

## PSP Project Limited

BUY



Asian Markets Securities Pvt. Ltd.

**Strong results led by healthy execution....**

### Institutional Research

CMP (Rs)	550
Target (Rs)	788
Upside (%)	43%

Nifty: 11,604      Sensex: 39,059

### Key Stock Data

Bloomberg	PSPPL IN
Shares O/s Mn (FV INR5)	36
Mkt Cap(USD Mn/INR Bn)	0.3/19.8
52-week high/low	617/358
6m daily avg vol(INR Mn)	13
Free Float %	28

### Price Performance

(%)	3m	1yr	3yr
PSP	13.6	43.4	NA
Nifty	2.9	16.1	11.6
NSE500	2.9	13.0	9.2
BSE Midcap	2.9	13.0	3.0

	2yr	3yr	5yr
Avg.PER (x)	14.9	NA	NA

### Shareholding Pattern

(%)	Mar19	Jun19	Sep19
Promoter	73.3	73.3	73.7
FII	1.2	1.2	1.2
DII	6.4	6.8	6.2
Others	19.1	18.7	19.0

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PSP Project Ltd (PSPPL) reported strong set Q2FY20 results with topline growth of 49% yoy to Rs3.1bn, on strong order book execution. EBITDA grew by 47% yoy to Rs433mn and EBITDAM declined by 15bp yoy to 13.8%. PAT grew by 86% yoy to Rs327mn and PATM improved by 209bp yoy to 10.2%. The standalone order book remained strong at Rs31.9bn in Q2FY20, suggesting a 3.1x on FY19 revenue. Further strong order pipeline; provides healthy revenue growth visibility. Company has taken a board approval to raise Rs3bn for bidding higher ticket size projects in future. However, it do not have a concrete plan w.r.t timeline and mode of fund raising as of now. Management has maintained revenue guidance of 25-30% yoy growth with EBITDAM of 12-14% for FY20E. We have upgraded our EPS to Rs35.1/Rs43.8 in FY20E/21E, respectively, factoring lower tax rate of 25.2%. Given the strong order book, healthy margin, superior return ratio, strong cash rich balance sheet, expanding footprint and large opportunity in infrastructure space; we are positive on the business and stock. We maintain BUY with TP of Rs788 based on 18x FY21E earning.

**Strong quarter:** Sales grew by 48.9% yoy to Rs3.1bn, higher than our estimates on the back of strong order book execution. EBITDA grew by 47% yoy to Rs433mn and EBITDAM stood healthy at 13.8%. PBT grew by 50.4% yoy to Rs402mn, higher than our estimates. PAT grew by 86.4% yoy to Rs327mn & PATM improved by 209bp yoy to 10.2%, on the back of lower tax rate of 18.7%. Company has opted for the lower tax as announced by the GOI recently. In 1HFY20, Sales grew by 39.4% to Rs6.2bn. EBITDA grew by 37.8% yoy to Rs859mn and EBITDAM stood healthy at 13.9%. PBT grew by 33% yoy to Rs795mn. PAT grew by 50.7% yoy to Rs582mn and PATM improved by 75bp yoy to 9.2%.

**Robust standalone order book at 3.1x of FY19 revenue; provides strong growth visibility:** PSP Project has strong order book of Rs31.9bn as on Sept'19 (including Rs9.8bn of SDB project), ensuring strong revenue growth. The order backlog implies a strong book-to-bill ratio of 3.1x in FY19 revenue. Gujarat orders account highest in order book of 74% and followed by Maharashtra of 24% and Rajasthan of 2.1% total standalone orderbook. Institutional segment account highest orders of 64% and Govt Residential order account 24% of total order book.

