

Q2FY19 Result Update PSP Projects Ltd

Growth Momentum Continues, Order-inflow becomes even more crucial!

PSP Projects Ltd (PSP), an efficient and organised constructor in the medium ticket size institutional and industrial construction segment, reported strong set of numbers in Q2FY19. Topline reported at INR 210 cr, up by 50% YoY which was higher than our expectations of 36% growth. EBITDA grew by 58% YoY and EBITDA margins came at 13.99% which was 65 bps higher YoY and higher than our expectations of 13.5%. PSP's tightly run operation, centralized control and focused approach has made the company most efficient amongst peers, lean balance sheet and industry leading RoCE. Surat Diamond Bourses (SDB), worth INR 1,575 cr, is the largest order the company won and its execution will move PSP into the league of larger constructors like 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 41% CAGR over FY18-20E, and is expected to maintain an EBITDA margin of 13.5% -14%. Our Revenue, EBITDA and PAT estimates for FY19E and FY20E largely remains the same. We have also retained our existing target multiple and maintain 'BUY' with a 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. The company currently has more than INR 2,500 cr of order-book including the Surat Diamond Bourses (SDB) project worth INR 1,300 cr. Higher order book offers more than 4 years of revenue visibility. So far, the company has added INR 200 cr of orders, bidded for projects worth INR 3000 cr and is at L1 state on 3 projects, where it expects to receive LOI soon. The company has guided for an order inflow of INR 1000 cr for FY19E.

Strong order book aid high revenue growth; Margins expand

PSP consistently maintained strong revenue growth over the last several quarters. In Q2FY19, the company reported topline growth of 50% YoY backed by strong execution in Surat Diamond Bourses and other large projects. PAT for Q2FY19 came at INR 18 Cr, up by 39% YoY. PAT margin came at 8.4%, down by 70bps YoY and lower than our expectations of 7.3%, mainly due to higher depreciation charges. With the strong order book and high revenue visibility, we believe that the company's topline will grow at 41% 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 Q2FY19 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 amongst the competition with strong growth and highest return ratios. At CMP of INR 384, the stock is trading at 14x / 10x of FY19E / FY20E EPS. Our Revenue, EBITDA and PAT estimates for FY19E and FY20E largely remains same for both the years. We maintain 'BUY' with a target price of INR 594/share after assigning 15x PE multiple to FY20E EPS of INR 40.

(INR Cr)	Q2FY19	Q2FY18	% change (YoY)	Q1FY19	% change (QoQ)	FY18	FY19E	FY20E
Revenues	210	140	50%	235	-11%	752	1128	1503
EBIDTA	29	19	58%	33	-11%	105	152	210
EBIDTA Margin	14%	13%	-	14%	-	14%	14%	14%
PAT	18	13	39%	21	-17%	66	101	142
PAT Margin	8%	9%	-	9%	-	9%	9%	9%
Diluted EPS (INR)						14.1	28.0	39.6
Diluted PE (x)						25	14	10
EV/EBIDTA						14	8	5
ROE(%)						22%	25%	26%

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CMP INR: 384

Rating: Maintain BUY

Target Price INR: 594

Upside: 55%

Bloomberg:	PSPPL:IN
52-week range (INR):	595.00 /308.00
Share in issue (cr):	3.6
M cap (INR cr):	1,375
Avg. Daily Vol. BSE/NSE (:'000):	36
Promoter Holding (%)	72.96

Date: 6th November, 2018

(INR Cr)	Q2FY19	Q2FY18	% change (YoY)	Q1FY19	% change (QoQ)	H1FY19	H1FY18	% change (YoY)
Income from operations	210	140	50%	235	-11%	445	295	51%
Direct Expenses	167	111	1	189	0	356	235	1
Employee Cost	11	7	1	10	0	21	13	1
Other Expenses	3	4	0	3	0	6	9	0
Total operating expenses	181	121	0	202	0	382	257	0
EBITDA	29	19	1	33	0	62	39	1
Depreciation and Amortization	6	2	2	5	0	11	4	2
EBIT	25	17	1	30	0	58	36	1
Interest expenses	2	2	0	1	1	4	3	0
Other income	5	5	0	6	0	12	9	0
Profit before tax	28	20	0	35	0	65	42	1
Provision for tax	9	7	0	12	0	21	14	0
Core profit	18	13	0	21	0	44	28	1
Extraordinary items	-	-	-	-	-	-	-	-
Profit after tax	18	13	0	21	0	44	28	1
Minority Interest	-	-	-	-	-	-	-	-
Share from associates	-	-	-	-	-	-	-	-
Adjusted net profit	18	13	0	21	0	44	28	1
Equity shares outstanding (Cr)	4	4	-	4	-	4	4	-
EPS	5	4		6		12	8	

