

Q3FY19 Result Update PSP Projects Ltd

Growth Momentum Continues

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 Q3FY19. Topline reported at INR 261 cr, up by 53% YoY which was higher than our expectations of 39% YoY growth. EBITDA grew by 38% YoY and EBITDA margins came at 14.05% which was 150 bps lower YoY, but similar to our expectation. PAT in Q3FY19 came at INR 21.48 Cr, up by 42% YoY. However PAT margin decreased by 65 bps YoY to 8.23% mainly due to lower operating margins and higher depreciation charges. The company added orders worth ~INR 850 cr in first 9MFY19 and currently has orderbook worth INR 2,700 cr which offers almost 3 years of revenue visibility. 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 40% CAGR over FY18-20E, and is expected to maintain an EBITDA margin of 13% -14%. We reiterate our 'BUY' recommendation with a target price of INR 590.

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. The company has completed 97 projects within a decade of its operating history and ticket size of an average project also moved to multi-level high from INR 24 cr in FY14 to INR 100 cr currently. The company gets consistent repeat orders from clients, like Zydu-Cadila, Claris, Torrent Pharma and Amul. PSP is also constructing six out of eight large private building projects in 'GIFT City' Ahmedabad. In 9MFY19, the company got 9 repeat orders from multiple clients. Currently, the company has INR 2,700 cr of orders (majorly in the private industrial and institutional space) and that offers almost 3 years of revenue visibility.

Revenue expected to clock 40% CAGR, operating margin likely to stay at 13% -14% over FY18-20E

The lack of organized and efficient players in the small ticket sized building construction space (INR 50-150 cr) has put PSP in a sweet spot and successful completion of SDB will make the company eligible for projects more than INR1,000 cr where competition is limited into 5-6 large players. With almost 40 projects at different stages of execution, PSP's revenue is likely to grow at 40% CAGR over FY18-20E to reach INR 1,478 cr in FY20E and EBITDA margin of the company will remain in the range 13% -14%. Due to the lean balance sheet structure, the company records the highest net profit margins (PAT margin of 8-9%) amongst peers and we estimate this gap to be maintained going forward.

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. PSP 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 25% in FY20E) are the best in the sector and are expected to remain healthy going forward.

Outlook and valuation: Reiterate 'BUY'

PSP is best placed amongst the competition with strong growth and highest return ratios. At CMP of INR 396, the stock is trading at 16x / 11x of FY19E / FY20E EPS. We maintain 'BUY' with a target price of INR 590/share after assigning 16x PE multiple to FY20E EPS of INR 37.

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CMP INR: 396

Rating: Maintain BUY

Target Price INR: 594

Upside: 50%

Bloomberg:	PSPPL:IN
52-week range (INR):	595.00 / 358.00
Share in issue (cr):	3.6
M cap (INR cr):	1,397
Avg. Daily Vol. BSE/NSE (:'000):	13
Promoter Holding (%)	73.28

(INR Cr)	Q3FY19	Q3FY18	% change (YoY)	Q2FY19	% change (QoQ)	FY18	FY19E	FY20E
Revenues	261	171	53%	210	24%	752	1055	1478
EBIDTA	37	27	38%	29	25%	105	142	207
EBIDTA Margin	14.1%	15.6%	-	14.0%	-	14%	14%	14%
PAT	21	15	42%	18	20%	66	92	133
PAT Margin	8.2%	8.9%	-	8.5%	-	9%	9%	9%
Diluted EPS (INR)						14.08	25.48	37.02
Diluted PE (x)						22	16	11
EV/EBIDTA						11	8	5
ROE(%)						22%	23%	25%