**Strong order inflow pipeline:** Management targeting order inflow of Rs14-15bn in FY20E. PSPPL has already received order worth of Rs8.6bn during FY20YTD, including project of EWS Housing Project at Bhiwandi, Maharashtra worth Rs6bn, Phoenix Mall at Ahmedabad of Rs913mn, 100 bed hospital project at Ahmedabad of Rs773mn, Sardar Dham Building (Finishing and Ancillary Works) at Ahmedabad of Rs361mn. Further, the company has bid for orders worth of ~Rs20bn, major projects are Vedanta residential colony order (Rs4bn), GIDC's commercial building at Gift City (Rs2.5bn), LIC building at Gift city (Rs1.5bn), BOB project at Ahmedabad (Rs700mn), Nestle India new plant at Sanand (Rs1bn). We have factored in order inflow of Rs15bn/Rs10bn in FY20E and FY21E, respectively.

**Surat Diamond Bourse (SDB) project** is moving in in fast pace and has already completed 5 towers. Further 4 towers would get completed by Dec'19. The company has already booked revenue worth Rs5.96bn so far and Rs880mn in 2QFY20. Management expecting revenue of Rs5bn/Rs4bn in FY20E/FY21E, respectively. The execution timeline has been extended by 10 months by the client to 40 months of total execution. However, company is confident of completing the project in 36 months (FY21end). The project has reached at advance stage of execution and have to keep a bit higher inventory as work for FACAD and Lifts fitting works are going on.

**Outlook & Valuation:** We expect revenue CAGR of 29% and PAT CAGR of 32% during FY19-21E, respectively. We expect ROE and ROCE to remain strong at 29.1%/35.3% respectively in FY21E. The stock is trading at 12.6x FY21E earning. Given the robust order book, healthy margin, superior return ratio, strong balance sheet, expanding geographical footprint and opportunity in infrastructure space; we are positive on the business and stock as a long-term investment opportunity. We maintain our BUY rating with TP of Rs 788 based on 18x FY21E earning.

### Exhibit 1: Key Financials

Y/E Mar/Rs mn	FY17	FY18	FY19	FY20E	FY21E
Sales	4,008	7,283	10,440	13,461	17,474
yoy (%)	(12.5)	81.7	43.3	28.9	29.8
EBITDA	659	999	1,489	1,844	2,359
yoy (%)	67.9	53.8	46.9	23.8	27.9
Adjusted PAT	416	629	902	1,262	1,575
yoy (%)	65.6	54.7	40.2	39.9	24.8
EBITDAM (%)	16.5	13.9	14.3	13.7	13.5
Adj PATM (%)	10.0	8.6	8.5	9.2	8.9
Diluted EPS (Rs)	11.6	17.9	25.1	35.1	43.8

### Exhibit 2: Key Ratios

Y/E Mar	FY17	FY18	FY19	FY20E	FY21E
Equity	32	288	360	360	360
ROE (%)	48.2	31.4	26.8	29.8	29.1
ROCE (%)	50.2	43.5	41.0	37.8	35.3
ROIC (%)	40.9	36.2	34.6	32.7	32.2
D:E (x)	(0.4)	(0.7)	(0.5)	(0.4)	(0.3)
PER (x)	47.6	30.7	21.9	15.7	12.6
P/BV (x)	18.5	6.5	5.3	4.2	3.3
EV/Sales (x)	4.9	2.4	1.7	1.3	1.0
EV/ EBITDA (x)	29.5	17.5	12.0	9.8	7.5

