

Asian Markets Securities Pvt. Ltd.

PSP Projects Limited

BUY



Institutional Research

CMP (Rs)	503
Target (Rs)	665

Nifty: 11,943; Sensex: 39,799

Key Stock Data

Bloomberg	PSPPL IN
Shares O/s Mn (FV INR10)	36.0
Mkt Cap(USD Mn/INR Bn)	0.3/18.1
52-week high/low	540/358
6m daily avg vol(INR Mn)	16
Free Float %	28%

Price Performance

(%)	1m	3m	12m
PSP	6.8	25.2	(2.3)
NIFTY Index	1.6	10.7	11.7
Sensex	1.9	11.0	13.2

Shareholding Pattern

(%)	Sep18	Dec18	Mar19
Promoter	73.0	73.3	73.3
FII	1.3	1.2	1.2
DII	7.7	5.5	5.8
Others	18.0	20.0	19.7

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Strong results led by healthy execution...

PSP Projects Ltd (PSP) reported standalone Q4FY19 results with strong top line growth of 28% yoy to Rs3.4bn, led by strong order book execution. EBITDA grew by 37% to Rs499mn and EBITDAM improved by 98bp yoy to 14.7%, on the back of reduction in labor cost. PAT grew by 31.2% to Rs301mn, on the back of strong topline growth and margin. The standalone order book remains strong at Rs29.8bn as on March19, suggesting a 2.9x of FY19 revenue. Management has guided order inflow of Rs13bn and revenue of Rs13-14bn in FY20E. Current book to bill of 2.9x and strong order pipeline; provides healthy revenue growth visibility. SDB projects is moving as per schedule with execution of ~Rs3.5bn in FY19 and expects Rs7.5-8bn in FY20E. We have introduced FY21E with EPS of Rs37, factoring Sales/PAT CAGR of 25%/21% over FY19-21E. Given the strong order book, healthy margin, superior return ratio, strong cash rich balance sheet, 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 Rs665, based on 18x FY21E earning.

Sales grew by 28% yoy with higher EBITDAM at 14.7%: PSP reported strong sales growth of 28% yoy to Rs3.4bn, on the back of strong order book execution during the quarter. EBITDA grew by 37% yoy to Rs499mn and EBITDAM improved by 98bp yoy to 14.7%, on the back of reduction in labor cost. Further, Labor has reduced in SDB site to 4,000 in April/May 19 Vs 6000 in previous month, on account of election and marriage season. Adj PAT grew by 31% to Rs301mn and PATM improved by 22bp yoy to 8.7%, on the back of strong revenue and margin. In FY19, Sales grew by 43% to Rs10bn, EBITDA grew by 47% to Rs1.5mn and EBITDAM stands stable at 14.3%, Adj PAT grew by 40% to Rs902mn and PAT declined by 14bp yoy to 8.5%.

Robust order book at 2.9x of FY19 revenue; provides strong growth visibility: PSP Project has strong order book of Rs29.8bn as on March'19 (including Rs11.6bn of SDB), ensuring strong revenue growth. The order backlog implies a strong book-to-bill ratio of 2.9x in FY19 revenue. Order inflows was strong at Rs14.2bn in FY19 from industries, institutional and residential segments. Excluding SDB, Institutional segment has highest order of 63%; whereas Gujarat continue to remain largest geography with 80% of total OB. The Average ticket size increased to Rs429mn in FY19 Vs Rs85.4mn in FY13.

Order pipeline is strong at Rs35bn and Rs2.5bn expected in June'19. Pipeline includes two large projects, 1) Rs17bn worth residential colony order from Vedanta in Barmer, Rajasthan. and 2) Rs7.5bn worth of orders in Nayara Energy in Jamnagar. PSP targeting order inflow of Rs13bn for FY20E. However, we factored in order inflow of Rs10bn in FY20E/21E each.

Outlook & Valuation: We expect revenue CAGR of 25% and PAT CAGR of 21% during FY19-21E, respectively. We expect ROE and ROCE to remain strong at 39.9%/25.9% respectively in FY21E. The stock is trading at 13.6x 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 665 based on 18x FY21E earning.

