- Strong reputation and good hold on the core Gujarat market, where several opportunities are expected, will drive order book growth going forward.
- Clear focus on selective bidding for industrial & institutional projects backed by reputed clients will help generate above-industry return ratios and WC control.

Key Estimates

Particulars	2017	2018	2019E	2020E	2021E
Revenues	4,008	7,298	10,531	15,099	16,609
EBITDAM %	16.5%	13.9%	12.5%	12.7%	13.0%
PATM %	10.4%	8.8%	7.7%	7.8%	7.9%
Orderbook	7,290	26,440	25,909	21,810	20,200
Orderbook/Billing Ratio	1.8	3.6	2.5	1.4	1.2

Risk to Our View:

Main risk is key man exposure and management bandwidth along with lower-than-expected order inflows.

- Inflows of any large orders like SDB will lead to OB stability and revenue visibility post FY20E

Sensitivity to Key Variables	% Change	% Impact on EPS
Sales	-5 %	-5 %
EBITDA Margin	-1 %	-8 %
-	-	-

DCF Valuations & Assumptions

Rf	Beta	Ke	Term. Growth	Debt/IC in Term. Yr
8.1 %	1.0	14.1 %	3.0 %	13.9 %

-	FY19E	FY20E	FY21-23E	FY24-28E	FY29-33E
Sales Growth	40 %	43 %	7 %	6 %	6 %
NOPAT Margin	10 %	9 %	9 %	9 %	9 %
IC Turnover	4.46	4.71	4.82	5.65	6.48
RoIC	61.9 %	50.9 %	45.3 %	53.7 %	59.7 %

Years of strong growth	1	2	5	10	15
Valuation as on date (Rs)	233	286	295	368	398
Valuation as of Dec'19	274	338	348	433	469

Based on DCF, assuming 10 years of 6% CAGR and 54% average ROIC, we derive our current fair value of Rs 368 and a Dec'19 fair value of Rs 433.

Company Description:

PSP Projects is a Gujarat-based construction company and set up by Prahlad Patel in 2008. Its focus segments are industrial, institutional and selective residential and government projects. The company has developed a reputation for timely and quality execution, and posted strong return ratios in a relatively tough, commoditized and competitive industry. It has secured repeat orders from marquee clients like Nirma, Cadila, Torrent Pharma, Intas, and GIFT City. Having executed 103 projects so far, it is well-placed to execute the outstanding order book of Rs 24bn across 36 sites.

Key Triggers

Comparable valuation			Mkt Cap	Price	Target	EPS			P/E			BPS	P/B	RoE			Div Yield	
Company	Reco.	CMP	Rs. Mn.	Target	Date	FY18A	FY19E	FY20E	FY18A	FY19E	FY20E	FY18A	FY19E	FY18A	FY19E	FY20E	FY18A	FY19E
PSP Projects	LONG	432	15,547	538	31st Dec'19	18.2	22.6	32.7	23.7	19.1	13.2	83.7	4.3	32 %	25 %	29 %	1.2 %	1.6 %
Ahluwalia Cont.	NR	268	17,933	NR	NR	17.2	22.1	26.8	15.5	12.1	10.0	92.8	3.5	20 %	21 %	21 %	0.0 %	0.1 %
Capacite Projects	NR	211	14,295	NR	NR	13.7	15.2	19.4	15.4	13.8	10.9	110.4	3.1	15 %	30 %	16 %	0.0 %	0.0 %

Investment Rationale

A direct play on Gujarat's industrialization story

Book-to-bill of 3.3x gives strong visibility on execution ramp-up over next 2 years

PSP, with a revenue/EBITDA/PAT CAGR of 26%/37%/41% (FY12-FY18), has proven its mettle in the mid-sized EPC construction segment (avg. project ticket size: Rs 250mn-Rs 1bn) and created a strong brand recall in the Gujarat market. FY18 saw the company's fortunes turn significantly on the OB front as it bagged the Surat Diamond Bourses (SDB) project worth Rs 15.75bn in 3QFY18 and the Dream City project, Surat. Standalone order book as on Jun'18 stood at Rs 24bn, including the SDB project. The book-to-bill ratio is currently at 3.3x on FY18 revenue and avg. execution cycle of the existing OB at 18-30 months.

Till 1QFY19, 36 projects including SDB were under execution with total standalone OB of Rs 24.02bn; this apart, PSP won additional consolidated orders of Rs 4.2bn (including Rs 325mn to one of its subsidiaries) YTD in FY19. Management expects Rs 10bn/Rs 11bn-12bn of incremental order inflows in FY19/FY20 and has given a broader guidance of reaching Rs 20bn revenues by FY21.

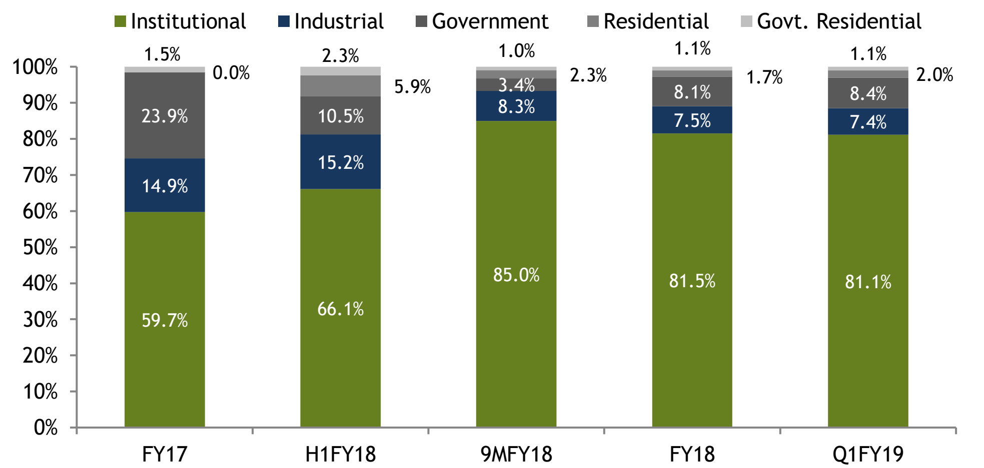
Upcoming opportunities in Gujarat to spruce up prospects

Over the next two years, execution would be led by the SDB project (o/s OB: Rs 14.3bn). Timely completion of this project would take PSP into a different orbit altogether, in terms of execution capability and qualification criteria for bigger projects; we expect the company to complete this project well within the specified time limit. Also, there are large upcoming opportunities in Gujarat, driven by the state's next leg of industrialization, such as GIFT City, Dream City, DMIC and Smart City.

Key upcoming projects in Gujarat

- New airports proposed at 11 sites, including greenfield airports being built in industrial areas like Ankleshwar and religious tourism destinations like Dwarka.
- Sabarmati riverfront development on the eastern and western sides of the Sabarmati river in Ahmedabad.
- Dholera SIR, with world-class infrastructure, close connectivity to major ports and logistics support of dedicated freight corridor.
- Aviation park, developed by GUJSAIL, with facilities such as an airstrip, training school, helipad and space for setting up small manufacturing units.
- Smart Cities Mission, for which Gandhinagar, Ahmedabad, Surat, Vadodara, Rajkot and Dahod are the cities identified in Gujarat Development of Residential colonies at GIFT city.
- Several residential colonies will have to be developed to support the growth being planned within GIFT city. Over 150 projects are expected to come up around the GIFT city.
- Some infrastructure projects are expected to come up in DREAM city, Surat. Quantum of opportunity is unknown.
- A single tender of Rs 4-5bn for building IIMs.
- Development of a city square (24,000 sqm) in Sector 22 and construction of Multi level car parking in Gandhinagar worth Rs 1.2bn and Rs 1.95bn respectively.
- Construction work of various industrial projects worth ~Rs 55bn are under various stages of bidding currently.

Exhibit 1: Segment-wise OB breakup – Focus on institutional & industrial projects

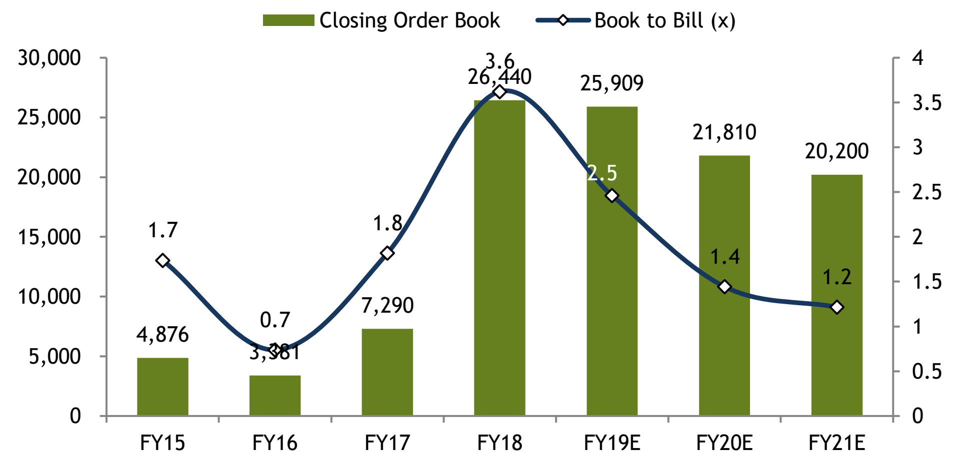


Source: Company, Equirus Securities

Exhibit 2: Map showing current execution being done by PSP at GIFT CITY

Source: Company, Equirus Securities

Exhibit 3: Strong execution will lead to lower book-to-bill; PSP will need to keep winning medium sized incremental orders to support growth post FY20



Source: Company, Equirus Securities

Tightly controlled ship by technocrat leader gives confidence on biz prospects

Strong leader at the helm

Mr. Prahalad Patel, Chairman and MD, is a civil engineer with over 30 years of experience in the construction industry. He incorporated PSP in 2009, and within a short time span transformed the company into one of the top civil contractors in Gujarat. The promoter's hands-on approach and personal involvement in all-sized projects (visits each site irrespective of size of contract value every fortnight) have helped the company carve a niche for itself as an efficient and quality executioner of projects with a strong forte in construction of buildings, particularly for pharma, healthcare and FMCG industries. His reputation and execution capability enabled PSP to bag the prestigious SDB project amid stiff competition.

For any construction company to expand its execution footprint, it requires a healthy mix of top management bandwidth along with strict fund management for day-to-day operations. PSP seems to currently have the right mix on both fronts. With Mr. Patel being in his early 50s and many years to his retirement, we derive comfort on the company's growth strategy and prospects.

Efficient capital, inventory management

PSP seems to have mastered the capability of executing projects without deploying large capital (ROIC for FY16/17/18: 28%/33%/28%). Note that the historically-high ROICs and ROEs have come down post the company's listing but remain much better than peers. PSP's main capital requirement for any project is the upfront margin money it needs to give banks to get performance BGs (bank guarantees) that clients demand as a safety measure. Once the project starts, PSP normally receives upfront mobilization advance (5-10% of total project cost) from clients; this is used for purchasing raw materials and some initial equipment, if required.

PSP has been able to maintain the lowest receivable days among peers due to its execution capabilities and Mr. Patel's ability to get payments in time from customers (3-year average for debtor days is just 38 vs. 114 for peers). The company usually raises bills at 25 days wherein 75% of the payment has to be made by clients within 7-10 days; the remaining payment has to be made within next 15 days, leading to a total receivable cycle of 35-40 days. Additionally, due to efficient management of funds, payment to suppliers is also done on time (three-year avg. of 75 days vs. 124 for peers).

On the inventory management side, PSP has made use of efficient ERP solutions to keep a tab on day-to-day operations and simultaneously maintaining just enough inventory so as not to block too much capital (3-year average inventory days for PSP is ~8 vs. 46 days for the peers). This is one of the reasons PSP has been able to run its operations on a negative working capital cycle till now (3-year average of 23 days of negative cash conversion cycle). The company has also invested in advanced CANDY technology which has been designed by a construction company to address the core customized needs of the construction industry. The technology has facilitated estimation, budgeting, planning and monitoring, leading to a phase-wise understanding of resource requirements and consumed a third of the time taken through manual intervention.

