

INDUSTRY INFRASTRUCTURE
CMP (as on 5 Nov 2018) Rs 382
Target Price Rs 576

Nifty 10,524

Sensex 34,951

KEY STOCK DATA

Bloomberg PSPPL IN

No. of Shares (mn) 36

MCap (Rs bn) / (\$ mn) 14/188

6m avg traded value (Rs mn) 17

STOCK PERFORMANCE (%)
52 Week high / low Rs 596/358

	3M	6M	12M
Absolute (%)	(19.5)	(31.1)	(9.8)
Relative (%)	(12.5)	(31.2)	(13.6)

SHAREHOLDING PATTERN (%)

Promoters 72.96

FIs & Local MFs 8.31

FPIs 1.29

Public & Others 17.44

Source : BSE

Parikshit D Kandpal, CFA

parikshitd.kandpal@hdfcsec.com

+91-22-6171-7317

Kunal Bhandari

kunal.bhandari@hdfcsec.com

+91-22-6639-3035

Going steady

PSP's 2QFY19 revenue of Rs 2.3bn (+50.4%YoY, -10.5% QoQ) was largely driven by the SDB project (~Rs 560mn). EBITDA margin came in at 14%, about 100bps higher than management guidance.

PSP has won Rs 3.8bn of orders in 2QFY19 (in addition to Rs 520mn in 1QFY19) majority of which are repeat orders. Order book is now Rs 25.8bn. Though this provides sufficient revenue visibility (3.5x FY18 revenue), PSP is bidding for 5-7 big ticket orders (Rs 3-4bn each) to sustain its targeted growth rate after missing out on projects like IIT Hyderabad (current prequalification: Rs 5bn, can become 5x post SDB completion).

PSP has maintained Rs 10bn order wins with Rs 12bn on the higher side. Few orders are in final stages announcement across Pune/ Ahmedabad. We expect PSP's order book/APAT to grow ~1.4/1.8x over FY18-20E. We have downgraded our EPS estimate by 10.6/0.8% for FY19/20E. We maintain BUY with TP of Rs 576/sh (18x Mar-20E EPS).

Financial Summary (Standalone)

Year Ending March (Rs mn)	2QFY19	2QFY18	YoY (%)	1QFY19	QoQ (%)	FY17	FY18	FY19E	FY20E
Net Sales	2,100	1,396	50.4	2,347	(10.5)	4,008	7,298	10,404	14,907
EBITDA	294	186	57.7	329	(10.6)	658	1,014	1,412	1,977
APAT	176	127	38.9	210	(16.3)	416	649	844	1,153
Diluted EPS (Rs)	4.9	3.5	38.9	5.8	(16.3)	14	18	23	32
P/E (x)						26.4	21.2	16.3	11.9
EV / EBITDA (x)						15.8	11.4	8.5	5.9
RoE (%)						47.9	31.7	25.0	27.5

Source: Company, HDFC sec Inst Research

Highlights of the Quarter

- Bengaluru realty to provide much needed diversification:** PSP has bid for Rs 30bn of projects spanning 5-7 in numbers and with average ticket size of Rs 3-4bn. Few of these projects are in Bengaluru, besides the AIIMS Gujarat project. Gujarat accounts for 93.4% of the order book and expansion in Bengaluru, with projects from marquee real estate developers like Brigade group will help diversify the order book.
- Balance Sheet stable:** PSP continues to remain a net cash company. With one of the best NWC cycle in the industry and debt continuing to be majorly funded by OD facility against fixed deposits, we expect Net D/E to be at (-0.4)x by FY20E despite significant ramp up in execution.
- Near-term outlook:** With (1) SDB project reaching peak billing of Rs 360mn/month, (2) Strong Revenue visibility, (3) Ramp-up in execution capabilities, (4) Healthy balance sheet, (5) Consistent >13% EBITDA margins expected and (6) Expected order inflows; makes us constructive on the stock.

