ANANDRATHI

India I Equities

Construction

Company Update

12 February 2019

PSP Projects

Charted path; guidance in view

Rating: **NR**

Share Price: ₹396

Backed by the healthy SDB execution, PSP seems set to deliver inspiring revenue growth in FY19. A robust order backlog and a healthy bid pipeline only add to the potential PSP holds; however, a key to unlocking this value lies in sizable inflows. Nevertheless, its strong balance sheet, net cash and best-in-class working-capital cycle should enable PSP to harness its capabilities and deliver industry-leading return ratios, making PSP an interesting proposition indeed.

Debt slow, FD/OD relied upon. A net cash entity, PSP currently relies more on its FD/OD limits to fund growth. On 31st Dec'18, it had cash equivalents of ~₹2.6bn.of which ~₹1.1bn was free of any lien for its growth aspirations. With regard to its non-fund-based limits, it has utilised ~₹3.5bn from the approved limit of ~₹4.1bn. Management has applied for enhancement of its limits by ~₹2bn, which it believes should suffice in the short to medium term.

Surat slightly behind original schedule; but still good. With a strong ~₹2.3bn contribution in 9M (~33% of the 9M revenues), SDB (the Surat Diamond Bourse) has been the key growth driver. PSP envisages ~₹3.5bn for FY19 from SDB; down ~₹0.5bn from previous estimates on some delay as the start itself was delayed by 30-45 days.

Ample revenue assurance. PSP had ~₹8bn ytd inflows against its guidance of ~₹10bn for FY19. Management sees a bid pipeline of ~₹30bn, and is confident of further inflows to at least meet its guidance if not exceed it. The current OB is ~₹27bn, which implies ~2.8x book-to-bill. The OB could have been ~₹5bn more had the company not been required to terminate a private-sector real-estate order.

Valuation. At the CMP, the stock trades at 17x TTM EPS of ~₹23. We believe the strong order backlog, continuous focus on execution, healthy balance sheet and better return ratios help command such a high valuation. We do not have a rating on the stock. **Risk.** Failure to maintain prudence.

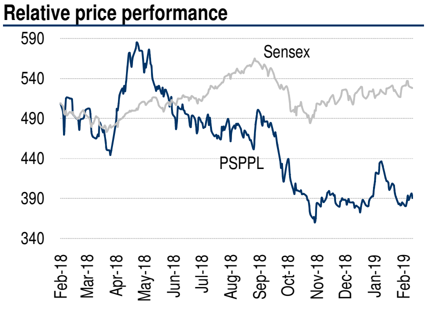
Key financials (YE Mar)	FY14	FY15	FY16	FY17	FY18
Sales (₹ m)	2,104	2,805	4,580	4,008	7,298
Net profit (₹ m)	101	141	249	416	644
EPS (₹)	3.5	4.9	8.7	14.4	17.9
Growth (%)	-17.8	39.6	77.4	66.9	23.8
PE (x)	60.1	43.0	24.3	14.5	25.1
EV / EBITDA (x)	33.1	24.2	13.5	8.4	13.8
PBV (x)	17.4	12.9	9.2	5.6	5.3
RoE (%)	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*

	PSPPL IN / PSPP.BO
52-week high / low	₹596 / 358
Sensex / Nifty	36154 / 10831
3-m average volume	$0.2m
Market cap	₹14bn / $198.3m
Shares outstanding	36m

Shareholding pattern (%)	Dec'18	Sep'18	Jun'18
Promoters	73.3	73.0	72.4
- of which, Pledged	-	-	-
Free float	26.7	27.0	27.6
- Foreign institutions	1.2	1.3	1.2
- Domestic institutions	6.2	8.3	8.4
- Public	19.4	17.5	17.9

Relative price performance



Source: Bloomberg

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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 2 – Balance sheet (₹ m) - standalone