Strong brand equity among marquee clients in core Gujarat market

Strong footprint, solid positioning in Gujarat

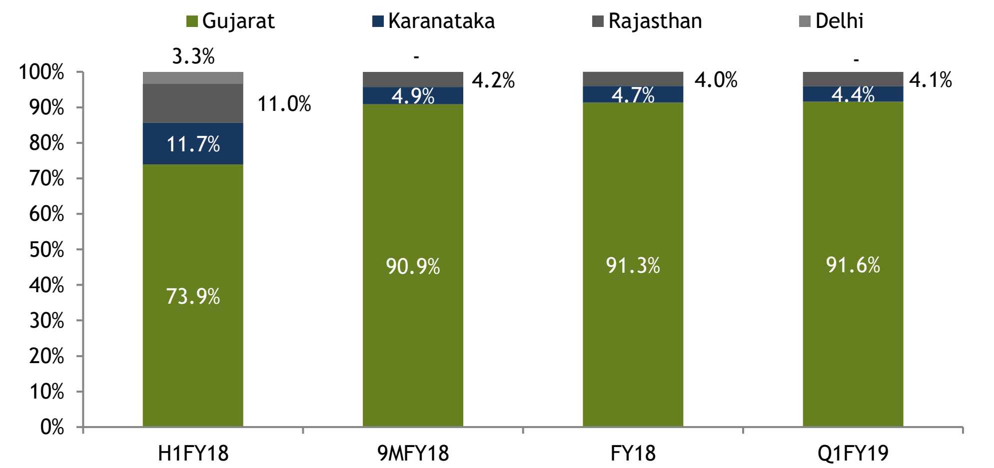
Historically, PSP has executed most of its projects in Gujarat. Also, the state continues to remain PSP's core market, forming ~92% (incl. SDB project) of its o/s order book (Exhibit 4). The company has executed 80+ projects across the state, with some of its prestigious projects outlined in Exhibit 39. With a history of timely delivery without compromising on quality, PSP enjoys strong brand recall among its Gujarat-based industrial and institutional customers. This apart, it has gained strong expertise in constructing buildings for pharma, healthcare and FMCG sectors in the state, enabling it to gain repeat orders (10-12% of rolling OB) from marquee clients like Torrent Pharma, Intas Pharma, Cadila Healthcare, and Nirma. The proportion on revenues generated from existing customers was 40% in FY18. Besides, PSP is currently working on 7 of 9 projects started at GIFT City, Gandhinagar, and will be able to capitalize on this first-mover advantage going forward as well.

While the company has been looking to de-risk its OB by expanding presence into other states, we believe Gujarat would remain a core market as it takes time for mid-sized buildings contractors to expand presence beyond their home turfs. PSP's strategy would be to bid very selectively outside Gujarat, and that too for projects coming from repeat or highly referred clients only. Additionally, there is a big vacuum in the Rs 250mn-Rs 1bn industrial & institutional project segments in Gujarat; PSP has been focusing on this segment because of lower competition (due to technicalities, speedier execution requirements) while bigger pan-India players like L&T and Shapoorji bid for projects over Rs 1bn. Other key players like Ahluwalia Contract/JMC Projects have a strong presence in North/South India though they do participate in larger projects across geographies.

Non-Gujarat revenues to increase, but only gradually & to an extent

Tough conditions in the real estate industry over the past 4-5 years have forced many players of the earlier cycle (Consolidated Construction, Era Infra, Pratibha Industries, Unity Infra) to refrain from bidding for a while now. This has significantly helped emerging companies like PSP both geographically and in terms of new order wins. PSP has successfully managed to win projects in the states of Karnataka and Rajasthan. Adjusted for the SDB project, contribution from these states to the OB is 11% and 10% respectively in 1Q19. PSP's non-Gujarat revenues increased from 11.5% of total revenues in FY17 to 16.2% in FY18 and management expects non-Gujarat revenues to touch 30% in the long term. PSP has set a minimum criterion of Rs 1bn of orders which it would execute outside Gujarat so as to justify the investment costs and management time involved in executing the project.

Exhibit 4: Gujarat's market share highest in OB; trend to continue ahead



Source: Company, Equirus Securities

Exhibit 5: PSP's key marquee clients in Gujarat

Source: Company, Equirus Securities

Right segmental mix leads to efficient capital allocation, high ROCEs

Focus on industrial & institutional projects leads to negative cash conversion cycle

A key factor driving PSP's efficient WC track record is its presence in the right sub-segments of B&F construction. Historically, industrial projects (construction of industrial buildings/plants/factories) and institutional projects (construction of hospitals, malls, educational institutes) mainly awarded by either large corporates or institutions have contributed significantly to its order book and topline. The avg. share of these projects in topline was ~48% between FY12-FY17, which has jumped to ~86.5% in 1QFY19.

PSP focuses on these projects as their billing cycle involves raising monthly running account bills based on the quantum of construction done; in contrast, payments for residential and government projects are linked to pre-agreed milestone-based construction. Due to this, the company recognizes very low WIP on its books and the cash conversion cycle is generally faster; consequently, its cash conversion cycle has been negative historically. Additionally, projects from corporate or private groups normally have a clause of giving 10% mobilization advance upfront to the contractor, which sufficiently covers the initial working capital needs of the contractor.

Management focus would remain on industrial and institutional segments as it sees enough opportunities here in the foreseeable future; consequently, it is unlikely to go too aggressive in other segments. Also, PSP would be able to capitalize on the strong brand recall it enjoys in both segments in Gujarat, which should help it secure repeat business. This would keep PSP's working capital cycle at efficient levels, leading to lower capital requirement going forward, with even less likelihood of wrong capital allocation.

Selective bidding for residential, affordable & housing projects

In private residential real estate, PSP participates in bidding only if the contract value of projects is >Rs 1bn. This is because the company's receivable cycle for such real estate projects is heavily dependent on the developer being able to sell residential units to end customers, which in turn hinges on general market conditions. This makes such projects very risky for a fast executioner like PSP; thus, the company is extremely selective in bidding for such projects and first assesses the liquidity situation of the real estate developer. PSP has executed projects for companies such as Brigade and Prestige in the past.

In case of affordable housing projects in Gujarat, PSP executed two projects three years ago. However, due to increased competitive intensity, other contractors are quoting much below the line, making it difficult for the company to match them. Hence, PSP is not going very aggressive in this segment as well. In other pure govt. projects, the company is very selective and does projects only when there is some prestige and value addition involved (Riverfront project, Ahmedabad) or the project size is large (> Rs 2bn) where bids are coming from respectable competitors.

Avg order size, client diversification to improve; EBITDAM to stay at 12-13%

Progressively targeting larger projects

PSP would be bidding for progressively larger projects from a diversified client base marked by scale and complexity, while strengthening profitability simultaneously. The company has laid down criteria for project bidding: >Rs 250mn in Ahmedabad, >Rs 500mn in Gujarat (ex-Ahmedabad) and >Rs 1bn outside Gujarat. Generally, the company bids for projects by credible industrial houses or government projects funded by multi-lateral agencies. It has managed to win a Rs 990mn (including GST) order from MRF recently for the latter's upcoming Dahej plant. Over the years, PSP's average order ticket size has steadily grown yoy, increasing from Rs 85mn in FY13 to Rs 1.1bn in FY18 (Exhibit 6).

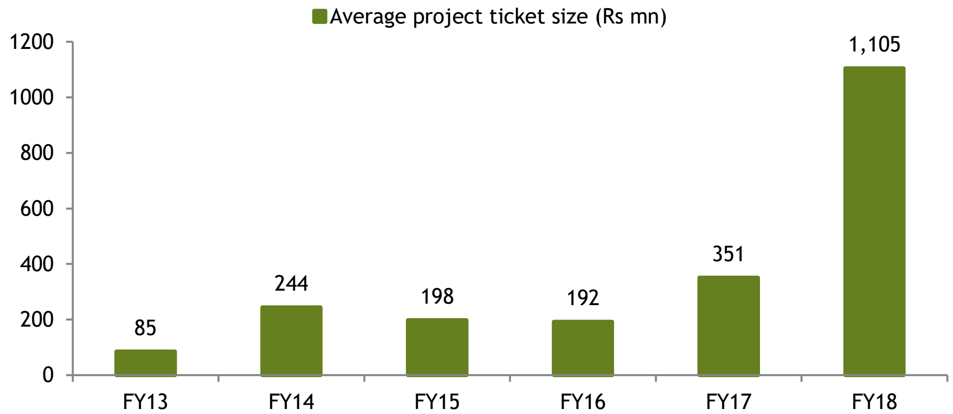
For government projects, PSP can qualify up to Rs 5bn-6bn of projects; however, once SDB gets executed, PSP will be able to qualify for institutional projects above Rs 10bn. The company had bid for Rs 30bn worth of projects in FY17, which increased to Rs 57bn in FY18; management expects to sustain its tender submission momentum with a 25% strike rate going forward as well. Till 1Q19, projects for which the company has already submitted bids belong to 1-2 developers in Ahmedabad, 1 hospital project in Dahod, Baroda, 2 R&D centers in Baroda and 1 in Ahmedabad, and 1 project of a big developer in Surat. The company expects more tenders to come from IIM Ahmedabad over the next 2-3 months, and two development projects worth Rs 1.4bn from an existing client.

EBITDAM pegged at 12-13%

PSP typically enters into contractual arrangements that make it possible to pass on RM cost increases to customers (barring govt. projects whereby such pass-through is difficult); this helps it negate the risk of volatile commodity pricing on its books and strengthen focus on disciplined execution. In FY17 and FY18, a few of the company's construction contracts included a clause on RM supply by customers; consequently, it had to bill for core construction only. With major materials like cement, steel and sometimes granite not included in the topline, EBITDA margins jumped to ~16.5% in FY17 from 9% in FY16 and were at 14% in FY18.

However, under GST, PSP would largely look at projects which include materials (cement, steel) as well, as this would enable the company to avail input tax credit. Due to this, EBITDA margins are expected to remain the range of 12-13%. Note that as SDB project is the single-largest project being executed by the company in its history, increasing contribution from the project might move PSP's historic negative WC cycle into positive territory.

Exhibit 6: Average order size jumps in FY18 due to SDB project



Source: Company, Equirus Securities

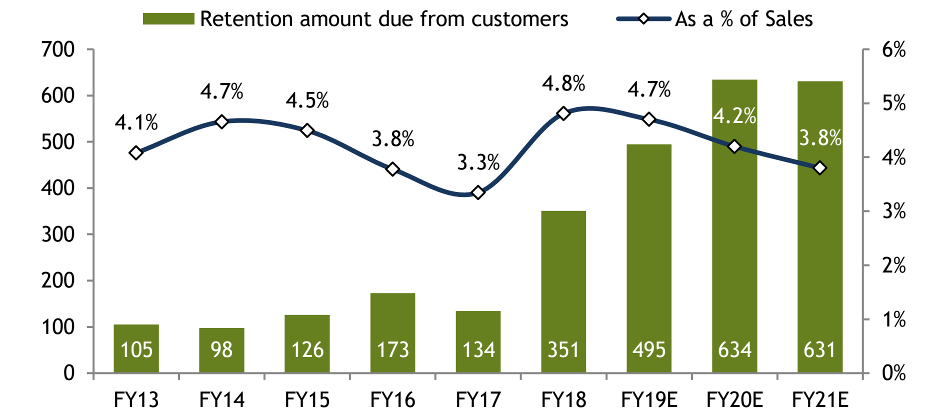
Cash-rich B/S (no legacy receivables) to aid growth; asset turnover to improve

Huge treasury corpus a positive; interest-free mobilization advances aid WC management

As of Mar'18, PSP had a treasury corpus of Rs 2.5bn (including Rs 1.7bn lying with banks and clients), which is mainly used to provide bank and performance guarantees for winning new projects. Bank guarantee charges are normally between 0.8-1% of contract value. Also, due to PSP's history of on-time execution and careful selection of clientele and segments, it does not have any legacy receivable issues or stuck retention money with clients.

