

13 August 2018

PSP Projects

Charting its territory towards a bright future

Healthy execution, a growing order backlog and a strong balance sheet are some hints of the potential in PSP Projects, especially in the immediate future. The opportunity landscape is bright. Its best-in-class working-capital cycle, industry-leading return ratios and net-cash status make it an interesting proposition. We have no rating on the stock.

Inflow position. The company has maintained its previously guided-to ~₹10bn inflows for FY19. Management commented that, given FY19 inflows of ~₹2bn till now and a healthy pipeline, achieving the year's target of ~₹10bn does not necessarily seem beyond reach. It has submitted bids of ~₹12bn-14bn. It believes it has the capacity and capability in place to scale up.

Raised dependence on SDB. The company has had a phenomenal run, marked by constant and continuous growth. This was only further boosted by the large SDB project, which in the past two quarters has been the driving force. Adjusted for SDB, however, growth has fallen a slight ~2% y/y. This raises the question of its dependence on similar large projects in future for the growth momentum to persist. The company is on the lookout for projects of similar scale.

Strong revenue assurance. Notwithstanding the ordinary year-to-date inflows, the present ~₹25bn order backlog (incl. Q2 inflows of ~₹1.4bn) is still good enough to get growth going in the immediate future. With the present backlog and a healthy pipeline, management sees ~30-35% CAGR in revenue over 2-3 years as easily possible.

Valuation. At the CMP, the stock trades at a 24x TTM EPS of ~₹20. We believe the strong order backlog, continuous focus on execution, healthy balance sheet and better return ratios help it command such a high valuation. We do not have a rating on the stock. **Risk.** Failure to maintain prudence.

Key financials (YE Mar)	FY14	FY15	FY16	FY17	FY18P
Sales (₹ m)	2,104	2,805	4,580	4,008	7,298
Net profit (₹ m)	101	141	249	416	644
EPS (₹)	3.5	4.9	8.7	14.4	17.9
Growth (%)	-17.8	39.6	77.4	66.9	23.8
PE (x)	60.1	43.0	24.3	14.5	25.1
EV / EBITDA (x)	33.1	24.2	13.5	8.4	13.8
PBV (x)	17.4	12.9	9.2	5.6	5.3
RoE (%)	32.8	34.4	44.1	48.1	31.4
RoCE (%)	34.3	33.8	44.2	50.6	44.0
Net debt / equity (x)	-1.5	-1.3	-1.1	-0.4	-0.7

Source: Company Note: P-Provisional

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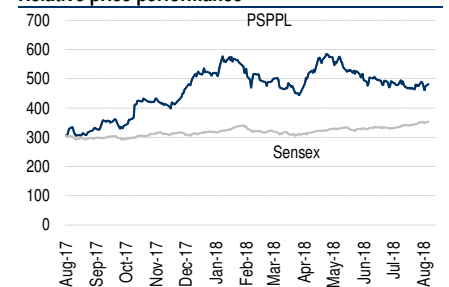
Rating: **NR**

Share Price: ₹480

Key data	PSPPL IN / PSPP.BO
52-week high / low	₹596 / 304
Sensex / Nifty	37645 / 11356
3-m average volume	\$0.2m
Market cap	₹17bn / \$247m
Shares outstanding	36m

Shareholding pattern (%)	Jun'18	Mar'18	Dec'17
Promoters	72.4	72.1	72.0
- of which, Pledged	-	-	-
Free float	27.6	27.9	28.0
- Foreign institutions	1.2	1.2	1.4
- Domestic institutions	8.4	8.3	9.4
- Public	17.9	18.5	17.2

Relative price performance



Source: Bloomberg

Prem KhuranaResearch Analyst
+9122 6626 6470
premkhurana@rathi.com**Rachit R Kamath**Research Associate
rachitkamath@rathi.com

Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m) - standalone

Year-end: Mar	FY14	FY15	FY16	FY17	FY18
Order backlog	4,472	4,877	3,381	7,292	25,590
Average order size	244	198	192	351	1,105
Net revenues (₹ m)	2,104	2,805	4,580	4,008	7,298
Growth (%)	-18.2	33.3	63.3	-12.5	82.1
Direct costs	1,858	2,489	4,032	3,255	6,199
SG&A	79	92	155	93	86
EBITDA	167	224	393	659	1,014
EBITDA margins (%)	8.0	8.0	8.6	16.5	13.9
Depreciation	37	52	71	76	112
Other income	44	65	97	134	184
Interest Exp	20	25	34	75	87
PBT	154	213	386	642	999
Effective tax rate (%)	34.6	33.9	35.4	35.2	35.6
+ Associates / (minorities)	-	-	-	-	-
Net income	101	141	249	416	644
Adjusted income	101	141	249	416	644
WANS	29	29	29	29	36
FDEPS (₹ / sh)	3.5	4.9	8.7	14.4	17.9

