ANANDRATHI

India I Equities

Construction

Company Update

12 August 2019

PSP Projects

FY20 off to a rousing start

Rating: **NR**

Share Price: ₹495

Strong revenue growth and healthy Q1 inflows enabled PSP Projects to deliver on several fronts, making the start to FY20 truly promising. With an augmented order backlog, sufficient scope remains for a further execution ramp-up. With the steadily rising contribution from projects other than the Surat Diamond Bourse (SDB) and with execution at the recent orders commencing, the concentration risk from a single order is being diluted. Strong fundamentals, a net-cash position and best-in-class working capital are some levers that enable PSP to deliver industry-leading return ratios, making it an interesting proposition.

On augmented OB, further scale-up expected. Strong, ~₹7.6bn, Q1 inflows exceeded revenue, enabling the company to close Q1 with a ~₹34bn OB, providing ample assurance of ~3x TTM sales. Management sees bright prospects in terms of inflows and has already bid for projects of ~₹25bn-30bn. Post-Q1, inflows were ~₹0.9bn, taking total ytd inflows to ~₹8.5bn.

~3/4-month SDB delay expected. Management booked ~₹0.9bn in Q1 FY20, and has booked ~₹5.1bn till Q1. Despite having completed RCC works, and having commenced facade & MEP works already, the project is likely to see a ~3/4-month delay on account of client-specific reasons. Management targets ~₹7bn-7.5bn from the project in FY20.

Guidance largely retained. Management yet targets ~₹13bn-14bn revenue in FY20, and has maintained EBITDA-margin guidance of ~12-14%. With strong Q1 inflows, it has slightly raised its inflow guidance (~₹16bn-17bn now). It doesn't foresee any material capex on account of equipment freed up at the SDB.

Valuation. At the CMP, the stock trades at 19x TTM EPS of ₹26. We believe the strong order backlog, continuous focus on execution, healthy balance sheet and return ratios would help it enjoy a premium multiple. We do not have a rating on the stock. **Risk.** Failure to maintain prudence.

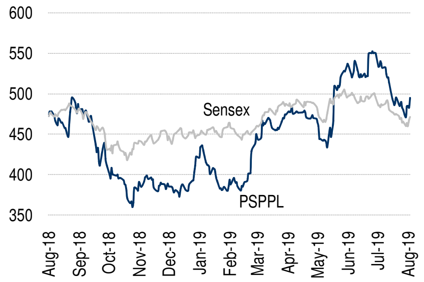
Key financials (YE Mar)	FY15	FY16	FY17	FY18	FY19P
Sales (₹ m)	2,805	4,580	4,008	7,298	10,440
Net profit (₹ m)	141	249	416	644	902
EPS (₹)	4.9	8.7	14.4	17.9	25.1
Growth (%)	39.6	77.4	66.9	23.8	40.2
PE (x)	43.0	24.3	14.5	25.1	18.3
EV / EBITDA (x)	24.2	13.8	8.4	13.8	9.8
PBV (x)	12.9	9.2	5.6	5.3	4.5
RoE (%)	34.4	44.3	48.2	31.4	26.8
RoCE (%)	33.8	44.3	50.7	43.8	41.3
Net debt / equity (x)	-1.3	-0.9	-0.4	-0.7	-0.5

Source: Company   Note: P-Provisional

Key data	PSPPL IN / PSPP.BO
52-week high / low	₹617 / 358
Sensex / Nifty	37582 / 11110
3-m average volume	$0.2m
Market cap	₹17.8bn / $251m
Shares outstanding	36m

Shareholding pattern (%)	Jun'19	Mar'19	Dec'18
Promoters	73.3	73.3	73.3
- of which, Pledged	-	-	-
Free float	26.7	26.7	26.7
- Foreign institutions	1.2	1.2	1.2
- Domestic institutions	6.4	6.5	6.2
- Public	19.1	19.1	19.4

Relative price performance



Source: Bloomberg

Prem Khurana
Research Analyst
+9122 6626 6470
premkhurana@rathi.com

Rachit R Kamath
Research Associate
rachitkamath@rathi.com

Quick Glance – Financials and Valuations (standalone)