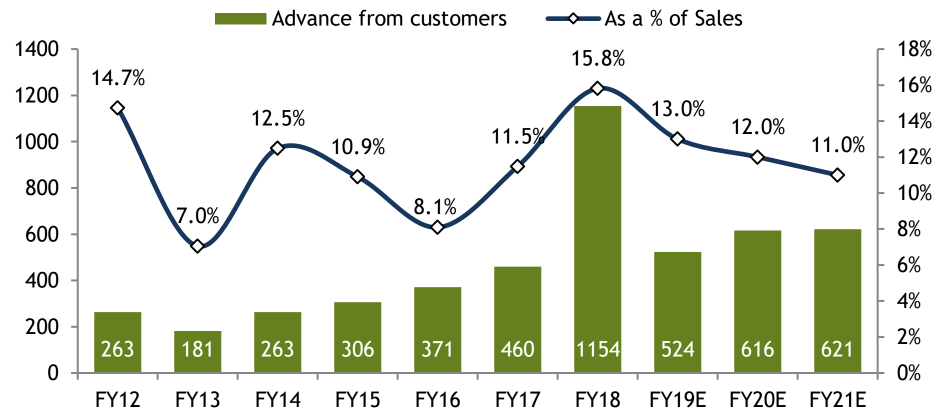
PSP is also able to get interest-free mobilization advances from most clients (normally 5-10% of contract value) which takes care of WC requirements on a rolling basis. Historically, mobilization advances have been >10% of revenues. Also, the company has not diversified into any unrelated domain or allocated capital unproductively, enabling it to sweat the capital invested in the business appropriately. We feel a cash-rich B/S together with tight WC management will help the company fund its growth plans with ease going forward. Gross D/E is expected to remain at <0.2x over FY18-21E.

Exhibit 7: Retention money (% of sales) to remain slightly high till FY20 due to SDB project execution



Source: Company, Equirus Securities

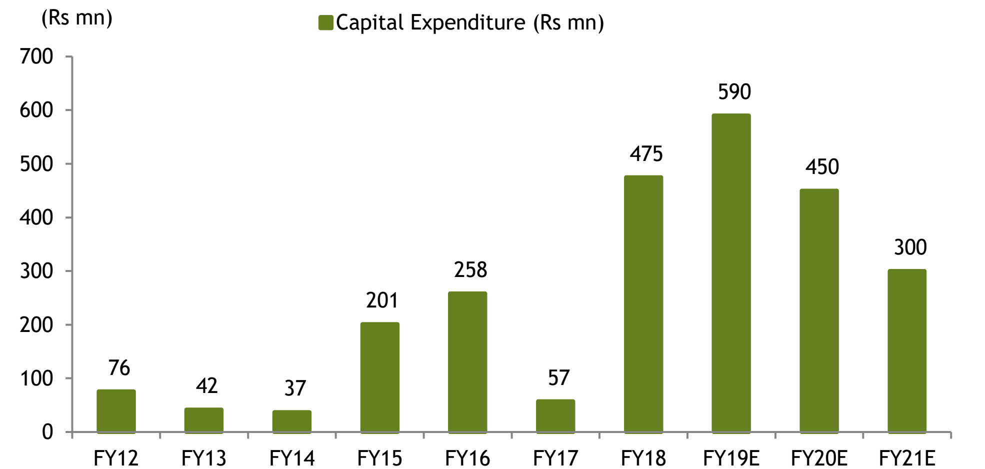
Exhibit 8: Mobilization advances as a percentage of sales



Source: Company, Equirus Securities

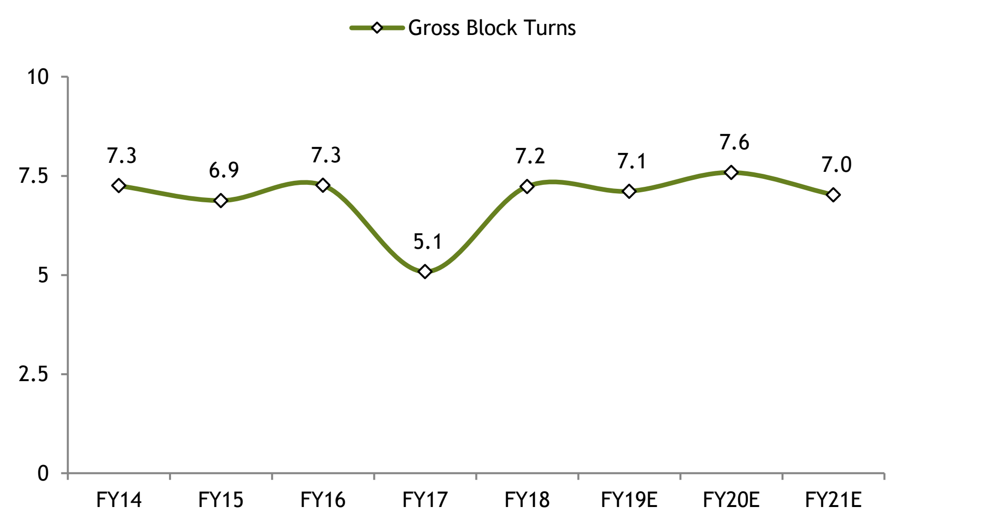
On the capex front, PSP has invested nearly Rs 1bn over FY15-FY18 on an increasing revenue base, pushing up gross asset turns from 5.5x to 6.1x in this period. We expect the incremental capex requirement for the company's current OB to be around Rs 1.3bn over the next three years, mainly led by investments for executing the SDB project. Gross asset turns are likely to improve from 6.1x to 6.6x over FY18-FY21E.

Exhibit 9: Expect major capex related to SDB to be over in FY19



Source: Company, Equirus Securities

Exhibit 10: Gross fixed asset turnover



Source: Company, Equirus Securities

Exhibit 11: Contingent liabilities

Particulars (Rs Mn)	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Claims against company but not debt (Tax liability)	1	12	13	13	11	14	14
Bank Guarantees	205	165	170	443	715	1,164	2,563
Total	**206**	**177**	**183**	**457**	**727**	**1,178**	**2,577**

Source: Company, Equirus Securities

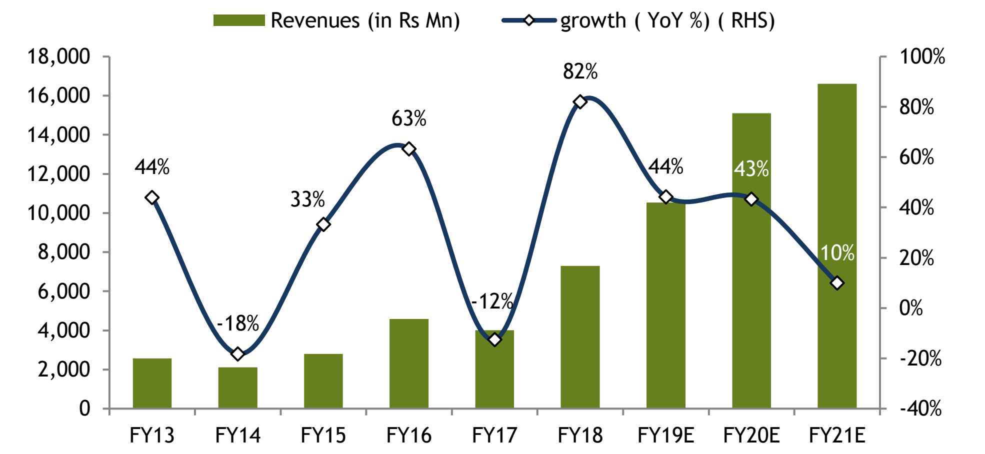
Expect 32%/27% Rev/PAT CAGR over FY18-21E with best-in-class return ratios

PSP posted revenue/PAT CAGR of 26%/41% over FY12-FY18 as it gradually moved from being a small contractor to a medium-sized one. The current OB of Rs 25.7bn, including the SDB project, needs to be completed over the next 24-30 months. With SDB execution progressing as per schedule, we expect PSP to executing its entire outstanding OB over the next 2.5 years. We therefore expect PSP to post a revenue/EBITDA CAGR of 32%/29% over FY18-FY21E after factoring Rs 10bn+ avg. rolling order inflow over the period.

However, we factor in lower EBITDAM of 12.5-13% in FY20 vs. 14% in FY18 as the company executes much larger and complex projects; incremental employee and RM costs would lead to lower margins and operating leverage seems to have played out between FY12-FY16 (when margins jumped from 8% to 12.5% by FY17). Note that FY17 EBITDAM of 16.5% was a one-off as it had some service contracts of ~Rs 800-850mn wherein materials were bought in by customers (adjusted EBITDAM was 12.5%). We expect the company to post a Revenue/PAT CAGR of 32%/27% over FY18-21E.

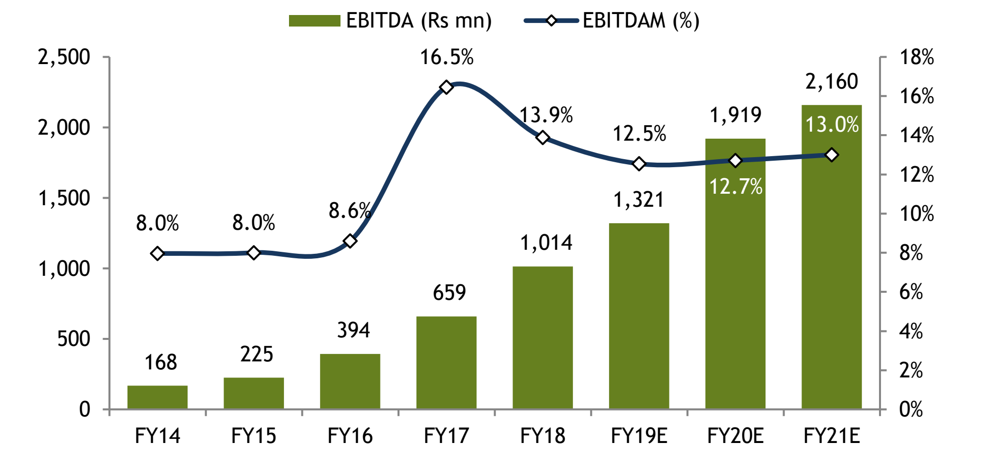
With a strong B/S, negative WC cycle and stringent capital allocation, PSP clocked strong ROIC/ROE of 28%/31% in FY18. We expect PSP to post ROIC and ROE of 26% in FY21E, which would still be amongst the highest in the industry.

