

PSP Projects Limited

BUY



Asian Markets Securities Pvt. Ltd.

Strong results led by healthy execution...

Institutional Research

CMP (Rs)	396
Target (Rs)	641

Nifty: 10,889; Sensex: 36,395

Key Stock Data

Bloomberg	PSPPL IN
Shares O/s Mn (FV INR10)	36.0
Mkt Cap(USD Mn/INR Bn)	0.2/14.3
52-week high/low	596/358
6m daily avg vol(INR Mn)	15
Free Float %	28%

Price Performance

(%)	1m	3m	12m
PSP	(8.0)	2.8	(23.3)
NIFTY Index	0.9	2.9	4.1
Sensex	1.1	3.5	7.0

Shareholding Pattern

(%)	Jun18	Sep18	Dec18
Promoter	72.4	73.0	73.3
FII	1.2	1.3	1.2
DII	7.9	7.7	5.5
Others	18.5	18.0	20.0

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PSP Projects Ltd (PSP) reported standalone Q3FY19 results with strong top line growth of 52.9% yoy to Rs2.6bn, led by strong order book execution. EBITDA grew by 38.2% to Rs367mn, however EBITDAM contracted by 149bp yoy to Rs14.1%, on the back of higher raw material and sub-contracting cost. PAT grew by 41.4% to Rs215mn, on the back of strong topline growth and lower tax rate. Despite the cancellation recently won of Mumbai Redevelopment project; The standalone order book remains strong at Rs27bn in Q3FY19, suggesting a 3.7x of FY19 revenue. Management has guided order inflow guidance of Rs15bn and EBITDAM of 12-14% in FY20E. Current book to bill of 3.7x and strong order pipeline; provides healthy revenue growth visibility. SDB project is moving as per schedule and company expects SBD revenue of Rs3.5bn/7-7.5bn/3.5-4.0bn in FY19E/FY20E/FY21E, respectively. We have kept our earnings estimates unchanged. 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 maintain our BUY rating with Target price of Rs641, based on 18x FY20E earning.

Sales grew by 52.9% yoy with Margin improved by 149bp yoy to 14.1%: PSP reported strong sales growth of 52.9% yoy to Rs2.6bn, on the back of strong order book execution during the quarter. EBITDA grew by 38.2% yoy to Rs367mn and EBITDAM declined by 149bp yoy to 14%, on the back of higher raw material cost and sub-contracting cost. Adj PAT grew by 41.4% to Rs215mn Vs Rs152mn in Q3FY18, on the back of strong topline and lower tax rate. PATM declined by 65bp yoy to 8.1%, on the back of lower EBITDAM and higher depreciation cost. In 9MFY19, Sales grew by 51.4% to Rs7bn, EBITDA grew by 52.2% to Rs991mn and EBITDAM stands stable at 14.0%, Adj PAT grew by 45.2% to Rs601mn and PAT decline by 33bp yoy to 8.3%.

Robust standalone order book at 3.7x of FY18 revenue; provides strong growth visibility:

PSP Project has strong order book of Rs27bn as on Dec'18 (include Rs12.8bn of Surat diamond bourse project), ensuring strong revenue growth. Order inflows is Rs8.4bn in YTD FY19 from industries, institutional and residential segments. The Maharashtra order of Rs5.4bn has been terminated due to dissension with the client regarding certain financial terms and conditions during the finalization of contract agreement.

Gujarat orders account for 80% of total order book, followed by Maharashtra (12.5%) and Rajasthan (4.9%) and Karnataka (4.7%) of total standalone orderbook. The Average ticket size increased to Rs303mn in Q3FY19 Vs Rs85.4mn in FY13. Order pipeline are strong at Rs30bn (L1 orders of Rs800Mn), 2 large projects (Out of 5 projects) from Rajasthan and Gujarat more than Rs5bn. The order backlog implies a strong book-to-bill ratio of 3.7x in FY18 revenue. Management targeting order inflow of Rs10bn/Rs15bn for FY19E/FY20E, respectively.

Outlook & Valuation: We expect revenue CAGR of 47.2% and PAT CAGR of 42.8% during FY18-20E, respectively. We expect ROE and ROCE to remain strong at 30.4%/46.7% respectively in FY20E. The stock is trading at 11.1x 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 641 based on 18x FY20E earning.

