

PSP Projects

BUY
INDUSTRY INFRASTRUCTURE
CMP (as on 10 May 2018) Rs 560
Target Price Rs 639

Nifty 10,717

Sensex 35,246

KEY STOCK DATA

Bloomberg PSPPL IN

No. of Shares (mn) 36

MCap (Rs bn) / (\$ mn) 20/299

6m avg traded value (Rs mn) 40

STOCK PERFORMANCE (%)
52 Week high / low Rs 596/189

	3M	6M	12M
Absolute (%)	8.4	35.3	-
Relative (%)	4.7	29.5	-

SHAREHOLDING PATTERN (%)

Promoters 72.13

FIs & Local MFs 8.27

FPIs 1.16

Public & Others 18.44

Source : BSE

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Strong execution

PSP's 4QFY18 revenue was in-line with our estimates of Rs 2.6bn. Higher than expected EBITDA margins led to EBITDA/PAT beat of 25.5/23.3%. Balance sheet continues to remain healthy with net cash/equity of 0.7x.

Bid pipeline of Rs 20bn is strong with PSP targeting close to Rs 10bn of order inflows in FY19E. PSP has bid for Rs 10bn of commercial project in Southern India and other projects with cumulative value of Rs 10bn projects in Gujarat. We believe inflow guidance is conservative and single large private contract can add about Rs 5-10bn of inflows incrementally.

Limited competitive intensity (with about 10 players having Rs 5bn/order PQ), stable execution in SDB project and robust balance sheet lends visibility to growth. We expect an increase in investments in office space and retail to continue to drive institutional construction along with FDI and manufacturing activity aiding industrial construction. We maintain BUY on PSP with TP of Rs 639/sh (18x Mar-20E EPS).

Highlights of the Quarter

- **Strong revenue visibility:** Order book of Rs 25.6bn translates into 3.5x bill to book ratio on FY18 base.

Financial Summary (Standalone)

Year Ending March (Rs mn)	4QFY18	4QFY17	YoY (%)	3QFY18	QoQ (%)	FY17	FY18	FY19E	FY20E
Net Sales	2,637	1,617	63.1	1,708	54.4	4,008	7,298	12,845	17,354
EBITDA	363	334	8.6	265	37.0	658	1,014	1,570	2,058
APAT	230	205	11.9	152	51.1	416	649	998	1,278
Diluted EPS (Rs)	6.4	5.7	11.9	4.2	51.1	14	18	28	36
P/E (x)						38.5	30.8	20.1	15.7
EV / EBITDA (x)						23.5	17.6	11.5	8.6
RoE (%)						47.9	31.7	28.4	28.2

Source: Company, HDFC sec Inst Research

Total order inflows for FY18 stood at ~Rs 25.6bn. With Rs 14bn of works still pending to be executed in SDB project, we expect PSP to focus towards completing the same in the near term. We see near term consolidation rather than PSP aiming to go for aggressive bidding.

- **Increasing ticket size:** PSP's average project size has increased at a CAGR of ~40% from Rs 85mn in FY13 to Rs 1.1bn in FY18 (including diamond bourse project for Rs 15.8bn). PSP has scaled up its execution capabilities with significant investment in state of the art plant and machinery. PSP is targeting project with average ticket size of Rs 2-2.5bn as there are limited 'Grade A' EPC players in this segment.
- **Balance sheet healthy:** PSP has a standalone net cash of Rs (2.2)bn. With minimal outlay towards interest costs, we expect PSP to post high ~28% ROEs over FY19-20E.
- **Near-term outlook:** With (1) Strong Revenue visibility, (2) Ramp-up in execution, (3) Healthy balance sheet, (4) Consistent ~13% EBITDA margins and (5) Order inflows; will keep stock buoyant in near to medium term.

