

PSP Projects

NEUTRAL

Strong performance, beats our estimates

PSP delivered Rev/EBIDTA/APAT beat of 14/13/29%. We maintain the stock at NEU with a TP Rs 590/sh TP vs Rs 579/sh earlier (we value EPC business at 15x FY21E EPS vs 16x earlier). We have revised our FY20E/FY21E EPS estimates by 6/9%.

HIGHLIGHTS OF THE QUARTER

- Strong execution:** PSP reported 1QFY20 revenue at Rs 3.1bn (+49/+2% YoY/QoQ, 14% beat). EBIDTA stood at Rs 432mn (13% beat). EBIDTA margins came in at 13.8% (within the 12-14% guidance range). Led by strong execution and adoption of the new tax corporate tax structure, APAT stood at Rs 327mn (29% beat).
- Robust order book position and pipeline:** PSP has secured orders worth ~Rs 8.5bn during 1HFY20 taking the outstanding order book to Rs 31.9bn (at 2.4x FY20E book to bill). The company current has an order book pipeline of Rs 20bn for 2HFY20 thus we expect PSP to exceed its conservative ~Rs 15bn order inflow guidance for FY20E.
- SDB progress update:** SDB contributed ~Rs 1.8bn to 1HFY20's revenue. However, the project faces an execution delay of up to 10 months beyond its scheduled completion date for reasons attributable to

the client. The company had applied for extension of time and expects to complete the balance works in an incremental time frame of 6months, taking the total period of execution to 36 months. As a result, the revenue guidance from the project has been revised to Rs ~5.5bn for FY20E (vs ~Rs 7.5bn earlier)

STANCE

With bids placed for orders worth ~Rs 20bn, PSP expects to replenish its order book and maintain order book-to-bill ratio at around 2.5-3x. With 48 project currently under execution and the Bhiwandi EWS project, contributing ~19% of the outstanding order book, expected to contribute to revenues from 4QFY20 onwards, the drop in expected revenue from SDB project is expected to be compensated to some extent by execution in other projects and we expect the company to achieve ~25% top-line growth in FY20 (in line with the guidance). We believe that diversification beyond Gujarat market may further aid re-rating. We maintain NEU with a one notch reduction in multiple to factor in the delay of up to 10 months in Surat Diamond Bourse Project. Key risks (1) Delay in diversification outside Gujarat; (2) Delays in new order conversion & (3) Further delay in SDB Project execution.

Financial Summary (Standalone)

YE March (Rs mn)	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)	FY18	FY19	FY20E	FY21E
Net Revenues	3,125	2,100	48.8	3,073	1.7	7,298	10,441	13,052	15,073
EBIT	432	294	47.1	427	1.3	1,014	1,490	1,757	2,030
APAT	327	176	85.9	255	28.0	649	902	1,190	1,417
Diluted EPS (Rs)	9.1	4.9	85.9	7.1	28.0	18	25	33	39
P/E (x)						30.3	21.8	16.5	13.9
EV / EBITDA (x)						17.3	11.9	10.2	8.4
RoE (%)						31.7	26.8	28.3	26.9

Source: Company, HDFC sec Inst Research

INDUSTRY	INFRASTRUCTURE
CMP (as on 23 Oct 2019)	Rs 551
Target Price	Rs 590
Nifty	11,604
Sensex	39,059
KEY STOCK DATA	
Bloomberg	PSPPL IN
No. of Shares (mn)	36
MCap (Rs bn) / (\$ mn)	20/280
6m avg traded value (Rs mn)	13
STOCK PERFORMANCE (%)	
52 Week high / low	Rs 617/358
	3M 6M 12M
Absolute (%)	12.5 15.5 42.0
Relative (%)	9.7 14.2 26.6
SHAREHOLDING PATTERN (%)	
	Jun-19 Sep-19
Promoters	73.28 73.68
FIs & Local MFs	6.84 6.72
FPIs	1.21 1.20
Public & Others	18.67 18.40
Pledged Shares	- -
Source : BSE	

Parikshit D Kandpal, CFA
 parikshitd.kandpal@hdfcsec.com
 +91-22-6171-7317

Shrey Pujari
 shrey.pujari@hdfcsec.com
 +91-22-6639-3035

Revenue: Rs 3.1bn (+49/+2% YoY/QoQ, 14% beat)

EBITDA: Rs 432mn (+47/+1% YoY/QoQ, 13% beat)