Exhibit 12: Absolute revenue & revenue growth trend



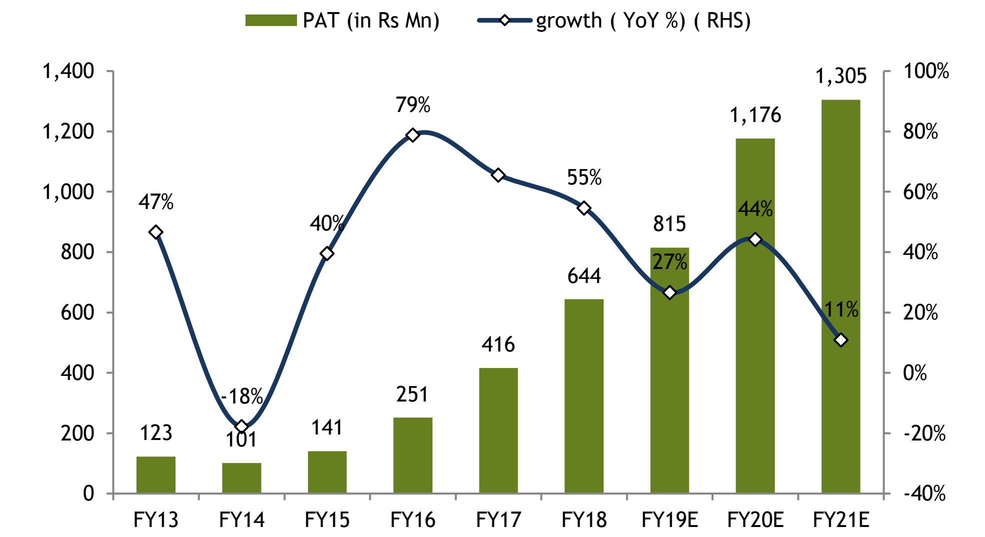
Source: Company, Equirus Securities

Exhibit 13: Absolute EBITDA & EBITDAM growth trend



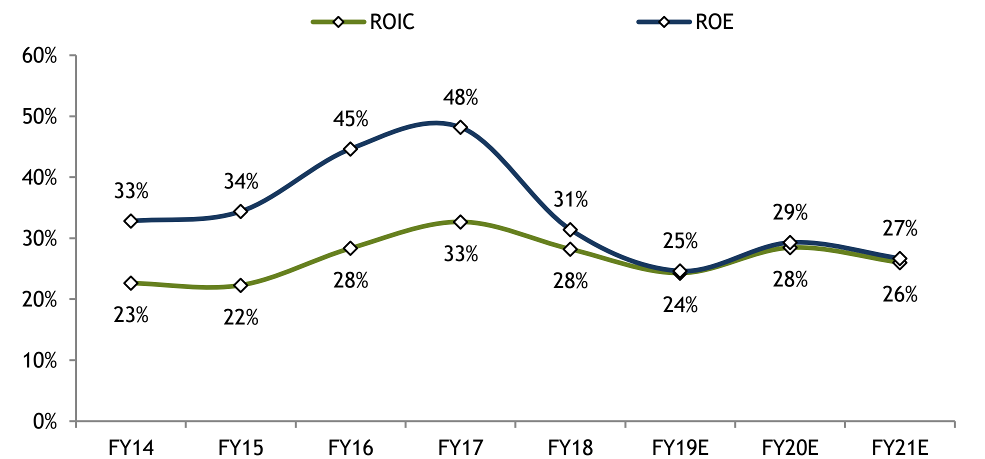
Source: Company, Equirus Securities

Exhibit 14: Absolute PAT & PATM growth trend



Source: Company, Equirus Securities

Exhibit 15: ROIC and ROE



Source: Company, Equirus Securities

SDB to open next level of business opportunities

Project to take PSP into a different orbit altogether

The SDB project, being set up at an approximate cost of Rs 24bn (of which construction cost is Rs 15.7bn), comprises 10 buildings with two basements and a ground floor, plus a 15th floor having a built-up area of 65,00,000 square feet. The project is a part of the 2,000-acre Surat Dream City, a smart city being developed on the lines of GIFT City near Gandhinagar. A total of 10,000 offices in a range of 300-50,000 sq.ft. in a total of 9.1mn sq. ft. saleable area will be available. There would be 7.5mn sq. ft. of basement construction and space for parking 20,000 cars and 35,000 2Ws. On completion, the project is expected to be the world's largest diamond bourse. The project's vision is to attract people from across the World to Surat and execute business transactions under one roof.

Exhibit 16: PSP's SDB project — The world's largest diamond bourse in the making

Source: Company, Equirus Securities

90% of offices already booked

Currently, 90% of diamonds manufactured in Surat are traded in Mumbai and then exported to other countries. The importance of the project can be gauged from the fact that about 90% of the offices have already been booked by diamantaires from Surat while some firms from Mumbai, Antwerp, Israel, Hong Kong and Dubai are also expected to take up space. After commissioning, the project is expected to generate Rs 900bn of revenues annually. SDB is being set up as an independent international exchange on the lines of existing bourses in the segment in New York, Antwerp, Hong Kong and Dubai. This is the reason why timely completion of the project would be very critical for PSP as its qualification capability and brand name would get a significant boost.

Project funding & costs

- PSP had secured the project in 2QFY18 at a total cost of Rs 15.75bn excluding GST (Rs 18.6bn including GST); the project is to be executed in 30 months and work was started from Nov'17.
- Of Rs 15.75bn, Rs 6bn is related to the structure, while the façade, the lift and the MEP together will be Rs 7.5bn. Capex required for executing the entire project would be around 4-5% of the construction cost (Rs 600mn-800mn).
- The project is mainly being funded by a private association of diamond merchants. The state govt. has also earmarked Rs 300mn for infra development at the Diamond & Research and Mercantile (DREAM) city.
- SDB is a pure turnkey project and not a milestone-based contract. So, the company would be raising bills every month related to the quantity of work done. PSP has already received the entire mobilization advance of ~Rs 780mn (5% of total contract value excluding GST), and this advance will get deducted at 5% of work done at every billing cycle.
- RM cost inflation is a complete pass-through in this project but labor cost escalation, if any, will have to be borne by PSP (it has considered avg. 8-10% labor cost escalation in its workings).

This is the single-largest project that the company has won in its operating history (largest previous project: Rs 4bn). What's more, PSP managed to win this project by beating stiff competition from eight other players (L&T, Shapoorji Pallonji, Ahluwalia contracts, JMC projects). On project completion, PSP would be able to scale up to a completely different level as it would enhance the company's pre-qualification capability from 5bn currently to ~Rs 10bn+. India has a dearth of proven players with financial stability having such qualification and ability to execute projects above Rs 10bn in the B&F sector. Additionally, PSP will be able to capture sizeable opportunities in Surat as the city does not have any big construction players to execute such large-sized projects.

Project update till 1QFY19

As per management, work at the site is progressing as per expectations and the company has managed to execute work of nearly Rs 1.42bn from Nov'17 till 1QFY19. Currently, about 3,500 people are working at the site and of nine blocks, five blocks have reached second basement and four blocks first basemen. PSP has maintained its guidance of achieving Rs 4.5bn-5bn topline from the project in FY19 and Rs 8bn in FY20.

Gujarat to see good growth opportunities with its focus on industrialization

India's commercial real estate market on an upswing

India's real estate sector is expected to reach a market size of US$ 180bn by FY20 while the housing sector would contribute ~11% to India's GDP by FY20. The government of India's 'Housing for All' initiative is expected to bring US$ 1.3trn investments in the housing sector by FY25. Warehousing space is set to reach 247mn sq. ft. in 2020 from 140mn sq. ft. in 2017, and attract investments of Rs 500bn (US$ 7.76bn) over FY18-FY20. Office space leasing increased by over 10% to cross 20mn sq. ft. in the first half of CY2018.

As per a recent report by Knight Frank India:

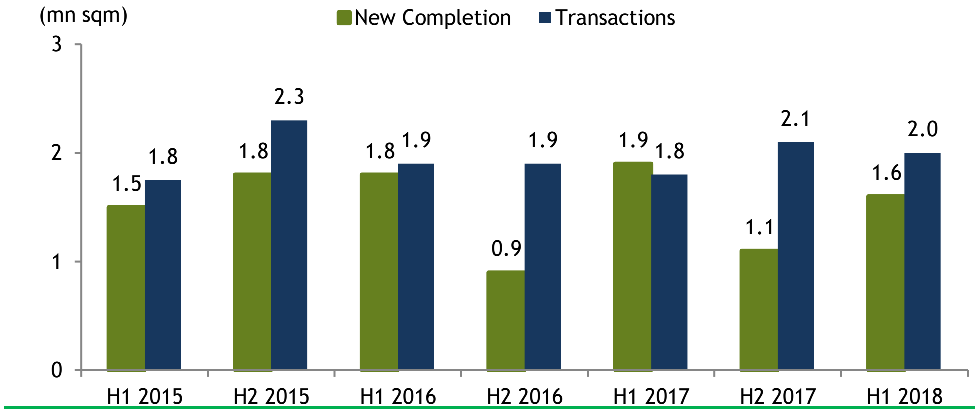
- Indian office space market saw demand of 2mn sqm (21.7mn sq. ft.) during 1H18, a 13% growth yoy while 1.7 mn sqm (18.2 mn sq. ft.) of new office space became operational during the period. A steady demand scenario in the face of consistently low supply has pushed down vacancy levels from 19.4% in 1HCY2013 to 12.1% in 1HCY2018.
- Consistently falling since 1HCY2013, vacancy levels are at decade lows. Lack of fresh office space is most visible in IT/ITeS sector-dominated markets of Bengaluru/Pune/Hyderabad that currently have single-digit vacancy levels at 3.5%/5.7%/6.8% while Chennai stands precariously poised at 11%.
- Strong transactions growth also spurred rentals, that grew at a robust 5% yoy during 1HCY2018. Led by the Bengaluru office market, all markets except for Mumbai experienced healthy growth in rentals during the period.
- The IT/ITeS sector has been losing ground since 2HCY2016; it accounted for 28% of the transacted volumes during H1 2018 compared to 33% in the previous period.
- The share of 'Other Services' has been consistently growing, eclipsing that of the IT/ITeS sector, during 1HCY2018 by taking up to 40% of in the recently concluded period on the back of increased demand by ecommerce and co-working companies.

Exhibit 17:India Market Snapshot

Parameter	1HCY2018	Change YoY (%)
New completions (mn sq. ft.)	18.2	-10%
Transactions (mn sq. ft.)	21.5	12%
Weighted average rental in (Rs/sq.ft./month)	72	5%
Stock (mn sq. ft.)	650	-
Vacancy (%)	12.10%	-

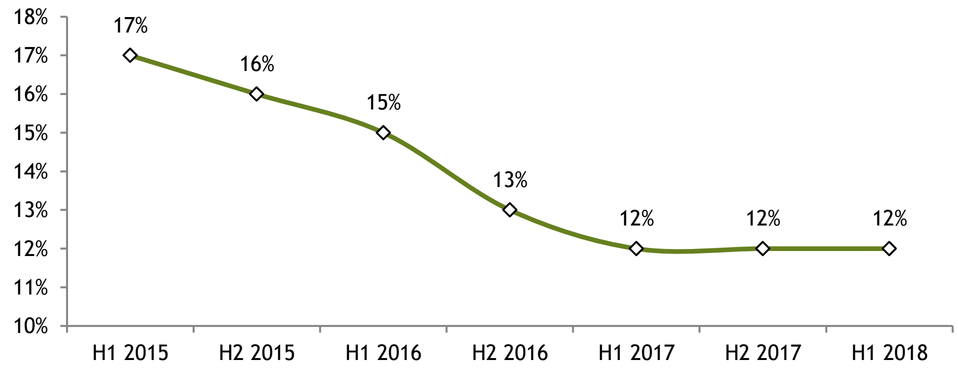
Source: Knight Frank Research, Equirus Securities

Exhibit 18:India Office market activity (mn sqm)



Source: Knight Frank Research, Equirus Securities

Exhibit 19: India Office Market Vacancy (%)



Source: Knight Frank Research, Equirus Securities

Exhibit 20: Sector-wise split of transactions

Industry	1HCY2017	1HCY2018
BFSI	20%	18%
IT/ITES	33%	28%
Manufacturing	18%	14%
Other services	29%	40%

Source: Knight Frank Research, Equirus Securities

Gujarat Market:

Gujarat was one of the fastest-growing states in India during 2013-17 and was ranked No. 4 in Ease of Doing Business by the World Bank in 2017. It also occupied the topmost position in National Council of Applied Economic Research's State Investment Potential Index (N-SIPI) in 2016 and 2017. Gujarat has 42 ports, 17 airports, 19 operational SEZs, 8 notified SIRs and 182 industrial estates. About 38% of the Delhi-Mumbai Industrial corridor is expected to pass through the state.

As per a recent Knight Frank report:

- Apart from Maharashtra and Madhya Pradesh, Gujarat has been the front runner in putting in place systems and processes for the smooth implementation of the Real Estate (Regulation and Development) Act, 2016 in the state.
- Ahmedabad saw office space transactions of 0.04mn sqm (0.47mn sq.ft.) in 1HCY2018, 59% lower than in 1HCY2017 which witnessed a new record (0.11mn sqm or 1.14mn sq. ft). Compared to 1HCY2016, the decline in transacted office space in 1H2018 is 37% due to the absence of large transactions. Since 2016, office space transaction in H2 of the year has been declining vs. first half. If this trend continues in 2018, it may be a cause of worry.
- New completions slid 59% in 1HCY2018 vs. 1HCY2017. During 1HCY2018, only 0.08mn sqm (0.9mn sq. ft.) of office space entered the market vs. 0.2 mn sqm (2.2 mn sq. ft.) in 1HCY2017.
- The office market in Ahmedabad is still small compared to other bigger urban centres like Mumbai, Bengaluru and Delhi NCR. Developers have moved in to meet the requirements of companies moving into/expanding presence in the city, leading to a situation where supply outstrips demand. In 1H2018, vacancy rate in the city was 24.63% vs. 22.16% in 1HCY2017.
- The office market in Ahmedabad till 2HCY2017 was led by the BFSI sector. However, trends have changed with 'other services sector' driving growth and its share in total transacted office space improving from 19% in 1H2017 to 43% in 1HCY2018.
- Share of the manufacturing sector, where PSP enjoys a good brand name, has improved from 18% in 1HCY2017 to 23% in 1HCY2018.