Fig 3 – Cash-flow statement (₹ m) – standalone

Year-end: Mar	FY14	FY15	FY16	FY17	FY18P
PBT + Net interest expense	131	172	323	584	902
+ Non-cash items	37	52	71	76	112
Oper. profit before WC chg.	167	224	393	659	1,014
- Incr. / (decr.) in WC	-102	-157	-150	651	-36
Others including taxes	53	72	137	226	355
Operating cash-flow	216	309	407	-218	694
- Capex (tang. + intangibles)	37	201	258	61	392
Free cash-flow	179	108	149	-279	302
Acquisitions	-	-	-	-	-
- Dividend (incl. buyback & taxes)	19	19	58	108	216
+ Equity raised	-	-	-	-	1,419
+ Debt raised	109	72	115	219	-486
- Fin. investments	54	37	53	37	11
- Net interest expense + Misc.	(23)	(40)	(63)	(161)	(205)
Net cash-flow	238	164	216	-46	1,214

Source: Company Note: p – provisional

Fig 5 – Price movement


Source: Bloomberg

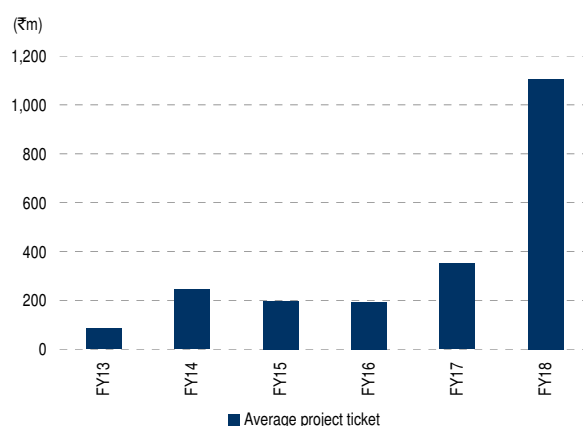
Fig 2 – Balance sheet (₹ m) - standalone

Year-end: Mar	FY14	FY15	FY16	FY17	FY18P
Share capital	8	8	32	288	360
Net worth*	348	469	661	1,071	3,027
Total debt	260	334	452	677	195
Minority interest	-	-	-	-	-
DTL / (assets)	-3	-5	-9	-15	-18
Capital employed	605	798	1,105	1,733	3,203
Net tangible assets	185	332	519	503	763
Net intangible assets	-	0	3	5	7
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	-	2	-	-	18
Investments (strategic)	8	8	50	76	77
Investments (financial)	81	118	130	141	151
Current assets (ex cash)	401	550	513	1,389	2,587
Cash	684	848	1,064	1,018	2,232
Current liabilities	755	1,060	1,174	1,399	2,633
Working capital	-354	-511	-661	-10	-45
Capital deployed	605	798	1,105	1,733	3,203
Contingent liabilities	183	457	727	1,178	NA

Fig 4 – Ratio analysis

Year-end: Mar	FY14	FY15	FY16	FY17	FY18P
P/E (x)	60.1	43.0	24.3	14.5	25.1
EV / EBITDA (x)	33.1	24.2	13.5	8.4	13.8
EV / sales (x)	2.6	1.9	1.2	1.4	1.9
P/B (x)	17.4	12.9	9.2	5.6	5.3
RoE (%)	32.8	34.4	44.1	48.1	31.4
RoCE (%)	34.3	33.8	44.2	50.6	44.0
Sales / FA (x)	11.4	8.4	8.8	7.9	9.3
DPS (₹ / sh) *	0.6	0.6	1.7	2.5	5.0
Dividend yield (%)*	0.3	0.3	0.8	1.2	1.1
Dividend payout (%) - incl. DDT*	18.6	13.7	23.1	26.0	33.6
Net debt / equity (x)	-1.5	-1.3	-1.1	-0.4	-0.7
Receivables (days)	24	31	8	49	58
Inventory (days)	3	5	3	3	17
Payables (days)	69	82	55	63	61
CFO : PAT %	214.5	220.0	163.3	-52.5	107.9

Source: Company ; * Dividend for FY17 proposed after IPO; considered in ratio analysis

Fig 6 – Avg. order size through the years


Source: Company Note: The Surat Diamond Bourse project of ~₹15.8bn received in Q3 FY18

Result / Call Highlights

Financial performance

- PSP's revenue growth during the quarter was largely attributable to revenue recognition at its Surat Diamond Bourse project, which brought ₹0.8bn during the quarter and thus, translate into a strong ~51% y/y growth. Sequentially, growth was a bit lower (~11%), which can be attributed to the seasonality of business.
- The margin expanded ~128bps y/y to ~14.1%, sequentially rising ~29bps from ~13.8% in Q4 FY18. The margin expansion seems to be a function of the revenue mix as well as the project mix.