4QFY18 revenue was in-line with our execution estimates at Rs 2.6bn (+63.1%YoY, +54.4% QoQ) taking the full year execution to Rs 7.3bn

Company has posted stellar EBITDA margins of 13.8% for 4QFY18 (-691.0bps YoY, -174.8bps QoQ; the decrease was attributable to contracts with materials)

Standalone Quarterly Financials

Particulars (Rs mn)	4QFY18	4QFY17	YoY (%)	3QFY18	QoQ (%)	FY18	FY17	YoY (%)
Net Revenues	2,637	1,617	63.1	1,708	54.4	7,298	4,008	82.1
Material Expenses	(2,160)	(1,179)	83.2	(1,320)	63.6	(5,912)	(3,047)	94.0
Employee Expenses	(85)	(67)	26.2	(74)	14.7	(286)	(208)	37.3
Other Expenses	(29)	(36)	(19.4)	(49)	(40.4)	(86)	(93)	(7.6)
EBITDA	363	334	8.6	265	37.0	1,014	659	53.8
Depreciation	(43)	(21)	105.3	(28)	53.2	(112)	(76)	47.8
EBIT	320	313	2.2	237	35.1	902	584	54.5
Interest Cost	(30)	(20)	48.8	(23)	30.0	(87)	(75)	15.6
Other Income	59	34	69.7	32	82.8	184	134	37.2
PBT	349	328	6.4	246	41.8	999	642	55.5
Tax	(119)	(123)	(2.9)	(94)	26.6	(355)	(226)	56.9
RPAT	230	205	11.9	152	51.1	644	416	54.7

Source: Company, HDFC sec Inst Research

Margin Analysis

	4QFY18	4QFY17	YoY (bps)	3QFY18	QoQ (bps)	FY18	FY17	YoY (%)
Material Expenses % Net Sales	81.9	72.9	898.5	77.3	462.2	81.0	76.0	498.1
Employee Expenses % Net Sales	3.2	4.2	(94.2)	4.3	(111.3)	3.9	5.2	(127.8)
Other Operating Expenses % Net Sales	1.1	2.2	(113.2)	2.9	(176.2)	1.2	2.3	(114.2)
EBITDA Margin (%)	13.8	20.7	(691.0)	15.5	(174.8)	13.9	16.5	(256.1)
Tax Rate (%)	34.1	37.4	(325.3)	38.2	(408.7)	35.6	35.2	32.8
APAT Margin (%)	8.7	12.7	(398.4)	8.9	(18.7)	8.8	10.4	(156.4)

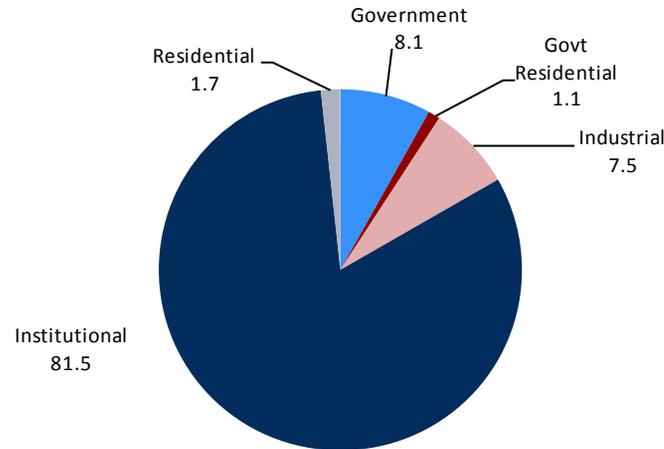
Source: Company, HDFC sec Inst Research

Order book is concentrated towards institutional projects with projects ranging from corporate houses, hospitals and educational institutes. PSP is cautiously evaluating expanding share in residential projects with likely focus on Tier I developers

Gujarat continues to dominate the backlog with a 91.3% share led by the diamond bourse project. PSP may look at incremental bidding in Southern India. Outside Gujarat focus would be on smaller projects with ~Rs 1bn size vs. ~ Rs 2-2.5bn single projects in Gujarat.