Exhibit 1: Key Financials

Y/E Mar/Rs mn	FY18	FY19	FY20E	FY21E
Sales	7,283	10,440	13,361	16,361
yoy (%)	81.7	43.3	28.0	22.5
EBITDA	999	1,489	1,804	2,258
yoy (%)	53.8	46.9	21.7	25.2
Adjusted PAT	629	902	1,098	1,331
yoy (%)	54.7	40.2	21.7	21.2
Equity	360	360	360	360
Diluted EPS (Rs)	17.9	25.1	30.5	37.0

Source: Company, AMSEC Research

Exhibit 2: Key Ratios

Y/E Mar	FY18	FY19	FY20E	FY21E
EBITDAM (%)	13.9	14.3	13.5	13.8
Adj PATM (%)	8.6	8.5	8.1	8.0
PER (x)	28.1	20.1	16.5	13.6
P/BV (x)	6.0	4.9	3.9	3.2
EV/Sales (x)	2.2	1.5	1.2	1.0
EV/ EBITDA (x)	15.9	10.8	9.1	7.3
ROCE (%)	43.5	41.0	40.6	39.9
ROE (%)	31.4	26.8	26.4	25.9

Exhibit 3 : 4QFY19 Quarterly Standalone Performance

P&L (Rs mn)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	yoy(%)	qoq (%)	FY18	FY19	yoy (%)
Net Sales	2637	2347	2099	2611	3383	28.3	29.6	7298	10440	43.0
Other Operating Inc.						-	-	0	0	-
Total Sales	2637	2347	2099	2611	3383	28.3	29.6	7298	10440	43.0
Stock Adjustment	-37	91	-126	-84	-60	62.7	-28.6	-103	-179	74.7
Consumption of RM	928	1073	848	1056	1331	43.3	26.0	2807	4307	53.4
Construction Exp	1268	482	571	1143	1463	15.3	28.0	3208	4292	33.8
Employee Cost	85	100	108	107	117	37.4	8.7	286	432	50.9
Sub-Contracting work bills	0	245	376	0	0	-	-	0	0	-
Other Expenditure	29	27	29	21	34	15.6	57.1	87	99	14.2
Total Expenditure	2274	2017	1806	2244	2884	26.8	28.5	6285	8951	42.4
EBITDA	363	330	294	367	499	37.4	35.9	1013	1489	47.1
Add: Other Income	59	61	54	48	66	13.3	37.4	185	230	24.4
Interest	30	15	23	23	32	6.3	41.1	87	92	5.3
Depreciation	43	48	58	62	74	73.1	19.6	112	242	116.8
Core PBT	349	328	267	331	459	31.7	38.9	999	1385	38.7
Excep. item Loss / (Gain)	0	0	0	0	0			0	0	
Profit Before Tax	349	328	267	331	459	31.7	38.9	999	1385	38.7
Provision for Taxation	119	117	92	116	158	32.6	36.0	355	483	36.0
PAT	230	211	176	215	301	31.2	40.4	644	902	40.2
Equity Capital (FV Rs 10)	360	360	360	360	360			360	360	
Basic EPS (Rs)	6.4	5.9	4.9	6.0	8.4			17.9	25.1	
Diluted EPS Rs (adjusted)	6.4	5.9	4.9	6.0	8.4			17.9	25.1	
EBITDA (%)	13.8	14.1	14.0	14.1	14.7	98bp	69bp	13.9	14.3	39bp
PAT (%)	8.5	8.8	8.2	8.1	8.7	22bp	66bp	8.6	8.5	(14bp)
Tax / PBT (%)	34.1	35.7	34.4	35.1	34.4	24bp	(-71bp)	35.6	34.9	(69bp)
Interest/Net Sales	1.1	0.6	1.1	0.9	0.9	(-19bp)	8bp	1.2	0.9	(31bp)
Employee cost/Net Sales	3.2	4.3	5.1	4.1	3.5	23bp	(-66bp)	3.9	4	22bp
RM / Net Sales (%)	81.9	70.1	61.6	81.0	80.8	(-110bp)	(-21bp)	81.0	80.6	(36bp)

Source: Company, AMSEC Research

Concall highlights:

- **Guidance:** Management guided revenue of Rs13-14bn, inflow of Rs13bn and capex of Rs400-500mn (3-4% of new order inflow) in FY20E.
- **SDB Project update:** Project is going on full swing. Out of 9 towers, Company have reached up to 13th floor in five towers and up to 8th floor in four towers. Presently the labor strength is at 4000, which has reduced from 6000 within the period of April and May, because of the seasonal marriage season and the election. This will have a minor impact on execution during 1QFY20. Company has book revenue of Rs3.5bn in FY19 and expect revenue of Rs7-7.5bn for FY20E.
- **Average ticket size** of project has increased to Rs429mn in FY19 Vs Rs85.4mn in FY2013. Currently 46 projects are under execution as on 31st March 2019.
- **Order pipeline:** Bid pipeline are strong at Rs35bn and Rs2.5 worth of order expected in June'19. Bid pipeline include two large orders, 1) Rs17bn worth of orders from Vedanta residential colony orders from Barmer, Rajasthan. Expected to finalize in 1QFY20 and 2) Rs7.5bn worth of orders from Nayara Energy (Essar Oil) in Jamnagar. Expected to finalize by 1HFY20.
- **US Subsidiary:** Livermore project is almost concluded and will put on sale by May-June19. San Francisco project expected to be concluded in the month of November or December'19.
- **Loan given to US Subsidiary** stands at Rs230mn and is expected to increase by Rs50-70mn in Jan'20.
- **Fund based and non-fund based limit:** Total funded & non-funded approval for the company stands at Rs. 6.1bn; of which Rs450mn is funded and balance Rs.5.7bn is non-funded limit.

Quarterly Standalone Charts:

Exhibit 4: Revenue Trend

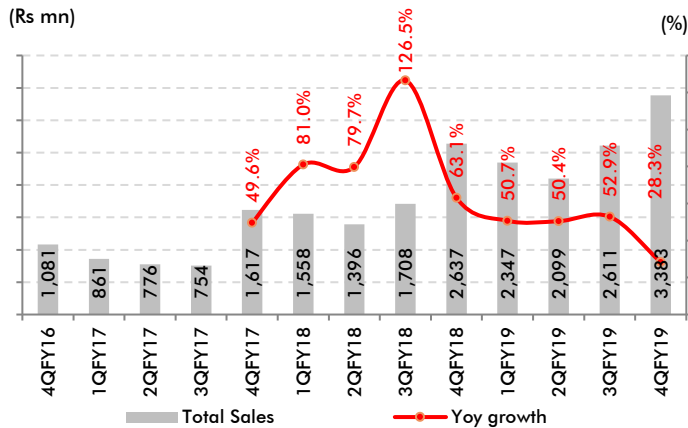


Exhibit 5: PAT Trend

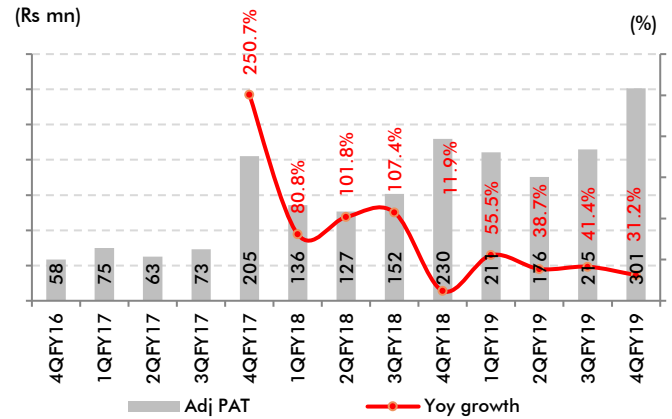


Exhibit 6: EBITDA Trend

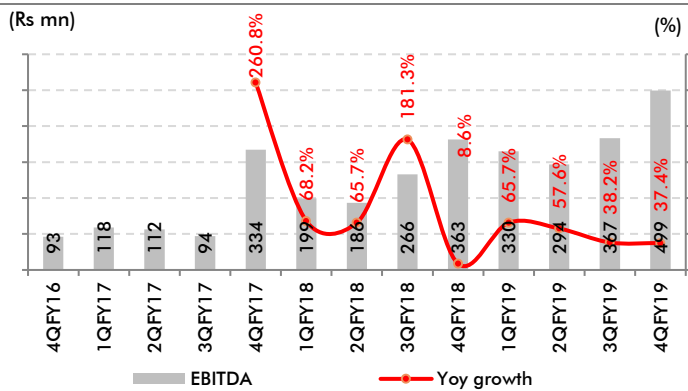


Exhibit 7: EBITDAM and PATM Trend

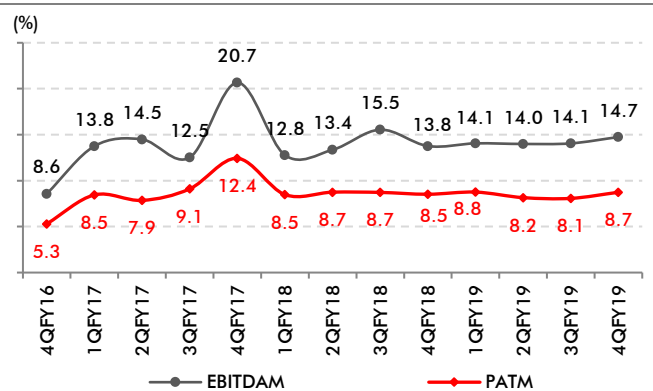


Exhibit 8: Standalone order book break up (Rs29.8bn) - Segment wise

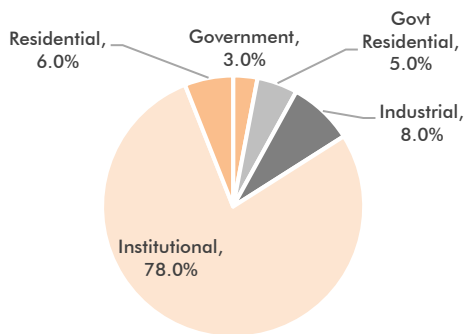


Exhibit 9: Standalone Order book (Rs29.8bn) region wise

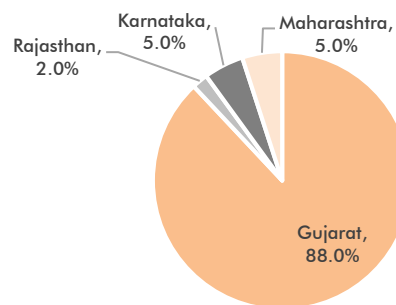


Exhibit 10: Revenue break up for FY19 (Rs6.9bn Ex SDB) - Segment wise

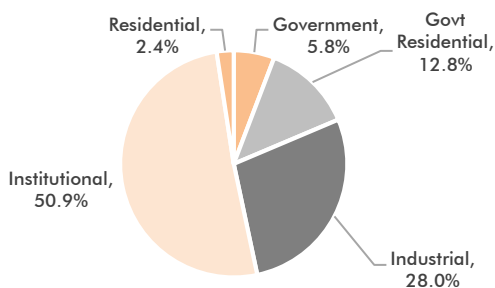
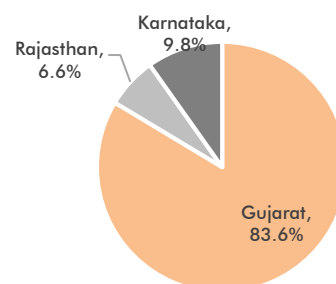


Exhibit 11: Revenue break up for FY19 (Rs6.9bn Ex SDB) - region wise



Source: Company, AMSEC Research

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

Profit & Loss Accounts					Cash Flow Statement				
Particulars	FY18	FY19	FY20E	FY21E	Particulars	FY18	FY19	FY20E	FY21E
Net sales	7,283	10,440	13,361	16,361	PBT	999	1,385	1,690	2,048
Raw material	4,684	8,420	10,769	13,187	Non-cash adjustments	(72)	13	14	110
Subcontracting Expenses	1,229	-	-	-	Changes in working capital	17	(667)	(897)	(918)
Employee benefits expenses	286	432	668	818	Interest Paid	87	92	100	100
Other expenses	86	99	120	98	Tax Paid & Other Adj	(522)	(340)	(591)	(717)
Total Expenditure	6,284	8,951	11,557	14,103	Cashflow from operations	509	482	316	623
EBITDA	999	1,489	1,804	2,258	Capital exp. & Advances	(355)	(486)	(500)	(500)
Depreciation	112	242	264	310	Change in investments	(1)	33	-	-
Operating profit	887	1,247	1,540	1,947	Other investing cashflow	184	230	250	200
Other income	184	230	250	200	Cashflow from investing	(172)	(224)	(250)	(300)
EBIT	1,071	1,477	1,790	2,147	Issue of equity	1,512	-	-	-
Interest	87	92	100	100	Issue/repay debt	(461)	33	-	-
Exceptional items	-	-	-	-	Interest Paid	(87)	(92)	(100)	(100)
Profit before tax	984	1,385	1,690	2,048	Dividends paid	(86)	(216)	(216)	(259)
Tax	355	483	591	717	Other financing cashflow	-	-	-	-
Reported net profit	629	902	1,098	1,331	Cashflow from financing	878	(274)	(316)	(359)
EO Items (loss/ gain)	-	-	-	-	Change in cash & cash eq	1,214	(16)	(250)	(36)
Adjusted net profit	629	902	1,098	1,331	Opening cash & cash eq	1,018	2,232	2,217	1,967
Share O/s mn	36.0	36.0	36.0	36.0	Closing cash & cash eq	2,232	2,217	1,967	1,931
Diluted EPS Rs (adjusted)	17.9	25.1	30.5	37.0	Free cash flow to firm	154	(4)	(184)	123