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY15	FY16	FY17	FY18	FY19P
Order backlog	4,877	3,381	7,292	25,590	29,780
Average order size	198	192	351	1,105	429
Net revenues (₹ m)	**2,805**	**4,580**	**4,008**	**7,298**	**10,440**
Growth (%)	*33.3*	*63.3*	*-12.5*	*82.1*	*43.0*
Direct costs	2,489	4,032	3,208	6,113	8,839
SG&A	92	155	140	171	111
EBITDA	**224**	**393**	**659**	**1,014**	**1,489**
EBITDA margins (%)	*8.0*	*8.6*	*16.5*	*13.9*	*14.3*
Depreciation	52	71	76	112	242
Other income	65	97	134	184	230
Interest expenses	25	34	75	87	92
PBT	213	386	642	999	1,385
Effective tax rate (%)	*33.9*	*35.4*	*35.2*	*35.6*	*34.9*
+ Associates / (minorities)	-	-	-	-	-
Net income	141	249	416	644	902
Adjusted income	141	249	416	644	902
WANS	29	29	29	36	36
FDEPS (₹ / sh)	4.9	8.7	14.4	17.9	25.1

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY15	FY16	FY17	FY18	FY19P
Share capital	8	32	288	360	360
Net worth*	469	656	1,071	3,027	3,714
Debt	334	452	677	216	267
Minority interest	-	-	-	-	-
DTL / (Assets)	-5	-12	-15	-18	-49
Capital employed	**798**	**1,097**	**1,733**	**3,225**	**3,932**
Net tangible assets	332	508	503	763	1,021
Net intangible assets	0	4	5	7	10
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	2	-	-	18	-
Investments (strategic)	8	51	76	77	77
Investments (financial)	118	130	141	151	-
Current assets (ex cash)	550	638	1,389	2,587	3,931
Cash	848	938	1,018	2,232	2,217
Current liabilities	1,060	1,172	1,399	2,611	3,325
Working capital	-511	-534	-10	-24	606
Capital deployed	**798**	**1,097**	**1,733**	**3,225**	**3,932**
Contingent liabilities	8	32	288	360	-

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY15	FY16	FY17	FY18	FY19P
PBT + Net interest expense	172	323	584	902	1,247
+ Non-cash items	52	71	76	112	242
Oper. profit before WC chg.	224	393	659	1,014	1,489
- Incr. / (decr.) in WC	-157	-23	524	-14	630
Others including taxes	72	137	226	355	483
Operating cash-flow	309	280	-91	673	376
- Capex (tang. + intangibles)	201	248	71	392	486
Free cash-flow	108	32	-163	281	-110
Acquisitions	-	-	-	-	-
- Dividend (incl. buyback & taxes)	19	58	-	108	217
+ Equity raised	-	-	-	1,419	-
+ Debt raised	72	111	222	-464	20
- Fin. investments	37	54	36	11	-151
-Net interest expense + Misc.	(40)	(59)	(57)	(98)	(140)
Net cash-flow	164	90	80	1,214	-15

