

PSP Project Limited

BUY



Asian Markets Securities Pvt. Ltd.

Strong foundation to capture future growth

Institutional Research

CMP (Rs)	556
Target (Rs)	639
Upside (%)	15%

Nifty: 10,717; Sensex: 35,246

Key Stock Data

BSE Code	540544
NSE Code	PSPPROJECT
Bloomberg	PSPPL IN
Shares O/s mn (FV Rs10)	36.0
Mcap (Rsbn)	20.0
52-week High/Low	594/189
3-m daily avg vol.	56,292

Price Performance

(%)	1m	3m	12m
PSP	6.5	7.5	N/A
NIFTY Index	3.0	2.5	13.9
Sensex	4.0	3.6	16.5

Shareholding Pattern

(%)	Sep17	Dec17	Mar18
Promoter	72.0	72.0	72.1
FII	1.2	1.4	1.2
DII	10.5	9.4	8.3
Others	16.3	17.2	18.5

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PSP Project Ltd (PSP) reported standalone Q4FY18 results with strong top line growth of 63.1% yoy to at Rs2.6bn. EBITDA grew by 8.6% yoy to Rs363mn and EBITDAM decline by 691bp yoy to 13.8%, EBITDAM For Q4FY17 was exceptionally high due to execution of project without major raw material like steel & cement. PAT grew by 12% yoy to Rs230mn and PATM declined by 391bp yoy to 8.5%, on the back of higher depreciation and interest cost. The standalone order book remained strong at Rs25.6bn in Q4FY18, suggesting a 3.5x of FY18 revenue. Management guided an order inflow of Rs10bn, along with Revenue growth of 30-40% and EBITDAM of 13-14% in FY19. Management expect Payable days will stand in range of 60-62 days. Inventory days will be going to increase to 15-20 days on account SDB Project execution. Current book-to-bill of 3.5x in FY18 revenue and strong order pipeline; provides healthy revenue growth visibility. We maintained our FY20 earning and revise our FY19 earnings estimate downward by 6.6%, on the back of higher interest depreciation cost. 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 63% yoy with Margin stand stable at 13.8%: In 4QFY18, PSP reported strong sales growth of 63.1% yoy to Rs2.6bn, on the back of strong order book execution during the quarter. EBITDA grew by 8.6% yoy to Rs363bn and EBITDAM contracted by 691bp yoy, EBITDAM For Q4FY17 was exceptionally high due to execution of project without major raw material like steel & cement. Adj PAT grew by 12% yoy to Rs230mn and PATM declined by 391bp yoy to 8.5%, higher interest & depreciation cost. In FY18, Sales increased by 82% yoy to Rs 7.3bn, EBITDA increased by 54% yoy and EBITDAM declined by 256bp yoy to 13.9%. PAT increased by 54.7% to Rs644mn and PATM declined by 144bp yoy to 8.6%.

Robust standalone order book at 3.5x of FY18 revenue; provides strong growth visibility: PSP Project has strong order book of Rs25.6bn as on Mar'18 (include Rs15.16bn of Surat diamond bourse project), ensuring strong revenue growth. Order inflows is robust at Rs25.4bn in FY18 and Rs8.7bn in Q4FY18. The order backlog implies a strong book-to-bill ratio of 3.5x in FY18 revenue. Gujarat orders account for 91% of total order book and Rajasthan & Karnataka orders are 4%/5% total standalone orderbook. Further the order pipeline looks strong, Company has tendered orders of Rs20bn till now, include one large commercial project of Rs10bn in south india and remaining Rs10bn in Gujarat region. Management expected order inflow of Rs10bn in FY19. The Average ticket size increased to Rs1.10mn in FY18 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 15.7x 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 maintained 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)	48.1	31.1	22.6	15.7
P/BV (x)	18.6	6.6	5.3	4.1
EV/Sales (x)	4.9	2.5	1.6	1.1
EV/EBITDA (x)	29.5	17.7	13.3	9.3
ROCE (%)	50.0	43.7	38.8	44.3
ROE (%)	47.8	31.4	26.0	29.6

