

Q2FY20 Result Update PSP Projects Ltd

Robust Performance exceeds expectations, working capital days rise slightly

PSP Projects Ltd (PSP), reported a stellar set of numbers which exceeded our expectations. Revenue in Q2FY20 grew by 49% YoY (vs expectation of 26%) to INR 312 cr against less than 30% quarterly growth trend reported by the company for last two quarters. High execution in surat diamond bourse and institutional projects in gujarat drove the topline this quarter. EBITDA margins dipped slightly by 27 bps YoY to 13.7% (vs expected 14%) due to higher construction costs. PAT grew by 81% YoY (vs expected 40%) to INR 32 cr driven by high operating profit and lower tax rates. The company added orders worth ~INR 86 cr in Q2FY20 and currently has orderbook worth INR 3,191 cr (vs 2,978 cr in FY19). 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 130 projects within 12 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 3,191 cr worth of orders and that offers almost 3 years of revenue visibility. The company is also having a bid pipeline of INR 2,000 cr and considering its high win ratio we remain confident on strong order addition in FY20E. We believe, the company will add ~INR 650 cr worth of new orders in the remaining part 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 and new tax reforms, the company has its PAT margins at 10%.

Efficient capital allocation to aid highest RoCE among peers

Timely execution and proficient project selection aid in efficient capital management for PSP. PSP's working capital days bumped up slightly to 35 days in this quarter compared to 27 days in the corresponding period due to inventory pileup at SDB. But this is temporary and is expected to come down going forward. As a result of lean balance sheet, prudent working capital management and profitable execution, the return metrics of the company 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 548, the stock is trading at 15x / 13x 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.

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CMP INR: 548

Rating: Maintain BUY

Target Price INR: 590

Upside: 8%

Bloomberg:	PSPPL:IN
52-week range (INR):	562.00 / 547.00
Share in issue (cr):	3.6
M cap (INR cr):	1,973
Avg. Daily Vol. BSE/NSE :('000):	45
Promoter Holding (%)	73.28

(INR Cr)	Q2FY20	Q2FY19	% change (QoQ)	Q1FY20	% change (QoQ)	FY18	FY19	% change (YoY)
Revenues	312	210	49%	308	1%	752	1050	40%
EBIDTA	43	29	46%	43	-1%	105	149	42%
EBIDTA Margin	14%	14%	-	14%	-	14%	14%	
PAT	32	18	82%	25	28%	66	89	35%
PAT Margin	10%	9%	-	8%	-	9%	8%	
Diluted EPS (INR)						18	25	35%

Date: 24th October, 2019

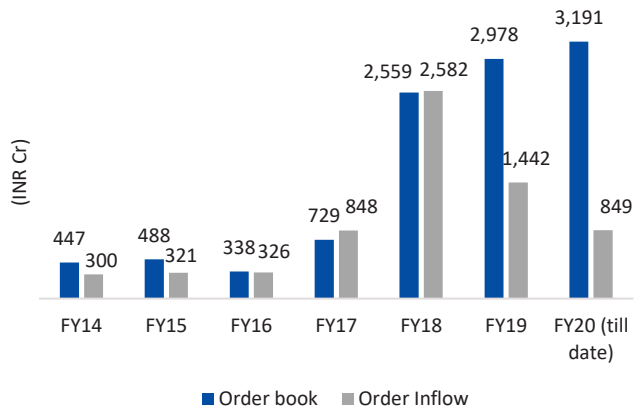
Q2 FY20 Result Highlights

(INR Cr)	Q2FY20	Q2FY19	% change (YoY)	Q1FY20	% change (QoQ)
Income from operations	312	210	49%	308	1%
Direct Expenses	251	167	51%	247	2%
Employee Cost	15	11	36%	14	6%
Other Expenses	3	3	10%	3	-7%
Total operating expenses	269	181	49%	265	2%
EBITDA	43	29	46%	43	-1%
Depreciation and amortisation	6	6	7%	6	6%
EBIT	37	24	55%	37	-1%
Interest expenses	4	2	66%	3	32%
Other income	7	6	24%	5	54%
Profit before tax	40	27	48%	39	3%
Provision for tax	7	9	-18%	14	-45%
Core profit	32	18	82%	25	28%
Extraordinary items	-	-	-	-	
Profit after tax	32	18	82%	25	28%
Minority Interest	-	-	-	-	
Share from associates	-	-	-	-	
Adjusted net profit	32	18	82%	25	28%
Equity shares outstanding (Crs)	4	4		4	
EPS	9	5	82%	7	28%
EBITDA Margins	14%	14%		14%	
PAT Margin	10%	9%		8%	