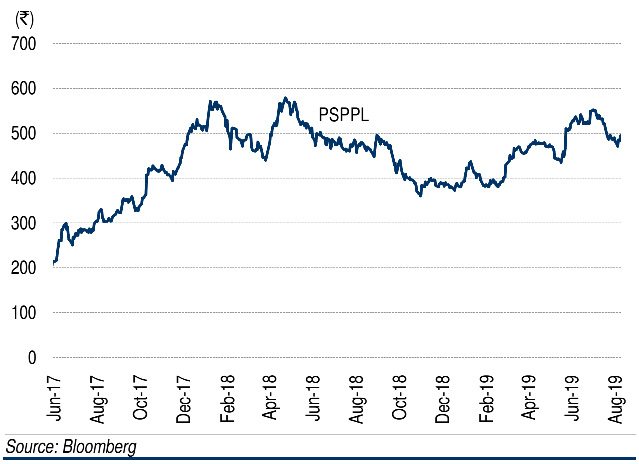
Source: Company Note: *P – provisional*

Fig 4 – Ratio analysis

Year-end: Mar	FY15	FY16	FY17	FY18	FY19P
P/E (x)	43.0	24.3	14.5	25.1	18.3
EV / EBITDA (x)	24.2	13.8	8.4	13.8	9.8
EV / Sales (x)	1.9	1.2	1.4	1.9	1.4
P/B (x)	12.9	9.2	5.6	5.3	4.5
RoE (%)	34.4	44.3	48.2	31.4	26.8
RoCE (%)	33.8	44.3	50.7	43.8	41.3
Sales / FA (x)	8.4	8.9	7.9	9.3	10.1
DPS (₹ / sh) *	0.6	1.7	2.5	5.0	5.0
Dividend yield (%)*	0.3	0.8	1.2	1.1	1.1
Dividend payout (%) - incl. DDT*	13.7	23.1	26.0	16.8	24.0
Net debt / equity (x)	-1.3	-0.9	-0.4	-0.7	-0.5
Receivables (days)	31	8	49	58	50
Inventory (days)	5	3	3	17	26
Payables (days)	82	55	63	61	55
CFO : PAT %	220.0	112.4	-22.0	104.5	41.7

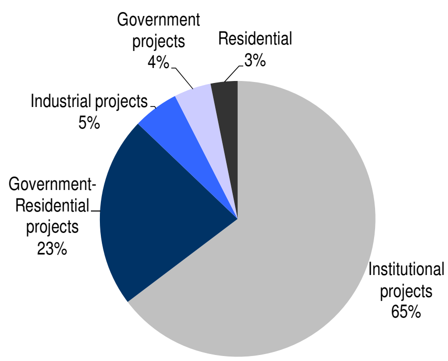
*Source: Company * Dividend for FY17 proposed after IPO; considered in ratio analysis*

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Govt. residential share up on recent PMAY wins*



*Source: Company * Of Q1 FY20-end OB of ~₹34bn*

Result / concall highlights

Income statement

- During Q1 FY20, PSP Projects posted strong, ~31% y/y, revenue growth to ~₹3bn, despite the pace of execution slightly dampened by the monsoon and the general elections (labour shortages). Excl. the SDB project, revenue growth was even stronger (up ~50% y/y, ~6% q/q). This indicates gradually less dependence on SDB in the company's revenue mix.
- Gross profits grew (~31% y/y) exactly in line with the revenue growth, but due to higher employee expenses (up ~38% y/y, ~18% q/q) EBITDA growth (~29% y/y) lagged revenue growth. This resulted in slightly lower margins, down ~17bps y/y, ~86bps q/q, to ~13.9%, yet in line with its guided-to range of ~12-14%.
- Largely led by growth in operating profits but partly constrained by higher depreciation and finance costs, Q1's ~₹0.3bn earnings were up ~21% y/y. Lower other income, too, had a role to play.

Fig 7 – Financial highlights - contribution from projects other than SDB's rising...

(`m)	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	% Y/Y	% Q/Q
Sales	2,347	2,099	2,611	3,383	3,073	*30.9*	*-9.2*
EBITDA	330	294	367	499	427	*29.4*	*-14.4*
EBITDA margins (%)	*14.1*	*14.0*	*14.1*	*14.7*	*13.9*	*-17bps*	*-86bps*
Interest	15	23	23	32	28	*89.2*	*-13.3*
Depreciation	48	58	62	74	59	*22.2*	*-20.7*
Other income	61	54	48	66	52	*-14.7*	*-21.7*
PBT	328	267	331	459	392	*19.6*	*-14.5*
Tax	117	92	116	158	137	*16.9*	*-13.1*
PAT	211	176	215	301	255	*21.1*	*-15.3*

