

## Q1FY20 Result Update PSP Projects Ltd

### Growth Momentum Continues

PSP Projects Ltd (PSP), reported a strong set of numbers which were well in-line with our expectations. Although the company maintained a healthy revenue growth trend; momentum has slowed for second consecutive quarter. Revenue in Q1FY20 grew by 29% YoY to INR 308 cr against more than 50% quarterly growth trend reported by the company since listing. High base and election season were the major reason for lower top-line growth in Q1FY19. However, PSP maintained its strong report-card of healthy margins. EBITDA in Q1FY20 grew by 29% YoY to INR 43 cr, and was mainly driven by high top-line growth. EBITDA margins remained flat YoY at 14%. PAT grew by 20% YoY to INR 25 cr. PAT margins came at 8% and grew by 63 bps YoY. The company added orders worth ~INR 763 cr in Q1FY20 and currently has orderbook worth INR 3,402 cr. With a strong orderbook and healthy order pipeline, we believe the company will report more than 40% revenue growth in FY20E and will maintain EBITDA margin at 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 124 projects within 11 yrs of its operating history and ticket size of an average project has also moved to multi-level high from INR 8.5 cr in FY13 to INR 43 cr currently. The company gets consistent repeat orders from clients, like Zydus-Cadila, Claris, Torrent Pharma, DDU, MRF and AMUL. Currently, the company has INR 3,402 cr worth of orders and that offers almost 3 years of revenue visibility. The company is also having a bid pipeline of INR 3,000 cr and considering its high win ratio we remain confident on strong order addition of in FY20E. We believe, the company will add ~INR 1,500 cr of new orders in FY20E.

#### Revenue expected to grow at 40% in FY20E, operating margin likely to stay at 13% –14% range

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 Surat Diamond Bourse will make the company eligible for projects more than INR 1,000 cr where competition is limited to 5-6 large players. Strong order-inflow and healthy bid pipeline will aid the company to grow its revenue by 40% YoY in FY20E. With timely execution and strong track record of disciplined bidding, EBITDA margin is also expected to remain in the range of 13% –14% going forward. Due to its lean balance sheet structure, the company has also maintained its industry leading PAT margins at 8%.

#### Efficient capital allocation to aid highest RoCE among peers

Timely execution and proficient project selection aid in 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 also has the best working capital cycle in the sector. As a result of lean balance sheet, prudent working capital management and profitable execution, the return metrics are the best in the sector and are expected to remain healthy going forward. RoCE of the company is expected to increase to 35% for FY20E.

#### Outlook and valuation: Reiterate 'BUY'

PSP is best placed amongst the building constructors with strong growth and highest return ratios. We remain confident on the growth prospect of the company in the medium term. At CMP of INR 490, the stock is trading at 13x / 12x of FY20E / FY21E EPS. We maintain 'BUY' with a target price of INR 590/share after assigning 14x PE multiple to FY21E EPS of INR 42.

Debashish Mazumdar  
Research Analyst  
debashish.mazumdar@edelweissfin.com

CMP INR: 490

Rating: Maintain BUY

Target Price INR: 590

Upside: 20%

Bloomberg:	PSPPL:IN
52-week range (INR):	500.00 / 473.00
Share in issue (cr):	3.6
M cap (INR cr):	1,778
Avg. Daily Vol. BSE/NSE :('000):	45
Promoter Holding (%)	73.28

(INR Cr)	Q1FY20	Q1FY19	% change (YoY)	Q4FY19	% change (QoQ)	FY18	FY19	% change (YoY)
Revenues	308	238	29%	339	-9%	752	1050	40%
EBIDTA	43	33	29%	50	-14%	105	149	42%
EBIDTA Margin	14%	14%	-	15%	-	14%	14%	
PAT	25	21	20%	30	-15%	66	89	35%
PAT Margin	8%	9%	-	9%	-	9%	8%	
Diluted EPS (INR)						11.5	18.3	