Year-end: Mar	FY14	FY15	FY16	FY17	FY18
Share capital	8	8	32	288	360
Net worth*	348	469	661	1,071	3,027
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 3 – Cash-flow statement (₹ m) – standalone

Year-end: Mar	FY14	FY15	FY16	FY17	FY18
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

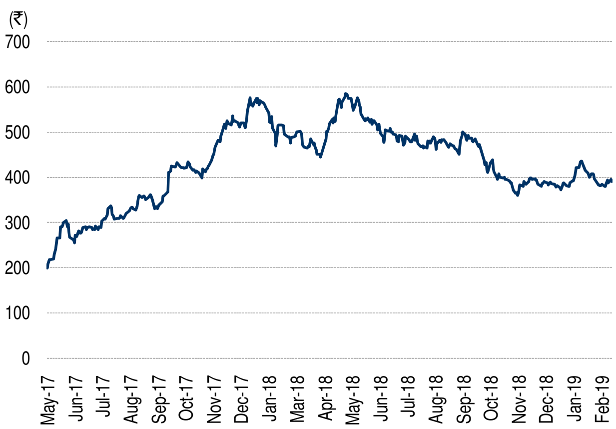
Source: Company *Note: p – provisional*

Fig 4 – Ratio analysis

Year-end: Mar	FY14	FY15	FY16	FY17	FY18
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

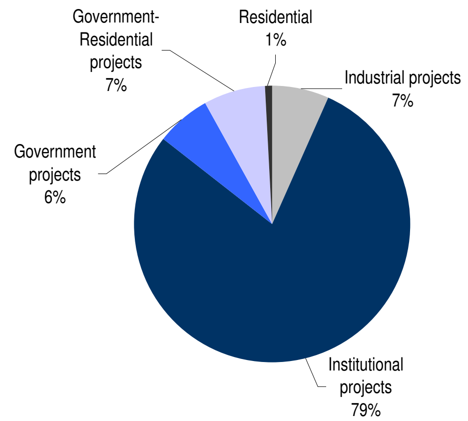
*Source: Company ; * Dividend for FY17 proposed after IPO; considered in ratio analysis*

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Pvt. orders (PSP's focus) dominate the ~₹27bn OB



Source: Company

Result / concall highlights

Income statement

- PSP's growth in Q3 has been strong, both y/y and q/q (~53% and ~24% respectively). We attribute the growth to have risen on the greater scale of operations; work going on at ~40 sites (up six sites a year ago).
- Besides, significant progress has been made on its landmark project The Surat Diamond Bourse (~18.5% completed). Revenue growth seems to have largely translated to strong absolute EBITDA growth. While the EBITDA margin contracted ~149bps from a year ago, they are within the management's guided-to range of ~12-14%.
- Mirroring the strong revenue growth, earnings were up ~41% y/y, ~22% q/q. At ~₹7bn (~71% of the guided-to ~₹10bn revenue), we see management's guidance as being within reach.

Fig 7 – Standalone quarterly highlights... SDB execution, the key to recent growth

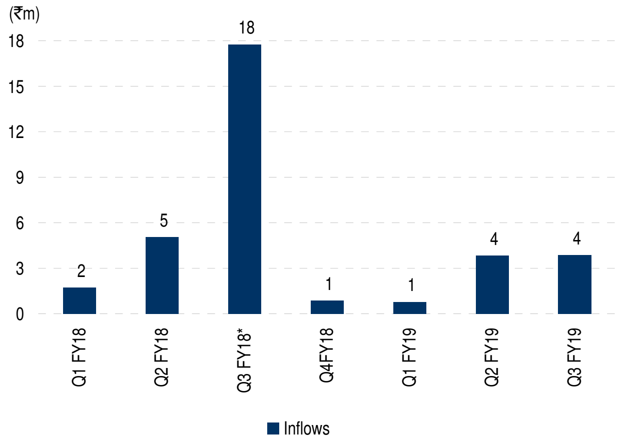
(₹ m)	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	% Y/Y	% Q/Q
Sales	861	776	754	1,617	1,558	1,396	1,708	2,637	2,347	2,099	2,611	53	24
EBITDA	118	112	94	334	199	186	266	363	330	294	367	38	25
EBITDA margins (%)	*13.8*	*14.5*	*12.5*	*20.7*	*12.8*	*13.4*	*15.5*	*13.8*	*14.1*	*14.0*	*14.1*	*-149bps*	*6bps*
Interest	15	18	22	20	14	20	23	30	15	23	23	(4)	(1)
Depreciation	17	18	19	21	18	23	28	43	48	58	62	124	7
Other income	27	23	50	34	41	52	32	59	61	54	48	50	(11)
PBT	113	99	103	328	208	195	247	349	328	267	331	34	24
Tax	38	37	29	122	72	69	95	119	117	92	116	22	26
Adjusted PAT	75	63	73	205	136	127	152	230	211	176	215	41	22