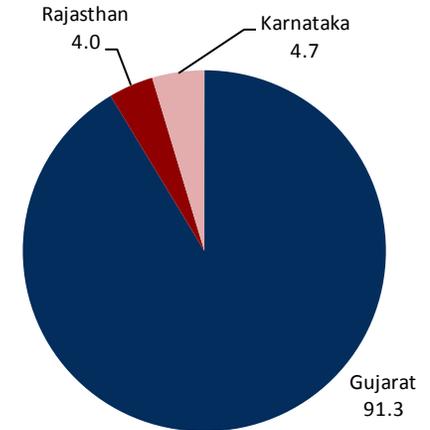
EBITDA margins expected to remain around 12-13% given the order book composition of projects with materials included

Segmental Order Book – 3QFY18 (%)



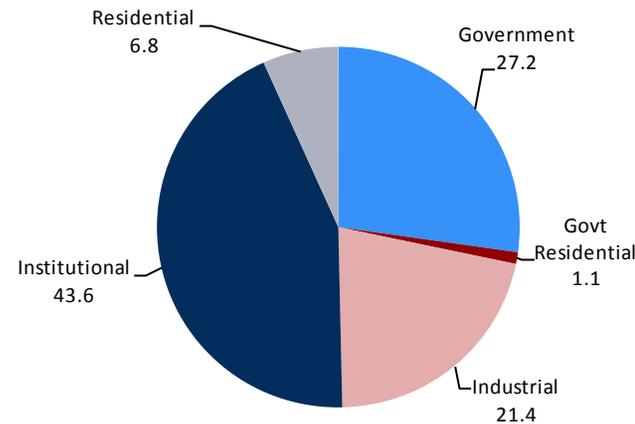
Source : Company, HDFC sec Inst Research

Statewise Order Book – 3QFY18 (%)



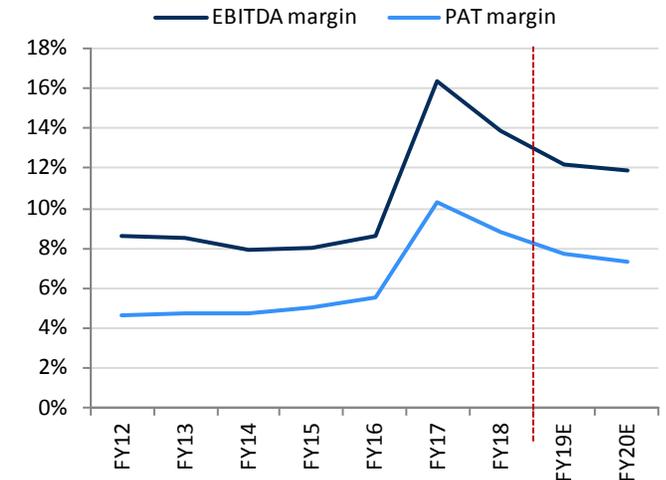
Source : Company, HDFC sec Inst Research

Revenue – FY18 (%)



Source : Company, HDFC sec Inst Research

EBITDA And PAT Margins (%)



Source : Company, HDFC sec Inst Research

Order book to grow at a CAGR of 9.1% over FY18-20E

Revenue to grow at a CAGR of 54.2% over FY18-20E aided by the marquee Diamond Bourse project

EBITDA margins will stabilize between the 12-13% range

APAT will grow by 40.3% CAGR over FY18-20E

Key Assumptions And Estimates (Standalone)

