

Q3FY20 Result Update PSP Projects Ltd

Robust topline growth exceeds expectations, margins slightly affected

PSP Projects Ltd (PSP), reported a robust set of numbers that exceeded our expectations. Revenue in Q3FY20 grew by 62% YoY (vs expectation of 34%) to INR 423 cr continuing with its trend of more than 50% growth. High execution in surat diamond bourse and other institutional projects in Gujarat drove the topline this quarter. EBITDA margins dipped by 130 bps YoY to 12.8% (vs expected 14%) due to the nature of job-mix and execution. PAT grew by 70% YoY (vs expected 53%) to INR 32 cr driven by high operating profit and lower tax rates. The company added orders worth ~INR 310 cr in Q3FY20 and currently has orderbook worth INR 3,078 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 margins at 13%-14% level. 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 stellar performance in its small life of existence. The company has completed 142 projects within 12 yrs of its operating history and the ticket size of an average project has also moved to a 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 3,078 cr worth of orders (excluding INR 308 cr worth of L1 orders) and that offers almost 2 years of revenue visibility. The company is also having a bid pipeline of INR 1,000 cr for Q4FY20E. Moreover, till Jan-2020 company has already met its order inflow guidance of INR 1,500 cr (for FY20E) and is expecting an inflow of INR 2,000 cr during FY21E.

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 a strong track record of disciplined bidding, the 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 is expected to maintain 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 28 days in this quarter compared to 22 days at the end of FY19 due to inventory pileup at SDB. But this is temporary and is expected to come down going forward. As a result of a 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 about the growth prospect of the company in the medium term. At CMP of INR 510, the stock is trading at 12.5x / 10x of FY20E / FY21E EPS. We maintain 'BUY' with a target price of INR 590/share after assigning 12x PE multiple to FY21E EPS of INR 49.7/share.

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CMP INR: 510

Rating: Maintain BUY

Target Price INR: 590

Upside: 16%

Bloomberg:	PSPPL:IN
52-week range (INR):	576 / 377
Share in issue (cr):	3.6
M cap (INR cr):	1,836
Avg. Daily Vol. BSE/NSE :('000):	45
Promoter Holding (%)	73.28

(INR Cr)	Q3FY20	Q3FY19	% change (QoQ)	Q2FY20	% change (QoQ)	FY19	FY20E	FY21E
Revenues	423	261	62%	312	36%	1050	1497	1735
EBIDTA	54	37	47%	43	26%	149	213	246
EBIDTA Margin	13%	14%	-	14%	-	14%	14%	14%
PAT	36	21	70%	32	12%	89	148	179
PAT Margin	9%	8%	-	10%	-	8%	10%	10%
Diluted EPS (INR)						25	41	50