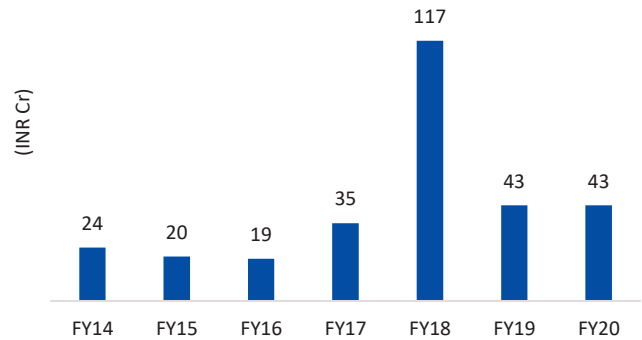
Other Key Highlights:

- The revenue recognised for Q2FY20 from the Surat Diamond Bourse (SDB) Project was INR 88 cr. Management has revised down the expected revenue from this project to INR 500 cr for FY20E. Delay in the project was mainly caused from the client's end which also led to higher inventory pileup. It has been extended by 10 months and 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 849 cr in H1FY20, 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 463 cr received in H1FY19.
- Company also stated that it has a bid-pipeline of projects worth INR 2,000 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 as of now.
- Company's board has approved additional fund issuance of upto INR 300 cr which the management said is intended for large ticket projects that may come up in Q4FY20E.

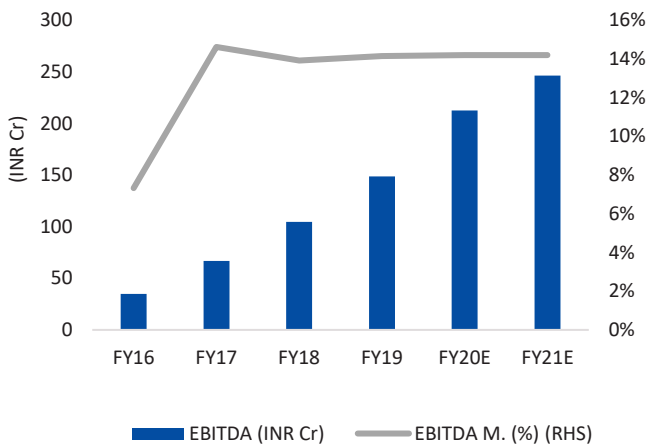
FY18 was a year of inflection mainly due to Surat Diamond Bourses (SDB) order win



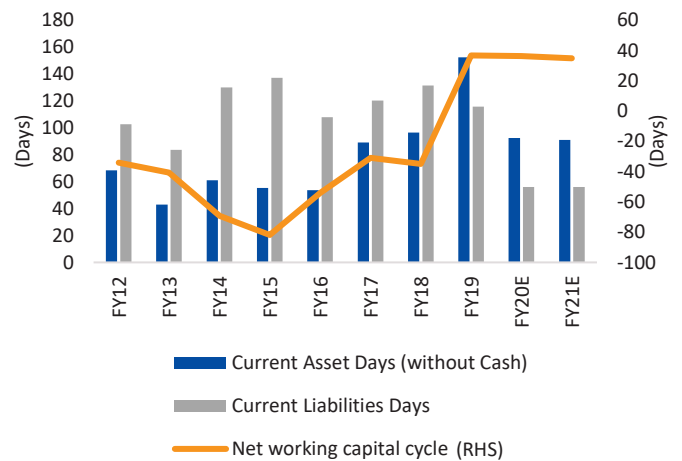
Average ticket size of projects has increased significantly



EBITDA is expected to report 47% CAGR over FY17-20E



Working capital cycle well in control as per industry standards



Source: Edelweiss Professional Investor Research

Previous Result Outlook

In Q1FY20: 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.

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 FY21E EPS of INR 42.

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.

Q1FY20

Q1FY20 Result Update
PSP Projects Ltd

Key Performance Indicators

Revenue (INR Crores)

Q1FY20	Q1FY19	Q1FY18
1,000	850	750

Profit (INR Crores)

Q1FY20	Q1FY19	Q1FY18
150	120	100

EPS (INR)

Q1FY20	Q1FY19	Q1FY18
15	12	10

Operating Profit Margin (%)

Q1FY20	Q1FY19	Q1FY18
15%	14%	13%

Net Profit Margin (%)

Q1FY20	Q1FY19	Q1FY18
15%	14%	13%

EBITDA Margin (%)

Q1FY20	Q1FY19	Q1FY18
15%	14%	13%

Operating Profit (INR Crores)

Q1FY20	Q1FY19	Q1FY18
150	120	100

Net Profit (INR Crores)