Margins: 13.8% (-17/-6bps YoY/QoQ, in line)

RPAT: Rs 327mn (29% beat). Due to a change in the corporate tax structure, the company has moved to the lower tax slab and the same will be applicable during the period FY20-21E

Standalone Quarterly Financials

Particulars (Rs mn)	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)	1HFY20	1HFY19	YoY
Net Revenues	3,125	2,100	48.8	3,073	1.7	6,198	4,447	39.4
Material Expenses	(2,515)	(1,669)	50.7	(2,474)	1.6	(4,989)	(3,571)	39.7
Employee Expenses	(146)	(108)	35.6	(138)	6.0	(284)	(208)	36.7
Other Expenses	(32)	(29)	10.1	(34)	(5.8)	(66)	(44)	48.7
EBITDA	432	294	47.1	427	1.3	859	624	37.8
Depreciation	(62)	(58)	7.2	(59)	5.6	(121)	(106)	14.0
EBIT	370	236	56.8	368	0.6	738	518	42.6
Interest Cost	(37)	(23)	61.5	(28)	33.3	(64)	(37)	72.1
Other Income	69	54	26.3	52	32.1	120	115	4.6
PBT	402	268	50.2	393	2.5	795	596	33.4
Tax	(75)	(92)	(18.2)	(137)	(45.2)	(212)	(209)	1.4
RPAT	327	176	85.9	255	28.0	583	386	50.8

Source: Company, HDFC sec Inst Research

Margin Analysis

	2QFY20	2QFY19	YoY (bps)	1QFY20	QoQ (bps)	1HFY20	1HFY19	YoY
Material Expenses % Net Sales	80.5	79.5	98.0	80.5	(5.0)	80.5	80.3	18.6
Employee Expenses % Net Sales	4.7	5.1	(45.6)	4.5	19.0	4.6	4.7	(9.1)
Other Operating Expenses % Net Sales	1.0	1.4	(35.8)	1.1	(8.1)	1.1	1.0	6.7
EBITDA Margin (%)	13.8	14.0	(16.7)	13.9	(5.9)	13.9	14.0	(16.1)
Tax Rate (%)	18.7	34.3	(1,561.1)	34.9	(1,623.5)	26.7	35.1	(841.9)
APAT Margin (%)	10.5	8.4	208.8	8.3	215.1	9.4	8.7	70.9

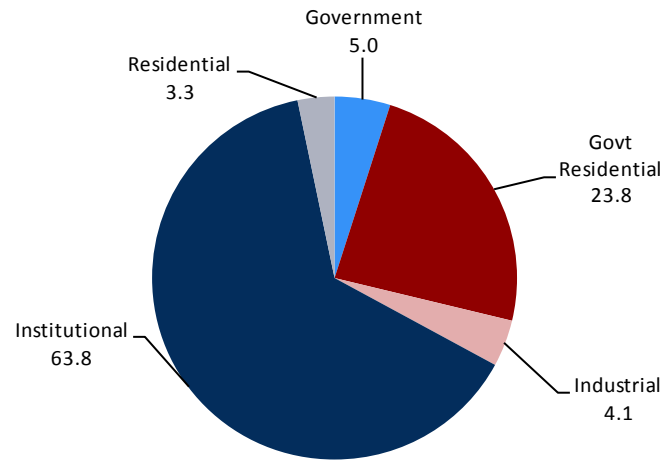
Source: Company, HDFC sec Inst Research

Though Institutional orders continue to dominate order backlog, its share in the total order backlog has come down to 63.8% (vs ~83% YoY).

The share of government residential projects in the order mix has shown a significant increase, contributing 23.8% to the order book (vs 0.86% YoY) following the company's entry into the affordable housing segment in Maharashtra

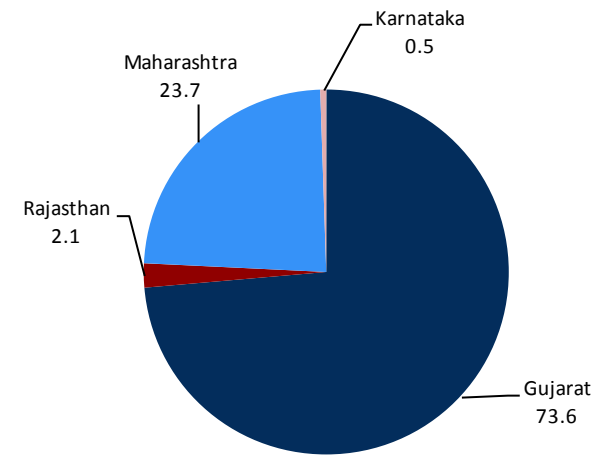
Gujarat continues to dominate the backlog with 73.6 % share led by the Surat Diamond Bourse project (~31% of the total order book)

