ANANDRATHI

India I Equities

Construction

Company Update

10 February 2020

PSP Projects

All set to deliver a strong FY20

Rating: **NR**

Share Price: ₹511

Strong 9MFY20 revenue growth with the healthiest of margins yet again comes to reinforce the superior execution capabilities that PSP possesses. Order accretion was the next big deliverable, as many felt uncomfortable with dependence on a single project to drive growth. With recent strong order accretion, PSP, we believe, has amply demonstrated its ability to amass enough to keep growth going. Strong fundamentals, a net-cash position and industry leading working capital are some levers that enable PSP to deliver industry-leading return ratios, making it an interesting proposition.

SDB yet critical, but recent inflows help diversify assurance. With balance ~₹8bn work at SDB planned to be finished in another four quarters, there was an urgent need to replace this with new orders. With year-to-date strong accretion of ~₹15.5bn (excl. L1 of ~₹3.1bn), and a healthy prospect pipeline of ~₹8.5bn-10bn, the apprehension is settled to a great extent.

Healthy OB, sufficient scope to scale up. The company's end-Q3 backlog of ~₹30.8bn, implies revenue assurance of ~2.2x. Incl. the post-Q3 and L1 orders, the backlog swells to ~₹37.9bn, and comes to provide even better revenue assurance of ~2.7x. As execution commences at the recently bagged orders, the company would continue to keep up the healthy execution pace, even post completion of the SDB project.

Guidance retained. Having delivered ~₹10.4bn in 9M FY20, the company is well-placed to attain its earlier ~₹13bn-14bn FY20 revenue guidance. For FY21, it looks to attain revenue growth of ~10-15%. FY20 inflows are likely to be in excess of ₹18bn+ (on ytd inflows at ~₹15.5bn and L1 on a ~₹3bn order). For FY21, the company would look to bag orders of ~₹20bn.

Valuation. At the CMP, the stock trades at 15x TTM EPS of ₹35. We believe the healthy order backlog, 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.

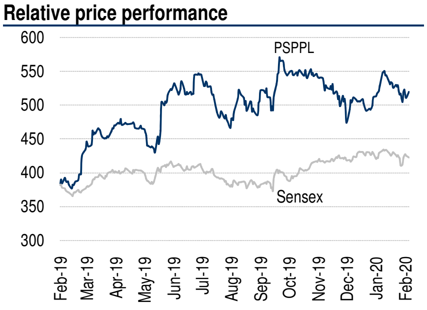
Key financials (YE Mar)	FY15	FY16	FY17	FY18	FY19
Sales (₹ m)	2,805	4,580	4,008	7,298	10,440
Net profit (₹ m)	141	249	416	644	902
EPS (₹)	4.9	8.7	14.4	17.9	25.1
Growth (%)	39.6	77.4	66.9	23.8	40.2
PE (x)	43.0	24.3	14.5	25.1	18.3
EV / EBITDA (x)	24.2	13.8	8.4	13.8	9.8
PBV (x)	12.9	9.2	5.6	5.3	4.5
RoE (%)	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

Key data	PSPPL IN / PSPP.BO
52-week high / low	₹617 / 377
Sensex / Nifty	40986 / 12035
3-m average volume	$0.2m
Market cap	₹18.4bn / $258m
Shares outstanding	36m

Shareholding pattern (%)	Dec'19	Sep'19	Jun'19
Promoters	73.7	73.7	73.3
- of which, Pledged	-	-	-
Free float	26.3	26.3	26.7
- Foreign institutions	1.2	1.2	1.2
- Domestic institutions	6.4	6.7	6.4
- Public	18.7	18.4	19.1

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations (standalone)

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY15	FY16	FY17	FY18	FY19
Order backlog	4,877	3,381	7,292	25,590	29,780
Order inflows	3,187	3,046	7,918	25,582	14,150
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	6,112	8,839
SG&A	92	155	140	174	111
EBITDA	**224**	**393**	**659**	**1,013**	**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	185	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	FY19
Share capital	8	32	288	360	360
Net worth*	469	656	1,071	3,027	3,714
Debt	334	452	677	216	263
Minority interest	-	-	-	-	-
DTL / (Assets)	-5	-12	-15	-18	-49
Capital employed	**798**	**1,097**	**1,733**	**3,225**	**3,928**
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	44	44
Investments (financial)	118	130	141	151	-
Current assets (ex cash)	550	638	1,389	2,604	3,964
Cash	848	938	1,018	2,232	2,217
Current liabilities	1,060	1,172	1,399	2,595	3,329
Working capital	-511	-534	-10	9	635
Capital deployed	**798**	**1,097**	**1,733**	**3,225**	**3,928**
Contingent liabilities	8	727	1,178	2,577	3,401