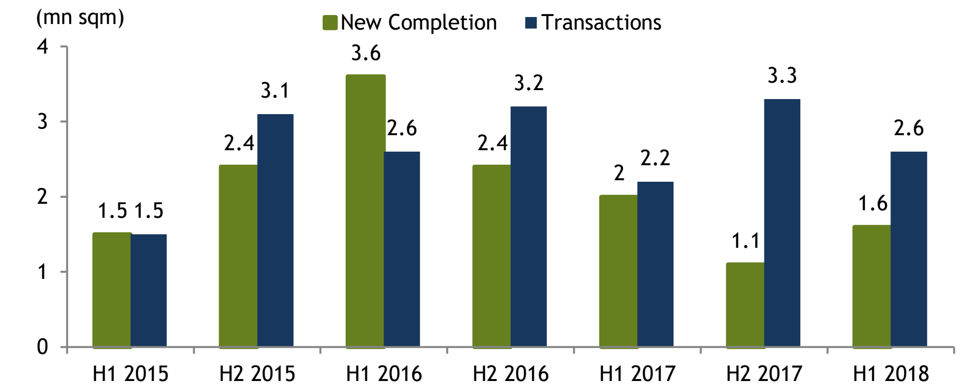
For Ahmedabad, real estate growth has not been fueled by IT/ITeS but rather by industries such as pharmaceuticals, financial services, textiles and of late, automobiles. Also, GIFT City near Ahmedabad is India's first international financial services & IT hub that will cater to customers outside the domestic economy. It would be spread across 886 acres with 62mn sq.ft. (5.76msm) of built-up area divided between commercial real estate & offices (67%), residential space (22%) and social facilities (11%). Currently, 11 domestic banks have started operations at GIFT City with another 3-4 foreign banks in the fray. PSP remains amongst the few organized building contractors actively involved in the project (with 7 of 9 commercial projects started in last 3 years).

Exhibit 21: Ahmedabad market snapshot

Parameter	1HCY2018	Change YoY (%)
New completions (mn sq. ft.)	0.9	-59%
Transactions (mn sq. ft.)	0.4	-59%
Weighted average rental in (Rs/sq.ft./month)	42	6%
Stock (mn sq. ft.)	19.4	9%
Vacancy (%)	24.63%	-

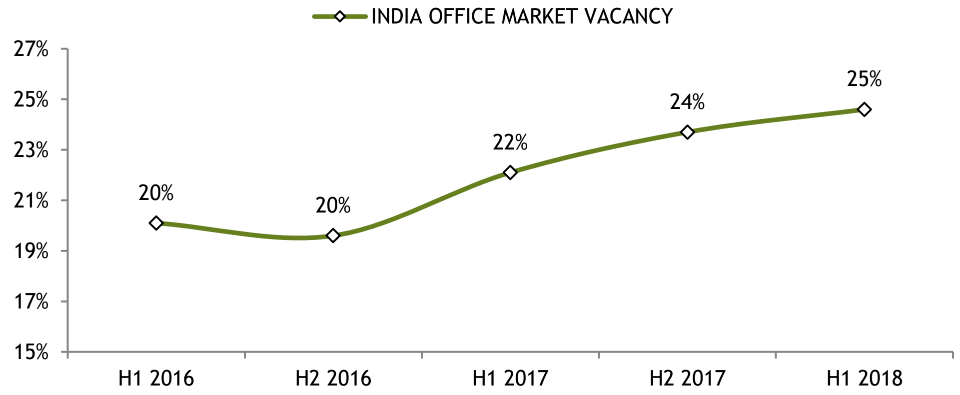
Source: Knight Frank Research, Equirus Securities

Exhibit 22: Ahmedabad Office market activity (mn sqm)



Source: Knight Frank Research, Equirus Securities

Exhibit 23: Ahmedabad Office market activity (%)



Source: Knight Frank Research, Equirus Securities

Exhibit 24: Sector-wise split of transactions

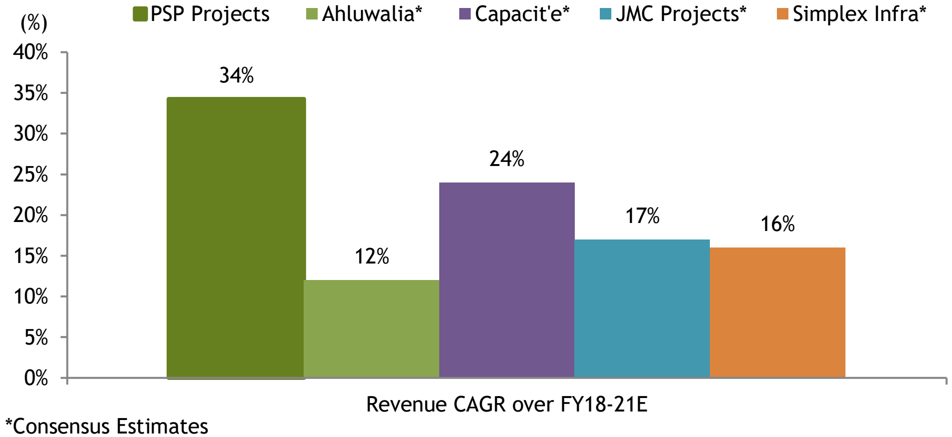
Industry	1HCY2017	1HCY2018
BFSI	48%	24%
IT/ITES	15%	10%
Manufacturing	18%	23%
Other services	19%	43%

Source: Knight Frank Research, Equirus Securities

Peer comparison

We have compared PSP to Capacite, JMC Projects, Ahluwalia and Simplex. As depicted in graphs below, PSP has remained ahead of the curve on most parameters. We expect the company to continue clocking industry-leading return ratios and strong B/s ahead as well.

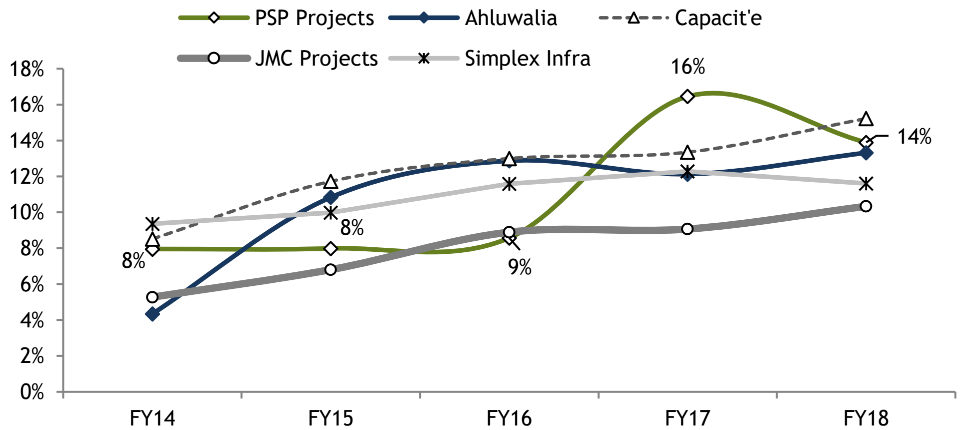
Exhibit 25: PSP is expected to post highest revenue CAGR among listed peers over FY18-FY21E (%) led by strong OB and relatively low revenue base



*Consensus Estimates

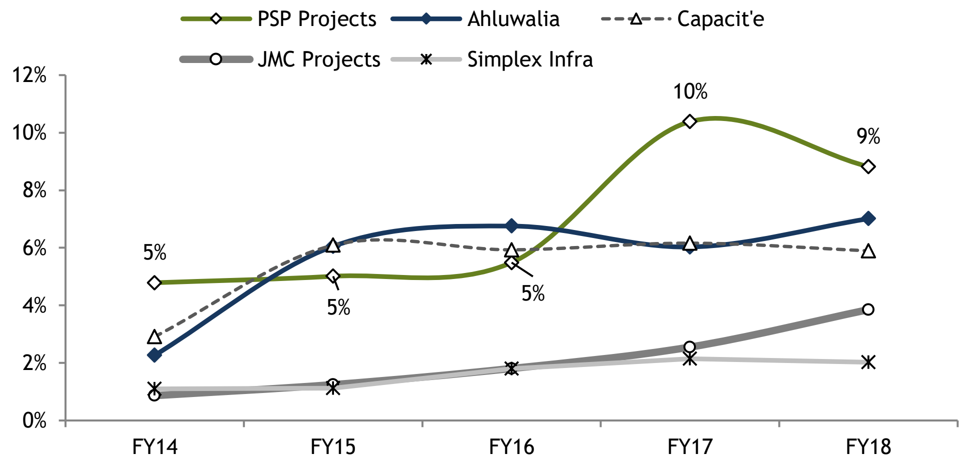
Source: Company, Equirus Securities

Exhibit 26: PSP's EBITDAM has moved in sync with the industry, barring in FY17



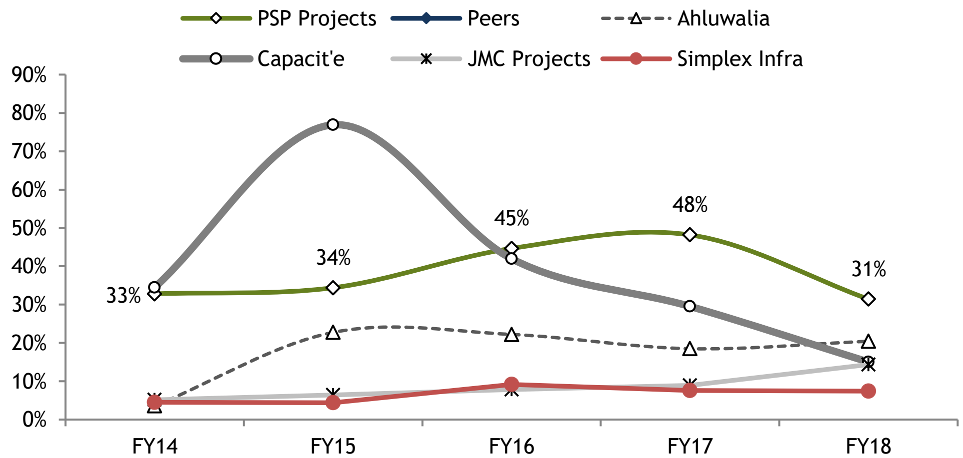
Source: Company, Equirus Securities

Exhibit 27: PSP has gradually scaled up profitability; larger peers also posted better PATM with overall improvement in the industry



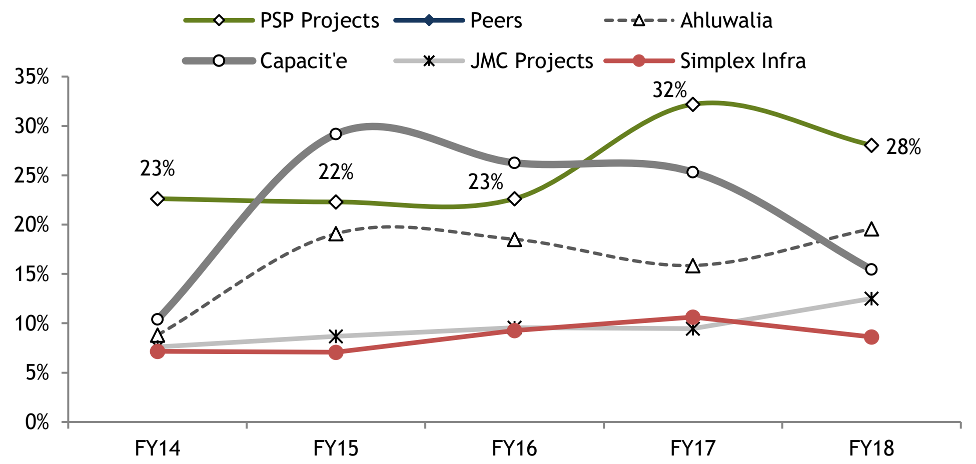
Source: Company, Equirus Securities

Exhibit 28: PSP's ROE/ROIC has been highest historically but have gone down post IPO