Other Key Highlights:

- The revenue recognised for Q2FY19 from the Surat Diamond Bourse (SDB) Project was INR 56 cr (~INR 83 cr in Q1FY19). The execution of SDB has picked up significantly with 4000+ labourers now working on the project site and the company is on track to complete the project by June 2020.
- SDB is currently having INR 25-30 cr monthly billing runrate and for the full year of FY19E, management is confident of reporting ~INR 400-450 cr revenue from the project and INR 800 cr revenue for FY20E.
- The company has guided for an orderflow of INR 1000 cr during the year of FY19 and has already bid for projects worth INR 3000 cr, of which 5-7 projects have a ticket size of ~INR 350-400 cr each.
- The company is at L1 stage on three projects (one project in Pune and Ahmedabad) and expects to receive LOI for them shortly.
- During the H1FY19, the company incurred a capex of INR 32 cr, and the company has guided for a total INR 50 cr in capex for the full year of FY19E.
- The management has stated that going beyond 14% EBITDA margins is difficult and will vary between 12-14% going ahead.
- Total cash conversion cycle has increased to 27 days in Q2FY19, mainly due to built up in inventory as a result of ramp up in execution at Surat Diamond Bourse and for the full year of FY19 cash conversion cycle is expected to remain at 10-15 days.
- Gross debt on books of the company at the end of second quarter of the current financial year stood at 23 cr, while net cash stood at INR 210 cr.

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
Profit after tax	22	41	66	101	142
Adjusted net profit	21	41	66	101	142
Equity shares outstanding (Crs)	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 (Crs)	3.6	3.6	3.6	3.6	3.6
EPS (INR) fully diluted	5.9	11.5	18.3	28.0	39.6

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

Balance Sheet (Consolidated)					(INR cr)
As on 31st March	FY16	FY17	FY18E	FY19E	FY20E
Equity share capital	3	29	36	36	36
Reserves & surplus	61	76	265	366	509
Shareholders funds	64	105	301	402	545
Borrowings	47	78	28	28	28
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
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
Uses of funds	112	184	336	437	579
Book value per share (INR)	31	51	93	121	161

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
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
Free cash flow	13	14	76	65	91

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)

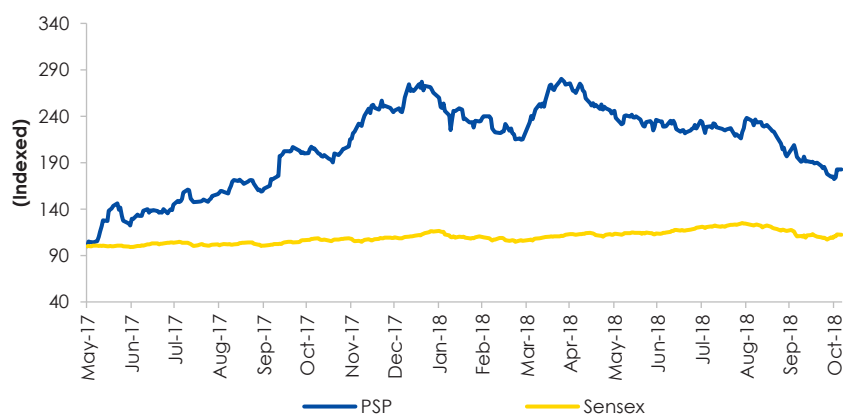
Valuation Parameters

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	14.3	10.1
Price/BV(x)	12.8	7.8	5.5	3.5	2.6
EV/Sales (x)	1.6	1.7	1.9	1.1	0.7
EV/EBITDA (x)	21.9	11.5	13.8	7.8	5.3
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	14.3	10.1
Dividend yield (%)	0%	0%	0%	0%	0%

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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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