Revenue: Rs 2.1bn
 (+50%YoY, -11.0% QoQ, 9% miss)

EBITDA margins: 14.0%
 (+65bps YoY, flat QoQ).
EBITDA: Rs 294mn(+58% YoY, -11% QoQ, 3% beat)

Interest cost: Rs 23mn (+13% YoY, +56% QoQ)

PAT: Rs 176mn (39% YoY, -16%QoQ, 3% miss)

We have revised our revenue estimate lower by 19/14% for FY19/20E to factor in back ended order book growth

We have revised our EBITDA margins upwards by 185/241bps in line with consistent performance which reinforce management guidance

Standalone Quarterly Financials

Particulars (Rs mn)	2QFY19	2QFY18	YoY (%)	1QFY19	QoQ (%)	1HFY19	1HFY18	YoY (%)
Net Revenues	2,100	1,396	50.4	2,347	(10.5)	4,447	2,954	50.5
Material Expenses	(1,669)	(1,105)	51.0	(1,891)	(11.7)	(3,559)	(2,355)	51.1
Employee Expenses	(108)	(67)	60.0	(100)	7.8	(208)	(127)	63.8
Other Expenses	(29)	(36)	(20.5)	(27)	6.6	(56)	(86)	(34.9)
EBITDA	294	186	57.7	329	(10.6)	624	386	61.6
Depreciation	(58)	(23)	153.4	(48)	20.3	(106)	(41)	158.5
EBIT	236	164	44.4	281	(15.9)	518	345	50.0
Interest Cost	(23)	(20)	12.9	(15)	55.9	(37)	(34)	8.8
Other Income	54	52	4.7	61	(10.8)	115	93	23.7
PBT	268	195	37.1	327	(18.2)	596	404	47.4
Tax	(92)	(69)	33.7	(117)	(21.6)	(209)	(141)	48.2
RPAT	176	127	38.9	210	(16.3)	387	263	47.0

Source: Company, HDFC sec Inst Research

Margin Analysis

	2QFY19	2QFY18	YoY (bps)	1QFY19	QoQ (bps)	1HFY19	1HFY18	YoY (%)
Material Expenses % Net Sales	79.5	79.2	27.8	80.6	(108.1)	80.0	79.7	31.6
Employee Expenses % Net Sales	5.1	4.8	30.6	4.3	87.3	4.7	4.3	37.8
Other Operating Expenses % Net Sales	1.4	2.6	(123.0)	1.2	22.2	1.3	2.9	(165.2)
EBITDA Margin (%)	14.0	13.4	64.6	14.0	(1.5)	14.0	13.1	95.7
Tax Rate (%)	34.3	35.2	(87.5)	35.8	(149.9)	35.1	34.9	19.0
APAT Margin (%)	8.4	9.1	(69.6)	9.0	(57.3)	8.7	8.9	(20.9)

Source: Company, HDFC sec Inst Research

Change in estimates

Rs mn	FY19E Old	FY19E New	% Change	FY20E Old	FY20E New	% Change
Revenues	12,845	10,404	(19.0)	17,354	14,907	(14.1)
EBIDTA	1,506	1,412	(6.3)	1,884	1,977	4.9
EBIDTA Margins (%)	11.7	13.6	185	10.9	13.3	241
APAT	955	844	(11.6)	1,162	1,153	(0.8)

Source: HDFC sec Inst Research

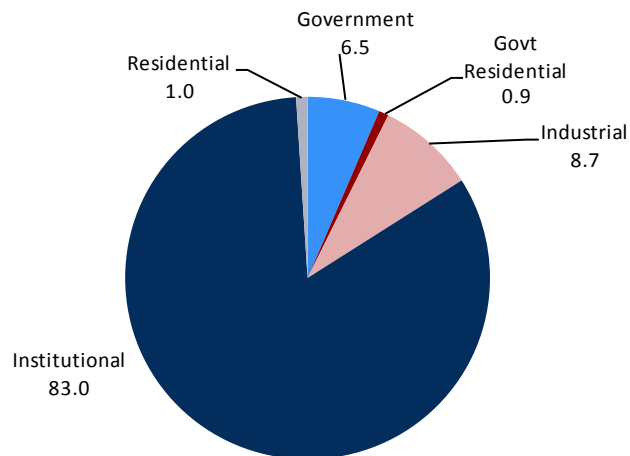
Order book is concentrated towards institutional projects with projects ranging from corporate houses, hospitals and educational institutes

Gujarat continues to dominate the backlog with a 93.4% share led by the diamond bourse project

PSP has already has upcoming bids for private developers in Bengaluru including Brigade