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY15	FY16	FY17	FY18	FY19
PBT + Net interest expense	172	323	584	901	1,247
+ Non-cash items	52	71	76	112	242
Oper. profit before WC chg.	224	393	659	1,013	1,489
- Incr. / (decr.) in WC	-157	-23	524	18	626
Others including taxes	72	137	226	355	483
Operating cash-flow	309	280	-91	639	381
- Capex (tang. + intangibles)	201	248	71	392	486
Free cash-flow	108	32	-163	247	-105
Acquisitions	-	-	-	-	-
- Dividend (incl. buyback & taxes)	19	58	-	108	217
+ Equity raised	-	-	-	1,419	-
+ Debt raised	72	111	222	-464	16
- Fin. investments	37	54	36	-21	-151
-Net interest expense + Misc.	(40)	(59)	(57)	(99)	(140)
Net cash-flow	164	90	80	1,214	-15

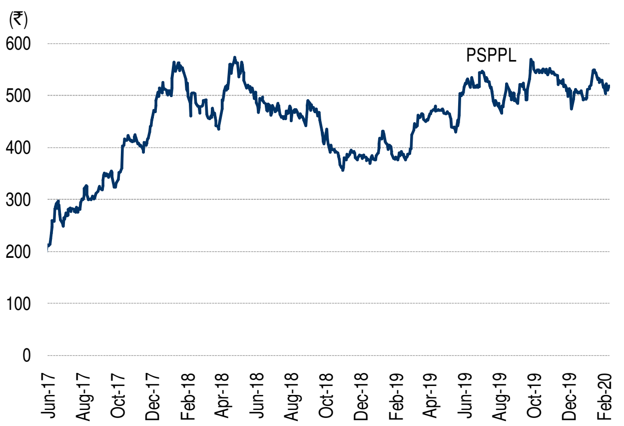
Source: Company

Fig 4 – Ratio analysis

Year-end: Mar	FY15	FY16	FY17	FY18	FY19
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	99.3	42.2

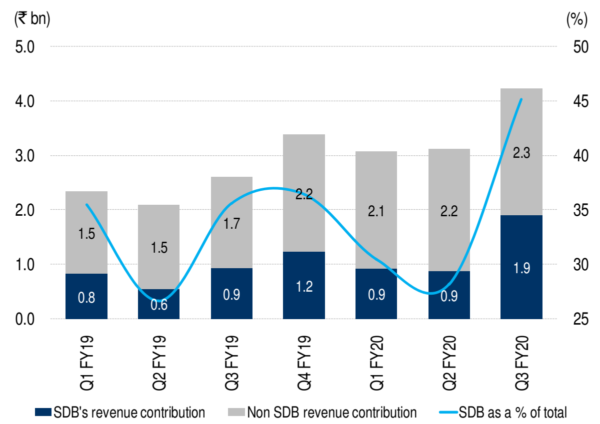
*Source: Company * Dividend for FY17 proposed after IPO; considered in ratio analysis*

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Quarterly revenue trend



Source: Company

Result / concall highlights

Income statement

- PSP posted strong ~62% y/y revenue growth in Q3 FY20, aided by a strong uptick in execution at the SDB project, up ~106% y/y, to ~₹1.9bn (against ~₹1.8bn in H1).
  - Of SDB's Q3 execution (~₹1.9bn), bought-out components comprised of ~₹0.5bn. With plans to complete the project by Dec'20, revenue run-rate is targeted at ~₹1.5bn-2bn a quarter for the next four quarters.
  - Though we see revenue growth moderating from the current levels, but with recent addition of the new orders, and as these come to contribute in the coming quarters, we see PSP to continue to deliver industry leading growth.
  - Having already booked ~₹10.4bn in 9M FY20, the company's earlier FY20 revenue guidance of ~₹13bn-14bn is seemingly within reach.
- With the gross margins contracting y/y (down ~187bps), the EBITDA margin too was down ~127bps y/y, to ~12.8% (a ten quarter low). However, it was yet, well within the guided-to range of ~12-14%. Management attributes the lower margins to the nature of works executed during the quarter. We believe, the bought-out component of ~₹0.5bn at the SDB too would have had a role to play in the margin compression.
  - For 9M FY20, the EBITDA margins came at ~13.4%, within the guided-to range.

