

PSP Project Limited

BUY



Asian Markets Securities Pvt. Ltd.

Strong foundation to capture future growth

Institutional Research

CMP (Rs)	484
Target (Rs)	639
Upside (%)	32%

Nifty: 11,471; Sensex: 38,024

Key Stock Data

BSE Code	540544
NSE Code	PSPPROJECT
Bloomberg	PSPPL IN
Shares O/s mn (FV Rs10)	36.0
Mcap (Rs bn)	17.3
52-week High/Low	596/303
3-m daily avg vol.	30,394

Price Performance

(%)	1m	3m	12m
PSP	(2.6)	(13.7)	51.7
NIFTY Index	5.7	6.8	15.8
Sensex	5.8	7.7	19.6

Shareholding Pattern

(%)	Dec17	Mar18	Jun18
Promoter	72.0	72.1	72.4
FII	1.4	1.2	1.2
DII	9.4	8.3	7.9
Others	17.2	18.5	18.5

Amber Singhania

amber.singhania@amsec.in
+91 22 4343 5296

Suraj Sonulkar

suraj.sonulkar@amsec.in
+91 22 4343 5217

PSP Project Ltd (PSP) reported standalone Q1FY19 results with strong top line growth of 50.7% yoy to Rs2.35bn. EBITDA grew by 65.7% yoy to Rs330mn and EBITDAM improved by 128bp yoy to 14.1%, on the back of lower RM cost and sub-contracting cost. PAT grew by 55.5% yoy to Rs211mn and PATM improved by 28bp yoy to 8.8%, due to better EBITDAM. The standalone order book remained strong at Rs24.02bn in Q1FY19, suggesting a 3.3x of FY18 revenue. Management maintains order inflow guidance of Rs10bn, along with revenue growth of 30-35% and EBITDAM of 12-13% in FY19. Current book-to-bill of 3.3x and strong order pipeline; provides healthy revenue growth visibility. We maintain our FY19 and FY20 estimates. Given the strong order book, healthy margin, superior return ratio, strong cash rich balance sheet post IPO, expanding geographical footprint and large opportunity in infrastructure space; we are positive on the business and stock. We maintained our BUY rating with TP of Rs 639 based on 18x FY20E earning.

Sales grew by 50.7% yoy with Margin improved by 128bp yoy to 14.1%: In 1QFY19, PSP reported strong sales growth of 50.7% yoy to Rs2.35bn, on the back of strong order book execution during the quarter. EBITDA grew by 65.7% yoy to Rs330bn and EBITDAM improved by 128bp yoy to 14.1%, on the back of lower raw material cost and sub-contracting cost. Adj PAT grew by 55.5% to Rs211mn Vs Rs136mn in Q1FY18 and PATM improved by 28bp yoy to 8.8%.

Robust standalone order book at 3.3x of FY18 revenue; provides strong growth visibility: PSP Project has strong order book of Rs24.02bn as on June'18 (include Rs14.33bn of Surat diamond bourse project), ensuring strong revenue growth. Order inflows is healthy Rs620.7mn in Q1FY19, including project of residential complex in Gift city, further Company has received Rs1.74bn orders in July'18 (include Rs990mn from MRF Plant and a Rs320mn worth of project under Subsidiary). The order backlog implies a strong book-to-bill ratio of 3.3x in FY18 revenue. Gujarat orders account for 91.57% of total order book and Rajasthan & Karnataka orders are 4.06%/4.37% total standalone orderbook.

Further the order pipeline looks strong, Company has submitted tenders for orders worth of Rs12-14bn, including one large commercial project of Rs4.5bn in south India. (5mn square feet project and additional RCC works of Rs4.5bn is under discussion). Management expects order inflow of Rs10bn in FY19. The Average ticket size increased to Rs365.8mn in Q1FY19 Vs Rs85.4mn in FY13. We expect order inflow of Rs10bn/12bn in FY19/20E.

Outlook & Valuation: We expect revenue CAGR of 48.4% and PAT CAGR of 40.9% during FY18-20E, respectively. We expect ROE and ROCE to remain strong at 29.6%/44.3% respectively in FY20E. The stock is trading at 13.6x FY20E 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 639 based on 18x FY20E earning.