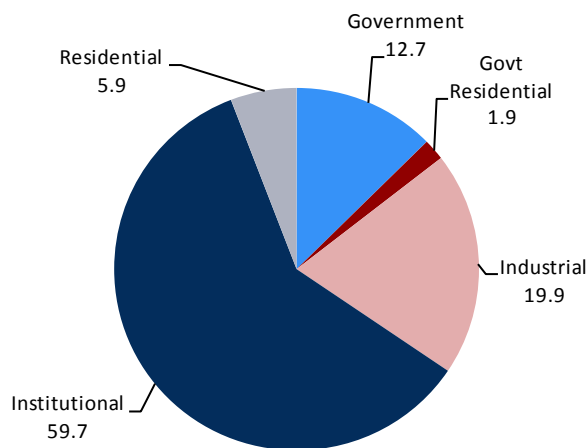
EBITDA margins expected to remain around >13% given the order book composition of projects with materials included

Order Book – 2QFY19 (%)



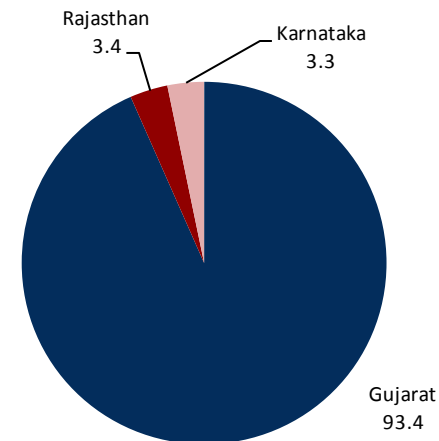
Source : Company, HDFC sec Inst Research

Revenue – 2QFY19 (%)



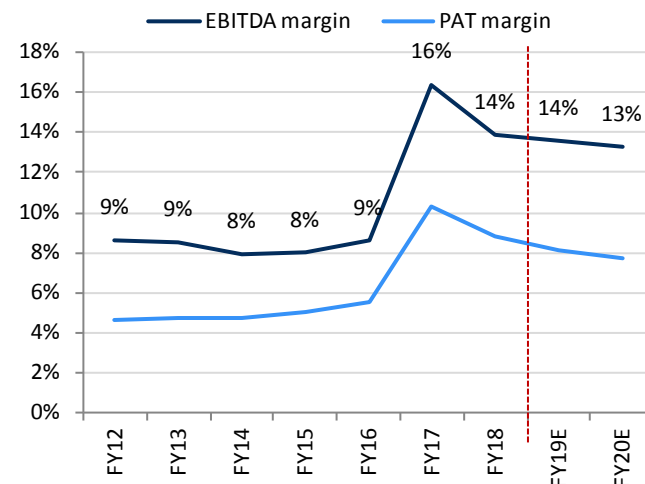
Source : Company, HDFC sec Inst Research

Order Book – 2QFY19 (%)



Source : Company, HDFC sec Inst Research

EBITDA And PAT Margins (%)



Source : Company, HDFC sec Inst Research

Order book to grow at a CAGR of 17.4% over FY18-20E

Revenue to grow at a CAGR of 42.9% over FY18-20E aided by the marquee Diamond Bourse project

EBITDA margins will stabilize between the 13-14% range

APAT will grow by 33.2% CAGR over FY18-20E

Key Assumptions And Estimates (Standalone)

Key Assumptions	FY19E	FY20E	Comments
Closing order book	26,186	35,278	Order book to grow at a CAGR of 17.4% over FY18-20E
Order book growth (%)	2%	35%	
New order booking	11,000	24,000	
Book to bill ratio	2.5	2.4	
Total Revenue	10,404	14,907	Revenue to grow at a CAGR of 42.9% over FY18-20E aided by the marquee Diamond Bourse project
Growth (%)	42.6	43.3	
EBIDTA	1,412	1,977	EBITDA to grow at a CAGR of 39.6% over FY18-20E
EBIDTA margin (%)	13.6	13.3	EBITDA margins will be stable between 13-14% range
Depreciation	206	268	Increased Capex to increase execution ramp up will significantly increase depreciation charge
Financial Charges	115	137	
PBT	1,319	1,801	PBT will grow by 34.3% CAGR over FY18-20E
PBT margin (%)	12.7	12.1	
Tax	474.9	648.6	
Tax rate (%)	36.0	36.0	Company operates at a full tax rate and the same is expected to continue over FY18-20E
RPAT	844	1,153	
Net margin (%)	8.1	7.7	
Extraordinary	-	-	
Adjusted PAT	844	1,153	APAT will grow by 33.2% CAGR over FY18-20E
Gross Block Turnover	6.6	7.2	
Debtor days	52	53	
CFO - a	212	871	As debtor days stabilize to ~50-55 days over FY19-20E, CFO to increase significantly in FY20E led by double digit EBITDA margins
CFI - b	(407)	(220)	We expect significant investment in capex to continue as PSP witnesses increased execution demand
FCF - a+b	(424)	421	
CFF - c	268	(288)	
Total change in cash - a+b+c	83	376	