Q1FY20	Q1FY19	Q1FY18
150	120	100

EBITDA (INR Crores)

Q1FY20	Q1FY19	Q1FY18
150	120	100

Operating Profit (INR Crores)

Q1FY20	Q1FY19	Q1FY18
150	120	100

Net Profit (INR Crores)

Q1FY20	Q1FY19	Q1FY18
150	120	100

EBITDA (INR Crores)

Q1FY20	Q1FY19	Q1FY18
150	120	100

Q4FY19

Q4FY19 Result Update
PSP Projects Ltd

Key Performance Indicators

Revenue (INR Crores)

Q4FY19	Q4FY18	Q4FY17
1,000	850	750

Profit (INR Crores)

Q4FY19	Q4FY18	Q4FY17
150	120	100

EPS (INR)

Q4FY19	Q4FY18	Q4FY17
15	12	10

Operating Profit Margin (%)

Q4FY19	Q4FY18	Q4FY17
15%	14%	13%

Net Profit Margin (%)

Q4FY19	Q4FY18	Q4FY17
15%	14%	13%

EBITDA Margin (%)

Q4FY19	Q4FY18	Q4FY17
15%	14%	13%

Operating Profit (INR Crores)

Q4FY19	Q4FY18	Q4FY17
150	120	100

Net Profit (INR Crores)

Q4FY19	Q4FY18	Q4FY17
150	120	100

EBITDA (INR Crores)

Q4FY19	Q4FY18	Q4FY17
150	120	100

Operating Profit (INR Crores)

Q4FY19	Q4FY18	Q4FY17
150	120	100

Net Profit (INR Crores)

Q4FY19	Q4FY18	Q4FY17
150	120	100

EBITDA (INR Crores)

Q4FY19	Q4FY18	Q4FY17
150	120	100

Q3FY19

Q3FY19 Result Update
PSP Projects Ltd

Key Performance Indicators

Revenue (INR Crores)

Q3FY19	Q3FY18	Q3FY17
1,000	850	750

Profit (INR Crores)

Q3FY19	Q3FY18	Q3FY17
150	120	100

EPS (INR)

Q3FY19	Q3FY18	Q3FY17
15	12	10

Operating Profit Margin (%)

Q3FY19	Q3FY18	Q3FY17
15%	14%	13%

Net Profit Margin (%)

Q3FY19	Q3FY18	Q3FY17
15%	14%	13%

EBITDA Margin (%)

Q3FY19	Q3FY18	Q3FY17
15%	14%	13%

Operating Profit (INR Crores)

Q3FY19	Q3FY18	Q3FY17
150	120	100

Net Profit (INR Crores)

Q3FY19	Q3FY18	Q3FY17
150	120	100

EBITDA (INR Crores)

Q3FY19	Q3FY18	Q3FY17
150	120	100

Operating Profit (INR Crores)

Q3FY19	Q3FY18	Q3FY17
150	120	100

Net Profit (INR Crores)

Q3FY19	Q3FY18	Q3FY17
150	120	100

EBITDA (INR Crores)

Q3FY19	Q3FY18	Q3FY17
150	120	100

Income Statement (Consolidated)

(INR cr)

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 (%)	21.7	27.3	20.2	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

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
Sources of funds	183	330	397	528	680
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
Uses of funds	183	330	397	528	680
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
Free cash flow	15	81	19	-54	124

Profit & 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)

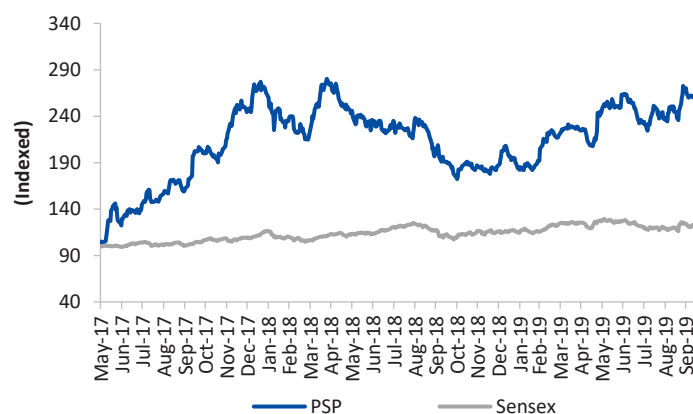
Valuation Parameters

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	18.4	15.0	12.9
Price/BV(x)	7.9	5.0	4.4	3.9	3.0
EV/Sales (x)	1.7	1.7	1.4	1.2	1.0
EV/EBITDA (x)	11.5	11.9	9.6	8.7	7.0
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	18.4	15.0	12.9
Dividend yield (%)	1%	1%	1%	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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