Source: Company

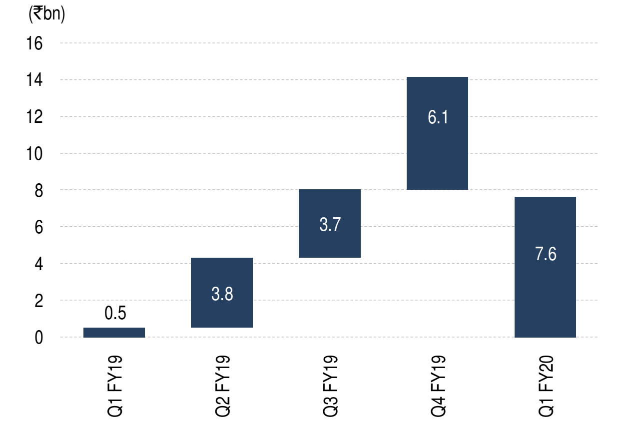
Order backlog / inflows / scope

- With robust inflows of ~₹7.6bn, the company closed Q1 on a sturdy note. Post-Q1, it acquired orders of a further ~₹0.9bn, taking the total FY20 ytd inflow tally to ~₹8.5bn. Having acquired in Q1 ~61% of FY20 earlier guided-to inflow, management raised its FY20 inflow guidance to ~₹16bn-17bn. Some of the prominent inflows are:
  - An EWS housing project at Bhiwandi, Maharashtra. A ~₹6bn Pradhan Mantri Awas Yojana project, executable in three years.
  - RCC works for the proposed Phoenix Mall from SGH Realty, of ~₹0.9bn. Pegged to be the largest mall in Gujarat.
  - Finishing and ancillary works of Sardardham building (~₹0.4bn) in Ahmedabad.
  - A 100-bed hospital project from The Maruti-Suzuki Foundation, of ~₹0.8bn (a post Q1-order).
- With the strong inflows exceeding revenues, the Q1 FY20 backlog grew to ~₹34bn, providing ample assurance of ~3x TTM revenues. The backlog, excl. the SDB project, was ~₹23bn (BtB of ~3.1x TTM revenues, excl. SDB revenues).
- Management said it has bid for orders of ~₹25bn-30bn. Major orders are projects from Vedanta, A tower project by the Gujarat Industrial

Development Corporation in GIFT city, Prestige Estates (in Pune), an IT Park (Hyderabad, an estimated opportunity of ~₹4bn), Varanasi Development Corporation, an astronomy building in Science city Gujarat (an opportunity of ~₹2bn) and others.

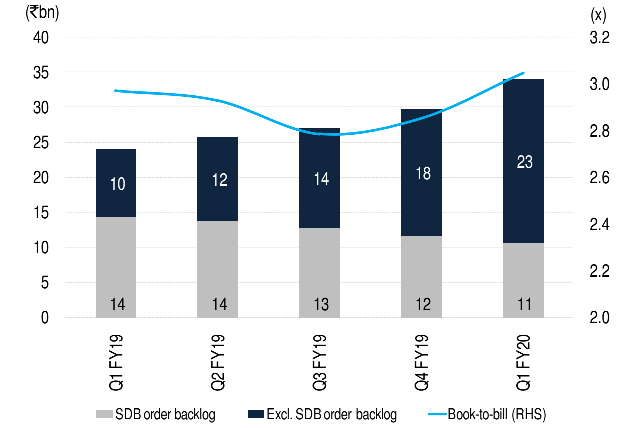
- **The Vedanta project.** Earlier pegged at ~₹18bn, the project has now been split, management said, and only work of ~₹5.5bn-6bn is up for grabs. It is already in discussion with the client and hopes for a closure shortly.
- **The Jamnagar project by Nayara Energy.** Management said it has had no response from the client and is awaiting a reply. Given the time being taken, it is less optimistic about the project.

Fig 8 – Q1 inflows of ~₹7.6bn; YTD inflows @ ~₹8.5bn



Source: Company

Fig 9 – ~₹34bn OB, gives ample assurance of ~3x TTM sales



Source: Company Note: Quarter-end figures

The Surat Diamond Bourse

- The company booked ~₹0.9bn revenue in Q1 from the SDB project. With this, it has booked total revenue of ~₹5.1bn from the project already.
  - For FY20, it sees ~₹7bn-7.5bn from the project, with the balance in FY21.
  - It said that till early Aug'19 (Q2) it has incrementally done work worth ~₹0.8bn.
- Despite having completed RCC works, and commenced the MEP & facade works, the project is likely to be delayed by ~3/4 months owing to delays in selecting finishing materials by the client.
  - The client has yet to select all finishing materials, expected in a while, resulting in some delay.
  - Nevertheless, management is confident of booking the targeted revenues from the project.
  - Management said lift installation works have also commenced.
- Management had earlier said that it has been given in-principal approval for interior works, but no further progress has been made on this.

Balance sheet

- Management said it incurred ~₹40m capex in Q1 FY20. As such, it doesn't see any material capex in FY20. Earlier, it said it would utilise the equipment freed from the SDB project (RCC works completed) to meet requirements for any future order wins.