Fig 7 – Financial highlights

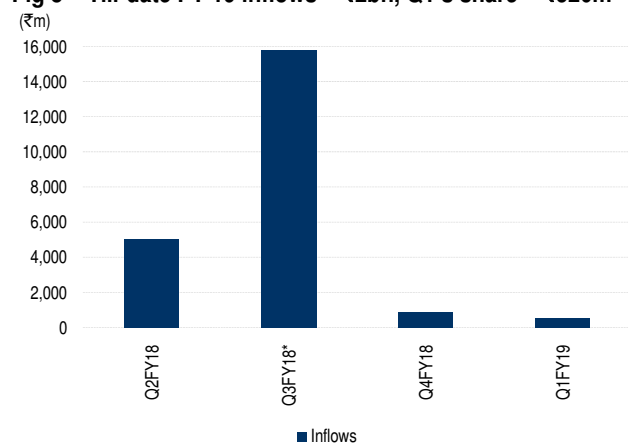
(YE: Mar) (₹ m)	Standalone					Consolidated					
	Q1FY18	Q1FY19	% y/y	Q4 FY18	% q/q	FY17	FY18	% yoy	FY17	FY18	% yoy
Sales	1,558	2,347	50.7	2,637	-11.0	4,008	7,298	82.1	4,448	7,516	69.0
EBITDA	199	330	65.7	363	-9.1	659	1014	53.8	671	1046	55.9
<i>EBITDA margins (%)</i>	<i>12.8</i>	<i>14.1</i>	<i>128bps</i>	<i>13.8</i>	<i>29bps</i>	<i>16.5</i>	<i>13.9</i>	<i>-256</i>	<i>15.1</i>	<i>13.9</i>	<i>-117</i>
Interest	14	15	6.8	30	-51.3	75	87	15.5	79	93	17.0
Depreciation	21	48	130.5	43	12.3	76	112	47.9	79	115	45.0
Other income	41	61	48.3	59	4.0	134	184	37.2	134	186	38.5
PBT	206	328	59.6	349	-5.9	642	999	55.5	647	1024	58.4
Tax	72	117	61.8	119	-1.5	226	355	56.9	231	364	58.1
Adjusted PAT	133	211	58.4	230	-8.2	416	644	54.7	416	660	58.6

Source: Company

Order backlog / inflows / bid pipeline

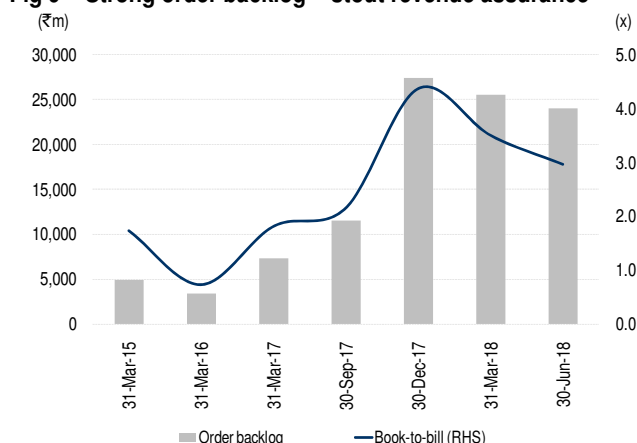
- For Q1 FY19, the company had inflows of ~₹520m. Post-Q1, it has secured orders of ~₹1.7bn, taking orders received in FY19 till now to ~₹2.2bn. Of the ~₹1.7bn, ~₹320m is at the subsidiary level.
- The end-Jun'18 order backlog of ~₹24bn implies healthy revenue assurance (2.9x book-to-bill). Incl. Q2 inflows, standalone order-backlog till now is ~₹25.4bn, implying a book-to-bill of 3x.