Exhibit 1: Key Financials

Y/E Mar/Rs mn	FY17	FY18	FY19E	FY20E
Sales	4,008	7,298	11,403	16,069
yoy (%)	(12.5)	82.1	56.2	40.9
EBITDA	659	1,014	1,391	1,977
yoy (%)	67.9	53.8	37.2	42.1
Adjusted PAT	416	644	884	1,278
yoy (%)	65.6	54.7	37.4	44.5
Equity	288	360	360	360
Diluted EPS (Rs)	11.6	17.9	24.6	35.5

Source: Company, AMSEC Research

Exhibit 2: Key Ratios

Y/E Mar	FY17	FY18	FY19E	FY20E
EBITDAM (%)	16.5	13.9	12.2	12.3
Adj PATM (%)	10.0	8.6	7.6	7.8
PER (x)	41.9	27.1	19.7	13.6
P/BV (x)	16.2	5.8	4.6	3.6
EV/Sales (x)	4.2	2.1	1.4	1.0
EV/EBITDA (x)	25.6	15.2	11.5	8.0
ROCE (%)	50.0	43.7	38.8	44.3
ROE (%)	47.8	31.4	26.0	29.6

Exhibit 3 : 1Q FY19 Quarterly Standalone Performance

P&L (Rs mn)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	yoy(%)	qoq (%)	FY17	FY18	yoy (%)
Net Sales	1,558	1,396	1,708	2,637	2,347	50.7	(11.0)	4,008	7,298	82.1
Other Operating Inc.						-	-	-	-	-
Total Sales	1,558	1,396	1,708	2,637	2,347	50.7	(11.0)	4,008	7,298	82.1
Stock Adjustment	(72)	48	(42)	(37)	91			20	(103)	(623.2)
Consumption of RM	733	569	606	928	1,073	46.4	15.5	1,251	2,807	124.5
Construction Exp	445	323	489	671	482	8.4	(28.1)	1,217	1,979	62.6
Employee Cost	60	67	74	85	100	66.9	17.7	208	286	37.3
Sub-Contracting work bills	166	165	300	597	245	47.3	(59.0)	560	1,229	119.5
Other Expenditure	27	36	16	29	27	(0.9)	(7.1)	93	86	(7.6)
Total Expenditure	1,359	1,209	1,442	2,274	2,017	48.4	(11.3)	3,348	6,284	87.7
EBITDA	199	186	266	363	330	65.7	(9.1)	659	1,014	53.8
Add: Other Income	41	52	32	59	61	48.3	4.0	134	184	37.2
Interest	14	20	23	30	15	6.8	(51.3)	75	87	15.5
Depreciation	18	23	28	43	48	161.8	12.3	76	112	47.9
Profit Before Tax	208	195	247	349	328	57.7	(5.9)	642	999	55.5
Provision for Taxation	72	69	95	119	117	61.8	(1.5)	226	355	56.9
PAT	136	127	152	230	211	55.5	(8.2)	416	644	54.7
Equity Capital (FV Rs 10)	360	360	360	360	360			288	360	
Basic EPS (Rs)	3.8	3.5	4.2	6.4	5.9			14.4	17.9	
Diluted EPS Rs (adjusted)	3.8	3.5	4.2	6.4	5.9			14.4	17.9	
EBITDA (%)	12.8	13.4	15.5	13.8	14.1	128bp	29bp	16.5	13.9	(256bp)
PAT (%)	8.5	8.7	8.7	8.5	8.8	28bp	24bp	10.0	8.6	(144bp)
Tax / PBT (%)	34.8	35.2	38.5	34.1	35.7	90bp	161bp	35.2	35.6	33bp
Interest/Net Sales	0.9	1.4	1.4	1.1	0.6	(-25bp)	(-51bp)	1.9	1.2	(69bp)
Employee cost/Net Sales	3.8	4.8	4.3	3.2	4.3	41bp	104bp	5.2	3.9	(128bp)
Sub-Contracting/Net Sales (%)	10.7	11.9	17.5	22.7	10.4	(-23bp)	(-1223bp)	14.0	16.8	287bp
RM / Net Sales (%)	71.0	67.4	61.7	59.2	70.1	(-86bp)	1085bp	62.1	64.2	212bp

Source: Company, AMSEC Research

Concall highlights:

- Management guided EBITDM of 12-13% and revenue growth of 30-35% in FY19. Management targeting order inflow of Rs10bn in FY19.
- Standalone order book as on 31st June 2018 stands at Rs24.02bn, include Rs14.33bn of Surat diamond bourse project. Company has received order inflow of Rs620.7mn in Q1FY19, and further Company has received Rs1.74bn in July (including Rs990mn from MRF Plant).
- **Order pipeline:** PSP has bid for Rs12-14bn of orders, including one large commercial project of Rs4.5bn in outside Gujarat (South India), it is 5mn Sqft Project and additional RCC work of Rs4.5bn. Order pipeline remains robust within Gujarat, such as Zyudus hospital and two R&D Centre in Baroda & Ahmadabad, IIM Ahmadabad project of Rs4-5bn, 2 more orders from existing clients etc.
- **SDB update:** 90% foundation work completed, and basement slab is in progress. Company has booked revenue of Rs830mn in Q1FY19. Management expect SDB revenue of Rs5bn in FY19 and 8bn in FY20. Current billing in SDB stand at Rs250-300mn PM.
- In Q1FY19, Inventory days stand at 20-25 days, debtor days at 40-45 days, creditors days at 60 days.
- Average ticket size of project has increased to Rs365.8mn in Q1FY19 Vs Rs85.4mn in FY2013. Currently 36 projects are under execution as on 30th June 2018.
- **CAPEX:** Company has done capex of Rs210mn in Q1FY19 and Management expect Rs500mn capex in FY19.
- **Cash Position:** Company have FD investment of Rs500mn and cash in hand of Rs1bn in the book, it will be utilized for margin money for bank and some part of money will be utilized for dividend payment.

Quarterly Standalone Charts:

Exhibit 4: Revenue Trend



Exhibit 5: PAT Trend

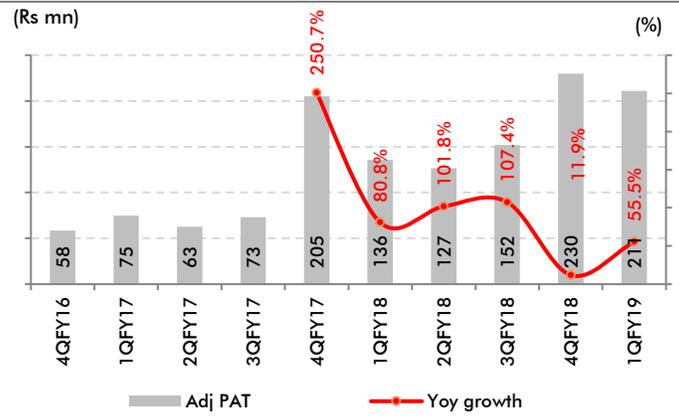


Exhibit 6: EBITDA Trend

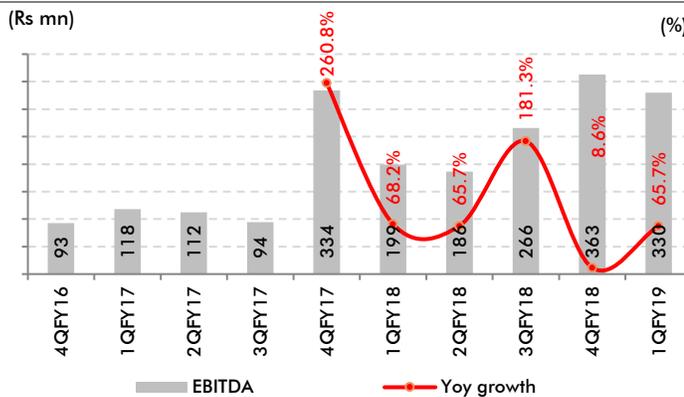


Exhibit 7: EBITDAM Trend

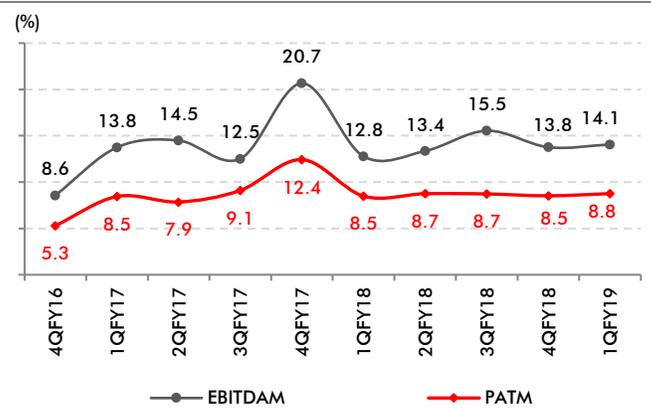


Exhibit 8: Standalone order book break up (Rs24.02bn) - Segment wise

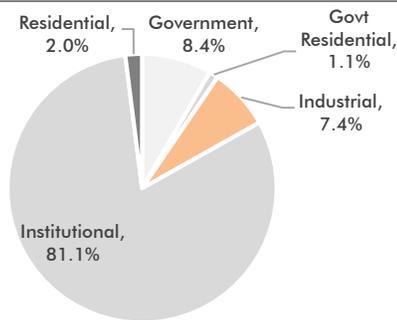


Exhibit 9: Standalone Order book (Rs24.02bn) region wise

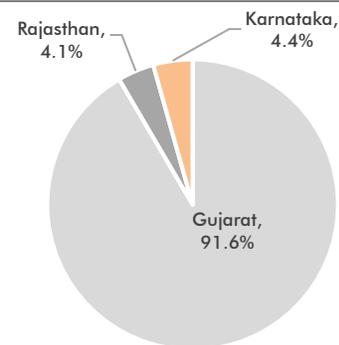


Exhibit 10: Revenue break up for Q1FY19 - Segment wise

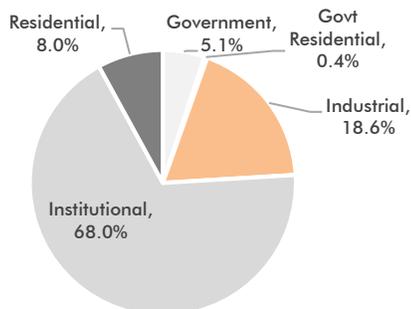
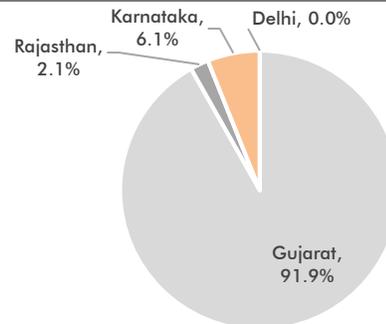


Exhibit 11: Revenue break up for Q1FY19- region wise



Source: Company, AMSEC Research

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

Profit & Loss Accounts					Cash Flow Statement				
Particulars	FY17	FY18	FY19E	FY20E	Particulars	FY17	FY18	FY19E	FY20E
Net sales	4,008	7,298	11,403	16,069	PBT	642	999	1,320	1,907
Raw material	2,487	4,684	7,400	10,365	Non-cash adjustments	(58)	(72)	4	2
Subcontracting Expenses	560	1,229	1,665	2,410	Changes in working capital	(412)	(211)	(1,045)	(715)
Employee benefits expenses	208	286	570	803	Interest Paid	75	87	68	68
Other expenses	93	86	376	514	Tax Paid & Other Adj	(153)	(509)	(435)	(629)
Total Expenditure	3,348	6,284	10,012	14,093	Cashflow from operations	94	294	(90)	632
EBITDA	659	1,014	1,391	1,977	Capital exp. & Advances	(68)	(347)	(482)	(500)
Depreciation	76	112	204	242	Change in investments	(25)	(1)	-	-
Operating profit	584	902	1,187	1,735	Other investing cashflow	134	184	200	240
Other income	134	184	200	240	Cashflow from investing	41	(164)	(282)	(260)
EBIT	718	1,086	1,387	1,975	Issue of equity	-	1,512	-	-
Interest	75	87	68	68	Issue/repay debt	225	(482)	(45)	-
Exceptional items	-	-	-	-	Interest Paid	(75)	(87)	(68)	(68)
Profit before tax	642	999	1,320	1,907	Dividends paid	(92)	(86)	(130)	(216)
Tax	226	355	435	629	Other financing cashflow	-	-	-	-
Reported net profit	416	644	884	1,278	Cashflow from financing	58	856	(242)	(284)
EO Items (loss/ (gain))	-	-	-	-	Change in cash & cash eq	193	986	(614)	89
Adjusted net profit	416	644	884	1,278	Opening cash & cash eq	1,053	1,246	2,232	1,618
Share O/s mn	28.8	36.0	36.0	36.0	Closing cash & cash eq	1,246	2,232	1,618	1,707
Diluted EPS Rs (adjusted)	11.6	17.9	24.6	35.5	Free cash flow to firm	26	(53)	(572)	132