- It utilised its CC and FD/OD limits to the extent of ~₹350m. Against this, it had cash of ~₹600m (excl. cash kept against FD/OD), thereby retaining its net-cash status. It said that, with the greater scale of operations expected in coming months, it sees utilisation to further rise to ~₹400m-500m.
- It pegs a receivables cycle of ~35-40 days and inventory levels similar to Q4 FY19 levels (of ~26 days).

Guidance

- Despite strong inflows early in the year, management maintained its FY20 revenue guidance of ~₹13bn-14bn. Of this, ~₹7bn-7.5bn is expected to come from the SDB project.
- It retained its previously guided-to EBITDA margin of ~12-14%, the exact figure depending on the job-mix across its projects.
- Having acquired strong inflows in Q1 FY20, management looks at inflows of ~₹16bn-17bn. It, however, didn't discount the possibility of over-shooting its guidance, and expects orders of ~₹10bn in the coming month or two.

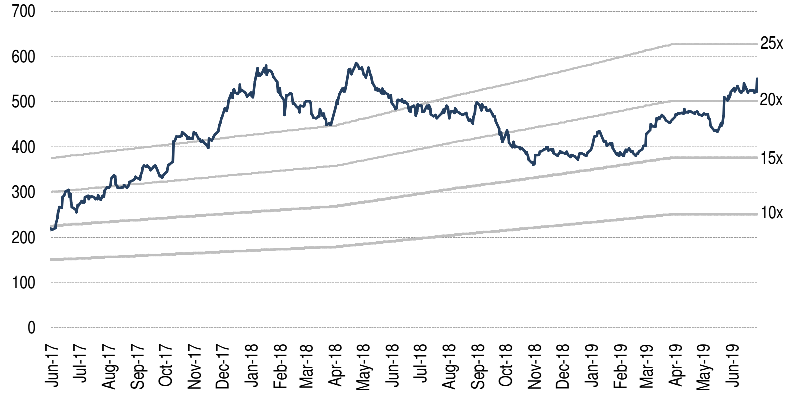
Other highlights

- **The Livermore project.** Management has put on the block the projects, at ~$1.45m. It expects the sale to go through in the coming month or two.

Valuation

At the CMP, the stock trades at 19x TTM EPS of ₹26. The augmented order backlog providing ample opportunities for a further scale-up, coupled with a well-managed balance sheet and industry-leading return ratios affords the company a valuation premium.

Fig 10 – PE band



Source: Bloomberg, Anand Rathi Research

Risks

- Slow pace of execution.
- Failure to maintain prudence.

Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US$1bn) and Mid/Small Caps (<US$1bn) as described in the Ratings Table below:

Ratings Guide (12 months)			
	Buy	**Hold**	**Sell**
Large Caps (>US$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US$1bn)	>25%	5-25%	<5%

Research Disclaimer and Disclosure inter-alia as required under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

Anand Rathi Share and Stock Brokers Ltd. (hereinafter refer as ARSSBL) (Research Entity) is a subsidiary of Anand Rathi Financial Services Ltd. ARSSBL is a corporate trading and clearing member of Bombay Stock Exchange Ltd, National Stock Exchange of India Ltd. (NSEIL), Multi Stock Exchange of India Ltd (MCX-SX) and also depository participant with National Securities Depository Ltd (NSDL) and Central Depository Services Ltd. ARSSBL is engaged in the business of Stock Broking, Depository Participant and Mutual Fund distributor.

The research analysts, strategists, or research associates principally responsible for the preparation of Anand Rathi research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

General Disclaimer: This Research Report (hereinafter called "Report") is meant solely for use by the recipient and is not for circulation. This Report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. The recommendations, if any, made herein are expression of views and/or opinions and should not be deemed or construed to be neither advice for the purpose of purchase or sale of any security, derivatives or any other security through ARSSBL nor any solicitation or offering of any investment /trading opportunity on behalf of the issuer(s) of the respective security (ies) referred to herein. These information / opinions / views are not meant to serve as a professional investment guide for the readers. No action is solicited based upon the information provided herein. Recipients of this Report should rely on information/data arising out of their own investigations. Readers are advised to seek independent professional advice and arrive at an informed trading/investment decision before executing any trades or making any investments. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by ARSSBL to be reliable. ARSSBL or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of ARSSBL shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way whatsoever from the information / opinions / views contained in this Report. The price and value of the investments referred to in this Report and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance. ARSSBL does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding taxation aspects of any potential investment.

