

PSP Projects Ltd: Q4FY18 Result Update

CMP INR: 544
 Rating: BUY
 Target Price INR: 760
 Upside: 40%

An Efficient Growth Story

PSP Projects Ltd, an efficient and organised constructor in the medium ticket size institutional and industrial construction segment in and around Gujarat, reported strong set of numbers in Q4FY18. For four consecutive quarters, PSP is beating the market expectations both at the topline and at bottomline due to strong revenue visibility and faster execution. In Q4FY18, the company reported topline of INR 264 cr, up 63% YoY and for the full year of FY18, PSP's revenue grew by whopping 65% YoY to INR 752 cr. PSP's tightly run operation, centralized control and focused approach has made the company most efficient amongst peers with highest net profit margin, negative NWC cycle, 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 eject 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 42% CAGR over FY18-20E, and is expected to maintain an EBITDA margin of 13% -14%. We reiterate 'BUY' recommendation and target price of INR 760.

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 INR 1,575 cr. At the end of FY18, the company has consolidated order book of INR 2,644 cr and that offers more than four years revenue visibility (higher vs industry average). The management has guided for INR 1,000 cr order inflow for FY19E, which we believe is on a conservative side and expect the company to bag orders worth INR 1,200 cr over FY19E. With the current bid pipeline of INR 2000cr, strong order book and revenue visibility, we believe that the company's topline will grow at 42% CAGR over FY18-20E.

Strong order book aid high revenue growth; Margin affected due to higher subcontracting cost

PSP consistently maintained strong revenue growth over the last several quarters. In Q4FY18, the company reported topline growth of 63% YoY backed by strong execution in Surat Diamond Bourses and other large projects. EBITDA for Q4FY18 stood at INR 36 cr, up by 9% YoY. Higher subcontracting cost related to start of new projects impacted the quarterly EBITDA margin performance. EBITDA margin for FY18 came at 13.92% and was lower on YoY basis as PSP executed pure play labour supply contracts worth INR 80 cr in the previous year and that has artificially boosted the EBITDA margins for FY17. Going forward, the company is expected to maintain EBITDA margins in the range of 13-14%.

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 Q4FY18 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 32% and RoE of 27% in FY20E) are the best in the sector and are expected to remain healthy going forward.

Valuation: Maintain BUY with a TP of INR 760

We maintain our bullish outlook on the stock. At CMP of INR 542, the stock is trading at 17x / 13x of FY19E / FY20E EPS. We maintain 'BUY' with a target price of INR 760/share after assigning 18x P/E multiple to FY20E EPS of INR 43.

(INR Cr)	Q4FY18	Q4 FY17	% change (YoY)	Q3FY18	% change (QoQ)	FY18	FY19E	FY20E
Revenues	264	162	63%	171	54%	752	1159	1527
EBIDTA	36	33	9%	27	37%	105	156	214
EBIDTA Margin	14%	21%	-	16%	-	14%	14%	14%
PAT	23	20	14%	15	52%	66	113	155
PAT Margin	9%	13%	-	9%	-	9%	10%	10%
Diluted EPS (INR)						14.08	31.38	43.16
Diluted PE (x)						30	17	13
EV/EBIDTA						17	11	7
ROE(%)						22%	27%	27%

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Bloomberg: PSPPL:IN

52-week range (INR):	595.00 / 190.00
Share in issue (cr):	3.6
M cap (INR cr):	1967
Avg. Daily Vol. BSE/NSE :('000):	132
Promoter Holding (%)	72.13

Date: 11th May 2018

Other Key Highlights:

- The revenue recognised for Q4FY18 from the Surat Diamond Bourse Project is INR 53cr which is above our expectation of INR 40cr for the said period.
- The execution of SDB is seamlessly moving forward, with excavation procedure completed and around 90-95% of foundation work expected to be completed before the monsoon hits. Also, the management has affirmed in the discussion that monsoon will not cause any delays or disruptions in the construction work.
- The company received the mobilisation advance in tune of 5% of the total project cost of SDB. This is in line with our expectation and gives us confidence that the company will not require to dip into its own cash flow to fund the capex required for the project.
- Net Working Capital Cycle turned out to be 15 days in FY18, which is still the best in the industry, on account of higher inventory days. Inventory storing for SDB caused inventory days to move up to 16 in FY18. Going forward, we expect the Net Working Cycle to come down to 10 days.
- During the financial year FY18, the company incurred a capex of INR 42 cr funded from the issue proceeds. We expect the company to incur another INR 50cr in FY19 which should suffice the orders to be executed in FY19.
- Even after the debt repayment of INR 44 cr, the company's cash balance has nearly doubled YoY. Current debt at the end of FY18 is INR 26.4 cr which is not expected to go up.

Q4FY18 Result Highlights

(INR Cr)	Q4FY18	Q4FY17	% change (YoY)	Q3FY18	% change (QoQ)	FY17	FY18
Income from operations	264	162	63%	171	54%	457	752
Direct Expenses	216	115	88%	132	64%	352	610
Employee Cost	8	7	26%	7	15%	21	29
Other Expenses	3	6	-55%	5	-40%	16	9
Total operating expenses	227	128	77%	144	58%	390	647
EBITDA	36	33	9%	27	37%	67	105
Depreciation and amortisation	4	2	104%	3	55%	8	11
EBIT	32	31	2%	24	35%	59	93
Interest expenses	3	2	49%	2	28%	8	9
Other income	6	3	102%	3	82%	13	19
Profit before tax	35	32	8%	25	41%	64	102
Provision for tax	12	12	0%	9	25%	23	36
Core profit	23	20	14%	15	51%	41	66
Extraordinary items	-	-	-	-	-	-	-
Profit after tax	23	20	14%	15	51%	41	66
Minority Interest	-	-	-	-	-	-	-
Share from associates	-	-	-	-	-	-	-
Adjusted net profit	23	20	14%	15	51%	41	66
Equity shares outstanding (Cr)	3.6	3.6	-	3.6	-	3.6	3.6
EPS (INR)	6	6		4		11	18

Financials

Income Statement (Consolidated)						(INR cr)				
Year to March	FY16	FY17	FY18E	FY19E	FY20E					
Income from operations	476	457	752	1,159	1,527					
Direct Expenses	206	168	290	452	580					
Employee Cost	14	21	29	52	76					
Other Expenses	221	201	329	498	657					
Total operating expenses	441	390	647	1,002	1,313					
EBITDA	35	67	105	156	214					
Depreciation and amortisation	7	8	11	17	21					
EBIT	28	59	93	140	192					
Interest expenses	3	8	9	11	11					
Other income	10	13	19	45	58					
Profit before tax	35	64	102	174	239					
Provision for tax	13	23	36	61	84					
Core profit	22	41	66	113	155					
Extraordinary items	0	0	0	0	0					
Profit after tax	22	41	66	113	155					
Minority Interest	-1	0	0	0	0					
Share from associates	0	0	-0	0	0					
Adjusted net profit	21	41	66	113	155					
Equity shares outstanding (Cr)	3.2	28.8	28.8	28.8	28.8					
EPS (INR) basic	6.6	1.4	2.3	3.9	5.4					
Diluted shares (Cr)	3.6	3.6	3.6	3.6	3.6					
EPS (INR) fully diluted	5.9	11.5	18.3	31.4	43.2					
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	1.4	1.4
Interest expenditure	0.7	1.8	1.2	1.0	0.7
EBITDA margins	7.3	14.6	13.9	13.5	14.0
Net profit margins	4.5	9.1	8.8	9.8	10.2

Growth metrics (%)

Year to March	FY16	FY17	FY18E	FY19E	FY20E
Revenues	69.7	(4.0)	64.5	54.1	31.8
EBITDA	55.2	91.5	56.7	49.5	36.7
PBT	62.9	84.4	60.1	69.7	37.5
Net profit after minority interest	52.3	95.3	59.2	71.3	37.5
EPS	52.3	95.3	59.2	71.3	37.5