Date: 7th February, 2020

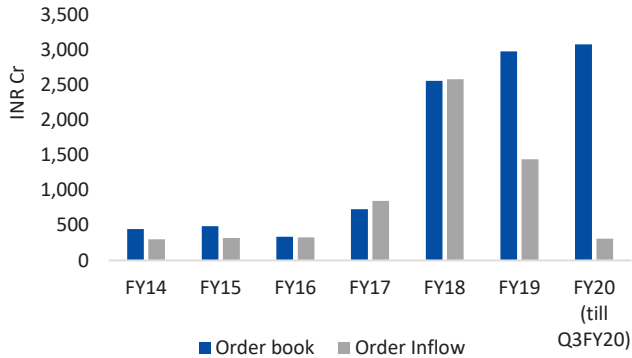
Q3FY20 Result Highlights

(INR Cr)	Q3FY20	Q3FY19	% change (YoY)	Q2FY20	% change (QoQ)
Income from operations	423	261	62%	312	36%
Direct Expenses	351	211	66%	251	39%
Employee Cost	15	11	42%	15	4%
Other Expenses	3	2	37%	3	1%
Total operating expenses	369	224	64%	269	37%
EBITDA	54	37	47%	43	26%
Depreciation and amortisation	7	6	12%	6	12%
EBIT	47	30	54%	37	28%
Interest expenses	4	2	84%	4	10%
Other income	6	5	16%	7	-21%
Profit before tax	48	33	47%	40	21%
Provision for tax	12	12	4%	7	60%
Core profit	36	21	70%	32	12%
Extraordinary items	-	-	-	-	
Profit after tax	36	21	70%	32	12%
Minority Interest	-	-	-	-	
Share from associates	-	-	-	-	
Adjusted net profit	36	21	70%	32	12%
Equity shares outstanding (Crs)	5	5		5	
EPS	8	5	70%	7	12%
EBITDA Margins	13%	14%		14%	
PAT Margin	9%	8%		10%	

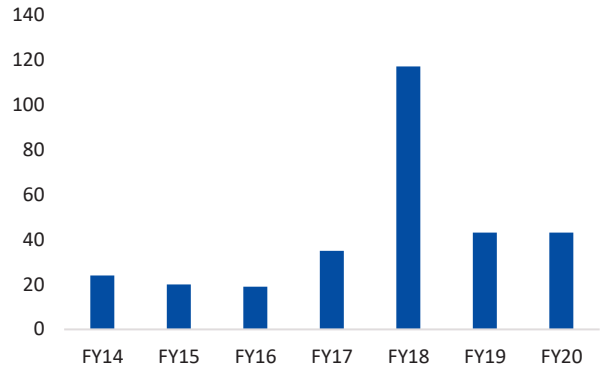
Other Key Highlights:

- The revenue recognised for Q3FY20 from the Surat Diamond Bourse (SDB) Project was INR 191 cr against run-rate of ~INR 90 cr over the last two quarters. Management expects INR 550 cr revenue from SDB during FY20E. Delay in the project during H1FY20 was mainly caused by the client's end which also led to a higher inventory pileup. It has been extended by 10 months and is expected to be completed by dec-2020.
- In a quarter mired by muted ordering, the company has managed to get a commendable order inflow of INR 1,552 cr till Jan-2020 during FY20, 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 836 cr received during 9MFY19.
- Company also stated that it has a bid-pipeline of projects worth INR 1,000 cr for Q4FY20E. But since management has already achieved its FY20E inflow guidance, it would remain conservative on margins while bidding for these projects.
- The management has indicated that going beyond 14% EBITDA margins would be difficult as competition in bidding has increased and that it would vary between 12 to 14% going ahead.
- Management indicated that the company had ~INR 229 cr worth of cash & cash equivalent and INR 75 cr worth of gross debt on its balance sheet at the end of 9MFY20. It continues to remain cash surplus in net debt terms.
- Company's board had approved additional fund issuance of upto INR 300 cr in Q2FY20 which the management said is intended for large ticket projects. It expects to raise these funds by March-2020.

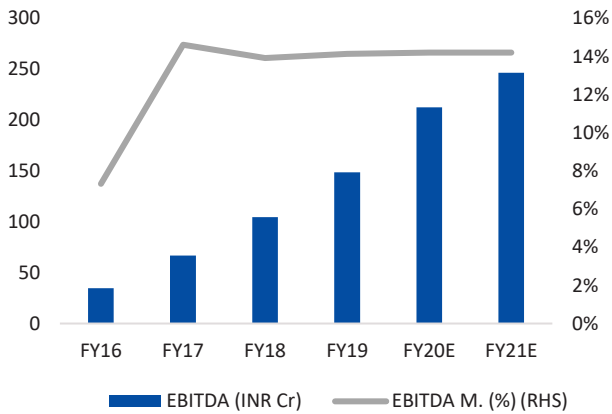
FY18 was a year of inflection mainly due to Surat Diamond Bourses (SDB) order win