Order Book (Segment Wise) – 2QFY20 (%)



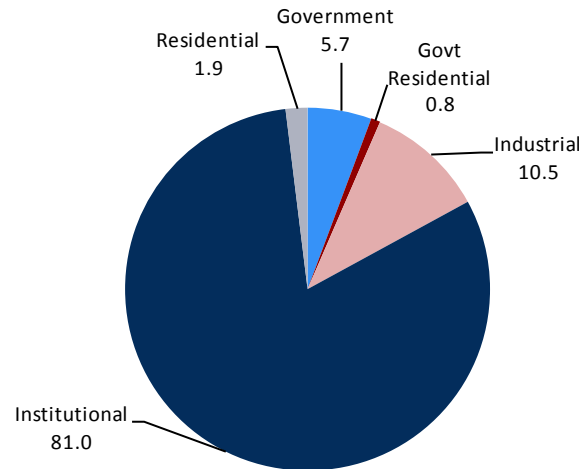
Source : Company, HDFC sec Inst Research

Order Book (State Wise) – 2QFY20 (%)



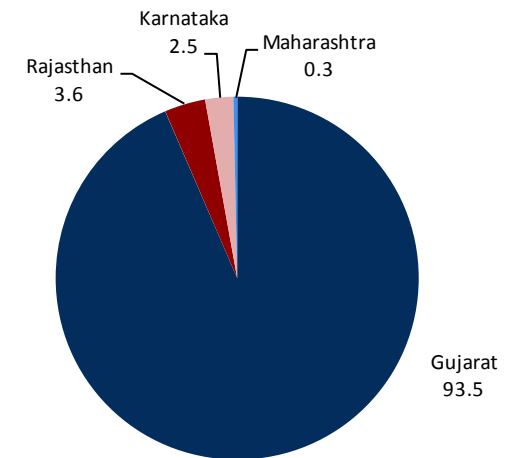
Source : Company, HDFC sec Inst Research

Revenue (Segment Wise) – 2QFY20 (%)



Source : Company, HDFC sec Inst Research

Revenue (State Wise) – 2QFY20 (%)



Source : Company, HDFC sec Inst Research

Order book to grow at a CAGR of 18.3% over FY19-21E

Revenue to grow at a CAGR of 20.2% over FY19-21E with a drop in expected revenue contribution from SDB Project over the period owing to delays in execution.

EBITDA margins to remain in the range of 13-14%

APAT will grow by 25.3% CAGR over FY19-21E due to a change in the corporate tax structure, resulting in an effective tax rate of 25.17%.

Key Assumptions And Estimates (Standalone)

Key Assumptions	FY20E	FY21E	Comments
Closing order book	36,728	41,654	Order book to grow at a CAGR of 18.3% over FY19-21E
Order book growth (%)	23%	13%	
New order booking	20,000	20,000	The company is expected to beat its guidance of Rs 15bn in new orders on the back of bids placed for orders worth Rs 20bn as of 1HFY20
Book to bill ratio	2.8	2.8	
Total Revenue	13,052	15,073	Revenue to grow at a CAGR of 20.2% over FY19-21E
Growth (%)	25.0	15.5	
EBIDTA	1,757	2,030	EBITDA to grow at a CAGR of 16.7% over FY19-21E
EBIDTA margin (%)	13.5	13.5	EBITDA margins to remain in the range of 13-14%
Depreciation	290	307	In line with increased capex requirements to support execution ramp up.
Financial Charges	111	119	
PBT	1,591	1,895	
PBT margin (%)	12.2	12.6	
Tax	401.0	477.4	
Tax rate (%)	25.2	25.2	The Company has adopted the new tax regime (25.17%) from 2QFY20 onwards and same will be applicable over FY20-21E
RPAT	1,190	1,417	
Net margin (%)	9.1	9.4	
Extraordinary	-	-	
Adjusted PAT	1,190	1,417	APAT will grow by 25.3% CAGR over FY19-21E
Gross Block Turnover	7.3	7.4	
Debtor days	53	53	
CFO - a	833	1,525	
CFI - b	(726)	(212)	
FCF - a+b	608	1,275	
CFF - c	166	(324)	
Total change in cash - a+b+c	273	990	

Source: HDFC sec Inst Research

We maintain PSP at NEU with a TP of Rs 590/share (15x one year forward Mar-21E EPS vs 16x earlier) to factor in the delay in Surat Diamond Bourse project which may extend up to 10 months beyond the Scheduled Completion date.