Exhibit 1: Key Financials

Y/E Mar/Rs mn	FY17	FY18	FY19E	FY20E
Sales	4,008	7,283	10,626	15,775
yoy (%)	(12.5)	81.7	45.9	48.5
EBITDA	659	999	1,456	2,051
yoy (%)	67.9	53.8	43.6	40.9
Adjusted PAT	416	629	872	1,282
yoy (%)	65.6	54.7	35.4	47.1
Equity	288	360	360	360
Diluted EPS (Rs)	11.6	17.9	24.2	35.6

Source: Company, AMSEC Research

Exhibit 2: Key Ratios

Y/E Mar	FY17	FY18	FY19E	FY20E
EBITDAM (%)	16.5	13.9	13.7	13.0
Adj PATM (%)	10.0	8.6	8.1	8.0
PER (x)	34.3	22.1	16.4	11.1
P/BV (x)	13.3	4.7	3.9	3.0
EV/Sales (x)	3.5	1.7	1.2	0.8
EV/EBITDA (x)	21.1	12.1	8.8	6.2
ROCE (%)	50.2	43.5	40.2	46.7
ROE (%)	48.2	31.4	26.0	30.4

Exhibit 3 : 3QFY19 Quarterly Standalone Performance

P&L (Rs mn)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	yoy(%)	qoq (%)	9MFY18	9MFY19	yoy (%)
Net Sales	1396	1708	2637	2347	2099	2611	52.9	24.4	4662	7058	51.4
Other Operating Inc.							-	-	0	0	-
Total Sales	1396	1708	2637	2347	2099	2611	52.9	24.4	4662	7058	51.4
Stock Adjustment	48	-42	-37	91	-126	-42	0.1	-67.0	-66	-77	17.7
Consumption of RM	569	606	928	1073	848	1056	74.2	24.5	1879	2977	58.4
Construction Exp	323	489	671	482	571	618	26.5	8.2	1308	1672	27.8
Employee Cost	67	74	85	100	108	107	45.1	-0.4	201	315	56.6
Sub-Contracting work bills	165	300	597	245	376	481	60.5	28.0	631	1101	74.5
Other Expenditure	36	16	29	27	29	23	50.2	-19.0	57	80	40.4
Total Expenditure	1209	1442	2274	2017	1806	2244	55.6	24.3	4011	6067	51.3
EBITDA	186	266	363	330	294	367	38.2	24.9	651	991	52.2
Add: Other Income	52	32	59	61	54	48	49.8	-11.1	125	163	30.6
Interest	20	23	30	15	23	23	-3.6	-0.8	57	60	4.7
Depreciation	23	28	43	48	58	62	124.4	7.2	69	168	144.0
Core PBT	195	247	349	328	267	331	34.0	23.6	650	926	42.5
Excep. item Loss / (Gain)	0	0	0	0	0	0			0	0	
Profit Before Tax	195	247	349	328	267	331	34.0	23.6	650	926	42.5
Provision for Taxation	69	95	119	117	92	116	22.2	26.2	236	325	37.7
PAT	127	152	230	211	176	215	41.4	22.2	414	601	45.2
Equity Capital (FV Rs 10)	360	360	360	360	360	360			360	360	
Basic EPS (Rs)	3.5	4.2	6.4	5.9	4.9	6.0			11.5	16.7	
Diluted EPS Rs (adjusted)	3.5	4.2	6.4	5.9	4.9	6.0			11.5	16.7	
EBITDA (%)	13.4	15.5	13.8	14.1	14.0	14.1	(-149bp)	6bp	14.0	14.0	7bp
PAT (%)	8.7	8.7	8.5	8.8	8.2	8.1	(-65bp)	(-8bp)	8.6	8.3	(33bp)
Tax / PBT (%)	35.2	38.5	34.1	35.7	34.4	35.1	(-340bp)	73bp	36.3	35.1	(122bp)
Interest/Net Sales	1.4	1.4	1.1	0.6	1.1	0.9	(-51bp)	(-22bp)	1.2	0.8	(38bp)
Employee cost/Net Sales	4.8	4.3	3.2	4.3	5.1	4.1	(-22bp)	(-102bp)	4.3	4	15bp
Sub-Contracting/Net Sales (%)	11.9	17.5	22.7	10.4	17.9	18.4	87bp	52bp	13.5	15.6	206bp
RM / Net Sales (%)	67.4	61.7	59.2	70.1	61.6	62.5	86bp	92bp	67.0	64.8	(219bp)

Source: Company, AMSEC Research

Concall highlights:

- Management guided EBITDM of 12-14% and order inflow of Rs10bn/Rs15bn in FY19E/FY20E.
- Company bagged 13 orders worth Rs3.9bn in Q3FY19, taking YTD FY19 order inflow to Rs8.4bn. Bid pipeline are strong at Rs30bn (L1 orders of Rs800mn) (2 large project from Rajasthan and Gujarat more than Rs5bn).
- The Maharashtra order (SRA Rehab Building at Mumbai) of Rs5.4bn has been terminated due to dissension with the client regarding certain financial terms and conditions during the finalization of contract agreement.
- **SDB Project update:** Project is going on full swing and presently 6,500 no of workers on site. Company has booked revenue of Rs2.3bn in 9MFY19. The project are delayed by 30-40 days due to designing delay. Management expect SDB revenue of Rs3.5bn/~Rs7-7.5bn/Rs3.5-4bn for FY19E/FY20E/FY21E, respectively and confidence of completing project by 2020.
- Average ticket size of project has increased to Rs303mn in Q3FY19 Vs Rs85.4mn in FY2013. Currently 40 projects are under execution as on 30th Dec 2018.
- Depreciation cost increased due to addition of fixed assets of Rs520mn during Jan18-dec18. In 9MFY19, capex stands at Rs380mn.
- Debtors stands at Rs1.4bn and cash on book stands at Rs2.6bn in FD, out of which free FD is Rs1.4bn.
- PSP Projects Inc (US Subsidiary), PSP Projects Limited has invested \$3.45 million till now. The Livermore projects (Two houses) are verge of completion and expecting those ready for sale by April 2019. Company expecting \$2.5mn from revenue from sale.
- Loan given to foreign to foreign subsidiary stands at Rs240mn (Rs50mn in FY19).

Quarterly Standalone Charts:

Exhibit 4: Revenue Trend

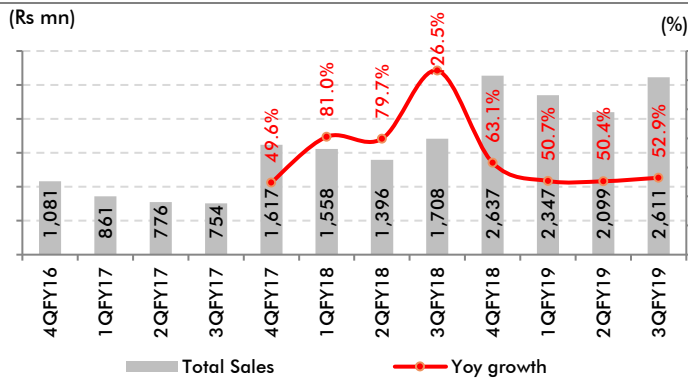


Exhibit 5: PAT Trend

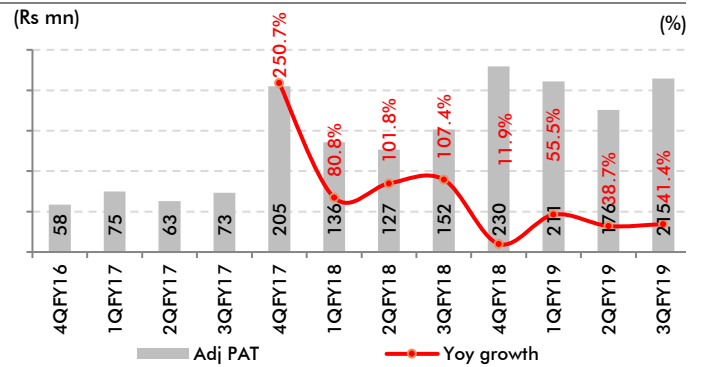


Exhibit 6: EBITDA Trend

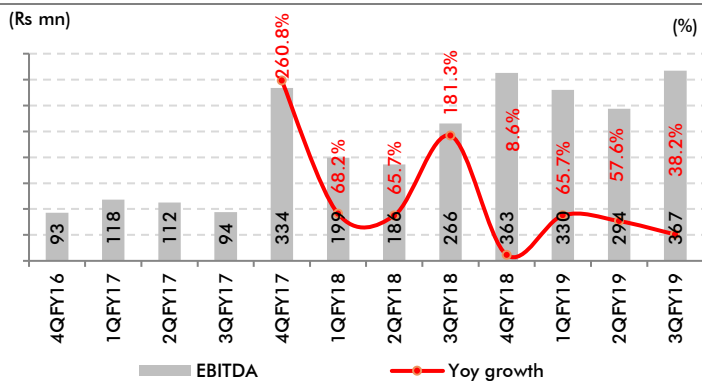


Exhibit 7: EBITDAM Trend

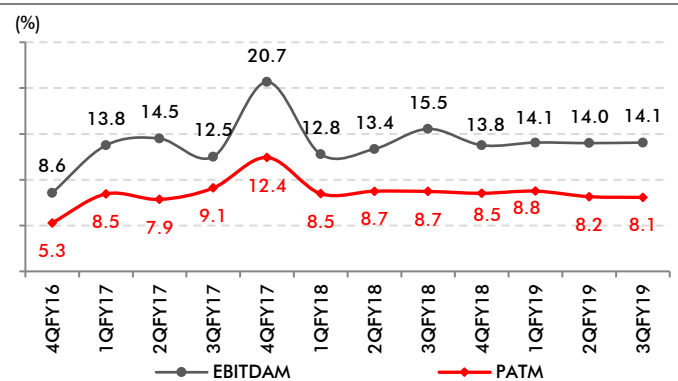


Exhibit 8: Standalone order book break up (Rs27bn) - Segment wise

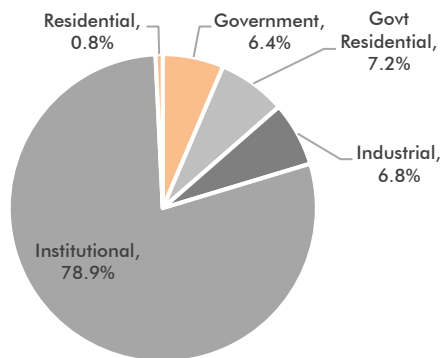
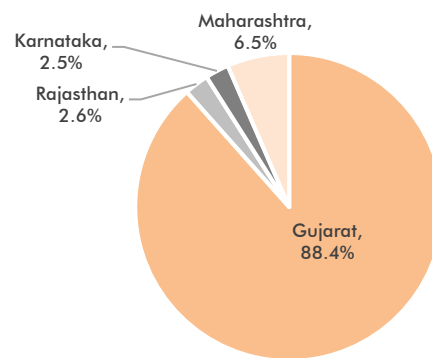


Exhibit 9: Standalone Order book (Rs27bn) region wise



sExhibit 10: Revenue break up for Q3FY19 - Segment wise

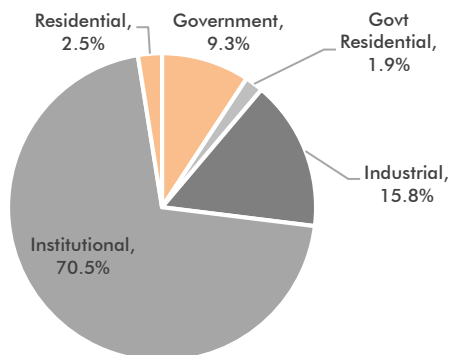
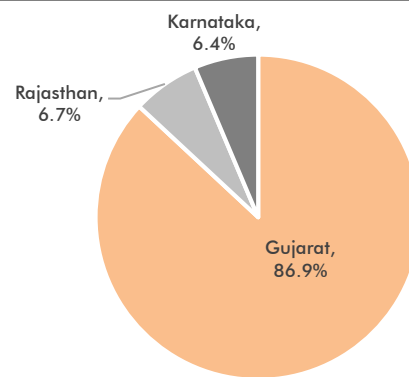