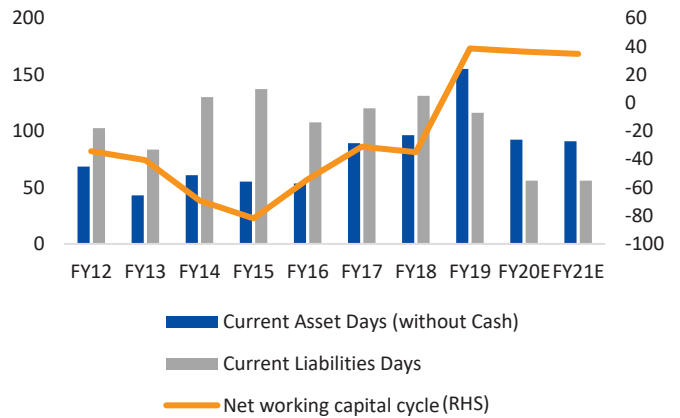
Average ticket size of projects has increased significantly



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 Q2FY20: 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.

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.

Q2FY20

Q2FY20 Result Update
PSP Projects Ltd

Key Highlights:

- Revenue of INR 1,075 crore, up 15% YoY. Earnings of INR 138 crore, up 12% YoY.
- Operating leverage improved to 1.2x.
- Net promoter score improved to 78.
- Order backlog of INR 12,500 crore.

Financial Summary:

Particulars	Q2FY20	Q1FY20	Q4FY19	Q3FY19
Revenue (INR crore)	1,075	935	1,025	915
Operating Profit (INR crore)	138	125	135	120
Net Profit (INR crore)	105	95	100	85
EPS (INR)	10.5	9.5	10.0	8.5

Q1FY20

Q1FY20 Result Update
PSP Projects Ltd

Key Highlights:

- Revenue of INR 935 crore, up 12% YoY. Earnings of INR 125 crore, up 10% YoY.
- Operating leverage improved to 1.1x.
- Net promoter score improved to 75.
- Order backlog of INR 12,000 crore.

Financial Summary:

Particulars	Q1FY20	Q4FY19	Q3FY19
Revenue (INR crore)	935	1,025	915
Operating Profit (INR crore)	125	135	120
Net Profit (INR crore)	95	100	85
EPS (INR)	9.5	10.0	8.5

Q4FY19

Q4FY19 Result Update
PSP Projects Ltd

Key Highlights:

- Revenue of INR 1,025 crore, up 10% YoY. Earnings of INR 100 crore, up 8% YoY.
- Operating leverage improved to 1.1x.
- Net promoter score improved to 74.
- Order backlog of INR 11,500 crore.

Financial Summary:

Particulars	Q4FY19	Q3FY19
Revenue (INR crore)	1,025	915
Operating Profit (INR crore)	135	120
Net Profit (INR crore)	100	85
EPS (INR)	10.0	8.5

Financials

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	187	214
Interest expenses	8	9	10	15	12
Other income	13	19	23	26	36
Profit before tax	64	102	137	197	239
Provision for tax	23	36	48	49	60
Core profit	41	66	89	148	179
Extraordinary items	0	0	0	0	0
Profit after tax	41	66	89	148	179
Minority Interest	0	0	0	0	0
Share from associates	0	-0	-0	0	0
Adjusted net profit	41	66	89	148	179
Equity shares outstanding (Crs)	3.6	3.6	3.6	3.6	3.6
EPS (INR) basic	11.5	18.3	24.8	41.1	49.7
Diluted shares (Crs)	3.6	3.6	3.6	3.6	3.6
EPS (INR) fully diluted	11.5	18.3	24.8	41.1	49.7
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	1.7	1.8
Interest expenditure	1.8	1.2	0.9	1.0	0.7
EBITDA margins	14.6	13.9	14.1	14.2	14.2
Net profit margins	9.1	8.8	8.5	9.9	10.3

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	43.7	20.9
Net profit after minority interest	95.3	59.2	35.2	66.0	20.9
EPS	95.3	59.2	35.2	66.0	20.9