Profit & Efficiency Ratios

Year to March	FY16	FY17	FY18E	FY19E	FY20E
ROAE (%)	35%	39%	22%	27%	27%
ROACE (%)	25%	32%	28%	31%	32%
Debtors (days)	16	47	60	55	52
Current ratio	1.3	1.7	1.6	1.7	1.9
Gross Debt/Equity	0.7	0.7	0.0	0.1	0.0
Inventory (days)	8	5	16	14	13
Payable (days)	63	61	62	59	55
Cash conversion cycle (days)	-40	-9	15	10	10
Gross Debt/EBITDA	1.3	1.2	0.0	0.2	0.1
Net debt/Equity	(1.0)	(0.6)	(0.7)	(0.7)	(0.7)

Valuation Parameters

Year to March	FY16	FY17	FY18E	FY19E	FY20E
Diluted EPS (INR)	6.3	11.4	18.3	31.4	43.2
Y-o-Y growth (%)	65.8	80.5	60.1	71.3	37.5
CEPS (INR)	8.1	13.7	21.5	36.0	49.1
Diluted P/E (x)	36.3	20.1	29.7	17.3	12.6
Price/BV(x)	12.8	7.8	6.5	4.7	3.4
EV/Sales (x)	1.6	1.7	2.3	1.4	1.0
EV/EBITDA (x)	21.9	11.5	16.6	10.7	7.3
Diluted shares O/S	3.6	3.6	3.6	3.6	3.6
Basic EPS	6.3	11.4	18.3	31.4	43.2
Basic PE (x)	36.3	20.1	29.7	17.3	12.6
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	378	534					
Shareholders funds	64	105	301	414	570					
Borrowings	47	78	28	28	28					
Minority interest	0	0	0	0	0					
Sources of funds	111	183	330	442	598					
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	45	53					
Sundry debtors	20	59	123	173	218					
Cash and equivalents	112	137	228	318	429					
Loans and advances	22	26	26	36	46					
Other current assets	18	20	15	0	0					
Total current assets	182	249	427	572	747					
Sundry creditors and others	82	77	270	341	394					
Other Current Liabilities	55	61	0	0	0					
Provisions	3	12	1	0	0					
Total CL & provisions	141	150	271	341	394					
Net current assets	41	100	156	231	353					
Net Deferred tax	0	0	0	0	0					
Misc expenditure	0	0	0	0	0					
Uses of funds	112	184	336	449	604					
Book value per share (INR)	35	6	12	16	21					

Cash flow statement

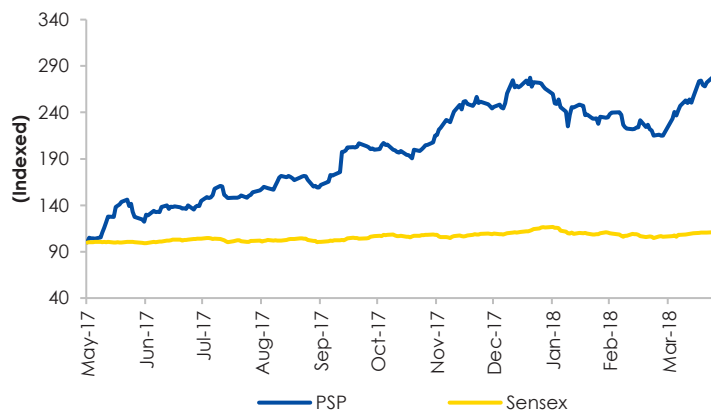
Year to March	FY16	FY17	FY18E	FY19E	FY20E
Net profit	23	41	66	113	155
Add: Depreciation	7	8	11	17	21
Add: Interest net of tax	2	5	6	7	7
Add: Deferred tax	0	0	0	0	0
Add: Others	0	0	0	0	0
Gross cash flow	32	54	83	137	184
Less: Changes in W. C.	-8	33	-34	-15	11
Operating cash flow	40	21	118	152	174
Less: Capex	27	7	50	50	50
Less: Investment in subsidiaries	-8	8	70	5	5
Free cash flow	22	7	-3	97	119

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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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