Date: 11th February, 2019

(INR Cr)	Q3FY19	Q3FY18	% change (YoY)	Q2FY19	% change (QoQ)	9MFY19	9MFY18	% change (YoY)
Income from operations	261	171	53%	210	24%	706	466	51%
Direct Expenses	211	132	60%	167	27%	567	367	54%
Employee Cost	11	7	45%	11	0%	32	20	57%
Other Expenses	2	5	-52%	3	-19%	8	13	-41%
Total operating expenses	224	144	56%	181	24%	607	401	51%
EBITDA	37	27	38%	29	25%	99	65	52%
Depreciation and amortisation	6	3	124%	6	7%	17	7	144%
EBIT	30	24	28%	24	29%	82	58	41%
Interest expenses	2	2	-4%	2	-1%	6	6	5%
Other income	5	3	51%	6	-15%	17	13	33%
Profit before tax	33	25	34%	27	22%	93	65	43%
Provision for tax	12	9	22%	9	26%	33	24	38%
Core profit	21	15	42%	18	20%	60	41	46%
Extraordinary items	-	-	-	-	-	-	-	-
Profit after tax	21	15	42%	18	20%	60	41	46%
Minority Interest	-	-	-	-	-	-	-	-
Share from associates	-	-	-	-	-	-	-	-
Adjusted net profit	21	15	42%	18	20%	60	41	46%
Equity shares outstanding (Crs)	4	4	-	4	-	4	4	0%
EPS	6	4		5		17	12	46%
EBITDA Margings	14%	16%		14%		14%	14%	
PAT Margin	8%	9%		9%		9%	9%	

Other Key Highlights:

- The revenue recognised for Q3FY19 from the Surat Diamond Bourse (SDB) Project was INR 93 cr and for 9MFY19 total revenue booked from the project was INR 232 cr. The execution of SDB has picked up significantly with 6000+ 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 run-rate and for the full year of FY19E, management is confident of reporting ~INR 350 cr revenue from the project and INR 700 - 750 cr revenue for FY20E.
- The company has guided for an order inflow of INR 1000 cr during the year of FY19 and has already bid for projects worth INR 3000 cr.
- As of December, 2018, PSP added ~INR 840 cr worth of orders. The company has recently terminated one contract worth INR 535 cr due to adverse terms related to working capital and initial investment requirements. This makes us more confident on management's disciplined approach around project selection.
- The management has stated that going beyond 14% EBITDA margins is difficult and will vary between 12-14% going ahead.

Income Statement (Consolidated)

(INR cr)

Year to March	FY16	FY17	FY18	FY19E	FY20E
Income from operations	476	457	752	1,055	1,478
Direct Expenses	206	168	290	411	562
Employee Cost	14	21	29	47	74
Other Expenses	221	201	329	454	636
Total operating expenses	441	390	647	912	1,271
EBITDA	35	67	105	142	207
Depreciation and amortisation	7	8	11	16	21
EBIT	28	59	93	126	186
Interest expenses	3	8	9	10	11
Other income	10	13	19	25	30
Profit before tax	35	64	102	141	205
Provision for tax	13	23	36	49	72
Core profit	22	41	66	92	133
Extraordinary items	0	0	0	0	0
Profit after tax	22	41	66	92	133
Minority Interest	-1	0	0	0	0
Share from associates	0	0	-0	0	0
Adjusted net profit	21	41	66	92	133
Equity shares outstanding (Crs)	3.6	3.6	3.6	3.6	3.6
EPS (INR) basic	5.9	11.5	18.3	25.5	37.0
Diluted shares (Crs)	3.6	3.6	3.6	3.6	3.6
EPS (INR) fully diluted	5.9	11.5	18.3	25.5	37.0
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	FY18	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	8.7	9.0

Growth metrics (%)

Year to March	FY16	FY17	FY18	FY19E	FY20E
Revenues	69.7	(4.0)	64.5	40.3	40.1
EBITDA	55.2	91.5	56.7	36.1	45.3
PBT	62.9	84.4	60.1	37.7	45.3
Net profit after minority interest	52.3	95.3	59.2	39.1	45.3
EPS	52.3	95.3	59.2	39.1	45.3