Fig 8 – Till-date FY 19 inflows- ~₹2bn, Q1's share- ~₹520m



Source: Company * Surat Diamond Bourse project of ~₹15.8bn received in Q3 FY18

Fig 9 – Strong order backlog = stout revenue assurance



Source: Company

- With the order backlog to be executed in the next 24-30 months and PSP's proven execution record, its growth momentum is expected to be robust.
 - Excl. the SDB, the order backlog of ~₹9.7bn, across 35 projects, comprises ~53.2% institutional, ~18.3% industrial, ~20.9% government, ~5% residential and the rest, government residential projects.
- Q1 inflows seem subdued, given management guidance of ~₹10bn inflows for FY19; management, however, sees further scope in the remaining seven months.
- Outside Gujarat, the company is implementing two dairy projects in Karnataka (one on the outskirts of Bengaluru, the other on the road to Mysuru), and two in Rajasthan (a medical college and a hospital). These projects, falling within its area of expertise, led it to consider them.
- The company has submitted bids of ~₹12bn-14bn. The bid pipeline includes one large commercial project of ~₹4.5bn in the south (total project costs ~₹10bn, of which initial bids were invited for ~₹4.5bn). The other projects are from 2-3 major developers in Ahmedabad and one in Surat, and some institutional projects.

The Surat Diamond Bourse

- Revenue of ~₹0.8bn was recognised from the SDB in Q1.
- Management expects to bill ~₹250m-300m a month from this project, which would average ~₹0.8bn-0.9bn a quarter.
- The project has a pass-through structure for all building and finishing materials (cement, steel, marble tiles, granite).
- Earlier, management had guided to ~₹5bn revenue for FY19, ~₹8bn in FY20 and the rest in FY21.

Project Updates / New Opportunities

- **Dahod project.** The company had previously bagged an order worth ~₹2.3bn. Management stated that work on this, has began last month.
- **BSE-forum project in GIFT city.** The company had secured orders of ~₹1.3bn. The design aspect of the project is almost complete and is now at the approval stage. Management expects this project to begin construction at most by mid-Sep'18. The client has agreed to certain revisions in the structure cost.
- **South India project.** The company expects its next big project, post-SDB, to come from this 5m sq.ft. project, valued at ~₹10bn. It had submitted bids for this private project, and has already had one round of discussions. Phase-1, for which the company bid, is worth ~₹4.5bn.
- **Prospects/Scope.** The company sees scope in following projects:
 - The company expects from the Zydus Group another hospital contract in Baroda and two R&D centres, one each at Baroda and Ahmedabad.
 - More tenders to come from IIM by end-Aug'18.
 - Some works in the coming Phoenix mall in Ahmedabad.
 - Extensions/ additional works from current clientele.

- It plans to bag work of ~₹400m-450m from the Ahmedabad University.

Leverage / capex / cash flows / credit limits

- The company pegs its outstanding debt at end-Q1 at ~₹0.4bn, against which it holds ~₹1bn of cash and equivalents, thereby, retaining its net-cash status.
- It incurred ~₹210m capex in Q1. It laid out FY19 capex guidance of ~₹500m. Thus, it has further capex plans of ~₹290m. It had previously stated it incurs ~3-4% of a new project as capex.
- It has ~₹4.3bn of bank limits available (fungible between CC/WC and bank guarantees), of which ~₹4.1bn has been utilised.
- Management says its inventory days have gone up to about ~22-25 on the SDB project inventory needs. Debtor days are currently at 45; payable days, at ~60.

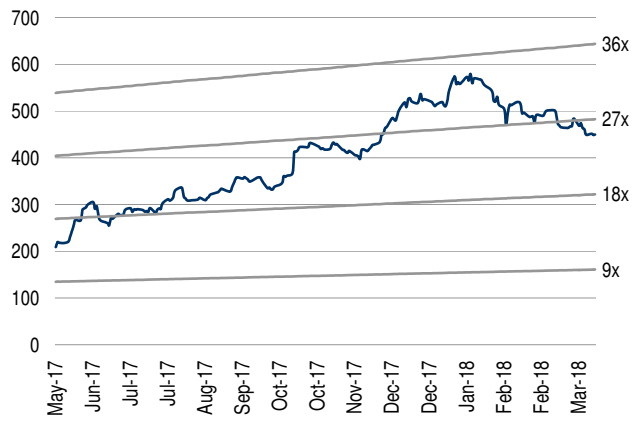
Guidance

- The company had previously guided to a ~30-35% CAGR in revenue over a 2-3 year period. Given its targeted cash-flows from the SDB project and accelerating pace of execution of the OB, it seems on the path to achieve the targeted growth rate.
- Also, it slightly revised its guided-to range for EBITDA margins, from 12-13%, to 12-14%.
- Management had previously guided to inflows of ~₹10bn for FY19; which it still maintains (already achieved ~₹2bn).
- It aims to disburse ~₹180m-200m in dividends for FY18 from its free FDs.

Valuation

At the CMP, the stock trades at 24x TTM EPS of ~₹20. We believe PSP’s strong order backlog, its continuous focus on execution, healthy balance sheet and better return ratios are the reasons for such a high valuation.

Fig 10 – PE band



Source: Bloomberg, Anand Rathi Research

Risk

- Failure to maintain prudence.

Appendix

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