Source: Company, Equirus Securities

Exhibit 29: RoIC (%)



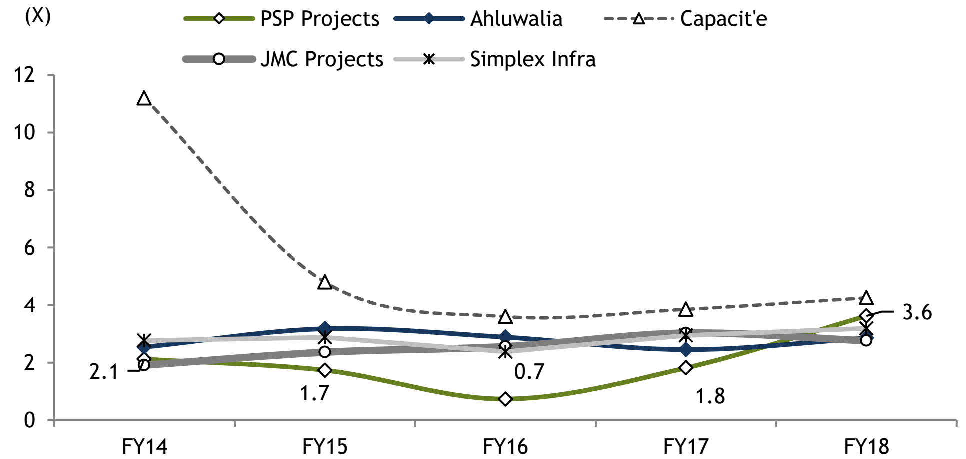
Source: Company, Equirus Securities

Exhibit 30: Closing Order-book for all the players remained strong in FY18 on general improvement in sector

Companies (Rs mn)	FY14	FY15	FY16	FY17	FY18
PSP Projects	-	3,210	3,084	7,918	25,597
Ahluwalia	8,170	19,878	14,864	13,192	28,466
Capacite	15,340	10,060	13,220	24,110	27,220
JMC Projects	25,420	31,480	31,550	32,355	33,165
Simplex Infra	78,760	64,868	50,624	81,170	76,662

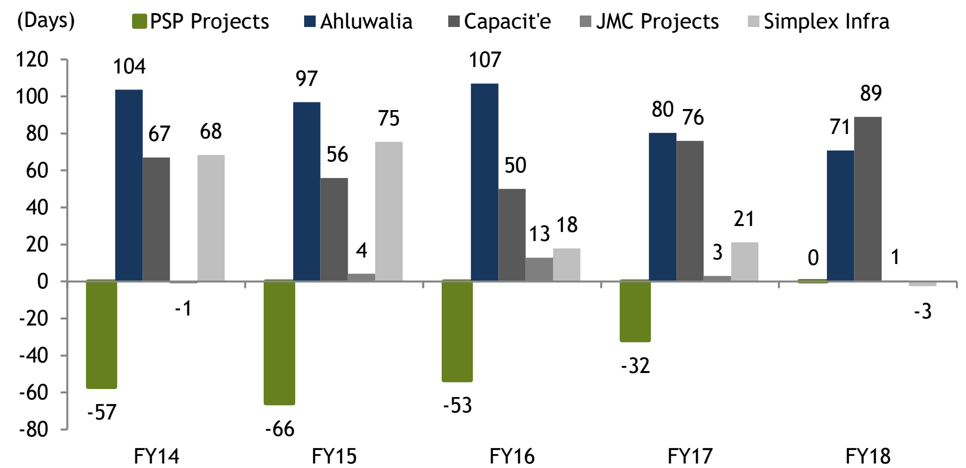
Source: Company, Equirus Securities

Exhibit 31: Book to Bill (x) - PSP has historically lagged peers but SDB project has catapulted it top slot in FY18



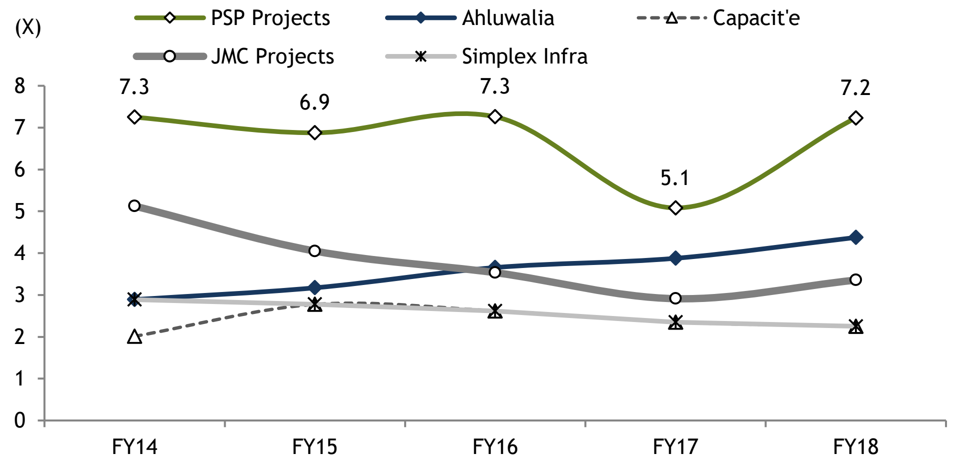
Source: Company, Equirus Securities

Exhibit 32: Cash Conversion Cycle (Days) - PSP has best WC management among peers due to historically low exposure to private real estate projects



Source: Company, Equirus Securities

Exhibit 33: Gross Block Turnover (x) for PSP remains the highest in the industry due to company's clustered execution approach and being selective in projects



Source: Company, Equirus Securities

Forecast: Key Assumptions & Sensitivity

PSP is an EPC contractor focused on item rate contracts for industries, institutions and government. Management is clear that it makes margins for the quality of work and timeliness of completion. Our key assumptions on order inflows, revenue growth, margins, gross block turns, WC turns, interest and tax rate are outlined below.

Key Assumptions	FY17	FY18	FY19E	FY20E	FY21E
Revenue Growth	-12.5%	82.1%	44.3%	43.4%	10.0%
EBITDAM	16.5%	13.9%	12.5%	12.7%	13.0%
Tax Rate	35.2%	35.6%	35.9%	36.0%	36.0%
Gross Block Turns	5.1	7.2	7.1	7.6	7.0
WC/Sales	-15.2%	-12.1%	-0.3%	2.8%	3.8%

Source: Equirus Securities

Rationales on assumptions

FY18-21E revenue growth is based on book to bill ratio of 3.3x on FY18 revenues

- Since the average execution period for SDB project together with additional existing OB is 24-30 months, PSP is expected to post a very strong topline CAGR of ~32% over FY18-FY21E.

EBITDAMs are a function of the project mix

- We believe that 30-35% of total revenues are linked to cement, steel, aggregates and supplies of other materials.
- Most of the new projects that the company will receive in future are expected to have inclusion of raw materials in final bid cost since post GST, input tax credit will only be available on such projects. Expect EBITDAM to remain between 12-13% over FY18-FY21E.

Conservatively factored a WC expansion over FY18-FY21E

- With the company executing a bigger sized project (SDB), we expect expansion in working capital led by higher inventory and a slight increase in receivable days.

Valuation

PSP's Book to bill ratio currently stands at 3.3x FY18 revenues with average execution time of its OB being 24-30 months. This give strong execution visibility for next 2 years. Incremental order inflows are going to be driven by opportunities arising from Gujarat's industrialization push, private capex of Gujarat based companies and company's gradual geographical diversification. We expect PSP to post Revenue/PAT CAGR of 32%/27% over FY18-21E. The stock is currently trading at 19x FY19E EPS of ~23 and 13x FY20E EPS ~33x respectively. We arrive at a TP of Rs 538 by assigning a target multiple 18x on our Dec'19 TTM EPS.

Investment risks & concerns

- **High reliance on first-generation entrepreneur, Prahlad Patel:** PSP has attempted to broaden the management bandwidth and also implemented technology and IT- related initiatives to de-centralize decision making. However, like most Indian companies, PSP has high reliance on its founder and he remains actively involved in most project executions and negotiations. Going ahead, we expect the promoter to expand the senior management team, in line with growth in order book and revenues.

- **Geographic concentration risk in outstanding OB:** Gujarat constitutes nearly 92% of PSP's outstanding OB of Rs 24bn as on Jun'18, including the SDB project with Karnataka and Rajasthan contributing the remaining 8%. PSP has historically been very strong in the state of Gujarat but it has yet to prove its mettle in other states. If the company is unable to secure good contracts in Gujarat, it would have to venture into other states wherein it might face competition from well-established local and pan-India players.

- **Slowdown in order book growth may hurt performance:** PSP's current order book has an average execution tenor of 18-30 months. Due to this reason, strong revenue visibility is only till FY20E as of now, and there is a definite risk that revenue growth would slow down in case new orders do not keep coming in continuously. However, we are confident that given the current state of economy and the amount of industrialization and mega projects in Gujarat, growing incremental order book would not be a problem for the company.

- **Higher competition could hit margins:** Construction is a hyper competitive segment and excessive competition could affect the company's margins. However, PSP remains among the handful of organized players with a strong balance sheet and controlled WC with a good reputation among clients. Additionally, the company's focus on selective bidding will also help it in winning projects with decent margins.

Corporate Governance

- PSP has paid a dividend of Rs 5/sh in FY18 for FY17. The company's current dividend policy is to distribute a minimum of 20% of net profits after tax each year as dividend under normal circumstances.

- As on Mar'18, the Board of Directors comprised six directors. Of these, three are independent directors while the remaining are non-independent directors. Shilpa Patel (Whole-time Director) and Pooja Patel (Executive Director) are the wife and daughter of Mr. Prahladbhai Patel (Chairman and MD) respectively.

- During FY18, 11 board meetings were held; 80% of Directors have attended all meetings. Two out of three independent directors attended all 11 board meetings.

- At FY18-end, PSP had contingent liabilities and commitments of Rs 2.5bn (FY17: Rs 1.1bn). Majority of this is was on account of bank guarantees.

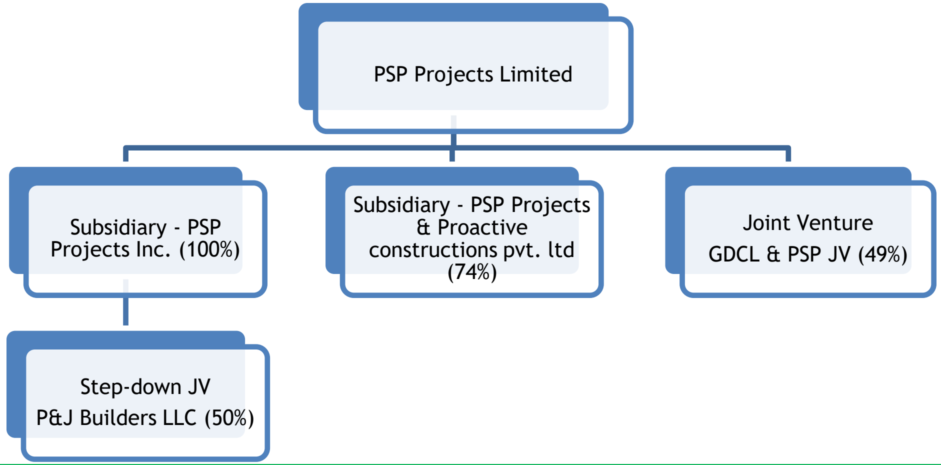
Annexure 3: Company Overview

PSP is a construction company based out of Gujarat and set up by Prahlad S. Patel in 2008. The company's key focus segments remain industrial, institutional and selective residential and government projects. PSP has developed a reputation for timely & quality execution and been able to post strong return ratios in a relatively tough, commoditized and competitive industry. The company has secured repeat orders from marquee clients like Nirma, Cadila, Torrent Pharma, Intas and GIFT. Having executed 103 projects since incorporation, PSP is well placed to execute its o/s OB of Rs 24bn across 34 sites with SDB project forming nearly 60% of the current OB. The company's average project ticket size has increased from Rs 85.4mn in FY13 to Rs 1.1bn in FY18. Its core focus remains on institutional and industrial projects which account for 89% of the Jun'18 order book.