Exhibit 3 : 4Q FY18 Quarterly Standalone Performance

P&L (Rs mn)	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	yoy(%)	qoq (%)	FY17	FY18	yoy (%)
Net Sales	1,617	1,558	1,396	1,708	2,637	63.1	54.4	4,008	7,298	82.1
Other Operating Inc.						-	-	-	-	-
Total Sales	1,617	1,558	1,396	1,708	2,637	63.1	54.4	4,008	7,298	82.1
Stock Adjustment	41	(72)	48	(42)	(37)			20	(103)	(623.2)
Consumption of RM	493	744	569	606	928	88.2	53.2	1,251	2,807	124.5
Construction Exp	414	411	323	489	671	61.9	37.2	1,217	1,979	62.6
Employee Cost	67	60	67	74	85	26.3	14.8	208	286	37.3
Sub-Contracting work bills	231	166	165	300	597	158.5	99.4	560	1,229	119.5
Other Expenditure	36	50	36	16	29	(19.3)	86.8	93	86	(7.6)
Total Expenditure	1,282	1,359	1,209	1,442	2,274	77.3	57.6	3,348	6,284	87.7
EBITDA	334	199	186	266	363	8.6	36.7	659	1,014	53.8
Add: Other Income	34	41	52	32	59	69.7	81.6	134	184	37.2
Interest	20	14	20	23	30	49.0	27.9	75	87	15.5
Depreciation	21	18	23	28	43	105.2	55.0	76	112	47.9
Profit Before Tax	328	208	195	247	349	6.4	41.3	642	999	55.5
Provision for Taxation	122	72	69	95	119	(2.8)	25.3	226	355	56.9
PAT	205	136	127	152	230	11.9	51.3	416	644	54.7
Equity Capital (FV Rs 10)	288	360	360	360	360			288	360	
Basic EPS (Rs)	7.1	3.8	3.5	4.2	6.4			14.4	17.9	
Diluted EPS Rs (adjusted)	5.7	3.8	3.5	4.2	6.4			14.4	17.9	
EBITDA (%)	20.7	12.8	13.4	15.5	13.8	(-691 bp)	(-178bp)	16.5	13.9	(256bp)
PAT (%)	12.4	8.5	8.7	8.7	8.5	(-391 bp)	(-20bp)	10.0	8.6	(144bp)
Tax / PBT (%)	37.4	34.8	35.2	38.5	34.1	(-325bp)	(-436bp)	35.2	35.6	33bp
Interest/Net Sales	1.2	0.9	1.4	1.4	1.1	(-11bp)	(-23bp)	1.9	1.2	(69bp)
Employee cost/Net Sales	4.2	3.8	4.8	4.3	3.2	(-94bp)	(-111 bp)	5.2	3.9	(128bp)
Sub-Contracting/Net Sales (%)	14.3	10.7	11.9	17.5	22.7	836bp	512bp	14.0	16.8	287bp
RM / Net Sales (%)	58.6	69.5	67.4	61.7	59.2	62bp	(-242bp)	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.
- Consolidated order book as on 31st March 2018 stand at Rs26.4bn and standalone order book stand at Rs25.6bn, include Rs15.16bn of Surat diamond bourse project. Standalone Order inflow stand at Rs25.42bn in FY18.
- **Order pipeline:** PSP has done tendering of Rs20bn, include one large commercial project of Rs10bn in outside Gujrat (South india) and balance Rs10bn in Gujarat.
- During Q4FY18, Company has received order inflow of Rs873Mn, include major medical college & hospital building and college building in Ahmadabad.
- March month construction was low because of early Holi festival, otherwise sale would be much higher in Q4FY18.
- EBITDAM For Q4FY17 was exceptionally high due to execution of project without major raw material like steel & cement and where as in Q4FY18, proportion of such project was low.
- **Working capital:** Management expect Payable days will stand in range of 60-62 days. Inventory days will be going to up to 15-20 days on account SDB Project execution.
- **SDB update:** SDB excavation completed and foundation work has been in progress and 90% of foundation work will be completed before monsoon. Company has received revenue Rs690mn in Q4FY18. Company had already received mobilization advance of Rs980mn (including tax). Before march, first bill of Rs620 was fully paid and second bill of Rs230mn, has raise in the months of April. Management expect SDB revenue of Rs5bn in FY19 and 8bn in FY20.
- After completing SBD project, PSP able to bid project more than Rs20bn in government project segment, where only Shapoorji pallonji, L&T and JMC able to qualify.
- **Competition:** In Private segment, competition is not so high, there is only two-four organized player in small ticket size (<Rs5bn) within Gujarat. Ticket size more than >Rs5bn, only shapoorji Pallonji, L&T and JMC are there in Gujarat.
- Average ticket size of project has increased to Rs1.11bn in FY18 Vs Rs85mn in FY2013. Currently 34 projects are under execution as on 31st March 2018.
- **CAPEX:** Company has done capex of Rs370mn and Management expect Rs500-600mn capex in FY19.
- Bank guarantee stand at Rs1.5bn, Unutilized cash (Pre FD) of Rs640mn.