Source: Company, AMSEC Research

**Exhibit 3 : 2QFY20 Quarterly Standalone Performance**

P&L (Rs mn)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	yoy(%)	qoq (%)	1HFY19	1HFY20	yoy (%)
<b>Total Sales</b>	<b>2099</b>	<b>2611</b>	<b>3383</b>	<b>3073</b>	<b>3125</b>	<b>48.9</b>	<b>1.7</b>	<b>4447</b>	<b>6198</b>	<b>39.4</b>
Stock Adjustment	-126	-84	-60	-4	-274	117.1	7454.4	-36	-278	676.2
Consumption of RM	848	1056	1331	1152	1236	45.7	7.3	1921	2389	24.4
Construction Exp	953	1143	1463	1326	1553	62.9	17.1	1686	2878	70.7
Employee Cost	108	107	117	138	146	35.5	5.9	208	284	36.7
Sub-Contracting work bills	0	0	0	0	0	-	-	0	0	-
Other Expenditure	23	21	34	34	32	38.5	-5.8	44	66	48.8
Total Expenditure	1806	2244	2884	2646	2693	49.1	1.8	3823	5339	39.6
<b>EBITDA</b>	<b>294</b>	<b>367</b>	<b>499</b>	<b>427</b>	<b>433</b>	<b>47.2</b>	<b>1.3</b>	<b>624</b>	<b>859</b>	<b>37.8</b>
Add: Other Income	54	48	66	52	69	26.2	32.1	115	120	4.6
Interest	23	23	32	28	37	61.4	33.1	37	64	72.3
Depreciation	58	62	74	59	62	7.2	5.5	106	121	14.0
<b>Core PBT</b>	<b>267</b>	<b>331</b>	<b>459</b>	<b>392</b>	<b>402</b>	<b>50.4</b>	<b>2.6</b>	<b>596</b>	<b>795</b>	<b>33.4</b>
Excep. item Loss / (Gain)	0	0	0	0	0			0	0	
<b>Profit Before Tax</b>	<b>267</b>	<b>331</b>	<b>459</b>	<b>392</b>	<b>402</b>	<b>50.4</b>	<b>2.6</b>	<b>596</b>	<b>795</b>	<b>33.4</b>
Provision for Taxation	92	116	158	137	75	-18.2	-45.2	209	212	1.4
<b>PAT</b>	<b>176</b>	<b>215</b>	<b>301</b>	<b>255</b>	<b>327</b>	<b>86.4</b>	<b>28.2</b>	<b>386</b>	<b>582</b>	<b>50.7</b>
Equity Capital (FV Rs 10)	360	360	360	360	360			360	360	
<b>Basic EPS (Rs)</b>	<b>4.9</b>	<b>6.0</b>	<b>8.4</b>	<b>7.1</b>	<b>9.1</b>			<b>10.7</b>	<b>16.2</b>	
<b>Diluted EPS Rs (adjusted)</b>	<b>4.9</b>	<b>6.0</b>	<b>8.4</b>	<b>7.1</b>	<b>9.1</b>			<b>10.7</b>	<b>16.2</b>	
EBITDA (%)	14.0	14.1	14.7	13.9	13.8	(-15bp)	(-5bp)	14.0	13.9	(16bp)
PAT (%)	8.2	8.1	8.7	8.2	10.2	209bp	208bp	8.5	9.2	75bp
Tax / PBT (%)	34.4	35.1	34.4	34.9	18.7	(-1568bp)	(-1626bp)	35.1	26.7	(842bp)
Interest/Net Sales	1.1	0.9	0.9	0.9	1.2	9bp	28bp	0.8	1.0	20bp
Employee cost/Net Sales	5.1	4.1	3.5	4.5	4.7	(-46bp)	19bp	4.7	5	(9bp)
RM / Net Sales (%)	79.8	81.0	80.8	80.5	80.5	69bp	(-6bp)	80.3	80.5	19bp