Source: Company

Order backlog / inflows / scope

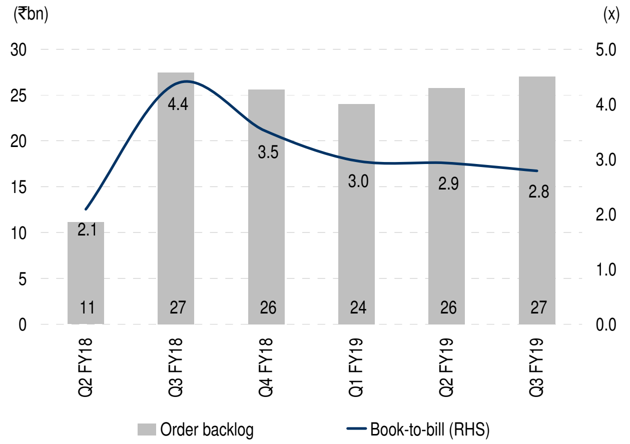
- Despite weak order awarding over 9M FY19, the company seems well placed to deliver on its guided-to inflows; ytd inflows are ~₹8bn against the guided ~₹10bn. Some of the prominent orders secured recently are:
  - A maiden affordable-housing project in Pandharpur, Maharashtra, of ~₹1.8bn, to be executed over ~30 months.
  - Various institutional and industrial orders from the likes of the Zydus-Cadilla Group and MRF; others amounting to ~₹2.8bn.
- Accounting for the strong execution and recent inflows, the end-Q3 order backlog was ~₹27bn; implying ~2.8x book-to-bill. Excl. the SDB project (~₹13bn), management said other orders amounted to ~₹14bn (BtB: ~2.1x excl. the SDB execution).
  - Management said the projects were to be executed in ~24-30 months.
  - The company said it was L1 for a project of ~₹0.8bn, but didn't disclose details.
  - Management said while it looks at government orders, its primary focus would always be on private orders. It cites greater competition as a negative for public orders.

Fig 8 – YTD inflows- ~₹8bn, expect at least~₹2bn by end-Q4



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

Fig 9 – Strong order backlog = stout revenue assurance



Source: Company

- Management sees a potential bid-pipeline of ~₹30bn and, accordingly, eyes further inflows for the year.
  - Management said that the pipeline includes two large residential projects of over ₹5bn each; one each in Rajasthan and Gujarat. The rest of the pipeline comprises ~4-5 projects.
- Management was beneficiary to a large order during Q3, of ~₹5bn from The Sumer Group, pushing ytd inflows to ~₹13bn. The order has since been cancelled.
  - Management said it was not comfortable with the terms of advances to be received and milestone-linked payments and hence rejected the proposal.
- According to government standards, the company has a pre-qualification of ~₹5bn, which would be enhanced to ~₹25bn on completion of major works at The Surat Diamond Bourse (expected by Jun'20).

The California dream . . .