Balance Sheet (Consolidated)					(INR cr)
As on 31st March	FY16	FY17	FY18	FY19E	FY20E
Equity share capital	3	29	36	36	36
Warrants	0	0	0	0	0
Reserves & surplus	61	76	266	357	491
Shareholders funds	64	105	302	393	527
Borrowings	47	78	28	28	28
Minority interest	0	0	0	1	1
Sources of funds	111	183	330	422	556
Gross block	77	85	120	169	219
Depreciation	24	31	42	58	79
Net block	54	53	78	111	140
Capital work in progress	0	7	2	2	2
Total fixed assets	54	60	80	113	142
Goodwill	0	0	0	0	0
Non Current Assets	17	24	68	73	78
Inventories	10	7	34	46	62
Sundry debtors	20	59	123	176	246
Cash and equivalents	112	137	255	301	369
Loans and advances	22	26	19	36	46
Other current assets	18	20	22	0	0
Total current assets	182	249	453	559	724
Sundry creditors and others	82	77	135	323	389
Other Current Liabilities	55	61	134	0	0
Provisions	3	12	1	0	0
Total CL & provisions	141	150	270	323	389
Net current assets	41	100	183	236	335
Net Deferred tax	0	0	0	0	0
Misc expenditure	0	0	0	0	0
Uses of funds	112	184	331	422	556
Book value per share (INR)	31	51	92	117	154

Cash flow statement					(INR cr)
Year to March	FY16	FY17	FY18	FY19E	FY20E
Net profit	23	41	66	92	133
Add: Depreciation	7	8	11	16	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	114	161
Less: Changes in W. C.	-8	33	-34	7	31
Operating cash flow	40	21	118	107	130
Less: Capex	27	7	36	50	50
Less: Investment in subsidiaries	0	0	0	0	0
Free cash flow	13	14	82	57	80

Profit & Efficiency Ratios

Year to March	FY16	FY17	FY18	FY19E	FY20E
ROAE (%)	35%	39%	22%	23%	25%
ROACE (%)	25%	32%	28%	30%	33%
Debtors (days)	16	47	60	61	61
Current ratio	1.3	1.7	1.7	1.7	1.9
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)	(0.8)	(0.7)	(0.6)

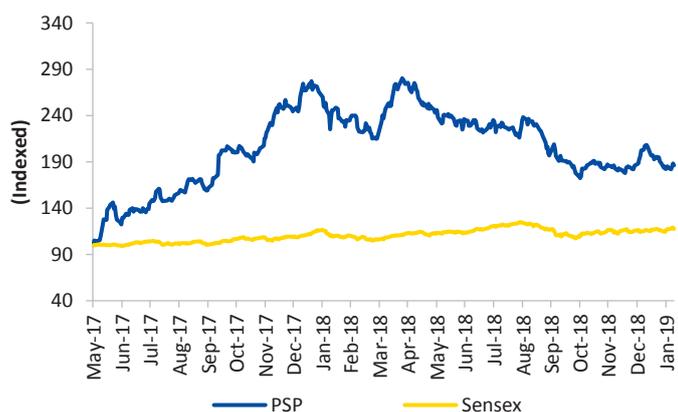
Valuation Parameters

Year to March	FY16	FY17	FY18	FY19E	FY20E
Diluted EPS (INR)	6.3	11.4	18.3	25.5	37.0
Y-o-Y growth (%)	65.8	80.5	60.1	39.1	45.3
CEPS (INR)	8.1	13.7	21.5	30.0	42.8
Diluted P/E (x)	36.3	20.1	21.6	15.5	10.7
Price/BV(x)	12.8	7.8	4.7	3.6	2.7
EV/Sales (x)	1.6	1.7	1.6	1.1	0.7
EV/EBITDA (x)	21.9	11.5	11.2	8.1	5.2
Diluted shares O/S	3.6	3.6	3.6	3.6	3.6
Basic EPS	6.3	11.4	18.3	25.5	37.0
Basic PE (x)	36.3	20.1	21.6	15.5	10.7
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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