Key Assumptions	FY19E	FY20E	Comments
Closing order book	23,745	30,391	Order book to grow at a CAGR of 9.1% over FY18-20E
Order book growth (%)	-7%	28%	
New order booking	11,000	24,000	
Book to bill ratio	1.8	1.8	
Total Revenue	12,845	17,354	Revenue to grow at a CAGR of 54.2% over FY18-20E aided by the marquee Diamond Bourse project.
Growth (%)	76.0	35.1	
EBIDTA	1,570	2,058	EBITDA to grow at a CAGR of 42.5% over FY18-20E
EBIDTA margin (%)	12.2	11.9	EBITDA margins will be stable between 12-13% range.
Depreciation	176	228	Increased Capex to increase execution ramp up will significantly increase depreciation charge.
Financial Charges	113	131	
PBT	1,559	1,997	Significant generation of other non operating income from fixed deposits to result in double digit PBT margins
PBT margin (%)	12.1	11.5	
Tax	561.4	719.0	
Tax rate (%)	36.0	36.0	Company operates at a full tax rate and the same is expected to continue over FY18-20E
RPAT	998	1,278	
Net margin (%)	7.8	7.4	
Extraordinary	-	-	
Adjusted PAT	998	1,278	APAT will grow by 40.3% CAGR over FY18-20E
Gross Block Turnover	8.1	8.4	
Debtor days	52	53	
CFO - a	173	895	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	(357)	(151)	We expect significant investment in capex to continue as PSP witnesses increased execution demand.
FCF - a+b	(463)	445	
CFF - c	418	(291)	
Total change in cash - a+b+c	234	452	

Source : HDFC sec Inst Research

Outlook And Valuation

Target Price Of Rs 639/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 FY18 order backlog of Rs 25.6bn (3.5x FY18 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.
- We maintain BUY rating. We value the PSP at Rs 639/share (18x one-year forward Mar-20E EPS).

Maintain BUY with a TP of Rs 639/share (18x one year forward Mar-20E EPS)

Valuation

Particulars	Segments	Value (Rs mn)	Value per share(Rs)	Rationale
EPC	Core construction business	23,005	639	At 18x Mar20E EPS
Total		23,005	639	

Source: HDFC sec Inst Research

Income Statement (Standalone)

Year ending March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Net Revenues	4,580	4,008	7,298	12,845	17,354
Growth (%)	63.3	-12.5	82.1	76.0	35.1
Material Expenses	1,902	1,270	2,705	4,692	6,376
Labour/Subcontracting/Employee Expenses	2,147	1,985	3,494	6,230	8,399
Other Operating Expenses	137	95	86	353	521
EBIDTA	393	658	1,014	1,570	2,058
EBIDTA (%)	8.6	16.4	13.9	12.2	11.9
EBIDTA Growth (%)	75.4	67.3	54.2	54.8	31.1
Depreciation	71	76	112	176	228
EBIT	322	582	902	1,394	1,830
Other Income (Incl. EO Items)	103	134	184	279	299
Interest	31	75	87	113	131
PBT	394	640	999	1,559	1,997
Tax	142	226	355	561	719
RPAT	252	414	644	998	1,278
EO items (net of tax)	-	2	6	-	-
APAT	252	416	649	998	1,278
APAT Growth (%)	79.6	64.9	56.0	53.7	28.1
EPS	8.8	14.5	18.0	27.7	35.5
EPS Growth (%)	79.6	64.9	24.8	53.7	28.1

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	3,651	4,699
Total Shareholders Funds	661	1,076	3,027	4,011	5,059
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	4,714	5,832
APPLICATION OF FUNDS					
Net Block	522	518	770	1,230	1,452
CWIP	-	-	18	-	-
Investments, LT Loans & Advances	50	76	911	496	896
Total Non-current Assets	572	593	1,699	1,726	2,347
Inventories	40	30	335	528	713
Debtors	104	533	1,162	1,812	2,496
Cash & Equivalents	1,064	1,250	2,384	2,617	3,069
ST Loans & Advances, Others	242	460	62	1,056	1,284
Other Assets	257	275	193	534	719
Total Current Assets	1,706	2,548	4,137	6,547	8,282
Creditors	694	693	1,213	1,760	2,377
Other Current Liabilities & Provns	489	724	1,420	1,799	2,420
Total Current Liabilities	1,183	1,418	2,633	3,559	4,797
Net Current Assets	524	1,130	1,504	2,988	3,485
Misc Expenses & Others	-	-	-	-	-
TOTAL APPLICATION OF FUNDS	1,096	1,723	3,203	4,714	5,832

Source: Company, HDFC sec Inst Research

INSTITUTIONAL RESEARCH

Cash Flow (Standalone)