Source: HDFC sec Inst Research

We rate PSP as BUY with a TP of Rs 576/share (18x one year forward Mar-20E EPS)vs. Rs 581/sh earlier. Change for minor EPS adjustment lower for FY20E

Outlook And Valuation

Target Price Of Rs 576/sh

Valuation methodology

- We have valued PSP at 18x one-year forward Mar-20E EPS. This is in line with other players like Ahluwalia. Our rationale behind this is (1) Strong growth potential led by the Diamond bourse project, (2) Robust 1HFY19 order backlog of Rs 25.8bn (2.5x FY19E revenue), (2) Net cash company and gross debt to continue to remain low, and (4) PSP getting repeat orders from dairy and pharma clients demonstrate its execution quality.
- Investment in the building segment would remain robust on the back of institutional and industrial

demand in addition to NBCC, CPWD and private capex in the segment. PSP will benefit from the strong demand in and around GIFT city and areas like Surat and Ahmedabad where it already enjoys a strong recall.

- Expansion in Bengaluru, with PSP eyeing projects from marquee real estate developers like Brigade group will help diversify the order book which is currently highly concentrated in Gujarat.
- We maintain a BUY rating. We value the PSP at Rs 576/share (18x one-year forward Mar-20E EPS).

Valuation

Particulars	Segments	Value (Rs mn)	Value per share(Rs)	Rationale
EPC	Core construction business	20,752	576	At 18x Mar20E EPS
Total		20,752	576	

Source: HDFC sec Inst Research

Peer Set Comparison: Core EPC

COMPANY	MCap (Rs bn)	CMP (Rs)	RECO	TP (Rs)	Adj. EPS (Rs/sh)			P/E (x)			EV/EBITDA (x)			ROE (%)		
					FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Dilip Buildcon	57.3	419	BUY	1060	46.5	53.8	54.1	7.2	6.2	6.1	5.8	4.4	3.7	29.5	26.0	20.8
IRB Infra Developers	51.0	145	BUY	256	19.7	14.5	17.2	0.9	1.2	1.0	2.1	2.3	2.1	30.2	22.0	24.4
NCC	48.1	80	BUY	136	5.2	6.5	7.1	13.6	10.9	10.0	7.1	5.8	5.4	8.1	8.8	8.8
PNC Infratech	35.9	140	BUY	270	4.1	8.6	13.0	20.6	9.8	6.5	8.5	6.0	4.4	6.2	11.4	15.1
Sadbhav Engineering	36.7	214	BUY	375	12.9	14.0	14.9	8.6	7.9	7.4	8.1	6.5	5.3	11.8	11.5	11.0
Ashoka Buildcon	33.9	121	BUY	223	8.4	8.3	8.5	6.0	6.1	6.0	5.0	4.5	4.2	13.0	11.5	10.7
KNR Constructions	26.9	191	BUY	304	13.4	9.6	13.5	9.8	13.7	9.7	5.2	5.7	4.4	18.3	10.8	13.1
ITD Cementation *	19.6	114	BUY	189	6.1	8.3	10.5	18.7	13.7	10.9	8.6	6.4	6.3	16.2	16.7	15.3
Ahluwalia Contracts	20.8	311	BUY	431	17.3	21.2	23.2	17.3	14.1	12.8	8.7	7.3	6.5	20.5	20.5	18.6
JMC Projects	14.4	86	BUY	163	6.3	7.3	8.0	9.6	8.4	7.6	5.7	5.0	4.4	14.4	14.4	13.9
PSP Projects	13.8	382	BUY	576	18.0	23.5	32.0	21.2	16.3	11.9	11.4	8.5	5.9	31.7	25.0	27.5
HG Infra	14.0	215	BUY	399	12.9	20.7	25.6	16.6	10.4	8.4	7.9	5.1	4.3	23.5	22.1	22.0
J. Kumar Infraprojects	10.5	139	BUY	306	17.5	21.0	25.6	7.9	6.6	5.4	4.5	3.6	3.2	9.2	10.1	11.4
Average					14.5	16.7	19.5	12.1	9.6	8.0	6.8	5.5	4.6	17.9	16.2	16.3

