

View: An efficient player with strong fundamentals, maintain Buy

- PSP reported better than expected numbers on revenue and APAT; EBITDA margin in line with estimates.
- PSP posted a robust set of numbers with 48.9%/ 47.2%/ 86.4% YoY growth in revenue/ EBITDA/ APAT to ₹3.1 bn/ ₹433 mn/ ₹327 mn in Q2FY20 driven by strong execution on its key projects.
- We broadly maintain our revenue/ EBITDA margin/ PAT estimates for FY20E/ FY21E considering H1FY20 results. We expect a 33.3%/ 40.9% revenue/ Adj. PAT CAGR over FY19-21E, with EBITDA margins of 14.0% each for FY20E/ FY21E.
- Given its conservative strategy towards leverage and an efficient capital allocation, PSP will continue to remain a net cash company, with negative Net D:E of 0.6x over FY19-21E. PSP will continue to witness superior return ratios (average RoE/ RoCE of 32.6%/ 32.6% over FY19-21E), due to a strong PAT growth, well-managed lean balance sheet and efficient working capital management. Thus, we maintain BUY, with a TP of ₹796 (16x FY21E EPS). **Not factored any equity dilution.**

Order book provides 2.6x revenue visibility

PSP standalone won orders worth ₹14.2 bn/ ₹8.6 bn during FY19/ H1FY20. The current order book (₹34.0 bn) provides revenue visibility for 2.6x TTM revenue. Excluding the SDB project, order book stands at ₹22.1 bn. We expect SDB's revenue contribution to rise to ₹5.5 bn/ ₹6.1 bn (36.9%/ 33.0%) in FY20E/ FY21E, from ₹3.6 bn (34%) in FY19. PSP's has bid for projects worth ₹20 bn which includes various projects like Vedanta's order in Barmer (₹3.6-4 bn), GIDC-GIFT City (₹2.5 bn), LIC-GIFT City (₹1.5 bn), Nestle (₹1 bn) where outcome yet to come. PSP expects big order to be bid in Q4FY20. Considering the sizeable opportunity, we maintain our order inflow estimates of ₹17 bn/ ₹25 bn for FY20E/ FY21E.

Q2FY20 Result (₹ Mn)

Particulars	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)
Revenue	3,125	2,099	48.9	3,073	1.7
Total Expense	2,693	1,806	49.1	2,646	1.8
EBITDA	433	294	47.2	427	1.3
Depreciation	62	58	7.2	59	5.5
EBIT	370	236	57.1	368	0.7
Other Income	69	54	26.2	52	32.1
Interest	37	23	61.4	28	33.1
EBT	402	267	50.4	392	2.6
Tax	75	92	(18.2)	137	(45.2)
RPAT	327	176	86.4	255	28.2
APAT	327	176	86.4	255	28.2
			(bps)		(bps)
Gross Margin (%)	19.5	20.5	(97)	19.5	6
EBITDA Margin (%)	13.8	14.0	(15)	13.9	(5)
NPM (%)	10.5	8.4	211	8.3	216
Tax Rate (%)	18.7	34.4	(1568)	34.9	(1626)
EBIT Margin (%)	11.9	11.2	62	12.0	(12)

CMP	₹ 551
Target / Upside	₹ 796 / 44%
BSE Sensex	39,069
NSE Nifty	11,604

Scrip Details

Equity / FV	₹ 360mn / ₹ 10
Market Cap	₹ 20bn
	US\$ 280mn
52-week High/Low	₹ 577/₹ 358
Avg. Volume (no)	15,792
NSE Symbol	PSPPROJECT
Bloomberg Code	PSPPL IN

Shareholding Pattern Sep'19(%)

Promoters	73.7
MF/Banks/FIs	6.7
FII	1.2
Public / Others	18.4

Valuation (x)

	FY19A	FY20E	FY21E
P/E	22.0	14.1	11.1
EV/EBITDA	12.0	8.4	6.1
ROE (%)	26.8	32.6	31.5
RoACE (%)	27.8	33.4	31.8

Estimates (₹ mn)

	FY19A	FY20E	FY21E
Revenue	10,440	14,851	18,554
EBITDA	1,489	2,079	2,598
PAT	902	1,405	1,790
EPS (₹)	25.1	39.0	49.7

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Exhibit 1: Actual vs. DART estimates