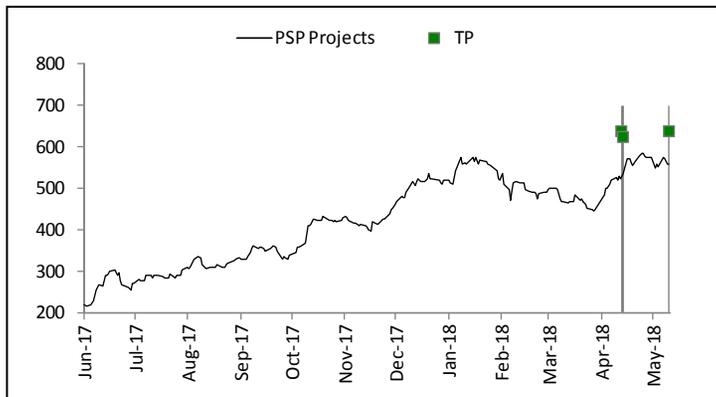
Year ending March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
PBT	394	639	999	1,559	1,997
Non-operating & EO items	(72)	(69)	(184)	(279)	(299)
Interest expenses	1	7	87	113	131
Depreciation	71	76	112	176	228
Working Capital Change	136	(497)	(76)	(835)	(444)
Tax paid	(118)	(145)	(355)	(561)	(719)
OPERATING CASH FLOW (a)	411	11	583	173	895
Capex	(258)	(71)	(382)	(636)	(450)
Free cash flow (FCF)	153	(60)	201	(463)	445
Investments	38	87	184	279	299
INVESTING CASH FLOW (b)	(220)	16	(198)	(357)	(151)
Share capital Issuance	-	-	1,584	-	-
Debt Issuance	114	215	(464)	519	70
Interest expenses	(17)	(55)	(87)	(113)	(131)
Dividend + Other Misc	(72)	-	(285)	12	(230)
FINANCING CASH FLOW (c)	25	160	748	418	(291)
NET CASH FLOW (a+b+c)	216	186	1,133	234	452
Closing Cash & Equivalents	1,064	1,250	2,383	2,617	3,069

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	63.5	63.3
EBITDA Margin	8.6	16.4	13.9	12.2	11.9
EBIT Margin	7.0	14.5	12.4	10.9	10.5
APAT Margin	5.5	10.4	8.9	7.8	7.4
RoE	44.7	47.9	31.7	28.4	28.2
Core RoCE	(1,153.5)	94.6	78.2	55.7	62.7
RoCE	24.8	27.0	22.0	22.7	23.4
EFFICIENCY					
Tax Rate (%)	36.0	35.3	35.6	36.0	36.0
Asset Turnover (x)	6.0	4.8	5.5	7.0	7.6
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	51	51
Net Working Capital Cycle (Days)	(43)	(11)	(44)	11	9
Debt/EBITDA (x)	1.1	1.0	0.2	0.5	0.4
Net D/E	(0.9)	(0.5)	(0.7)	(0.5)	(0.5)
Interest Coverage	10.5	7.7	10.4	12.3	14.0
PER SHARE DATA					
EPS (Rs/sh)	8.8	14.5	18.0	27.7	35.5
CEPS (Rs/sh)	11.2	17.1	21.1	32.6	41.8
DPS (Rs/sh)	0.1	0.0	0.2	(0.0)	0.2
BV (Rs/sh)	23	37	84	111	141
VALUATION					
P/E	63.4	38.5	30.8	20.1	15.7
P/BV	24.2	14.9	6.6	5.0	4.0
EV/EBITDA	39.2	23.5	17.6	11.5	8.6
OCF/EV (%)	2.7	0.0	0.0	0.0	0.1
FCF/EV (%)	1.0	(0.4)	1.1	(2.6)	2.5
FCFE/Market Cap (%)	1.6	0.6	(1.7)	(0.3)	1.9
Dividend Yield (%)	0.0	0.0	0.0	(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

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:

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