Date: 9th August, 2019

## Q1FY20 Result Highlights

(INR Cr)	Q1FY20	Q1FY19	% change (YoY)	Q4FY19	% change (QoQ)	FY19	FY18	% change (YoY)
Income from operations	308	238	29%	339	-9%	1048	730	44%
Direct Expenses	247	193	28%	273	-10%	844	583	45%
Employee Cost	14	10	38%	12	18%	43	29	51%
Other Expenses	3	2	60%	3	1%	11	16	-34%
Total operating expenses	265	205	29%	288	-8%	898	628	43%
EBITDA	43	33	29%	50	-14%	150	101	48%
Depreciation and amortisation	6	5	22%	7	-21%	24	11	117%
EBIT	37	29	30%	43	-13%	125	90	39%
Interest expenses	3	2	79%	3	-13%	9	9	5%
Other income	5	6	-20%	6	-24%	23	18	23%
Profit before tax	39	33	19%	46	-14%	139	100	39%
Provision for tax	14	12	16%	16	-13%	48	36	36%
Core profit	25	21	20%	30	-15%	91	64	41%
Extraordinary items	-	-	-	-	-	-	-	-
Profit after tax	25	21	20%	30	-15%	91	64	41%
Minority Interest	-	-	-	-	-	-	-	-
Share from associates	-	-	-	-	-	-	-	-
Adjusted net profit	25	21	20%	30	-15%	91	64	41%
Equity shares outstanding (Cr)	7	7	0%	6	18%	4	4	0%
EPS	4	3	20%	5	-28%	25	18	41%
EBITDA Margins	14%	14%		15%		14%	14%	
PAT Margin	8%	9%		9%		9%	9%	

## Other Key Highlights:

- The revenue recognised for Q1FY20 from the Surat Diamond Bourse (SDB) Project was INR 94 cr. Management remained confident of booking INR 700-750 cr revenue from this project in FY20E. It is expected to be completed by the end of Q2FY21E.
- In a quarter mired by muted ordering, the company managed to get a commendable order inflow of INR 763 cr in Q1FY20, majorly in Institutional & Residential Buildings division. It includes a major High Rise cum Residential affordable housing project worth INR 600 cr in Bhiwandi, Maharashtra. This order-inflow was against an inflow of INR 78 cr received in Q1FY19.
- Company also stated that it has a bid-pipeline of projects worth INR 3,000 cr which includes two large projects worth INR 1,200 cr. This makes management confident of achieving INR 1,500 cr worth of order-inflow for FY20E.
- The management has indicated that going beyond 14% EBITDA margins would be difficult and that it would vary between 12 to 14% going ahead.
- PSP has INR 222 cr worth of cash & cash equivalent on its balance sheet. It continues to remain debt-free with no plans to raise any debt for FY20E.

### Previous Result Outlook

**In Q4FY19:** PSP is best placed amongst the competition with strong growth and highest return ratios. At CMP of INR 508, the stock is trading at 14x / 12x of FY20E / FY21E EPS. We maintain 'BUY' with a target price of INR 590/share after assigning 14x PE multiple to FY20E EPS of INR 42.

**In Q2FY19:** 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.

**In Q3FY19:** 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.

## Financials

Year to March	FY17	FY18	FY19	FY20E	FY21E
Income from operations	457	752	1,050	1,497	1,735
Direct Expenses	168	290	416	599	694
Employee Cost	21	29	43	60	69
Other Expenses	201	329	443	626	725
Total operating expenses	390	647	902	1,285	1,489
EBITDA	67	105	149	213	246
Depreciation and amortisation	8	11	24	26	32
EBIT	59	93	124	186	214
Interest expenses	8	9	10	9	10
Other income	13	19	23	26	30
Profit before tax	64	102	137	202	234
Provision for tax	23	36	48	71	82
Core profit	41	66	89	132	152
Extraordinary items	0	0	0	0	0
Profit after tax	41	66	89	132	152
Minority Interest	0	0	0	0	0
Share from associates	0	-0	-0	0	0
Adjusted net profit	41	66	89	132	152
Equity shares outstanding (Crs)	3.6	3.6	3.6	3.6	3.6
EPS (INR) basic	11.5	18.3	24.8	36.5	42.3
Diluted shares (Crs)	3.6	3.6	3.6	3.6	3.6
EPS (INR) fully diluted	11.5	18.3	24.8	36.5	42.3
Dividend per share	2.5	5.0	5.0	0.0	0.0
Dividend payout (%)	0.2	0.3	0.2	0.0	0.0

