

PSP Projects Ltd: Q1FY19 Result Update

CMP INR: 452
 Rating: BUY
 Target Price INR: 594
 Upside: 31%

Efficient Growth Story Continues, Order-Inflow Remains A Key Monitorable

PSP Projects Ltd (PSP), is an efficient and organised constructor in the medium ticket size institutional and industrial construction segment. The Company recently reported a strong set of numbers in Q1FY19. The topline stood at INR 235 cr, up by 51% y-o-y which was higher than our expectations. EBITDA grew by 66% y-o-y and EBITDA margins came at 14.06% which was 128 bps higher y-o-y and similar to our expectations. PSP's tightly run operation, centralized control and focused approach has made the Company most efficient amongst peers. Surat Diamond Bourses (SDB), worth INR 1,575 cr, is the largest order the Company won and its execution will eject PSP into the league of larger construction Companies such as L&T, and Shapoorji wherein competition is limited to 5-6 players. With strong order book and revenue visibility, the Company's topline is expected to grow at 42% CAGR over FY18-20E, and is expected to maintain an EBITDA margin of 13.5% -14%. Our Revenue and EBITDA estimates for FY19E and FY20E largely remains the same; however we cut our net profit estimates by ~7% for both the years. We have also cut our target multiple to capture muted sentiment across the construction segment. We maintain 'BUY' with a reduced target price of INR 594.

A disciplined building contractor with strong order book and revenue visibility

PSP has achieved strong brand recall and recorded a stellar performance in its small life of existence. FY18 was a year of inflection — for the full year, the company added orders worth INR 2,667 cr backed by SDB order worth INR1,575 cr. Strong orderbook addition continues even in the first few months of FY19 and until July, 2018 the Company added orders worth INR 226 cr and overall orderbook stood at INR 2,756 cr and that offers more than 4 years of revenue visibility. The management has guided for INR 1,000 cr order inflow for FY19, which we believe is on a conservative side and expect the company to bag orders worth INR 1,200 cr over FY19E.

Strong order book aid high revenue growth; Margins expand

PSP consistently maintained strong revenue growth over the last several quarters. In Q1FY19, the Company reported topline growth of 51% y-o-y backed by strong execution in Surat Diamond Bourses and other large projects. PAT for Q1FY19 came at INR 21 Cr, up by 56% YoY. PAT margin came at 8.9%, which was higher than our expectations of 7.3%. With the strong order book and high revenue visibility, we believe that the company's topline will grow at 42% CAGR over FY18-20E. PSP is also expected to maintain EBITDA margins in the range of 13.5% - 14%. Net profit of the Company is expected to grow at 47% CAGR over FY18-20E to INR 142 cr in FY20E.

Efficient capital allocation to aid highest RoCE among peers

Timely execution and proficient project selection aid efficient capital management for PSP. The company has no legacy receivable from the past, nor are there any significant instances of retention monies being withheld/performance bank guarantees invoked by the clients etc. Although inventory days has gone up in Q1FY19 mainly because of inventory stocking at SDB, PSP still has the best working capital cycle in the sector and is expected to remain an efficient capital allocator going forward. As a result of the lean balance sheet, prudent working capital management and profitable execution, the return metrics (RoCE of 33% and RoE of 26% in FY20E) are the best in the sector and are expected to remain healthy going forward.

Valuation: Maintain BUY with a reduced target price of INR 594

PSP is best placed among the competition with strong growth and highest return ratios. At CMP of INR 465, the stock is trading at 17x/12x of FY19E/FY20E EPS. Our Revenue and EBITDA estimates for FY19E and FY20E largely remains same; however we cut our net profit estimates by ~7% for both the years. We also cut our target multiple to capture muted sentiment across the construction segment. We maintain 'BUY' with a reduced target price of INR 594/share after assigning 15x PE multiple to FY20E EPS of INR 40.

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Bloomberg: PSPPL:IN

52-week range (INR):	595.00 / 315.65
Share in issue (cr):	3.6
M cap (INR cr):	1,627967
Avg. Daily Vol. BSE/NSE :('000):	20
Promoter Holding (%)	72.44

(INR Cr)	Q1FY19	Q1 FY18	% change (YoY)	Q4FY18	% change (QoQ)	FY17	FY18
Revenues	235	156	51%	264	-11%	457	752
EBIDTA	33	20	66%	36	-9%	67	105
EBIDTA Margin	14%	13%	-	14%	-	15%	14%
PAT	21	14	56%	23	-8%	41	66
PAT Margin	9%	9%	-	9%	-	9%	9%
Diluted EPS (INR)						11.4	18.3

Date: 27th August 2018

Other Key Highlights:

- The revenue recognised for Q1FY19 from the Surat Diamond Bourse (SDB) Project was INR 83 cr (~INR 60 cr in Q4FY18). The execution of SDB is seamlessly moving forward with 90% of foundation work completed and basement slabs are in progress.
- SDB is currently having INR 25-30 cr monthly billing runrate and For the full year of FY19E, management is confident of reporting ~INR 500 cr revenue from the project.
- The company has bagged a prestigious order from MRF worth 99 cr in Dahej. Currently the company is having a order pipeline of more than INR 1,500 cr worth of projects.
- The company has also bagged the first residential project in GIFT city, the company is now constructing 7 out of total of 9 projects being build in GIFT city.
- The company has guided for an orderflow of INR 1000 cr during the year of FY19. The company is in advance talks with developers in south India for a few large projects.
- During the Q1FY19, the company incurred a capex of INR 21 cr, the company has guided for a total INR 50 cr in capex for the full year of FY19E.
- Total cash conversion cycle has increased to 10 days in Q1FY19 and for the full year of FY19 cash conversion cycle is expected to remain at 10-15 days.
- Total debt on books of the company at the end of first quarter of the current financial year stood at 40 cr.

Q1FY19 Result Highlights

(INR Cr)	Q1FY19	Q1FY18	% change (YoY)	Q4FY18	% change (QoQ)
Income from operations	235	156	51%	264	-11%
Direct Expenses	189	125	51%	216	-12%
Employee Cost	10	7	48%	8	18%
Other Expenses	3	5	-45%	3	-7%
Total operating expenses	202	137	48%	227	-11%
EBITDA	33	20	66%	36	-9%
EBIT	29	18	61%	34	-14%
Interest expenses	1	1	7%	3	-51%
Other income	6	4	48%	6	4%
Profit before tax	33	21	62%	36	-8%
Provision for tax	12	7	62%	12	-1%
Core profit	21	14	56%	23	-8%
Extraordinary items	-	-	-	-	-
Profit after tax	21	14	56%	23	-8%
Minority Interest	-	-	-	-	-
Share from associates	-	-	-	-	-
Adjusted net profit	21	14	56%	23	-8%
Equity shares outstanding (Crs)	3.6	3.6	-	3.6	-
EPS	6	4		6	

Financials

Income Statement (Consolidated)						(INR cr)				
Year to March	FY16	FY17	FY18E	FY19E	FY20E					
Income from operations	476	457	752	1,128	1,503					
Direct Expenses	206	168	290	440	571					
Employee Cost	14	21	29	51	75					
Other Expenses	221	201	329	485	646					
Total operating expenses	441	390	647	976	1,292					
EBITDA	35	67	105	152	210					
Depreciation and amortisation	7	8	11	17	21					
EBIT	28	59	93	136	189					
Interest expenses	3	8	9	10	11					
Other income	10	13	19	29	41					
Profit before tax	35	64	102	155	219					
Provision for tax	13	23	36	54	77					
Core profit	22	41	66	101	142					
Extraordinary items	0	0	0	0	0					
Profit after tax	22	41	66	101	142					
Minority Interest	-1	0	0	0	0					
Share from associates	0	0	-0	0	0					
Adjusted net profit	21	41	66	101	142					
Equity shares outstanding (Cr)	3.6	3.6	3.6	3.6	3.6					
EPS (INR) basic	5.9	11.5	18.3	28.0	39.6					
Diluted shares (Cr)	3.6	3.6	3.6	3.6	3.6					
EPS (INR) fully diluted	5.9	11.5	18.3	28.0	39.6					
Dividend per share	0.0	0.0	0.0	0.0	0.0					
Dividend payout (%)	0.0	0.0	0.0	0.0	0.0					

Common size metrics- as % of net revenues

Year to March	FY16	FY17	FY18E	FY19E	FY20E
Operating expenses	92.7	85.4	86.1	86.5	86.0
Depreciation	1.5	1.7	1.5	1.5	1.4
Interest expenditure	0.7	1.8	1.2	0.9	0.7
EBITDA margins	7.3	14.6	13.9	13.5	14.0
Net profit margins	4.5	9.1	8.8	8.9	9.5

Growth metrics (%)

Year to March	FY16	FY17	FY18E	FY19E	FY20E
Revenues	69.7	(4.0)	64.5	50.1	33.2
EBITDA	55.2	91.5	56.7	45.6	38.1
PBT	62.9	84.4	60.1	51.3	41.4
Net profit after minority interest	52.3	95.3	59.2	52.7	41.4
EPS	52.3	95.3	59.2	52.7	41.4