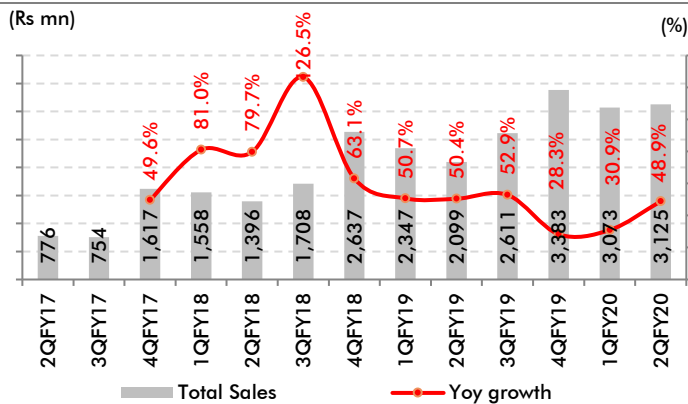
Source: Company, AMSEC Research

**Concall highlights:**

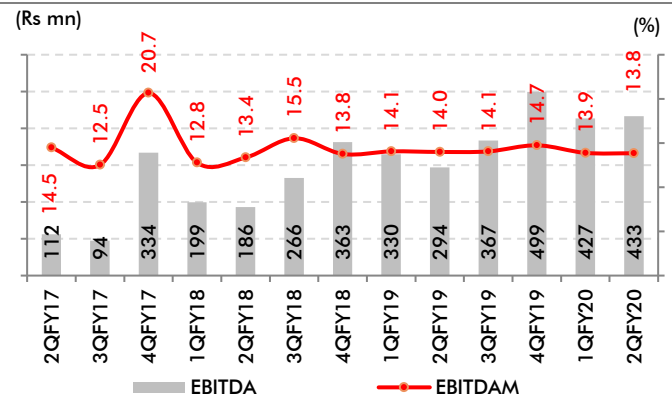
- **Guidance:** Management guided EBITDAM of 12-14% and revenue of Rs13-14bn (25-30% yoy growth) in FY19. Management targeting order inflow of Rs14-15bn in FY20.
- **Order inflow:** The Company has won order inflow of Rs900mn in Q2FY20 and Rs8.6bn in 1HFY20.
- **Order pipeline:** The company has bid for orders worth of ~Rs20bn, major projects are Vedanta residential colony order (Rs4bn), GIDC's Commercial building at Gift City (Rs2.5bn), LIC building at Gift city (Rs1.5bn), BOB project at Ahmedabad (Rs700mn), Nestle India plant at Sanand (Rs1bn).
- **Inventory** has gone up to 34 days in 1HFY20, due to advance stage of execution of SDB projects.
- **Cash Position:** The Company have FD investment of Rs1.3bn and cash in hand of Rs1.4mn in the book, it will be utilized for margin money for bank.
- **Fund raising plan:** Company has taken a board approval to raise Rs3bn for bidding higher ticket size projects in future. However, it do not have a concrete plan w.r.t timeline and mode of fund raising as of now.
- **Average ticket size** of project has increased to Rs429mn in Q2FY20 Vs Rs85.4mn in FY2013. Currently 48 projects are under execution as on 30th Sept 2019.
- **CAPEX:** The Company has done capex of Rs60-70mn in 1HFY20 and Additional projects will expect capex of 2-3% of projects in FY20.