## Common size metrics- as % of net revenues

Year to March	FY17	FY18	FY19	FY20E	FY21E
Operating expenses	85.4	86.1	85.9	85.8	85.8
Depreciation	1.7	1.5	2.3	1.8	1.9
Interest expenditure	1.8	1.2	0.9	0.6	0.6
EBITDA margins	14.6	13.9	14.1	14.2	14.2
Net profit margins	9.1	8.8	8.5	8.8	8.8

## Growth metrics (%)

Year to March	FY17	FY18	FY19	FY20E	FY21E
Revenues	(4.0)	64.5	39.7	42.5	15.9
EBITDA	91.5	56.7	42.0	43.1	15.9
PBT	84.4	60.1	34.1	47.3	15.8
Net profit after minority interest	95.3	59.2	35.2	47.5	15.8
EPS	95.3	59.2	35.2	47.5	15.8

## Financials

## Balance Sheet (Consolidated)

(INR cr)

As on 31st March	FY17	FY18	FY19	FY20E	FY21E
Equity share capital	29	36	36	36	36
Warrants	0	0	0	0	0
Reserves & surplus	76	266	335	466	618
Shareholders funds	105	302	371	502	654
Borrowings	78	28	25	25	25
Minority interest	0	0	1	1	1
<b>Sources of funds</b>	<b>183</b>	<b>330</b>	<b>397</b>	<b>528</b>	<b>680</b>
Gross block	85	120	169	219	269
Depreciation	31	42	66	93	125
Net block	53	78	102	126	144
Capital work in progress	7	2	1	0	0
Total fixed assets	60	80	103	126	144
Goodwill	0	0	0	0	0
Non Current Assets	24	68	90	103	108
Inventories	7	34	75	86	99
Sundry debtors	59	123	143	187	217
Cash and equivalents	137	255	222	149	261
Loans and advances	26	19	67	106	116
Other current assets	20	22	29	0	0
Total current assets	249	453	535	528	694
Sundry creditors and others	77	135	158	230	267
Other Current Liabilities	61	134	164	0	0
Provisions	13	1	0	0	0
Total CL & provisions	151	270	323	230	267
Net current assets	99	183	212	298	427
Net Deferred tax	0	0	0	0	0
Misc expenditure	0	0	0	0	0
<b>Uses of funds</b>	<b>183</b>	<b>330</b>	<b>397</b>	<b>528</b>	<b>680</b>
Book value per share (INR)	51	92	110	147	189

## Cash flow statement

(INR cr)

Year to March	FY17	FY18	FY19	FY20E	FY21E
Net profit	41	66	89	132	152
Add: Depreciation	8	11	24	26	32
Add: Interest net of tax	5	6	6	6	6
Add: Deferred tax	0	0	0	0	0
Add: Others	0	0	0	0	0
Gross cash flow	54	83	120	164	191
Less: Changes in W. C.	32	-33	53	168	17
Operating cash flow	22	117	67	-4	174
Less: Capex	7	36	48	50	50
Less: Investment in subsidiaries	0	0	0	0	0
<b>Free cash flow</b>	<b>15</b>	<b>81</b>	<b>19</b>	<b>-54</b>	<b>124</b>

## Financials

## Profit &amp; Efficiency Ratios

Year to March	FY17	FY18	FY19	FY20E	FY21E
ROAE (%)	39%	22%	24%	26%	23%
ROACE (%)	32%	28%	22%	35%	32%
Debtors (days)	47	60	50	46	46
Current ratio	1.7	1.7	1.6	2.3	2.6
Gross Debt/Equity	0.7	0.0	0.0	0.0	0.0
Inventory (days)	5	16	26	21	21
Payable (days)	61	62	55	56	56
Cash conversion cycle (days)	-9	15	21	10	10
Gross Debt/EBITDA	1.2	0.0	0.0	0.1	0.1
Net debt/Equity	(0.6)	(0.8)	(0.6)	(0.2)	(0.4)