We have revised our estimates for FY20/FY21E to factor in the impact of delay in Surat Diamond Bourse Project and adoption of the new corporate tax structure.

Outlook And Valuation

Maintain NEU with a Target Price of Rs 590/sh

Valuation methodology

- We have valued PSP at 15x (based on our multi factor rating framework) one-year forward Mar-21E EPS vs 16x earlier. Our rationale behind the one notch reduction in multiple is factor in the delay in the Surat Diamond Bourse project (up to 10 months beyond the Scheduled Completion date) for reasons attributable to client.
- However, Robust 2QFY20 order backlog of Rs 31.9bn (2.4x FY20E revenue) and execution pickup in other large projects may compensate the reduced revenue from SDB to some extent
- 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.
- With government's thrust on affordable housing, we expect significant orders in FY20 with PSP expected to further bid for more projects and existing affordable housing/EWS projects are expected to begin execution during 2HFY20E.
- With recent price movement we maintain PSP at NEU. We value PSP at Rs 590/share (15x one-year forward Mar-21E EPS).

Valuation

Particulars	Segments	Value (Rs mn)	Value per share(Rs)	Rationale
EPC	Core construction business	21,257	590	At 15x Mar-21E EPS
Total		21,257	590	

Source: HDFC sec Inst Research

Change in Estimates

Rs mn	FY20E New	FY20E Old	(% Change)	FY21E New	FY21E Old	(% Change)
Net Revenues	13,052	14,057	(7.1)	15,073	16,012	(5.9)
EBITDA	1,757	1,893	(7.2)	2,030	2,157	(5.9)
Margins (%)	13.5	13.5	0.0	13.5	13.5	0.0
APAT	1,190	1,119	6.4	1,417	1,302	8.9

Source: HDFC sec Inst Research

We summarize the valuations of the core EPC operations of our coverage universe and excluding the value of the asset portfolio, land and any other investment

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 (%)		
					FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Dilip Buildcon	55.3	404	BUY	720	55.6	50.0	50.5	5.2	5.8	5.8	4.6	4.1	3.9	26.9	19.3	16.4
PNC Infratech	43.9	171	BUY	339	9.1	13.6	15.8	12.9	8.6	7.4	7.1	5.2	4.4	11.9	15.3	15.4
NCC	32.4	54	BUY	154	10.4	7.6	9.7	4.4	6.1	4.7	3.1	3.1	2.6	13.8	9.2	10.7
KNR Constructions	31.8	226	BUY	375	12.3	14.1	17.5	13.5	11.8	9.5	6.1	6.0	4.6	13.5	13.0	13.7
Ashoka Buildcon	29.5	105	BUY	220	11.5	10.5	12.4	2.9	3.2	2.7	3.3	2.9	2.6	15.5	12.6	13.2
Sadbhav Engineering	23.4	137	BUY	269	10.9	10.5	14.1	7.3	7.6	5.6	6.7	4.8	4.3	9.2	8.2	10.1
PSP Projects	19.7	551	NEU	590	25.1	33.1	39.4	21.8	16.5	13.9	11.9	10.2	8.4	26.8	28.3	26.9
Ahluwalia Contracts	19.4	290	BUY	402	17.5	20.2	24.3	15.8	13.7	11.4	7.9	6.2	4.9	17.3	16.9	17.2
JMC Projects	18.8	112	BUY	176	8.5	8.6	9.3	10.3	10.2	9.4	6.4	5.4	4.7	16.6	14.5	13.8
Capacite Infraprojects	13.2	194	BUY	351	14.1	16.6	22.5	12.9	10.9	8.0	5.3	4.4	3.5	12.0	12.6	15.1
HG Infra	12.6	194	BUY	462	19.0	25.7	29.6	8.4	6.2	5.4	4.6	3.3	2.9	20.6	22.6	21.0
JKIL	10.5	155	BUY	258	23.4	27.5	32.2	6.6	5.6	4.8	3.8	3.2	2.8	11.1	11.9	12.6
ITD Cementation	7.3	42	BUY	78	4.8	5.9	6.5	8.9	7.2	6.5	3.6	3.3	2.9	8.0	9.4	9.5
Average								10.1	8.7	7.3	5.7	4.8	4.0	15.6	14.9	15.0