Exhibit 4: Quarterly Revenue Trend

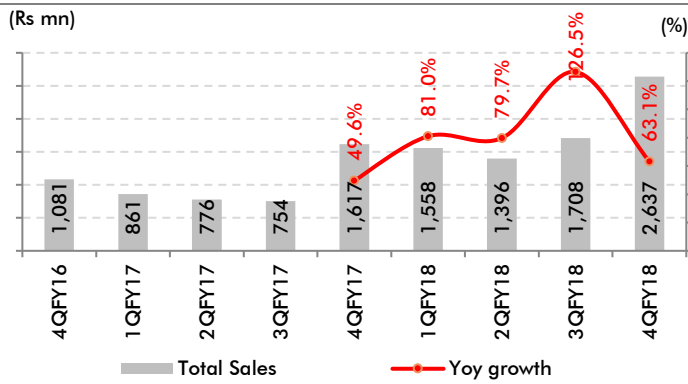


Exhibit 5: Quarterly PAT Trend

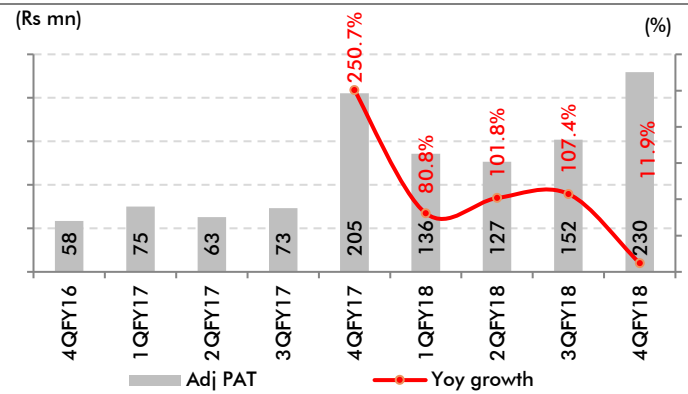


Exhibit 6: Quarterly EBITDA Trend

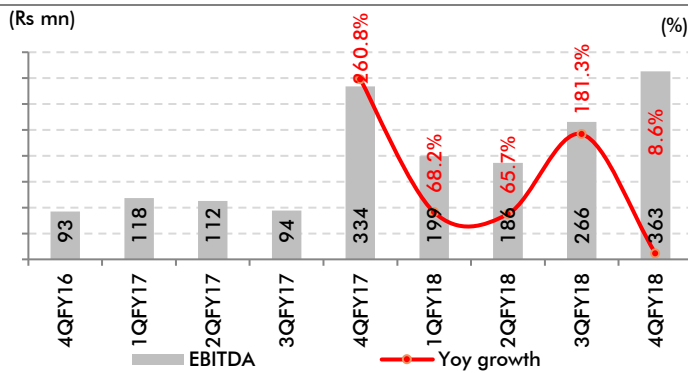


Exhibit 7: Quarterly EBITDAM Trend

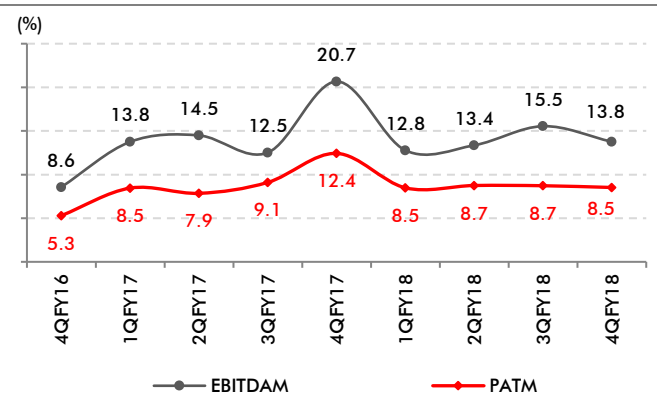


Exhibit 8: Standalone order book break up (Rs25.59bn) - Segment wise

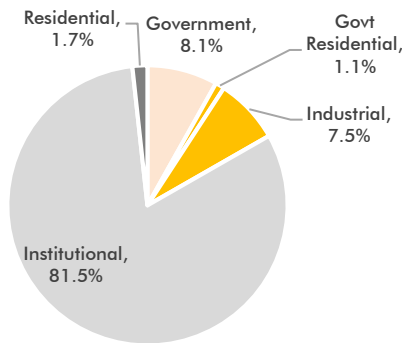


Exhibit 8: Standalone Order book (Rs25.59bn) - region wise

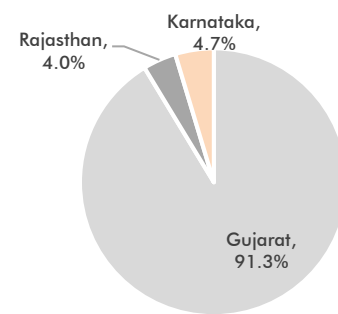


Exhibit 9: Revenue break up for FY18 - Segment wise

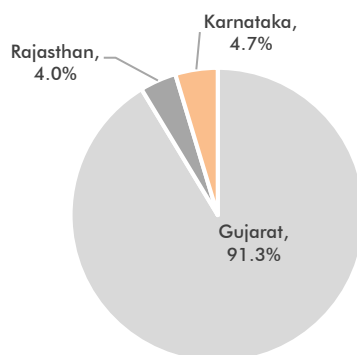
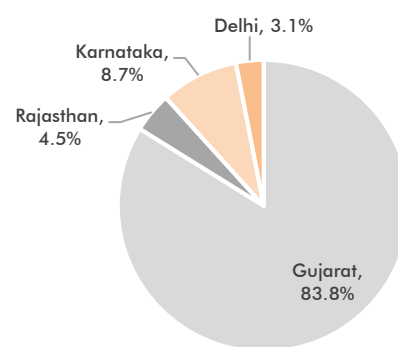


Exhibit 9: Revenue break up for FY18- region wise



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	4.9	2.5	1.6	1.1
Q4 inflow	9	-	-	-	EV / EBITDA	29.5	17.7	13.3	9.3
Current Liabilities	2,030	2,811	3,118	3,760	P / E Ratio	48.1	31.1	22.6	15.7
Short term borrowings	625	178	150	150	P / BV Ratio	18.6	6.6	5.3	4.1
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	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 depreciatic	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 advances:	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				