(in ₹ mn)	Actual	DART Est.	% Variation	Comment
Revenue	3,125	2,756	13.4	Better than expected execution
EBITDA	433	381	13.5	Better than expected execution
EBITDA Margin (%)	13.8	13.8	1	
Adj. PAT	327	260	26.0	Better than expected execution + lower (18.7%) than expected (25.6%) tax rate

Source: Company, DART

Exhibit 2: Change in estimates

(₹ mn)	FY20E			FY21E		
	New	Old	% chg	New	Old	% chg
Revenue	14,851	15,142	(1.9)	18,554	18,675	(0.7)
EBITDA	2,079	2,121	(2.0)	2,598	2,614	(0.6)
EBITDA Margin (%)	14.0	14.0	(0)	14.0	14.0	0
Adj. PAT	1,405	1,456	(3.5)	1,790	1,800	(0.5)
EPS (₹)	39.0	40.4	(3.5)	49.7	50.0	(0.5)

Source: Company, DART

Key earnings takeaways

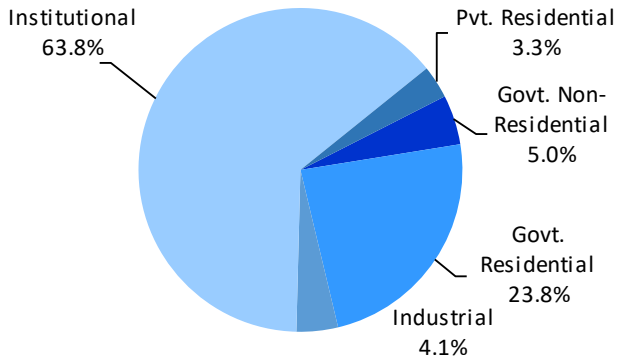
- The board has approved fund raising up to ₹3 bn through either equity/ debt as PSP makes itself ready for big order opportunity, likely in Q4FY20.
- PSP guided for revenue of ₹13-14 bn in FY20E with EBITDA margin of 12-14%.
- SDB revenue guidance reduced from ₹7-7.5 bn to ₹5-5.5 bn for FY20E due to 6 month delay. SDB project is delayed by 3-4 months.
- Order inflow guidance of ₹14-15 bn for FY20E.
- Capex for FY19/ H1FY20 stands at ₹510 mn/ ₹66 mn and for FY20E 2-3% of inflow won in FY20E.
- Inventory days increased from 26 (FY19) to 35 (H1FY20) days primarily due to ₹640 mn inventory for SDB project. Debtor days stands at 35-40 days. Cash balance stands at ₹600 mn.
- PSP likely to reduce sale price per unit for its Rivermore (USA) project by USD0.1 mn to USD1.39mn and expect the property to be sold soon.

Exhibit 3: Q2FY20 Performance (Standalone)

Particulars (₹ mn)	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	H1FY20	H1FY19	YoY (%)
Revenue	3,125	2,099	48.9	3,073	1.7	6,198	4,447	39.4
(Inc)/dec in stocks & WIP	(274)	(126)	-	(4)	-	(278)	(36)	-
Cons. of Raw materials	1,236	848	45.7	1,152	7.3	2,389	1,921	24.4
Construction expenses	1,553	953	62.9	1,326	17.1	2,878	1,680	71.3
Employees cost	146	108	35.5	138	5.9	284	208	36.7
Other expenditure	32	23	38.5	34	(5.8)	66	50	30.9
Total expenditure	2,693	1,806	49.1	2,646	1.8	5,339	3,823	39.6
EBITDA	433	294	47.2	427	1.3	859	624	37.8
Depreciation	62	58	7.2	59	5.5	121	106	14.0
Operating profit	370	236	57.1	368	0.7	738	518	42.6
Other income	69	54	26.2	52	32.1	120	115	4.6
EBIT	439	290	51.3	420	4.6	859	633	35.7
Interest	37	23	61.4	28	33.1	64	37	72.3
EBT	402	267	50.4	392	2.6	795	596	33.4
Provision for taxation	75	92	(18.2)	137	(45.2)	212	209	1.4
Net income	327	176	86.4	255	28.2	582	386	50.7
EPS (₹)	9.1	4.9	86.4	7.1	28.2	16.2	10.7	50.7
EBIDTA Margin (Excl. O.I.)	13.8	14.0	(15)	13.9	(5)	13.9	14.0	(16)
EBIDTA Margin (Incl. O.I.)	16.0	16.6	(55)	15.6	46	15.8	16.6	(81)
NPM (%)	10.2	8.2	209	8.2	208	9.2	8.5	75
Tax/PBT (%)	18.7	34.4	(1,568)	34.9	(1,626)	26.7	35.1	(842)
Construction/Sales (%)	80.5	79.8	69	80.5	(6)	80.5	80.2	32