Opinions expressed are our current opinions as of the date appearing on this Research only. We do not undertake to advise you as to any change of our views expressed in this Report. Research Report may differ between ARSSBL's RAs and/ or ARSSBL's associate companies on account of differences in research methodology, personal judgment and difference in time horizons for which recommendations are made. User should keep this risk in mind and not hold ARSSBL, its employees and associates responsible for any losses, damages of any type whatsoever.

ARSSBL and its associates or employees may; (a) from time to time, have long or short positions in, and buy or sell the investments in/ security of company (ies) mentioned herein or (b) be engaged in any other transaction involving such investments/ securities of company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) these and other activities of ARSSBL and its associates or employees may not be construed as potential conflict of interest with respect to any recommendation and related information and opinions. Without limiting any of the foregoing, in no event shall ARSSBL and its associates or employees or any third party involved in, or related to computing or compiling the information have any liability for any damages of any kind.

Details of Associates of ARSSBL and Brief History of Disciplinary action by regulatory authorities & its associates are available on our website i.e. www.rathionline.com

Disclaimers in respect of jurisdiction: This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject ARSSBL to any registration or licensing requirement within such jurisdiction(s). No action has been or will be taken by ARSSBL in any jurisdiction (other than India), where any action for such purpose(s) is required. Accordingly, this Report shall not be possessed, circulated and/or distributed in any such country or jurisdiction unless such action is in compliance with all applicable laws and regulations of such country or jurisdiction. ARSSBL requires such recipient to inform himself about and to observe any restrictions at his own expense, without any liability to ARSSBL. Any dispute arising out of this Report shall be subject to the exclusive jurisdiction of the Courts in India.

Statements on ownership and material conflicts of interest, compensation - ARSSBL and Associates

Answers to the Best of the knowledge and belief of ARSSBL/ its Associates/ Research Analyst who is preparing this report

Research analyst or research entity or his associate or his relative has any financial interest in the subject company and the nature of such financial interest.	No
ARSSBL/its Associates/ Research Analyst/ his Relative have actual/beneficial ownership of one per cent or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report?	No
ARSSBL/its Associates/ Research Analyst/ his Relative have actual/beneficial ownership of one per cent or more securities of the subject company	No
ARSSBL/its Associates/ Research Analyst/ his Relative have any other material conflict of interest at the time of publication of the research report?	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation from the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have managed or co-managed public offering of securities for the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation or other benefits from the subject company or third party in connection with the research report	No
ARSSBL/its Associates/ Research Analyst/ his Relative have served as an officer, director or employee of the subject company.	No

Other Disclosures pertaining to distribution of research in the United States of America

This research report is a product of ARSSBL, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by ARSSBL only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, ARSSBL has entered into an agreement with a U.S. registered broker-dealer, Cabrera Capital Markets. ("Cabrera"). Transactions in securities discussed in this research report should be effected through Cabrera or another U.S. registered broker dealer.

1. ARSSBL or its Affiliates may or may not have been beneficial owners of the securities mentioned in this report.

2. ARSSBL or its affiliates may have or not managed or co-managed a public offering of the securities mentioned in the report in the past 12 months.

3. ARSSBL or its affiliates may have or not received compensation for investment banking services from the issuer of these securities in the past 12 months and do not expect to receive compensation for investment banking services from the issuer of these securities within the next three months.

4. However, one or more of ARSSBL or its Affiliates may, from time to time, have a long or short position in any of the securities mentioned herein and may buy or sell those securities or options thereon, either on their own account or on behalf of their clients.

5. As of the publication of this report, ARSSBL does not make a market in the subject securities.

6. ARSSBL or its Affiliates may or may not, to the extent permitted by law, act upon or use the above material or the conclusions stated above, or the research or analysis on which they are based before the material is published to recipients and from time to time, provide investment banking, investment management or other services for or solicit to seek to obtain investment banking, or other securities business from, any entity referred to in this report.

Additional information on recommended securities/instruments is available on request.

ARSSBL registered address: 4th Floor, Silver Metropolis, Jaicoach Compound, Opposite Bimbisar Nagar, Goregaon (East), Mumbai - 400 063.
Tel No: +91 22 4001 3700 | Fax No: +91 22 4001 3770 | CIN: U67120MH1991PLC064106.