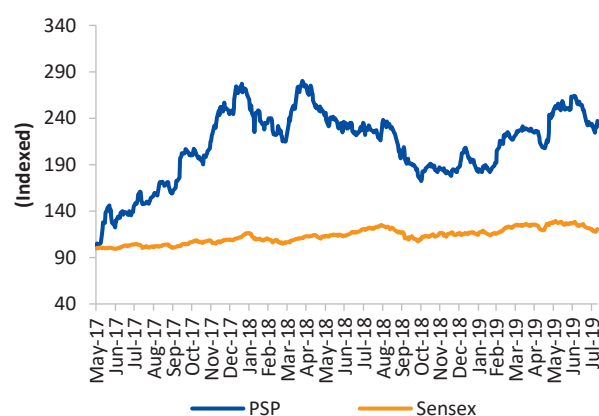
## Valuation Parameters

Year to March	FY17	FY18	FY19	FY20E	FY21E
Diluted EPS (INR)	11.4	18.3	24.8	36.5	42.3
Y-o-Y growth (%)	80.5	60.1	35.2	47.5	15.8
CEPS (INR)	13.7	21.5	31.5	43.8	51.3
Diluted P/E (x)	20.1	22.7	19.8	13.4	11.6
Price/BV(x)	7.9	5.0	4.7	3.5	2.7
EV/Sales (x)	1.7	1.7	1.5	1.1	0.9
EV/EBITDA (x)	11.5	11.9	10.4	7.7	6.2
Diluted shares O/S	3.6	3.6	3.6	3.6	3.6
Basic EPS	11.4	18.3	24.8	36.5	42.3
Basic PE (x)	20.1	22.7	19.8	13.4	11.6
Dividend yield (%)	1%	2%	2%	0%	0%

Edelweiss Broking Limited, 1st Floor, Tower 3, Wing B, Kohinoor City Mall, Kohinoor City, Kiro Road, Kurla(W)  
Board: (91-22) 4272 2200

**Vinay Khattar**  
Head Research  
vinay.khattar@edelweissfin.com

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



## Disclaimer

Edelweiss Broking Limited ("EBL" or "Research Entity") is regulated by the Securities and Exchange Board of India ("SEBI") and is licensed to carry on the business of broking, depository services and related activities. The business of EBL and its Associates (list available on [www.edelweissfin.com](http://www.edelweissfin.com)) are organized around five broad business groups – Credit including Housing and SME Finance, Commodities, Financial Markets, Asset Management and Life Insurance.

Broking services offered by Edelweiss Broking Limited under SEBI Registration No.: INZ000005231; Name of the Compliance Officer: Mr. Brijmohan Bohra, Email ID: [complianceofficer.ebl@edelweissfin.com](mailto:complianceofficer.ebl@edelweissfin.com) Corporate Office: Edelweiss House, Off CST Road, Kalina, Mumbai - 400098; Tel. 18001023335/022-42722200/022-40094279

This Report has been prepared by Edelweiss Broking Limited in the capacity of a Research Analyst having SEBI Registration No. INH000000172 and distributed as per SEBI (Research Analysts) Regulations 2014. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors.

This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject EBL and associates / group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. EBL reserves the right to make modifications and alterations to this statement as may be required from time to time. EBL or any of its associates / group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. EBL is committed to providing independent and transparent recommendation to its clients. Neither EBL nor any of its associates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including loss of revenue or lost profits that may arise from or in connection with the use of the information. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The information provided in these reports remains, unless otherwise stated, the copyright of EBL. All layout, design, original artwork, concepts and other Intellectual Properties, remains the property and copyright of EBL and may not be used in any form or for any purpose whatsoever by any party without the express written permission of the copyright holders.

EBL shall not be liable for any delay or any other interruption which may occur in presenting the data due to any reason including network (Internet) reasons or snags in the system, break down of the system or any other equipment, server breakdown, maintenance shutdown, breakdown of communication services or inability of the EBL to present the data. In no event shall EBL be liable for any damages, including without limitation direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by the EBL through this report.

We offer our research services to clients as well as our prospects. Though this report is disseminated to all the customers simultaneously, not all customers may receive this report at the same time. We will not treat recipients as customers by virtue of their receiving this report.

EBL and its associates, officer, directors, and employees, research analyst (including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company(ies), mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company(ies) discussed herein or act as advisor or lender/borrower to such company(ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance. EBL may have proprietary long/short position in the above mentioned scrip(s) and therefore should be considered as interested. The views provided herein are general in nature and do not consider risk appetite or investment objective of any particular investor; readers are requested to take independent professional advice before investing. This should not be construed as invitation or solicitation to do business with EBL.