- The subsidiary, PSP Projects, Inc., Texas, is developing two projects in California, at San Francisco and another site.
  - **San Francisco.** This project involves construction of ~15 housing units in the city. Management said that, while it owns the land for the development proposed, the entitlement process is underway. It would then apply for a construction license to develop the property.
  - **The other project.** The scope of works here includes construction of two houses along with their outhouses. Management said it acquired land for the project at ~$0.6m and spent ~$1m on construction. It plans to soon place the properties on the block at ~$2.5m (by Apr'19).
- The profits from the sale of the Leavenworth projects would be used to finance a part of the San Francisco project; hence no receipts are expected.

The Surat Diamond Bourse

- Q3 saw strong, ~₹0.9bn, revenue from this project. With this, the FY19 tally is ~₹2.3bn (~₹1.4bn in H1).
- Management envisages ~₹3.5bn from this project in FY19, against the previously envisaged ~₹4bn. It attributes the reduced figure to a ~30-45-day delay at commencement as the primary cause.
  - In FY19, earlier it expected ~₹0.5bn of MEP work but now expects only ~₹0.1bn.
  - For FY20, it sees ~₹7bn-7.5bn from the project (previously guided to ~₹8bn for FY20), and the balance in FY21.
- The project has a pass-through structure for all building and finishing materials (cement, steel, marble tiles, granite).

Balance Sheet

- At end-Q3, cash and equivalents were ~₹2.6bn.
  - Of these, only ~₹1.1bn is free of any lien; the balance is parked against facilities utilised.
- It laid out FY19 capex guidance of ~₹520m having already incurred ~₹380m in 9M (H1 FY19:~ ₹320m). It had previously said it incurs ~3-4% of a new project as capex.
  - It sees the guided capex sufficing for all current orders. However, further inflows may be a risk to this guidance. Also, management sees no material capex in FY20, courtesy of a large part of the net block freeing up (currently deployed at The Surat Diamond Bourse project).
- It has ~₹4.1bn of non-fund based limits available and talking with its bankers to increase the limit by an additional ~₹2bn, which would be useful for future growth.
  - Of this, it has utilised ~₹3.5bn; thus only ~₹0.6bn is pending utilisation.

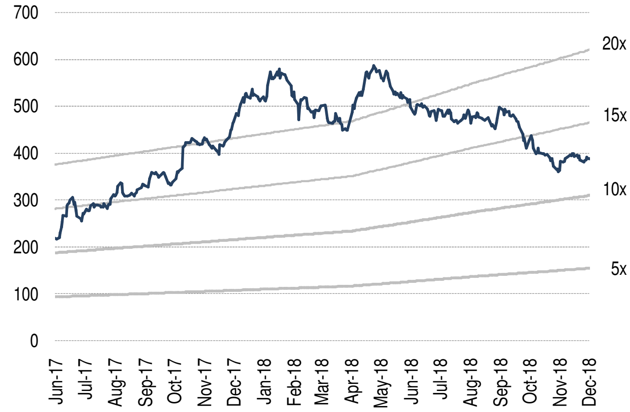
Guidance

- Management has maintained its ~₹10bn revenue guidance for FY19; having already achieved ~65%, we do not see this as a challenge.
- It has retained its previously guided-to EBITDA margin of ~12-14% and the difference would stem from the job-mix across its projects.
- Management continues to guide to minimum inflows of ~₹10bn for FY19, having already attained ~80% in 9M. Thus, there's further scope of ~₹2bn.
  - Management, however, does not discount the possibility of FY19 inflows hitting ~₹12bn-13bn. It said that, in any given year, it would try and accrue orders equivalent to the year's targeted revenues.

Valuation

At the CMP, the stock trades at a 17x TTM EPS of ~₹23. We believe the company's strong order backlog, its continuous focus on execution, healthy balance sheet and better return ratios allow for such a high valuation.

Fig 10 – PE band



Source: Bloomberg, Anand Rathi Research

Risk

- Lack of sizeable inflows.
- Failure to maintain prudence.

Appendix

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