Source: Company, HDFC sec Inst Research *ITD Cementation FY19E/FY20E should be read as 15MFY19E/FY20E

Income Statement (Standalone)

Year ending March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Net Revenues	4,580	4,008	7,298	10,404	14,907
Growth (%)	63.3	(12.5)	82.1	42.6	43.3
Material Expenses	1,902	1,270	2,705	3,750	5,417
Labour/Subcontracting/Employee Expenses	2,147	1,985	3,494	4,890	7,066
Other Operating Expenses	137	95	86	353	447
EBIDTA	393	658	1,014	1,412	1,977
EBIDTA (%)	8.6	16.4	13.9	13.6	13.3
EBIDTA Growth (%)	75.4	67.3	54.2	39.2	40.0
Depreciation	71	76	112	206	268
EBIT	322	582	902	1,206	1,709
Other Income (Incl. EO Items)	103	134	184	229	230
Interest	31	75	87	115	137
PBT	394	640	999	1,319	1,801
Tax	142	226	355	475	649
RPAT	252	414	644	844	1,153
EO items (net of tax)	-	2	6	-	-
APAT	252	416	649	844	1,153
APAT Growth (%)	79.6	64.9	56.0	30.0	36.6
EPS	8.8	14.5	18.0	23.5	32.0
EPS Growth (%)	79.6	64.9	24.8	30.0	36.6

Source: Company, HDFC sec Inst Research

Balance Sheet (Standalone)

As at March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital	32	288	360	360	360
Reserves	629	788	2,667	3,359	4,304
Total Shareholders Funds	661	1,076	3,027	3,719	4,664
Minority Interest	-	-	-	-	-
Long Term Debt	10	34	17	34	34
Short Term Debt	433	625	178	680	750
Total Debt	444	658	195	714	784
Deferred Taxes	(9)	(11)	(18)	(11)	(11)
TOTAL SOURCES OF FUNDS	1,096	1,723	3,203	4,422	5,437
APPLICATION OF FUNDS					
Net Block	522	518	770	1,200	1,382
CWIP	-	-	18	-	-
Investments, LT Loans & Advances	50	76	911	496	896
Total Non-current Assets	572	593	1,699	1,695	2,277
Inventories	40	30	335	428	613
Debtors	104	533	1,162	1,468	2,144
Cash & Equivalents	1,064	1,250	2,384	2,466	2,841
ST Loans & Advances, Others	242	460	62	855	1,103
Other Assets	257	275	193	434	619
Total Current Assets	1,706	2,548	4,137	5,650	7,320
Creditors	694	693	1,213	1,425	2,042
Other Current Liabilities & Provns	489	724	1,420	1,498	2,118
Total Current Liabilities	1,183	1,418	2,633	2,923	4,160
Net Current Assets	524	1,130	1,504	2,726	3,160
Misc Expenses & Others	-	-	-	-	-
TOTAL APPLICATION OF FUNDS	1,096	1,723	3,203	4,422	5,437

Source: Company, HDFC sec Inst Research

INSTITUTIONAL RESEARCH

Cash Flow (Standalone)