EBL or its associates may have received compensation from the subject company in the past 12 months. EBL or its associates may have managed or co-managed public offering of securities for the subject company in the past 12 months. EBL or its associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. EBL or its associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. EBL or its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. Research analyst or his/her relative or EBL's associates may have financial interest in the subject company. EBL, its associates, research analyst and his/her relative may have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance.

Participants in foreign exchange transactions may incur risks arising from several factors, including the following: (i) exchange rates can be volatile and are subject to large fluctuations; (ii) the value of currencies may be affected by numerous market factors, including world and national economic, political and regulatory events, events in equity and debt markets and changes in interest rates; and (iii) currencies may be subject to devaluation or government imposed exchange controls which could affect the value of the currency. Investors in securities such as ADRs and Currency Derivatives, whose values are affected by the currency of an underlying security, effectively assume currency risk.

Research analyst has served as an officer, director or employee of subject Company: No  
 EBL has financial interest in the subject companies: No

EBL's Associates may have actual / beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report.

Research analyst or his/her relative has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

EBL has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No  
 Subject company may have been client during twelve months preceding the date of distribution of the research report.

There were no instances of non-compliance by EBL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years. A graph of daily closing prices of the securities is also available at [www.nseindia.com](http://www.nseindia.com)

### Analyst Certification:

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.



## Disclaimer

### Additional Disclaimer for U.S. Persons

Edelweiss is not a registered broker – dealer under the U.S. Securities Exchange Act of 1934, as amended (the “1934 act”) and under applicable state laws in the United States. In addition Edelweiss is not a registered investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the “Advisers Act” and together with the 1934 Act, the “Acts”), and under applicable state laws in the United States. Accordingly, in the absence of specific exemption under the Acts, any brokerage and investment services provided by Edelweiss, including the products and services described herein are not available to or intended for U.S. persons.

This report does not constitute an offer or invitation to purchase or subscribe for any securities or solicitation of any investments or investment services and/or shall not be considered as an advertisement tool. “U.S. Persons” are generally defined as a natural person, residing in the United States or any entity organized or incorporated under the laws of the United States. US Citizens living abroad may also be deemed “US Persons” under certain rules.

Transactions in securities discussed in this research report should be effected through Edelweiss Financial Services Inc.

### Additional Disclaimer for U.K. Persons

The contents of this research report have not been approved by an authorised person within the meaning of the Financial Services and Markets Act 2000 (“FSMA”).

In the United Kingdom, this research report is being distributed only to and is directed only at (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the FSMA (Financial Promotion) Order 2005 (the “Order”); (b) persons falling within Article 49(2)(a) to (d) of the Order (including high net worth companies and unincorporated associations); and (c) any other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as “relevant persons”).

This research report must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this research report relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this research report or any of its contents. This research report must not be distributed, published, reproduced or disclosed (in whole or in part) by recipients to any other person.

### Additional Disclaimer for Canadian Persons

Edelweiss is not a registered adviser or dealer under applicable Canadian securities laws nor has it obtained an exemption from the adviser and/or dealer registration requirements under such law. Accordingly, any brokerage and investment services provided by Edelweiss, including the products and services described herein, are not available to or intended for Canadian persons.

This research report and its respective contents do not constitute an offer or invitation to purchase or subscribe for any securities or solicitation of any investments or investment services.

### Disclosures under the provisions of SEBI (Research Analysts) Regulations 2014 (Regulations)

Edelweiss Broking Limited (“EBL” or “Research Entity”) is regulated by the Securities and Exchange Board of India (“SEBI”) and is licensed to carry on the business of broking, depository services and related activities. The business of EBL and its associates are organized around five broad business groups – Credit including Housing and SME Finance, Commodities, Financial Markets, Asset Management and Life Insurance. There were no instances of non-compliance by EBL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years. This research report has been prepared and distributed by Edelweiss Broking Limited (“Edelweiss”) in the capacity of a Research Analyst as per Regulation 22(1) of SEBI (Research Analysts) Regulations 2014 having SEBI Registration No.INH000000172.