Balance Sheet

Particulars	FY18	FY19	FY20E	FY21E
SOURCES OF FUNDS :				
Share Capital	360	360	360	360
Reserves	2,667	3,354	4,236	5,308
Total Shareholders Funds	3,027	3,714	4,596	5,668
Non-Current Liabilities				
Long term borrowings	17	4	4	4
Long term provisions	-	-	-	-
Current Liabilities	2,811	3,587	3,247	3,832
Short term borrowings	178	246	246	246
Trade payables	1,213	1,584	1,720	2,017
Other current liabilities	1,348	1,650	1,098	1,345
Short term provisions	72	107	183	224
Total Equity & Liabilities	5,854	7,305	7,848	9,504
APPLICATION OF FUNDS :				
Non Current Assets				
Gross block (Total)	1,196	1,699	2,199	2,699
Less : accumulated deprecia	425	668	932	1,242
Net block (Total)	770	1,032	1,268	1,457
Capital work in progress	18	-	-	-
Investment in Equity Shares	40	44	44	44
Other Investment	37	-	-	-
Deferred tax assets	18	49	49	49
Long term loans and advances	301	827	877	927
Other non-current assets	533	21	71	121
Current Assets				
Current investment	151	-	-	-
Inventories	335	750	570	850
Sundry debtors	1,162	1,426	2,270	3,227
Cash and bank	2,232	2,217	1,967	1,931
Short loans and advances	231	652	549	672
Others current assets	25	288	183	224
Total Assets	5,854	7,305	7,848	9,504
Net Working Capital	(858)	(227)	570	1,388
Total Gross Debt	216	250	250	250
Total Net Debt	(2,167)	(1,967)	(1,717)	(1,681)
Capital Employed	3,243	3,964	4,846	5,918
Order book	25,590	29,780	26,419	20,058
Order inflow	25,407	14,150	10,000	10,000
Book To bill (x)	3.5	2.9	2.0	1.2

Source: Company, AMSEC Research

Ratio

Particulars	FY18	FY19	FY20E	FY21E
PER SHARE				
EPS Rs (adjusted)	17.9	25.1	30.5	37.0
CEPS Rs	21.0	31.8	37.8	45.6
Book Value Rs	84.1	103.2	127.7	157.4
VALUATION				
EV / Net Sales	2.2	1.5	1.2	1.0
EV / EBITDA	15.9	10.8	9.1	7.3
P / E Ratio	28.1	20.1	16.5	13.6
P / BV Ratio	6.0	4.9	3.9	3.2
GROWTH YOY%				
Sales Growth	81.7	43.3	28.0	22.5
EBITDA Growth	53.8	46.9	21.1	25.2
Net Profit Growth	54.7	40.2	21.7	21.2
Gross Fixed Asset Growth	45.3	42.1	29.4	22.7
Margin Analysis (%)				
Gross profit Margin	33.1	16.5	15.9	15.9
EBITDA Margin	13.9	14.3	13.5	13.8
EBIT Margin	14.9	14.1	13.4	13.1
Adj PAT Margin	8.6	8.5	8.1	8.0
Int/Debt	40.2	36.7	40.0	40.0
Tax/PBT	35.6	34.9	35.0	35.0
Return Ratio (%)				
ROE	31.4	26.8	26.4	25.9
ROCE	43.5	41.0	40.6	39.9
ROIC	36.2	34.6	35.0	36.2
Turnover				
Net Working capital (Days)	(43)	(8)	16	31
Debtors Velocity (Days)	58	50	62	72
Inventory (Days)	20	31	18	22
Creditors Velocity (Days)	61	55	47	45
Gross Asset Ratio	7.2	7.2	6.9	6.7
Total Asset Ratio	162	159	176	189
LIQUIDITY				
Current Ratio	1.5	1.5	1.7	1.8
Quick Ratio	1.4	1.3	1.5	1.6
Net Debt-Equity Ratio	(0.7)	(0.5)	(0.4)	(0.3)
Interest Coverage (x)	10.4	13.6	15.4	19.5
PAYOUT				
Payout %	34	24	24	19
Dividend %	50	50	60	60
Yield %	1.0	1.0	1.2	1.2

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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