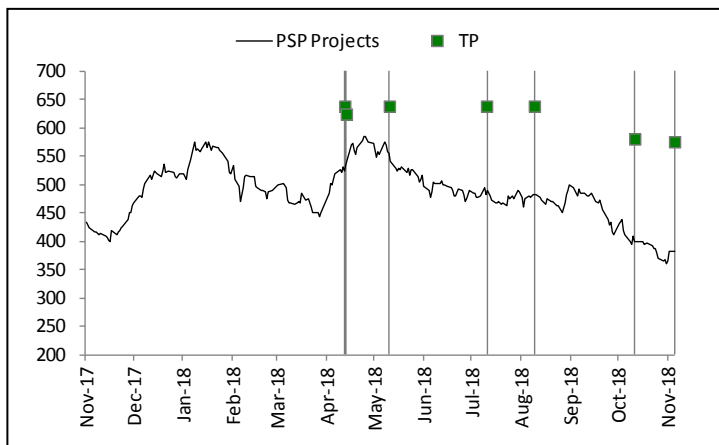
Year ending March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
PBT	394	639	999	1,319	1,801
Non-operating & EO items	(72)	(69)	(185)	(229)	(230)
Interest expenses	1	7	46	115	137
Depreciation	71	76	112	206	268
Working Capital Change	136	(497)	153	(725)	(457)
Tax paid	(118)	(145)	(409)	(475)	(649)
OPERATING CASH FLOW (a)	411	11	716	212	871
Capex	(258)	(71)	(474)	(636)	(450)
Free cash flow (FCF)	153	(60)	242	(424)	421
Investments	38	87	(758)	229	230
INVESTING CASH FLOW (b)	(220)	16	(1,232)	(407)	(220)
Share capital Issuance	-	-	1,421	-	-
Debt Issuance	114	215	(461)	519	70
Interest expenses	(17)	(55)	(46)	(115)	(137)
Dividend + Other Misc	(72)	-	735	(126)	(208)
FINANCING CASH FLOW (c)	25	160	1,649	278	(275)
NET CASH FLOW (a+b+c)	216	186	1,133	83	376
Closing Cash & Equivalents	1,064	1,250	2,383	2,466	2,841

Source: Company, HDFC sec Inst Research

Key Ratios (Standalone)

Year ending March	FY16	FY17	FY18	FY19E	FY20E
PROFITABILITY (%)					
GPM	58.5	68.3	62.9	64.0	63.7
EBITDA Margin	8.6	16.4	13.9	13.6	13.3
EBIT Margin	7.0	14.5	12.4	11.6	11.5
APAT Margin	5.5	10.4	8.9	8.1	7.7
RoE	44.7	47.9	31.7	25.0	27.5
Core RoCE	(1,153.5)	94.6	78.2	52.8	64.3
RoCE	24.8	27.0	22.0	20.8	22.8
EFFICIENCY					
Tax Rate (%)	36.0	35.3	35.6	36.0	36.0
Asset Turnover (x)	6.0	4.8	5.5	5.7	6.5
Inventory (days)	3	3	17	15	15
Debtors (days)	8	49	58	52	53
Payables (days)	55	63	61	50	50
Other Current Assets (days)	40	67	13	45	42
Other Current Liab (days)	39	66	71	53	52
Net Working Capital Cycle (Days)	(43)	(11)	(44)	9	8
Debt/EBITDA (x)	1.1	1.0	0.2	0.5	0.4
Net D/E	(0.9)	(0.5)	(0.7)	(0.5)	(0.4)
Interest Coverage	10.5	7.7	10.4	10.5	12.4
PER SHARE DATA					
EPS (Rs/sh)	8.8	14.5	18.0	23.5	32.0
CEPS (Rs/sh)	11.2	17.1	21.1	29.2	39.5
DPS (Rs/sh)	0.1	0.0	(0.6)	0.1	0.2
BV (Rs/sh)	23	37	84	103	130
VALUATION					
P/E	43.6	26.4	21.2	16.3	11.9
P/BV	16.6	10.2	4.5	3.7	2.9
EV/EBITDA	26.4	15.8	11.4	8.5	5.9
OCF/EV (%)	4.0	0.0	0.1	0.0	0.1
FCF/EV (%)	1.5	(0.6)	2.1	(3.5)	3.6
FCFE/Market Cap (%)	2.3	0.9	(1.9)	(0.1)	2.6
Dividend Yield (%)	0.0	0.0	(0.1)	0.0	0.0

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY


Date	CMP	Reco	Target
12-Apr-18	522	BUY	639
14-Apr-18	536	BUY	625
10-May-18	560	BUY	639
10-Jul-18	495	BUY	639
10-Aug-18	482	BUY	639
11-Oct-18	408	BUY	581
6-Nov-18	382	BUY	576

Rating Definitions

- BUY** : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

INSTITUTIONAL RESEARCH

Disclosure:

We, **Parikshit Kandpal, MBA** and **Kunal Bhandari, ACA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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