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

Income Statement(Standalone)

Year ending March (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Net Revenues	4,008	7,298	10,441	13,052	15,073
Growth (%)	-12.5	82.1	43.1	25.0	15.5
Material Expenses	3,047	5,912	8,406	10,642	12,289
Employee Expenses	208	286	432	522	603
Other Operating Expenses	95	86	113	131	151
EBIDTA	658	1,014	1,490	1,757	2,030
EBIDTA (%)	16.4	13.9	14.3	13.5	13.5
EBIDTA Growth (%)	67.3	54.2	46.9	17.9	15.5
Depreciation	76	112	242	290	307
EBIT	582	902	1,248	1,467	1,723
Other Income (Incl. EO Items)	134	184	229	236	291
Interest	75	87	92	111	119
PBT	640	999	1,385	1,591	1,895
Tax	226	355	483	401	477
RPAT	414	644	902	1,190	1,417
EO items (net of tax)	2	6	-	-	-
APAT	416	649	902	1,190	1,417
APAT Growth (%)	64.9	56.0	38.9	32.0	19.1
EPS	14.5	18.0	25.1	33.1	39.4
EPS Growth (%)	(81.7)	24.8	38.9	32.0	19.1

Source: Company, HDFC sec Inst Research

Balance Sheet (Standalone)

As at March (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital	288	360	360	360	360
Reserves	783	2,667	3,354	4,330	5,492
Total Shareholders Funds	1,071	3,027	3,714	4,690	5,852
Minority Interest	-	-	-	-	-
Long Term Debt	34	17	4	4	4
Short Term Debt	644	199	258	750	800
Total Debt	677	216	262	754	804
Deferred Taxes	(15)	(18)	(49)	(49)	(49)
TOTAL SOURCES OF FUNDS	1,733	3,225	3,928	5,395	6,607
APPLICATION OF FUNDS					
Net Block	508	770	1,032	966	909
CWIP	-	18	-	-	-
Investments, LT Loans & Advances	664	911	893	1,629	1,882
Total Non-current Assets	1,171	1,699	1,924	2,596	2,790
Inventories	30	335	750	715	826
Debtors	533	1,162	1,426	1,877	2,168
Cash & Equivalents	1,159	2,384	2,217	2,489	3,479
Other Current Assets	238	255	938	1,252	1,445
Total Current Assets	1,960	4,136	5,331	6,334	7,918
Creditors	693	1,213	1,585	1,788	2,065
Other Current Liabilities & Provns	705	1,398	1,743	1,748	2,039
Total Current Liabilities	1,398	2,611	3,328	3,536	4,104
Net Current Assets	561	1,525	2,003	2,797	3,814
Misc Expenses & Others	-	-	-	-	-
TOTAL APPLICATION OF FUNDS	1,733	3,225	3,928	5,395	6,607

Source: Company, HDFC sec Inst Research

Cash Flow (Standalone)