Current investment	140	151	151	151	40.7	36.3	33.2	38.9	
Inventories	30	335	549	695	Turnover				
Sundry debtors	533	1,162	1,874	2,730	Net Working capital (Days)	(49)	(44)	3	16
Cash and bank	1,246	2,232	1,618	1,707	Debtors Velocity (Days)	49	58	60	62
Short loans and advances	235	219	469	660	Inventory (Days)	3	19	20	18
Others current assets	53	36	156	220	Creditors Velocity (Days)	63	61	50	47
Total Assets	3,149	5,854	6,899	8,603	Gross Asset Ratio	5.0	7.2	7.9	8.2
Net Working Capital	(535)	(879)	80	695	Total Asset Ratio	148	162	179	207
Total Gross Debt	0	0	150	150	LIQUIDITY				
Total Net Debt	(709)	(2,189)	(1,619)	(1,708)	Current Ratio	1.1	1.5	1.5	1.6
Capital Employed	1,754	3,221	3,931	4,993	Quick Ratio	1.1	1.4	1.4	1.5
Order book	7,292	18,292	16,889	12,820	Net Debt-Equity Ratio	(0.7)	(0.7)	(0.4)	(0.4)
Order inflow	7,918	25,407	10,000	12,000	Interest Coverage (x)	7.8	10.4	17.6	25.7
Book To bill (x)	1.8	2.5	1.5	0.8	PAYOUT				
					Payout %	21	20	24	20
					Dividend %	25	30	50	60
					Yield %	0.4	0.5	0.9	1.1

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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