**Quarterly Standalone Charts:**

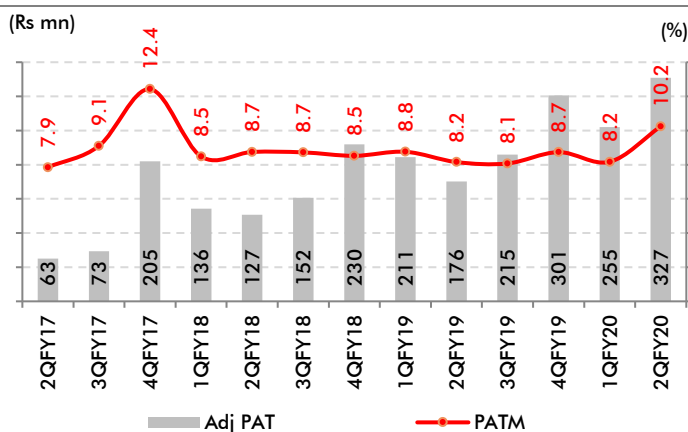
**Exhibit 4: Revenue Trend**



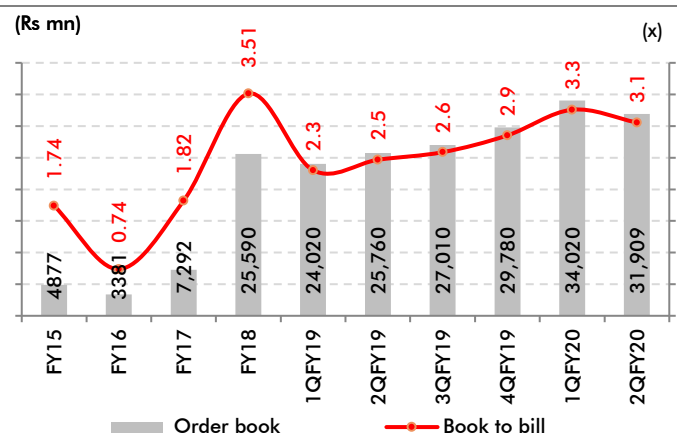
**Exhibit 5: EBITDA and EBITDAM Trend**



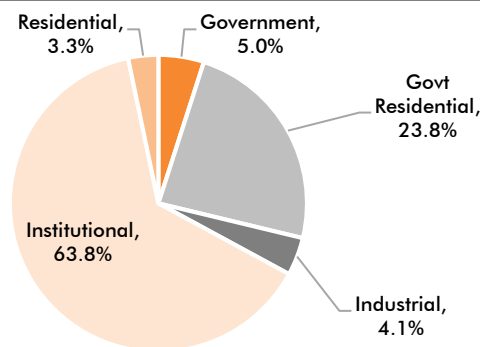
**Exhibit 6: PAT and PATM Trend**



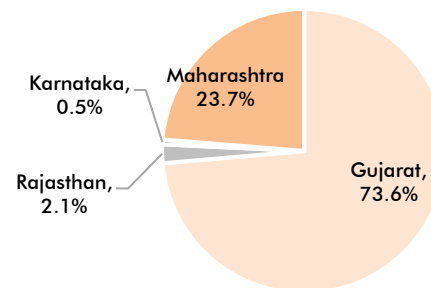
**Exhibit 7: Order book trend**



**Exhibit 8: Standalone order book break up (Rs31.9bn) - Segment wise**



**Exhibit 9: Standalone Order book (Rs31.9bn) region wise**



Source: Company, AMSEC Research

**Financials (Standalone)****(Rs Mn)**

<b>Profit &amp; Loss Accounts</b>						<b>Cash Flow Statement</b>					
Particulars	FY17	FY18	FY19	FY20E	FY21E	Particulars	FY17	FY18	FY19	FY20E	FY21E
<b>Net sales</b>	<b>4,008</b>	<b>7,283</b>	<b>10,440</b>	<b>13,461</b>	<b>17,474</b>	PBT	642	999	1,385	1,688	2,106
Raw material	2,487	4,684	8,420	10,849	14,084	Non-cash adjustments	(58)	(72)	13	14	110
Subcontracting Expenses	560	1,229	-	-	-	Changes in working capital	(524)	17	(667)	(1,003)	(901)
Employee benefits expenses	208	286	432	673	874	Interest Paid	75	87	92	142	142
Other expenses	93	86	99	94	157	Tax Paid & Other Adj	(153)	(522)	(340)	(425)	(531)
<b>Total Expenditure</b>	<b>3,348</b>	<b>6,284</b>	<b>8,951</b>	<b>11,616</b>	<b>15,115</b>	<b>Cashflow from operations</b>	<b>(18)</b>	<b>509</b>	<b>482</b>	<b>416</b>	<b>927</b>
<b>EBITDA</b>	<b>659</b>	<b>999</b>	<b>1,489</b>	<b>1,844</b>	<b>2,359</b>	Capital exp. & Advances	(68)	(355)	(486)	(500)	(500)