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	334	482	661
Shareholders funds	105	302	370	518	697
Borrowings	78	28	30	30	30
Minority interest	0	0	1	1	1
Sources of funds	183	330	401	549	728
Gross block	85	120	167	216	266
Depreciation	31	42	64	90	122
Net block	53	78	103	126	144
Capital work in progress	7	2	0	0	0
Total fixed assets	60	80	103	126	144
Goodwill	0	0	0	0	0
Non Current Assets	24	68	64	77	82
Inventories	7	34	75	86	99
Sundry debtors	59	123	148	187	217
Cash and equivalents	137	255	248	196	335
Loans and advances	26	19	59	106	116
Other current assets	20	22	37	0	0
Total current assets	249	453	567	575	767
Sundry creditors and others	77	135	159	230	267
Other Current Liabilities	61	134	162	0	0
Provisions	13	1	0	0	0
Total CL & provisions	151	270	322	230	267
Net current assets	99	183	245	345	501
Net Deferred tax	0	0	0	0	0
Misc expenditure	0	0	0	0	0
Uses of funds	183	330	401	549	728
Book value per share (INR)	51	92	111	152	202

Cash flow statement				(INR cr)	(INR cr)
Year to March	FY17	FY18	FY19	FY20E	FY21E
Net profit	41	66	89	148	179
Add: Depreciation	8	11	24	26	32
Add: Interest net of tax	5	6	6	11	9
Add: Deferred tax	0	0	0	0	0
Add: Others	0	0	0	0	0
Gross cash flow	54	83	120	185	220
Less: Changes in W. C.	32	-33	56	165	17
Operating cash flow	22	117	64	20	203
Less: Capex	7	36	47	50	50
Less: Investment in subsidiaries	0	0	0	0	0
Free cash flow	15	81	16	-30	153

Financials

Profit & Efficiency Ratios

Year to March	FY17	FY18	FY19	FY20E	FY21E
ROAE (%)	39%	22%	24%	29%	26%
ROACE (%)	32%	28%	22%	34%	29%
Debtors (days)	47	60	51	46	46
Current ratio	1.7	1.7	1.7	2.5	2.9
Gross Debt/Equity	0.7	0.0	0.0	0.1	0.0
Inventory (days)	5	16	26	21	21
Payable (days)	61	62	55	56	56
Cash conversion cycle (days)	-9	15	22	10	10
Gross Debt/EBITDA	1.2	0.0	0.0	0.1	0.1
Net debt/Equity	(0.6)	(0.8)	(0.7)	(0.3)	(0.4)

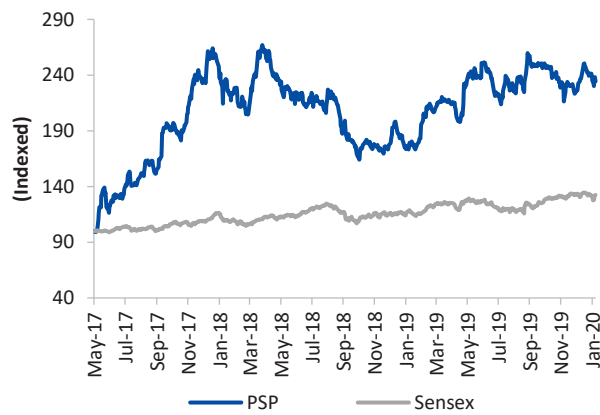
Valuation Parameters

Year to March	FY17	FY18	FY19	FY20E	FY21E
Diluted EPS (INR)	11.4	18.3	24.8	41.1	49.7
Y-o-Y growth (%)	80.5	60.1	35.2	66.0	20.9
CEPS (INR)	13.7	21.5	31.5	48.3	58.6
Diluted P/E (x)	44.6	27.8	20.6	12.4	10.3
Price/BV(x)	17.5	6.1	5.0	3.5	2.6
EV/Sales (x)	3.9	2.1	1.5	1.1	0.9
EV/EBITDA (x)	26.6	15.1	10.7	7.9	6.2
Diluted shares O/S	3.6	3.6	3.6	3.6	3.6
Basic EPS	11.4	18.3	24.8	41.1	49.7
Basic PE (x)	44.6	27.8	20.6	12.4	10.3
Dividend yield (%)	0%	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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