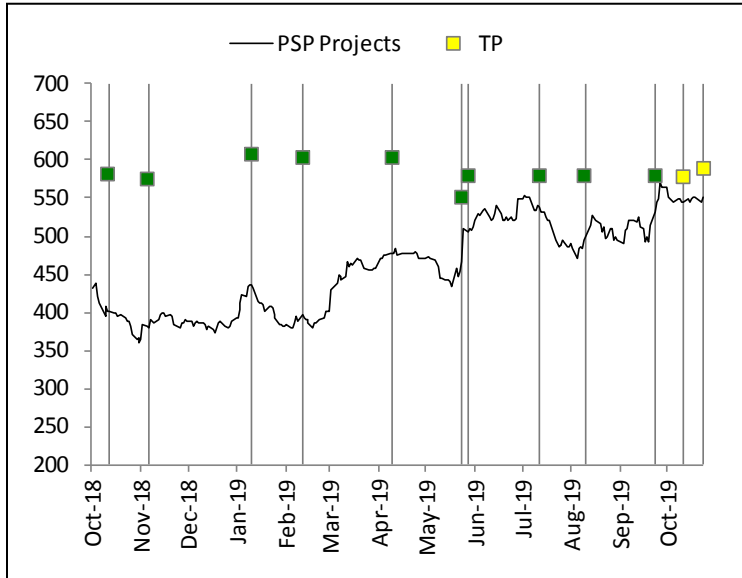
Year ending March (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
PBT	639	999	1,385	1,591	1,895
Non-operating & EO items	(69)	(178)	(198)	(236)	(291)
Interest expenses	7	46	45	111	119
Depreciation	76	112	242	290	307
Working Capital Change	(497)	145	(720)	(524)	(27)
Tax paid	(145)	(409)	(477)	(401)	(477)
OPERATING CASH FLOW (a)	11	716	276	833	1,525
Capex	(71)	(475)	(394)	(225)	(250)
Free cash flow (FCF)	(60)	241	(118)	608	1,275
Investments + Investment Income	(9)	178	55	(501)	38
INVESTING CASH FLOW (b)	(80)	(296)	(339)	(726)	(212)
Share capital Issuance	-	1,421	-	-	-
Debt Issuance	215	(461)	46	492	50
Interest expenses	(55)	(46)	(45)	(111)	(119)
Dividend + Other Misc	-	(108)	(217)	(214)	(255)
FINANCING CASH FLOW (c)	160	805	(215)	166	(324)
NET CASH FLOW (a+b+c)	90	1,225	(278)	273	990
Closing Cash & Equivalents	1,159	2,384	2,217	2,489	3,479

Source: Company, HDFC sec Inst Research

Key Ratios (Standalone)

Year ending March	FY17	FY18	FY19	FY20E	FY21E
PROFITABILITY (%)					
GPM	24.0	19.0	19.5	18.5	18.5
EBITDA Margin	16.4	13.9	14.3	13.5	13.5
EBIT Margin	14.5	12.4	12.0	11.2	11.4
APAT Margin	10.4	8.9	8.6	9.1	9.4
RoE	48.2	31.7	26.8	28.3	26.9
Core RoCE	(419.3)	327.1	99.4	86.0	103.4
RoCE	26.8	21.9	24.5	23.6	22.8
EFFICIENCY					
Tax Rate (%)	35.3	35.6	34.9	25.2	25.2
Asset Turnover (x)	4.9	6.1	6.2	6.8	7.0
Inventory (days)	3	17	26	20	20
Debtors (days)	49	58	50	53	53
Payables (days)	63	61	55	50	50
Other Current Assets (days)	22	13	33	35	35
Other Current Liab (days)	64	70	61	49	49
Net Working Capital Cycle (Days)	(54)	(43)	(7)	9	8
Debt/EBITDA (x)	1.0	0.2	0.2	0.4	0.4
Net D/E	(0.4)	(0.7)	(0.5)	(0.4)	(0.5)
Interest Coverage	7.7	10.4	13.6	13.2	14.5
PER SHARE DATA					
EPS (Rs/sh)	14.5	18.0	25.1	33.1	39.4
CEPS (Rs/sh)	17.1	21.1	31.8	41.1	47.9
DPS (Rs/sh)	0.0	3.0	6.0	6.0	7.1
BV (Rs/sh)	37	84	103	130	163
VALUATION					
P/E	37.8	30.3	21.8	16.5	13.9
P/BV	14.7	6.5	5.3	4.2	3.4
EV/EBITDA	23.2	17.3	11.9	10.2	8.4
OCF/EV (%)	0.0	0.0	0.0	0.0	0.1
FCF/EV (%)	(0.4)	1.4	(0.7)	3.4	7.5
FCFE/Market Cap (%)	0.6	(1.4)	(0.6)	5.0	6.1
Dividend Yield (%)	0.0	0.5	1.1	1.1	1.3

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY


Date	CMP	Reco	Target
11-Oct-18	408	BUY	581
6-Nov-18	382	BUY	576
10-Jan-19	436	BUY	608
11-Feb-19	396	BUY	603
9-Apr-19	479	BUY	603
23-May-19	457	BUY	550
28-May-19	505	BUY	579
11-Jul-19	538	NEU	579
10-Aug-19	495	BUY	579
22-Sep-19	515	BUY	579
10-Oct-19	545	NEU	579
24-Oct-19	551	NEU	590

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, CFA & Shrey Pujari, MBA**, 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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Any holding in stock –No

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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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