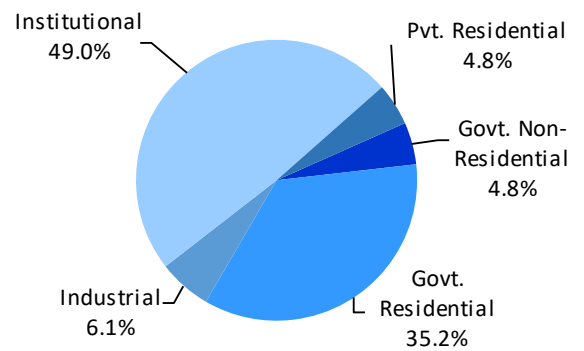
Source: Company, DART

Exhibit 1: ₹31.9 bn OB break up



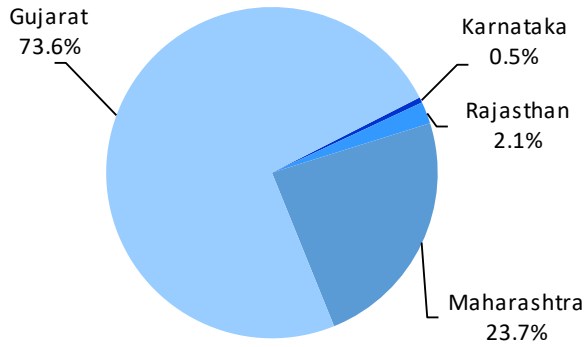
Source: DART, Company

Exhibit 2: ₹22.1 bn OB break up (excl SDB)



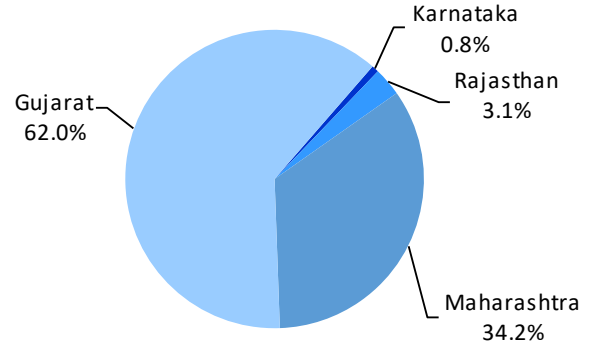
Source: DART, Company

Exhibit 3: ₹31.9 bn OB geographic break up



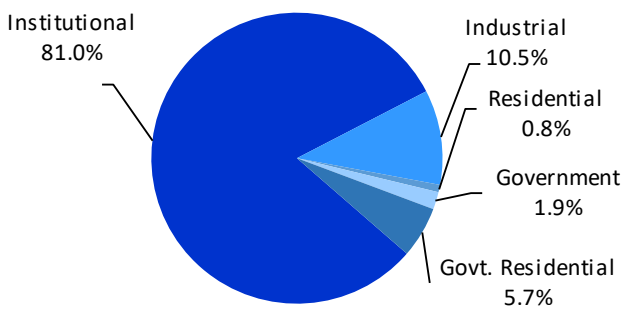
Source: DART, Company

Exhibit 4: ₹22.1 bn OB geographic break up (excl SDB)