Profit & Efficiency Ratios

Year to March	FY16	FY17	FY18E	FY19E	FY20E
ROAE (%)	35%	39%	22%	25%	26%
ROACE (%)	25%	32%	28%	31%	33%
Debtors (days)	16	47	60	61	61
Current ratio	1.3	1.7	1.6	1.6	1.8
Gross Debt/Equity	0.7	0.7	0.0	0.1	0.1
Inventory (days)	8	5	16	16	15
Payable (days)	63	61	62	62	61
Cash conversion cycle (days)	-40	-9	15	14	15
Gross Debt/EBITDA	1.3	1.2	0.0	0.2	0.1
Net debt/Equity	(1.0)	(0.6)	(0.7)	(0.6)	(0.6)

Valuation Parameters

Year to March	FY16	FY17	FY18E	FY19E	FY20E
Diluted EPS (INR)	6.3	11.4	18.3	28.0	39.6
Y-o-Y growth (%)	65.8	80.5	60.1	52.7	41.4
CEPS (INR)	8.1	13.7	21.5	32.6	45.5
Diluted P/E (x)	36.3	20.1	25.4	16.6	11.7
Price/BV(x)	12.8	7.8	5.5	4.1	3.0
EV/Sales (x)	1.6	1.7	1.9	1.3	0.9
EV/EBITDA (x)	21.9	11.5	13.8	9.3	6.4
Diluted shares O/S	3.6	3.6	3.6	3.6	3.6
Basic EPS	6.3	11.4	18.3	28.0	39.6
Basic PE (x)	36.3	20.1	25.4	16.6	11.7
Dividend yield (%)	0%	0%	0%	0%	0%

Balance Sheet (Consolidated)						(INR cr)				
As on 31st March	FY16	FY17	FY18E	FY19E	FY20E					
Equity share capital	3	29	36	36	36					
Warrants	0	0	0	0	0					
Reserves & surplus	61	76	265	366	509					
Shareholders funds	64	105	301	402	545					
Borrowings	47	78	28	28	28					
Minority interest	0	0	0	0	0					
Sources of funds	111	183	330	430	573					
Gross block	77	85	126	176	226					
Depreciation	24	31	43	59	81					
Net block	54	53	83	117	145					
Capital work in progress	0	7	2	2	2					
Total fixed assets	54	60	85	118	147					
Goodwill	0	0	0	0	0					
Non Current Assets	17	24	95	100	105					
Inventories	10	7	34	49	63					
Sundry debtors	20	59	123	188	250					
Cash and equivalents	112	137	228	282	361					
Loans and advances	22	26	26	36	46					
Other current assets	18	20	15	0	0					
Total current assets	182	249	427	555	721					
Sundry creditors and others	82	77	127	336	394					
Other Current Liabilities	55	61	143	0	0					
Provisions	3	12	1	0	0					
Total CL & provisions	141	150	271	336	394					
Net current assets	41	100	156	218	327					
Net Deferred tax	0	0	0	0	0					
Misc expenditure	0	0	0	0	0					
Uses of funds	112	184	336	437	579					
Book value per share (INR)	31	51	93	121	161					

Cash flow statement

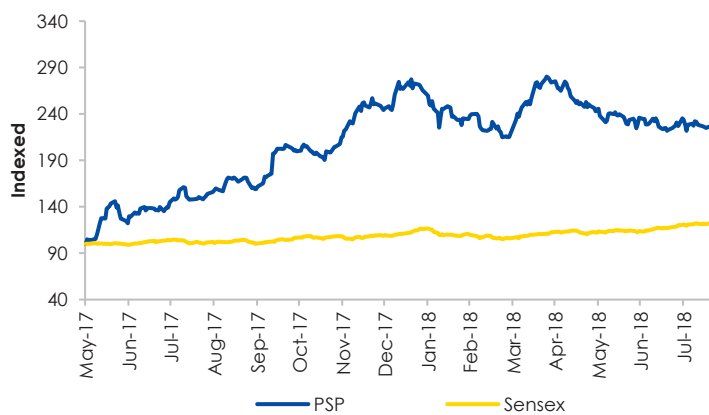
Cash flow statement						(INR cr)				
Year to March	FY16	FY17	FY18E	FY19E	FY20E					
Net profit	23	41	66	101	142					
Add: Depreciation	7	8	11	17	21					
Add: Interest net of tax	2	5	6	6	7					
Add: Deferred tax	0	0	0	0	0					
Add: Others	0	0	0	0	0					
Gross cash flow	32	54	83	124	171					
Less: Changes in W. C.	-8	33	-34	9	30					
Operating cash flow	40	21	118	115	141					
Less: Capex	27	7	41	50	50					
Less: Investment in subsidiaries	0	0	0	0	0					
Free cash flow	13	14	76	65	91					

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Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate between 5-15% over a 12-month period
Reduce	Return below 5% over a 12-month period



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