Balance Sheet					Ratio					
Particulars	FY17	FY18	FY19E	FY20E	Particulars	FY17	FY18	FY19E	FY20E	
SOURCES OF FUNDS :					PER SHARE					
Share Capital	288	360	360	360	EPS Rs (adjusted)	11.6	17.9	24.6	35.5	
Reserves	788	2,667	3,421	4,483	CEPS Rs	13.7	21.0	30.2	42.2	
Total Shareholders Funds	1,076	3,027	3,781	4,843	Book Value Rs	29.9	84.1	105.0	134.5	
Non-Current Liabilities					VALUATION					
Long term borrowings	34	17	-	-	EV / Net Sales	4.2	2.1	1.4	1.0	
Long term provisions	9	-	-	-	EV / EBITDA	25.6	15.2	11.5	8.0	
Current Liabilities	2,030	2,811	3,118	3,760	P / E Ratio	41.9	27.1	19.7	13.6	
Short term borrowings	625	178	150	150	P / BV Ratio	16.2	5.8	4.6	3.6	
Trade payables	693	1,213	1,562	2,069	GROWTH YOY%					
Other current liabilities	593	1,348	1,250	1,321	Sales Growth	(12.5)	82.1	56.2	40.9	
Short term provisions	118	72	156	220	EBITDA Growth	67.9	53.8	37.2	42.1	
Total Equity & Liabilities	3,149	5,854	6,899	8,603	Net Profit Growth	65.6	54.7	37.4	44.5	
APPLICATION OF FUNDS :					Gross Fixed Asset Growth					
Non Current Assets	912	1,717	2,082	2,440	8.9	43.6	41.7	29.4	Margin Analysis (%)	
Gross block (Total)	836	1,200	1,700	2,200	Gross profit Margin	34.3	33.1	31.6	32.0	
Less : accumulated deprecia	318	430	634	876	EBITDA Margin	16.5	13.9	12.2	12.3	
Net block (Total)	518	770	1,066	1,324	EBIT Margin	17.9	14.9	12.2	12.3	
Capital work in progress	-	18	-	-	Adj PAT Margin	10.0	8.6	7.6	7.8	
Investment in Equity Shares	40	77	77	77	Int/Debt	11.1	44.7	45.0	45.0	
Other Investment	36	-	-	-	Tax/PBT	35.2	35.6	33.0	33.0	
Deferred tax assets	11	18	18	18	Return Ratio (%)					
Long term loans and advan	225	185	235	285	ROE	47.8	31.4	26.0	29.6	
Other non-current assets	82	649	685	735	ROCE	50.0	43.7	38.8	44.3	
Current Assets					ROIC	40.7	36.3	33.2	38.9	
Current investment	140	151	151	151	Turnover					
Inventories	30	335	549	695	Net Working capital (Days)	(49)	(44)	3	16	
Sundry debtors	533	1,162	1,874	2,730	Debtors Velocity (Days)	49	58	60	62	
Cash and bank	1,246	2,232	1,618	1,707	Inventory (Days)	3	19	20	18	
Short loans and advances	235	219	469	660	Creditors Velocity (Days)	63	61	50	47	
Others current assets	53	36	156	220	Gross Asset Ratio	5.0	7.2	7.9	8.2	
Total Assets	3,149	5,854	6,899	8,603	Total Asset Ratio	148	162	179	207	
Net Working Capital	(535)	(879)	80	695	LIQUIDITY					
Total Gross Debt	0	0	150	150	Current Ratio	1.1	1.5	1.5	1.6	
Total Net Debt	(709)	(2,189)	(1,619)	(1,708)	Quick Ratio	1.1	1.4	1.4	1.5	
Capital Employed	1,754	3,221	3,931	4,993	Net Debt-Equity Ratio	(0.7)	(0.7)	(0.4)	(0.4)	
Order book	7,292	18,292	16,889	12,820	Interest Coverage (x)	7.8	10.4	17.6	25.7	
Order inflow	7,918	25,407	10,000	12,000	PAYOUT					
Book To bill (x)	1.8	2.5	1.5	0.8	Payout %	21	20	24	20	
					Dividend %	25	30	50	60	
					Yield %	0.4	0.6	1.0	1.2	

Source: Company, AMSEC Research

Recommendation rationale

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

Sector rating

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

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