Investment in subsidiaries & JVs

- PSP had invested ~Rs 37mn into PSP Projects & Proactive Constructions for a 74% equity stake in the company which was incorporated in FY15. It had been awarded a project for promotion and development of World Trade Centre at GIFT City in Dec'15 for a contract value of Rs 1.6bn; ~Rs 525mn remains unexecuted as of FY18. The subsidiary achieved a turnover of Rs 352mn and PAT of Rs 18mn in FY18. Total assets and liabilities for the company at were Rs 213mn and Rs 172mn respectively in FY18. It contributed 2.77% to consolidated profits and 1.37% to consolidated net assets as of FY18. PSP provided security of Rs 58.6mn against the subsidiary's bank OD of Rs 50mn.
- PSP has invested Rs 4.4mn in GDCL & PSP JV for an equity stake of 49%. The JV had been awarded a project for constructing Metro Train Depot cum workshop at Gyaspur for the Ahmedabad Metro Rail Project for a total contract value of Rs 1.3bn in Dec'15. The JV posted a PAT of -Rs 19mn of which PSP's share was Rs -9.3mn. PSP has provided a loan of Rs 58mn to the JV as of FY18 and also issued corporate guarantee of Rs 75mn for availing bank facilities. Interest income from the JV in FY18 was Rs 2.8mn.
- PSP had invested Rs 0.6mn in PSP Projects INC, Texas which a wholly owned subsidiary in USA subsidiary) in FY16-17. The subsidiary achieved a turnover of Rs 11mn and PAT of -Rs 2mn in FY18. Total assets and liabilities for the company were Rs 183mn and Rs 177mn respectively in FY18. It contributed -0.29% to the consolidated profits and -0.18% to consolidated net assets as of FY18. PSP has given Rs 185mn to the subsidiary and interest income from subsidiary was Rs 11.8mn.
- P&J Builders LLC is a step-down JV of PSP Projects Inc. and is engaged in development and construction of Residential and Commercial Properties in USA.

Exhibit 34: PSP's Corporate Structure comprises subsidiary/JV arrangements for World Trade Center/Ahmedabad Metro projects



Source: Equirus Securities, Company

Exhibit 35: PSP's journey

2008-10	• Acquired the business of BPC Projects in Apr' 09 • Got an opportunity to construct Medical College & Hospital for Gujarat Cancer Society • From Jul'10 onwards, it commenced working on Narendra Modi's dream development project of Sabarmati riverfront
2011-13	• Awarded order to construct Zydus Hospital, Ahmedabad • Awarded Narendra Modi's pet project to construct office building for Chief Ministers and Cabinet Ministers at Sachivalaya (Swarnim Sankul 01 & 02) • Implemented SAP in 2012
2014-15	• Started Design and construction of 45m high (28 towers) affordable housing project for Gujarat government (Gujarat Housing Board) at Transportnode Naranpura • Selected as preferred construction company by investors in India's first Smart City (GIFT City Gandhinagar)
2015-16	• Conferred 'Excellent Contractor of the Year 2016' award by Gujarat Contractor Association • Turnkey project for Gujarat Housing Board in Transportnode, Ahmedabad, awarded Affordable Housing Project of the Year Award by Realty Plus Excellence Awards (Gujarat) 2016
2017	• Participated in Vibrant Gujarat Global Trade Show 2017 • Honoured by Quality Mark Awards 2017 (Building & Construction Category) by Quality Mark Trust • Listed on both the exchange • Awarded Asia's biggest office building construction project for Surat Diamond Bourse (6.5 mn sq ft built-up area).
2018	• Awarded Rs 15.8bn SDB project, the highest order in the company's history • Awarded Zydus Cadila hospital, Dahod, worth Rs 2,250mn • Awarded BSE Forum Building at GIFT City of Rs 1,350mn

Source: Equirus Securities, Company AR

Exhibit 36: List of projects completed

Industrial projects
Pharmaceutical plants for Torrent Pharmaceuticals Ltd., Cadila Healthcare, Nirlife, Intas
Inductotherm (India) Pvt. Ltd. Factory project at Sanand, Ahmedabad
Dairy plant for Amul Dairy at Khatraj
Manufacturing unit for JBM Auto Ltd
Hospital projects
Zydus Hospital, Ahmedabad
Gujarat Cancer Society, Ahmedabad
CIMS Hospital (Phase - I & II), Ahmedabad
Institutional projects
CEPT University Library Building, Ahmedabad
Hostel buildings for Pandit Deendayal Petroleum University, Gandhinagar
Temporary Professional Development Centre for Aga Khan Education Service, Hyderabad
Nirma Vidhya Vihar, Ahmedabad
Hotel & hospitality projects
St Laura Hotel
YMCA Club
Kensville Golf Club
Residential & commercial projects
The Signature by Hiranandani
Venus Parkland
Dharnidhar Pride
Irish Exotica
Gulmohar Mall
Godrej Garden City
Government projects
Sabarmati River front, Ahmedabad
Swarnim Sankul I & II (CM Office), Gujarat
Affordable Housing Project for Gujarat Housing Board (Naranpura and Hathijan) - design and build

Board of Directors

Name	Designation	Description
Prahalad Patel	Chairman, Managing Director & CEO	Mr. Patel holds a bachelor's degree in Civil Engineering. He has over 30 years of experience in the business of construction. Prior to incorporation of PSP, he had been carrying on the business of civil construction by way of a proprietorship firm. He has been highlighted in the book titled 'Business Game Changer: Shoonya se Shikhar' for completing the government's infrastructure projects before schedule for which he also received appreciation from the Prime Minister, Mr. Narendra Modi.
Pooja Patel	Executive director	Ms. Pooja is the daughter of Prahalabhai Patel who is the Chairman and MD of the company. She holds a bachelor's degree in Civil Engineering and is actively involved in the execution of projects by the company. She is presently overseeing the SDB Project.
Shilpaben Patel	Wholetime director	She holds a bachelor's degree in commerce. She has experience in administration and been a Director of the Company since incorporation. She participates in the CSR activities of the company and is the chairman of the CSR committee.
Chirag Shah	Independent director	Holds a bachelor's degree in pharmacy. He is the Chairman of the Nomination and Remuneration Committee and Stakeholder Relationship Committee for the company.
Sandeep Shah	Independent director	Holds a bachelor's degree in Commerce and bachelor's degree in Law and also has over 20 years of IT-related experience. He is currently the chairman and MD of Creative Infotech Private Limited.
Vasishtha Patel	Independent director	He has over 20 years of experience in management and exports, and is currently the managing director of Multico Exports Private Limited, which is involved in the export of pharmaceuticals and raw materials.

Key Management Profile

Name	Designation	Description
Prahalad Patel	Chairman, Managing Director & CEO	
Pooja Patel	Executive director	
Hetal Patel	CFO	Holds a master's degree in commerce and also a certified internal auditor from the Institute of Internal Auditors, USA. She has 18 years of experience in accounts and finance.
Mahesh Patel	Vice President- Operations	Diploma in Civil Engineering and has been with the company since inception. He has 25 years of experience in project execution in the construction industry.
Maulik Patel	Director- Procurement	Holds a bachelor's degree in Commerce.
R.B. Parmar	General Manager- Tender	Holds a diploma in Civil Engineering and has 30 years of experience in Contracts and Tendering in the construction industry.
Pratik Thakkar	General Manager- Business Development	Holds a bachelor's degree in Commerce and a Diploma in Marketing Management. He has 10 years of experience in Business Development in the construction industry.

Standalone Quarterly Earnings Forecast and Key Drivers

Rs in Mn	1Q18A	2Q18A	3Q18A	4Q18A	1Q19A	2Q19E	3Q19E	4Q19E	1Q20E	2Q20E	3Q20E	4Q20E	FY18A	FY19E	FY20E	FY21E
Revenue	1,558	1,396	1,708	2,637	2,347	1,884	2,477	3,823	3,521	2,826	3,591	5,161	7,298	10,531	15,099	16,609
Raw materials consumed + Change in WIP	672	617	592	892	1,163	659	867	1,338	1,197	961	1,221	1,755	2,705	4,027	5,134	5,647
Subcontracting Expenses	166	165	300	597	245	396	495	765	810	622	826	1,136	1,229	1,901	3,393	3,728
Construction Expenses	411	323	429	671	482	490	619	994	845	678	862	1,342	1,979	2,585	3,727	4,100
Employee Cost	60	67	74	85	100	113	111	191	158	127	144	181	286	516	610	608
Other Expenses	50	36	49	29	27	47	50	57	70	71	72	103	86	181	316	367
EBITDA	199	186	266	363	330	179	334	478	440	367	467	645	1,014	1,321	1,919	2,160
Depreciation	18	23	28	43	48	27	33	47	54	31	37	53	112	156	175	192
EBIT	181	164	238	320	282	152	301	431	386	337	430	592	902	1,165	1,745	1,968
Interest	14	20	23	30	15	23	27	34	17	27	31	40	87	99	116	139
Other Income	41	52	32	59	61	53	33	60	61	53	33	60	184	206	208	210
PBT	208	195	247	349	328	181	307	456	431	363	431	612	999	1,273	1,838	2,039
Tax	72	69	95	119	117	65	111	164	155	131	155	220	355	457	662	734
Recurring PAT	136	127	152	230	211	116	197	292	276	232	276	392	644	815	1,176	1,305
Extraordinary	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Reported PAT	136	127	152	230	211	116	197	292	276	232	276	392	644	815	1,176	1,305
EPS (Rs)	3.77	3.52	4.22	6.38	5.86	3.22	5.46	8.11	7.66	6.45	7.67	10.89	17.88	22.65	32.67	36.25
Key Drivers																
Closing Order-book	-	-	-	-	-	-	-	-	-	-	-	-	26,440	25,909	21,810	20,200
OB/Revenues	-	-	-	-	-	-	-	-	-	-	-	-	4	2	1	1
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sequential Growth (%)																
Revenue	-4 %	-10 %	22 %	54 %	-11 %	-20 %	31 %	54 %	-8 %	-20 %	27 %	44 %	-	-	-	-
Raw materials consumed + Change in WIP	28 %	-8 %	-4 %	51 %	30 %	-43 %	31 %	54 %	-11 %	-20 %	27 %	44 %	-	-	-	-
EBITDA	-40 %	-6 %	42 %	37 %	-9 %	-46 %	87 %	43 %	-8 %	-17 %	27 %	38 %	-	-	-	-
EBIT	-42 %	-9 %	45 %	35 %	-12 %	-46 %	99 %	43 %	-10 %	-13 %	28 %	38 %	-	-	-	-
Recurring PAT	-32 %	-7 %	20 %	51 %	-8 %	-45 %	69 %	48 %	-6 %	-16 %	19 %	42 %	-	-	-	-
EPS	-32 %	-7 %	20 %	51 %	-8 %	-45 %	69 %	48 %	-6 %	-16 %	19 %	42 %	-	-	-	-
Yearly Growth (%)																
Revenue	81 %	80 %	127 %	63 %	51 %	35 %	45 %	45 %	50 %	50 %	45 %	35 %	82 %	44 %	43 %	10 %
EBITDA	68 %	66 %	181 %	9 %	66 %	-4 %	26 %	32 %	33 %	105 %	40 %	35 %	54 %	30 %	45 %	13 %
EBIT	78 %	74 %	217 %	2 %	56 %	-7 %	27 %	35 %	37 %	122 %	43 %	38 %	55 %	29 %	50 %	13 %
Recurring PAT	81 %	102 %	107 %	15 %	55 %	-8 %	30 %	27 %	31 %	100 %	40 %	34 %	55 %	27 %	44 %	11 %
EPS	81 %	102 %	107 %	15 %	55 %	-8 %	30 %	27 %	31 %	100 %	40 %	34 %	55 %	27 %	44 %	11 %
Margin (%)																
EBITDA	13 %	13 %	16 %	14 %	14 %	10 %	14 %	13 %	13 %	13 %	13 %	13 %	14 %	13 %	13 %	13 %
EBIT	12 %	12 %	14 %	12 %	12 %	8 %	12 %	11 %	11 %	12 %	12 %	11 %	12 %	11 %	12 %	12 %
PBT	13 %	14 %	14 %	13 %	14 %	10 %	12 %	12 %	12 %	13 %	12 %	12 %	14 %	12 %	12 %	12 %
PAT	9 %	9 %	9 %	9 %	9 %	6 %	8 %	8 %	8 %	8 %	8 %	8 %	9 %	8 %	8 %	8 %