Depreciation	76	112	242	264	310	Change in investments	(25)	(1)	33	-	-
<b>Operating profit</b>	<b>584</b>	<b>887</b>	<b>1,247</b>	<b>1,580</b>	<b>2,049</b>	Other investing cashflow	134	184	230	250	200
Other income	134	184	230	250	200	<b>Cashflow from investing</b>	<b>41</b>	<b>(172)</b>	<b>(224)</b>	<b>(250)</b>	<b>(300)</b>
<b>EBIT</b>	<b>718</b>	<b>1,071</b>	<b>1,477</b>	<b>1,830</b>	<b>2,249</b>	Issue of equity	-	1,512	-	-	-
Interest	75	87	92	142	142	Issue/repay debt	225	(461)	33	700	-
Exceptional items	-	-	-	-	-	Interest Paid	(75)	(87)	(92)	(142)	(142)
<b>Profit before tax</b>	<b>642</b>	<b>984</b>	<b>1,385</b>	<b>1,688</b>	<b>2,106</b>	Dividends paid	(92)	(86)	(216)	(216)	(259)
Tax	226	355	483	425	531	Other financing cashflow	-	-	-	-	-
<b>Reported net profit</b>	<b>416</b>	<b>629</b>	<b>902</b>	<b>1,262</b>	<b>1,575</b>	<b>Cashflow from financing</b>	<b>58</b>	<b>878</b>	<b>(274)</b>	<b>342</b>	<b>(402)</b>
EO Items (loss/ (gain))	-	-	-	-	-	<b>Change in cash &amp; cash eq</b>	<b>80</b>	<b>1,214</b>	<b>(16)</b>	<b>507</b>	<b>225</b>
<b>Adjusted net profit</b>	<b>416</b>	<b>629</b>	<b>902</b>	<b>1,262</b>	<b>1,575</b>	<b>Opening cash &amp; cash eq</b>	<b>938</b>	<b>1,018</b>	<b>2,232</b>	<b>2,217</b>	<b>2,724</b>
Share O/s mn	28.8	36.0	36.0	36.0	36.0	<b>Closing cash &amp; cash eq</b>	<b>1,018</b>	<b>2,232</b>	<b>2,217</b>	<b>2,724</b>	<b>2,949</b>
Diluted EPS Rs (adjusted)	11.6	17.9	25.1	35.1	43.8	<b>Free cash flow to firm</b>	<b>(86)</b>	<b>154</b>	<b>(4)</b>	<b>(84)</b>	<b>427</b>