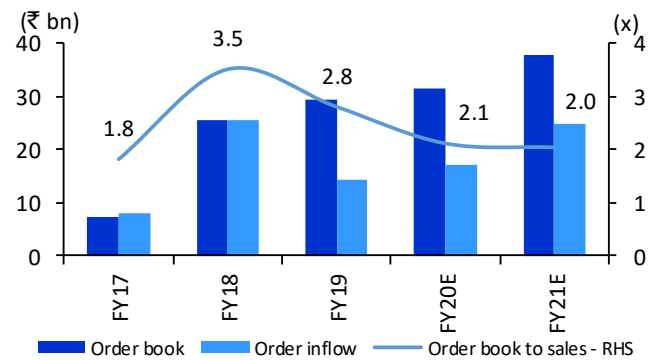
Source: DART, Company

Exhibit 5: ₹3.1 bn Q2FY20 revenue break up



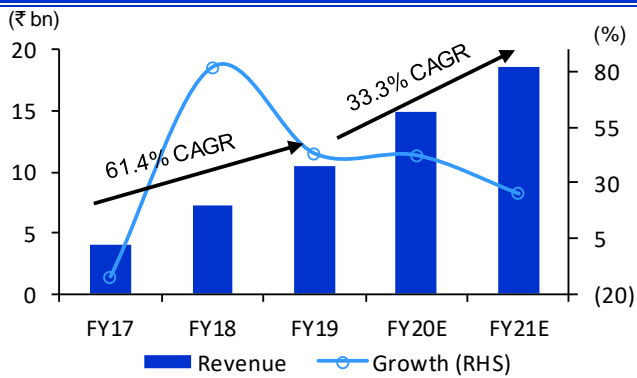
Source: DART, Company

Exhibit 6: Order book trend (Standalone)



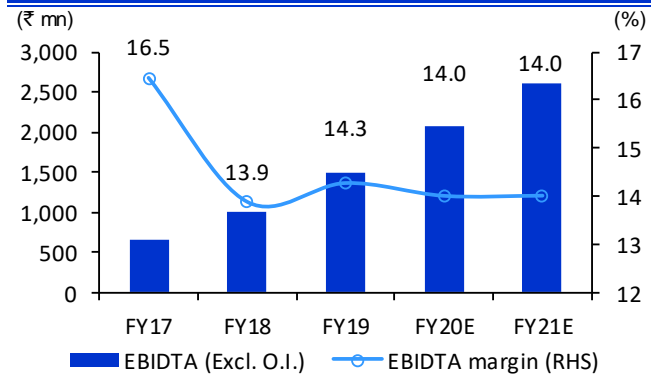
Source: DART, Company

Exhibit 7: 33.3% revenue CAGR over FY19-21E



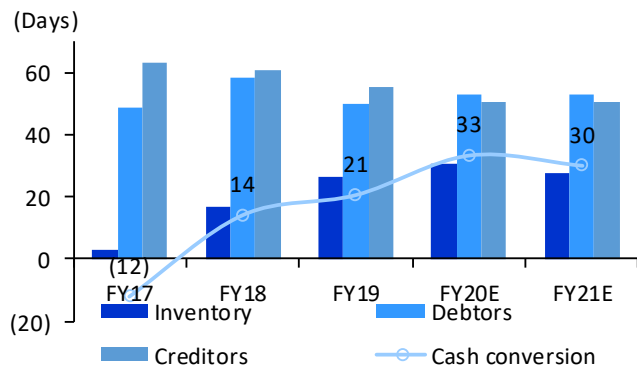
Source: DART, Company

Exhibit 8: Healthy EBITDA margin



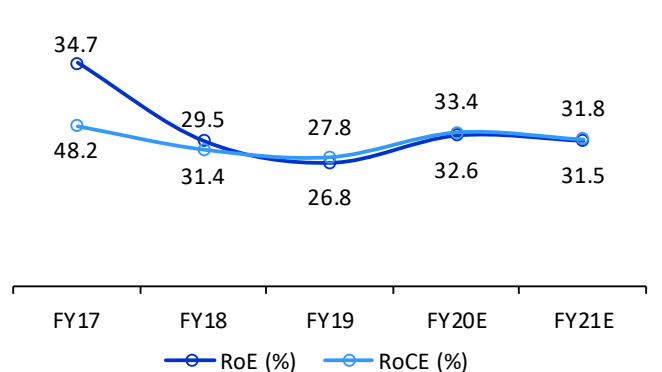
Source: DART, Company

Exhibit 9: Efficient cash conversion



Source: DART, Company

Exhibit 10: Superior return ratios to continue



Source: DART, Company

Profit and Loss Account

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
Revenue	7,298	10,440	14,851	18,554
Total Expense	6,285	8,951	12,772	15,956
COGS	5,912	8,420	12,038	14,941
Employees Cost	286	432	604	846
Other expenses	87	99	129	168
EBIDTA	1,013	1,489	2,079	2,598
Depreciation	112	242	303	384
EBIT	901	1,247	1,776	2,214
Interest	87	92	140	110
Other Income	185	230	253	303
Exc. / E.O. items	0	0	0	0
EBT	999	1,385	1,889	2,408
Tax	355	483	484	617
RPAT	644	902	1,405	1,790
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	644	902	1,405	1,790