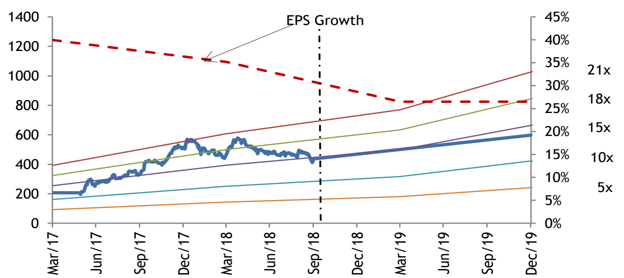
Consolidated Financials

P&L (Rs Mn)	FY18A	FY19E	FY20E	FY21E
Revenue	7,516	10,531	15,099	16,609
Op. Expenditure	6,470	9,210	13,180	14,450
EBITDA	1,046	1,321	1,919	2,160
Depreciation	115	156	175	192
EBIT	931	1,165	1,745	1,968
Interest Expense	93	99	116	139
Other Income	186	206	208	210
PBT	1,024	1,273	1,838	2,039
Tax	364	457	662	734
PAT bef. MI & Assoc.	660	815	1,176	1,305
Minority Interest	5	0	0	0
Profit from Assoc.	0	0	0	0
Recurring PAT	655	815	1,176	1,305
Extraordinaires	0	0	0	0
Reported PAT	655	815	1,176	1,305
FDEPS (Rs)	18.2	22.6	32.7	36.3
DPS (Rs)	5.0	5.8	8.1	9.3
CEPS (Rs)	21.4	27.0	37.5	41.6
FCFPS (Rs)	-12.9	-10.6	14.5	25.5
BVPS (Rs)	83.7	99.6	122.8	148.1
EBITDAM (%)	14 %	13 %	13 %	13 %
PATM (%)	9 %	8 %	8 %	8 %
Tax Rate (%)	36 %	36 %	36 %	36 %
Sales Growth (%)	69 %	40 %	43 %	10 %
FDEPS Growth (%)	58 %	24 %	44 %	11 %

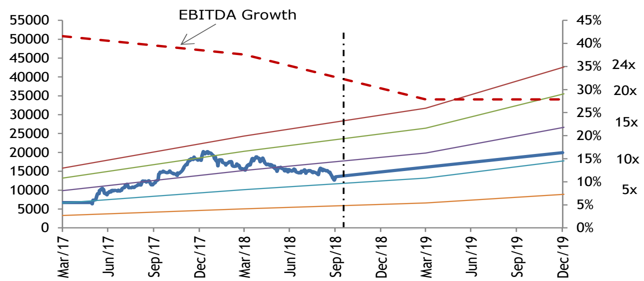
Balance Sheet (Rs Mn)	FY18A	FY19E	FY20E	FY21E
Equity Capital	360	360	360	360
Reserve	2,654	3,224	4,060	4,973
Networth	3,014	3,584	4,420	5,333
Long Term Debt	281	335	425	515
Def Tax Liability	0	0	0	0
Minority Interest	11	11	11	11
Account Payables	1,271	1,731	2,441	2,685
Other Curr Liabi	1,436	1,527	2,189	2,325
Total Liabilities & Equity	6,013	7,188	9,486	10,868
Net Fixed Assets	781	1,220	1,495	1,603
Capital WIP	18	0	0	0
Others	947	947	947	947
Inventory	338	577	869	865
Account Receivables	1,235	1,702	2,523	2,776
Other Current Assets	264	948	1,661	2,159
Cash	2,431	1,794	1,991	2,519
Total Assets	6,013	7,188	9,486	10,868
Non-cash Working Capital	-870	-31	423	790
Cash Conv Cycle	-42.3	-1.1	10.2	17.4
WC Turnover	-8.6	-339.5	35.7	21.0
FA Turnover	9.4	8.6	10.1	10.4
Net D/E	-0.7	-0.4	-0.4	-0.4
Revenue/Capital Employed	2.9	2.9	3.4	3.1
Capital Employed/Equity	1.3	1.1	1.1	1.1

Cash Flow (Rs Mn)	FY18A	FY19E	FY20E	FY21E
PBT	1,024	1,273	1,838	2,039
Depreciation	115	156	175	192
Others	-128	0	0	0
Taxes Paid	417	457	662	734
Change in WC	86	-839	-454	-367
Operating C/F	681	132	897	1,131
Capex	-475	-577	-450	-300
Change in Invest	-913	0	0	0
Others	182	0	0	0
Investing C/F	-1,207	-577	-450	-300
Change in Debt	-447	54	90	90
Change in Equity	1,421	0	0	0
Others	-161	-245	-340	-393
Financing C/F	813	-191	-250	-303
Net change in cash	287	-637	197	528
RoE (%)	32 %	25 %	29 %	27 %
RoIC (%)	28 %	24 %	28 %	26 %
Core RoIC (%)	71 %	62 %	51 %	45 %
Div Payout (%)	17 %	30 %	29 %	30 %
P/E	23.7	19.1	13.2	11.9
P/B	5.2	4.3	3.5	2.9
P/FCFF	-33.4	-40.7	29.9	16.9
EV/EBITDA	12.8	10.7	7.3	6.3
EV/Sales	1.8	1.3	0.9	0.8
Dividend Yield (%)	1.2 %	1.6 %	2.2 %	2.5 %

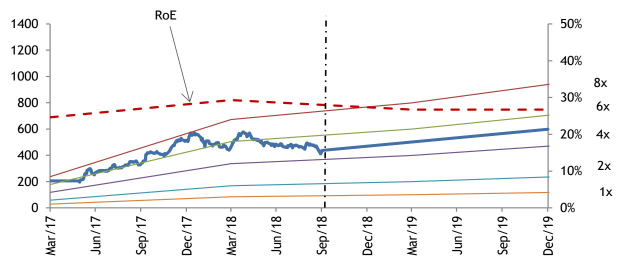
TTM P/E vs. 2 yrs. forward EPS growth



TTM EV/EBITDA vs. 2 yrs. forward EBITDA growth



TTM P/B vs. 2 yrs. forward RoE



Historical Consolidated Financials

P&L (Rs Mn)	FY15A	FY16A	FY17A	FY18A
Revenue	2,805	4,760	4,448	7,516
Op. Expenditure	2,581	4,411	3,777	6,470
EBITDA	224	349	671	1,046
Depreciation	52	71	79	115
EBIT	172	277	592	931
Interest Expense	25	34	79	93
Other Income	65	103	134	186
PBT	213	347	647	1,024
Tax	72	127	231	364
PAT bef. MI & Assoc.	141	220	416	660
Minority Interest	0	-8	1	5
Profit from Assoc.	0	0	0	0
Recurring PAT	141	228	415	655
Extraordinaires	0	0	0	0
Reported PAT	141	228	415	655
EPS (Rs)	3.9	6.3	11.5	18.2
DPS (Rs)	0.0	0.0	2.5	5.0
CEPS (Rs)	5.3	8.3	13.7	21.4
FCFPS (Rs)	1.7	-0.7	-1.6	-12.9
BVPS (Rs)	13.0	17.6	29.1	83.7
EBITDAM (%)	8 %	7 %	15 %	14 %
PATM (%)	5 %	5 %	9 %	9 %
Tax Rate (%)	34 %	37 %	36 %	36 %
Sales growth (%)	0 %	70 %	-7 %	69 %
FDEPS growth (%)	0 %	62 %	82 %	58 %

Balance Sheet (Rs Mn)	FY15A	FY16A	FY17A	FY18A
Equity Capital	8	32	288	360
Reserve	461	601	759	2,654
Networth	469	633	1,047	3,014
Long Term Debt	329	459	731	281
Def Tax Liability	6	6	9	0
Minority Interest	0	5	6	11
Account Payables	631	818	744	1,271
Other Curr Liabi	428	574	745	1,436
Total Liabilities & Equity	1,864	2,495	3,281	6,013
Net Fixed Assets	332	525	521	781
Capital WIP	2	0	0	18
Others	142	354	688	947
Inventory	42	91	36	338
Account Receivables	239	201	583	1,235
Other Current Assets	140	208	246	264
Cash	966	1,115	1,207	2,431
Total Assets	1,864	2,495	3,281	6,013
Non-cash Working Capital	-639	-891	-623	-870
Cash Conv Cycle	-83.2	-68.4	-51.1	-42.3
WC Turnover	-4.4	-5.3	-7.1	-8.6
FA Turnover	8.4	9.1	8.5	9.4
Net D/E	-1.4	-1.0	-0.5	-0.7
Revenue/Capital Employed	3.5	5.0	3.1	2.9
Capital Employed/Equity	1.7	1.7	1.7	1.3

Cash Flow (Rs Mn)	FY15A	FY16A	FY17A	FY18A
PBT	213	347	647	1,024
Depreciation	52	71	79	115
Others	173	289	-71	-128
Taxes Paid	66	133	145	417
Change in WC	-71	-169	-585	86
Operating C/F	300	405	-75	681
Capex	-201	-273	-62	-475
Change in Invest	-113	-273	-104	-913
Others	59	95	131	182
Investing C/F	-256	-450	-35	-1,207
Change in Debt	78	130	282	-447
Change in Equity	0	0	0	1,421
Others	-38	-70	-62	-161
Financing C/F	41	60	220	813
Net change in cash	85	15	110	287
RoE (%)	0 %	41 %	49 %	32 %
RoIC (%)	0 %	26 %	32 %	28 %
Core RoIC (%)	276 %	-3,794 %	101 %	71 %
Div Payout (%)	0 %	0 %	0 %	17 %
P/E	0.0	68.1	37.5	0.0
P/B	0.0	24.5	14.9	0.0
P/FCFF	256.5	-645.3	-262.7	-33.4
EV/EBITDA	0.0	42.7	22.5	0.0
EV/Sales	0.0	3.1	3.4	0.0
Dividend Yield (%)	0.0 %	0.0 %	0.0 %	1.2 %

***FY15 figs. are standalone nos.**

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Rating & Coverage Definitions:
Absolute Rating
- LONG : Over the investment horizon, ATR >= Ke for companies with Free Float market cap >Rs 5 billion and ATR >= 20% for rest of the companies
- ADD: ATR >= 5% but less than Ke over investment horizon
- REDUCE: ATR >= negative 10% but <5% over investment horizon
- SHORT: ATR < negative 10% over investment horizon

Relative Rating
- OVERWEIGHT: Likely to outperform the benchmark by at least 5% over investment horizon
- BENCHMARK: likely to perform in line with the benchmark
- UNDERWEIGHT: likely to under-perform the benchmark by at least 5% over investment horizon

Investment Horizon
Investment Horizon is set at a minimum 3 months to maximum 18 months with target date falling on last day of a calendar quarter.
Lite vs. Regular Coverage vs. Spot Coverage
We aim to keep our rating and estimates updated at least once a quarter for Regular Coverage stocks. Generally, we would have access to the company and we would maintain detailed financial model for Regular coverage companies. We intend to publish updates on Lite coverage stocks only an opportunistic basis and subject to our ability to contact the management. Our rating and estimates for Lite coverage stocks may not be current. Spot coverage is meant for one-off coverage of a specific company and in such cases, earnings forecast and target price are optional. Spot coverage is meant to stimulate discussion rather than provide a research opinion.

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Analyst Certification

I, Pranav Mehta, author to this report, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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