<b>Balance Sheet</b>						<b>Ratio</b>					
Particulars	FY17	FY18	FY19	FY20E	FY21E	Particulars	FY17	FY18	FY19	FY20E	FY21E
<b>APPLICATION OF FUNDS :</b>						<b>PER SHARE</b>					
<b>Non Current Assets</b>	<b>1,187</b>	<b>1,717</b>	<b>1,973</b>	<b>2,309</b>	<b>2,599</b>	EPS Rs (adjusted)	11.6	17.9	25.1	35.1	43.8
Gross block (Total)	823	1,196	1,699	2,199	2,699	CEPS Rs	13.7	21.0	31.8	42.4	52.4
Less : accumulated depreciator	315	425	668	932	1,242	Book Value Rs	29.7	84.1	103.2	132.2	168.8
Net block (Total)	508	770	1,032	1,268	1,457	<b>VALUATION</b>					
Capital work in progress	-	18	-	-	-	EV / Net Sales	4.9	2.4	1.7	1.3	1.0
Investment in Equity Shares	40	40	44	44	44	EV / EBITDA	29.5	17.5	12.0	9.8	7.5
Other Investment	36	37	-	-	-	P / E Ratio	47.6	30.7	21.9	15.7	12.6
Deferred tax assets	15	18	49	49	49	P / BV Ratio	18.5	6.5	5.3	4.2	3.3
Long term loans and advances	225	301	827	877	927	<b>GROWTH YOY%</b>					
Other non-current assets	363	533	21	71	121	Sales Growth	(12.5)	81.7	43.3	28.9	29.8
<b>Current Assets</b>	<b>1,960</b>	<b>4,137</b>	<b>5,332</b>	<b>6,535</b>	<b>8,257</b>	EBITDA Growth	67.9	53.8	46.9	23.8	27.9
Current investment	141	151	-	-	-	Net Profit Growth	65.6	54.7	40.2	39.9	24.8
Inventories	30	335	750	1,082	1,574	Gross Fixed Asset Growth	9.0	45.3	42.1	29.4	22.7
Sundry debtors	533	1,162	1,426	1,991	2,777	<b>Margin Analysis (%)</b>					
Cash and bank	1,018	2,232	2,217	2,724	2,949	Gross profit Margin	34.3	33.1	16.5	15.9	15.9
Short loans and advances	199	231	652	553	718	EBITDA Margin	16.5	13.9	14.3	13.7	13.5
Others current assets	39	25	288	184	239	EBIT Margin	17.9	14.9	14.1	13.6	12.9
<b>Total Assets</b>	<b>3,147</b>	<b>5,854</b>	<b>7,305</b>	<b>8,845</b>	<b>10,856</b>	Adj PAT Margin	10.0	8.6	8.5	9.2	8.9
<b>SOURCES OF FUNDS :</b>						Int/Debt	11.1	40.2	36.7	15.0	15.0
Share Capital	288	360	360	360	360	Tax/PBT	35.2	35.6	34.9	25.2	25.2
Reserves	783	2,667	3,354	4,400	5,716	<b>Return Ratio (%)</b>					
<b>Total Shareholders Funds</b>	<b>1,071</b>	<b>3,027</b>	<b>3,714</b>	<b>4,760</b>	<b>6,076</b>	ROE	48.2	31.4	26.8	29.8	29.1
<b>Non-Current Liabilities</b>	<b>43</b>	<b>17</b>	<b>4</b>	<b>4</b>	<b>4</b>	ROCE	50.2	43.5	41.0	37.8	35.3
Long term borrowings	34	17	4	4	4	ROIC	40.9	36.2	34.6	32.7	32.2
Long term provisions	9	-	-	-	-	<b>Turnover</b>					
<b>Current Liabilities</b>	<b>2,033</b>	<b>2,811</b>	<b>3,587</b>	<b>4,080</b>	<b>4,776</b>	Net Working capital (Days)	(54)	(43)	(8)	18	31
Short term borrowings	625	178	246	946	946	Debtors Velocity (Days)	49	58	50	54	58
Trade payables	693	1,213	1,584	1,844	2,154	Inventory (Days)	3	20	31	34	38
Other current liabilities	597	1,348	1,650	1,106	1,436	Creditors Velocity (Days)	63	61	55	50	45
Short term provisions	118	72	107	184	239	Gross Asset Ratio	5.1	7.2	7.2	6.9	7.1
<b>Total Equity &amp; Liabilities</b>	<b>3,147</b>	<b>5,854</b>	<b>7,305</b>	<b>8,845</b>	<b>10,856</b>	Total Asset Ratio	148	162	159	167	177
Net Working Capital	(588)	(858)	(227)	676	1,478	<b>LIQUIDITY</b>					
Total Gross Debt	677	216	250	950	950	Current Ratio	1.0	1.5	1.5	1.6	1.7
Total Net Debt	(482)	(2,167)	(1,967)	(1,775)	(2,000)	Quick Ratio	0.9	1.4	1.3	1.3	1.4
Capital Employed	1,748	3,243	3,964	5,710	7,026	Net Debt-Equity Ratio	(0.4)	(0.7)	(0.5)	(0.4)	(0.3)
Order book	7,292	25,590	29,780	23,319	15,845	Interest Coverage (x)	7.8	10.4	13.6	11.1	14.4
Order inflow	7,918	25,407	14,150	7,000	10,000	<b>PAYOUT</b>					
Book To bill (x)	1.8	3.5	2.9	1.7	0.9	Payout %	21	34	24	21	21
						Dividend %	25	50	50	60	75
						Yield %	0.4	0.9	0.9	1.1	1.4

## Recommendation rationale

<b>Buy:</b> Potential upside of	> +15% (absolute returns)
<b>Accumulate:</b>	> +5 to +15%
<b>Reduce:</b>	+5 to -5%
<b>Sell:</b>	< -5%
<b>Not Rated (NR):</b>	No investment opinion on the stock

## Sector rating

<b>Overweight:</b>	The sector is expected to outperform relative to the Sensex.
<b>Underweight:</b>	The sector is expected to underperform relative to the Sensex.
<b>Neutral:</b>	The sector is expected to perform in line with the Sensex.

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