Balance Sheet

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
Sources of Funds				
Equity Capital	360	360	360	360
Minority Interest	0	0	0	0
Reserves & Surplus	2,667	3,354	4,542	6,116
Net Worth	3,027	3,714	4,902	6,476
Total Debt	216	263	500	250
Net Deferred Tax Liability	(18)	(49)	(69)	(89)
Total Capital Employed	3,225	3,928	5,333	6,637

Applications of Funds

Net Block	770	1,032	1,107	1,223
CWIP	18	0	20	20
Investments	44	44	44	44
Current Assets, Loans & Advances	4,988	6,181	8,684	10,984
Inventories	335	750	1,247	1,392
Receivables	1,162	1,426	2,153	2,690
Cash and Bank Balances	2,232	2,217	2,907	4,224
Loans and Advances	227	396	575	718
Other Current Assets	880	1,391	1,801	1,960
Less: Current Liabilities & Provisions	2,595	3,329	4,522	5,634
Payables	1,213	1,584	2,044	2,553
Other Current Liabilities	1,382	1,745	2,479	3,081
Net Current Assets	2,392	2,852	4,162	5,350
Total Assets	3,225	3,928	5,333	6,637

E – Estimates

Important Ratios

Particulars	FY18A	FY19A	FY20E	FY21E
(A) Margins (%)				
Gross Profit Margin	19.0	19.4	18.9	19.5
EBIDTA Margin	13.9	14.3	14.0	14.0
EBIT Margin	12.3	11.9	12.0	11.9
Tax rate	35.6	34.9	25.6	25.6
Net Profit Margin	8.8	8.6	9.5	9.7
(B) As Percentage of Net Sales (%)				
COGS	81.0	80.6	81.1	80.5
Employee	3.9	4.1	4.1	4.6
Other	1.2	1.0	0.9	0.9
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.1	0.1	0.0
Interest Coverage	10.4	13.6	12.7	20.1
Inventory days	17	26	31	27
Debtors days	58	50	53	53
Average Cost of Debt	19.5	38.3	36.7	29.3
Payable days	61	55	50	50
Working Capital days	120	100	102	105
FA T/O	9.5	10.1	13.4	15.2
(D) Measures of Investment				
AEPS (₹)	17.9	25.1	39.0	49.7
CEPS (₹)	21.0	31.8	47.4	60.4
DPS (₹)	3.0	6.0	6.0	6.0
Dividend Payout (%)	16.8	24.0	15.4	12.1
BVPS (₹)	84.1	103.2	136.2	179.9
RoANW (%)	31.4	26.8	32.6	31.5
RoACE (%)	29.5	27.8	33.4	31.8
RoAIC (%)	85.6	73.6	74.7	78.5
(E) Valuation Ratios				
CMP (₹)	551	551	551	551
P/E	30.8	22.0	14.1	11.1
Mcap (₹ Mn)	19,849	19,849	19,849	19,849
MCap/ Sales	2.7	1.9	1.3	1.1
EV	17,681	17,894	17,441	15,875
EV/Sales	2.4	1.7	1.2	0.9
EV/EBITDA	17.5	12.0	8.4	6.1
P/BV	6.6	5.3	4.0	3.1
Dividend Yield (%)	0.5	1.1	1.1	1.1
(F) Growth Rate (%)				
Revenue	82.1	43.0	42.3	24.9
EBITDA	53.6	47.1	39.6	25.0
EBIT	54.3	38.4	42.4	24.7
PBT	55.5	38.7	36.4	27.5
APAT	54.7	40.2	55.7	27.5
EPS	54.7	40.2	55.7	27.5
Cash Flow				
(₹ Mn)	FY18A	FY19A	FY20E	FY21E
CFO	700	277	916	2,090
CFI	(291)	(77)	(107)	(197)
CFF	805	(215)	(119)	(577)
FCFF	224	(117)	556	1,590
Opening Cash	1,018	2,232	2,217	2,907
Closing Cash	2,232	2,217	2,907	4,224

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)
Jun-18	Buy	658	482
Aug-18	Buy	658	483
Nov-18	Buy	590	382
Feb-19	Buy	511	396
May-19	Buy	688	510
Aug-19	Buy	688	495
Sep-19	Buy	688	511

*Price as on recommendation date

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