Exhibit 11: Revenue break up for Q3FY19- region wise



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	7,283	10,626	15,775	PBT	642	999	1,341	1,972
Raw material	2,487	4,684	6,907	10,175	Non-cash adjustments	(58)	(72)	29	2
Subcontracting Expenses	560	1,229	1,551	2,366	Changes in working capital	(524)	17	(1,010)	(711)
Employee benefits expenses	208	286	531	789	Interest Paid	75	87	86	77
Other expenses	93	86	181	394	Tax Paid & Other Adj	(153)	(522)	(469)	(690)
Total Expenditure	3,348	6,284	9,170	13,724	Cashflow from operations	(18)	509	(23)	650
EBITDA	659	999	1,456	2,051	Capital exp. & Advances	(68)	(355)	(482)	(500)
Depreciation	76	112	229	242	Change in investments	(25)	(1)	-	-
Operating profit	584	887	1,227	1,809	Other investing cashflow	134	184	200	240
Other income	134	184	200	240	Cashflow from investing	41	(172)	(282)	(260)
EBIT	718	1,071	1,427	2,049	Issue of equity	-	1,512	-	-
Interest	75	87	86	77	Issue/repay debt	225	(461)	(45)	-
Exceptional items	-	-	-	-	Interest Paid	(75)	(87)	(86)	(77)
Profit before tax	642	984	1,341	1,972	Dividends paid	(92)	(86)	(216)	(216)
Tax	226	355	469	690	Other financing cashflow	-	-	-	-
Reported net profit	416	629	872	1,282	Cashflow from financing	58	878	(347)	(293)
EO Items (loss/ gain)	-	-	-	-	Change in cash & cash eq	80	1,214	(652)	96
Adjusted net profit	416	629	872	1,282	Opening cash & cash eq	938	1,018	2,232	1,580
Share O/s mn	28.8	36.0	36.0	36.0	Closing cash & cash eq	1,018	2,232	1,580	1,676
Diluted EPS Rs (adjusted)	11.6	17.9	24.2	35.6	Free cash flow to firm	(86)	154	(506)	150
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	24.2	35.6
Reserves	783	2,667	3,322	4,388	CEPS Rs	13.7	21.0	30.6	42.3
Total Shareholders Funds	1,071	3,027	3,682	4,748	Book Value Rs	29.7	84.1	102.3	131.9
Non-Current Liabilities					VALUATION				
Long term borrowings	34	17	-	-	EV / Net Sales	3.5	1.7	1.2	0.8
Long term provisions	9	-	-	-	EV / EBITDA	21.1	12.1	8.8	6.2
Current Liabilities	2,033	2,811	2,937	3,715	P / E Ratio	34.3	22.1	16.4	11.1
Short term borrowings	625	178	150	150	P / BV Ratio	13.3	4.7	3.9	3.0
Trade payables	693	1,213	1,456	2,031	GROWTH YOY%				
Other current liabilities	597	1,348	1,186	1,318	Sales Growth	(12.5)	81.7	45.9	48.5
Short term provisions	118	72	146	216	EBITDA Growth	67.9	53.8	43.6	40.9
Total Equity & Liabilities	3,147	5,854	6,619	8,464	Net Profit Growth	65.6	54.7	35.4	47.1
APPLICATION OF FUNDS :					Gross Fixed Asset Growth				
Non Current Assets	1,187	1,717	2,057	2,415	Margin Analysis (%)	9.0	45.3	41.8	29.5
Gross block (Total)	823	1,196	1,696	2,196	Gross profit Margin	34.3	33.1	31.5	32.0
Less : accumulated deprecia	315	425	654	896	EBITDA Margin	16.5	13.9	13.7	13.0
Net block (Total)	508	770	1,041	1,300	EBIT Margin	17.9	14.9	13.4	13.0
Capital work in progress	-	18	-	-	Adj PAT Margin	10.0	8.6	8.1	8.0
Investment in Equity Shares	40	40	40	40	Int/Debt	11.1	40.2	50.0	45.0
Other Investment	36	37	37	37	Tax/PBT	35.2	35.6	35.0	35.0
Deferred tax assets	15	18	18	18	Return Ratio (%)				
Long term loans and advan	225	301	351	401	ROE	48.2	31.4	26.0	30.4
Other non-current assets	363	533	569	619	ROCE	50.2	43.5	40.2	46.7
Current Assets					ROIC				
Current investment	141	151	151	151	40.9	36.2	34.6	41.2	
Inventories	30	335	502	677	Turnover				
Sundry debtors	533	1,162	1,747	2,680	Net Working capital (Days)	(54)	(43)	2	16
Cash and bank	1,018	2,232	1,580	1,676	Debtors Velocity (Days)	49	58	60	62
Short loans and advances	199	231	437	648	Inventory (Days)	3	20	20	18
Others current assets	39	25	146	216	Creditors Velocity (Days)	63	61	50	47
Total Assets	3,147	5,854	6,619	8,464	Gross Asset Ratio	5.1	7.2	7.3	8.1
Net Working Capital	(588)	(858)	66	677	Total Asset Ratio	148	162	170	209
Total Gross Debt	677	216	171	171	LIQUIDITY				
Total Net Debt	(482)	(2,167)	(1,560)	(1,656)	Current Ratio	1.0	1.5	1.6	1.6
Capital Employed	1,748	3,243	3,854	4,920	Quick Ratio	0.9	1.4	1.4	1.4
Order book	7,292	25,590	25,377	21,602	Net Debt-Equity Ratio	(0.4)	(0.7)	(0.4)	(0.3)
Order inflow	7,918	25,407	10,413	12,000	Interest Coverage (x)	7.8	10.4	14.3	23.4
Book To bill (x)	1.8	3.5	2.4	1.4	PAYOUT				
					Payout %	21	34	25	20
					Dividend %	25	50	50	60
					Yield %	0.5	1.3	1.3	1.5

Source: Company, AMSEC Research

Recommendation rationale

Buy: Potential upside of	> +15% (absolute returns)
Accumulate:	> +5 to +15%
Hold/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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