Fig 7 – Financial highlights - SDB contribution in Q3 revenues pegged @ ~45%

(₹ m)	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	% Y/Y	% Q/Q
Sales	2,347	2,099	2,611	3,383	3,073	3,125	4,231	62.0	35.4
EBITDA	330	294	367	499	427	433	541	47.4	25.0
EBITDA margins (%)	*14.1*	*14.0*	*14.1*	*14.7*	*13.9*	*13.8*	*12.8*	*-127bps*	*-106bps*
Interest	15	23	23	32	28	37	40	79.5	10.3
Depreciation	48	58	62	74	59	62	70	12.5	12.5
Other income	61	54	48	66	52	69	58	19.5	(15.8)
PBT	328	267	331	459	392	402	488	47.6	21.3
Tax	117	92	116	158	137	75	121	4.0	60.6
PAT	211	176	215	301	255	327	367	71.2	12.3

Source: Company

- Despite the higher finance costs (up ~80% y/y, on account of a higher debt and mobilisation advances), Q3 earnings growth came at ~71% y/y and was ahead of EBITDA and revenue growth. This was largely on account of lower tax-rate (at ~25% against ~35%, a year ago).
  - For 9M FY20, earnings growth (at ~58% y/y) too exceeded revenues and EBITDA growth; on account of the lower tax rate (at 26% against 35%, a year ago).

Order backlog / inflows / scope

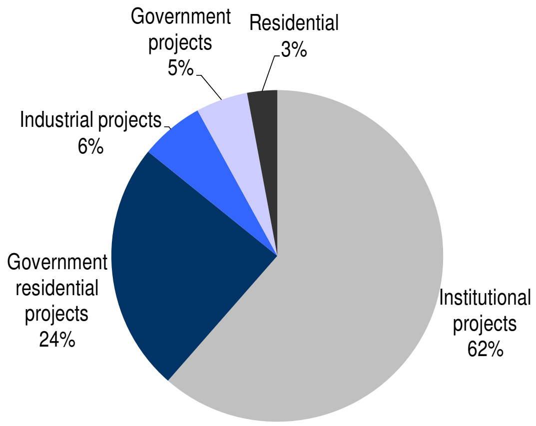
- With inflows of ~₹2.9bn in Q3 and another ~₹4bn post-Q3, the company's ytd inflows of ~₹15.5bn already exceed its earlier lowered

~₹14bn-15bn FY20 inflow guidance.

  - It is further L1 on an order of ~₹3bn, expected to firm by end-FY20; implying ytd FY20 inflows (incl. L1) are over ~₹18bn.

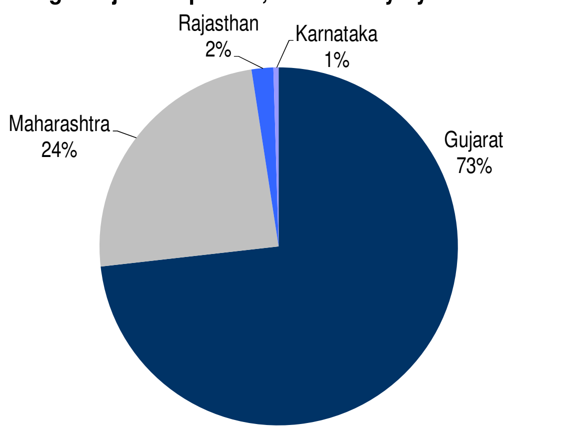
- The strong pace of execution ahead of the quarters' inflow accretion, meant the backlog contracted for the second straight quarter. Despite this, the ~₹30.8bn end-Q3 backlog, yet provides comforting assurance of ~2.2x TTM revenues.
  - The excl. Surat Diamond Bourse project backlog at ~₹23bn, provided revenue assurance of ~2.6x TTM revenues (adjusted for the SDB execution).
  - Incl. the ~₹3bn L1 position and post-Q3 inflows of ~₹4bn, the total executable backlog jumps to ~₹37.9bn.

Fig 8 – Institutional and Industrial – key focus segments



Source: Company

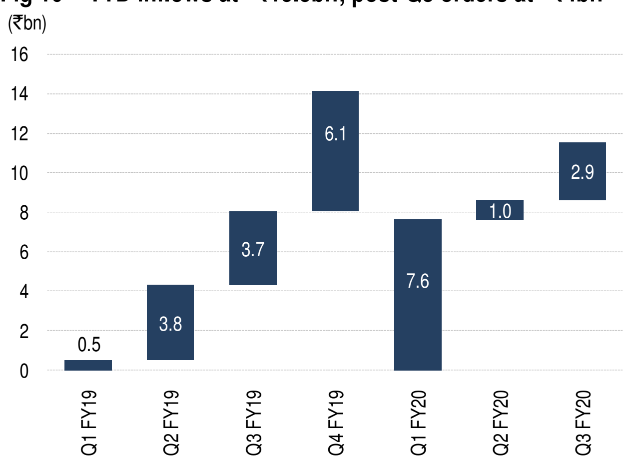
Fig 9 – High Gujarat exposure, diluted only by Maha orders



Source: Company

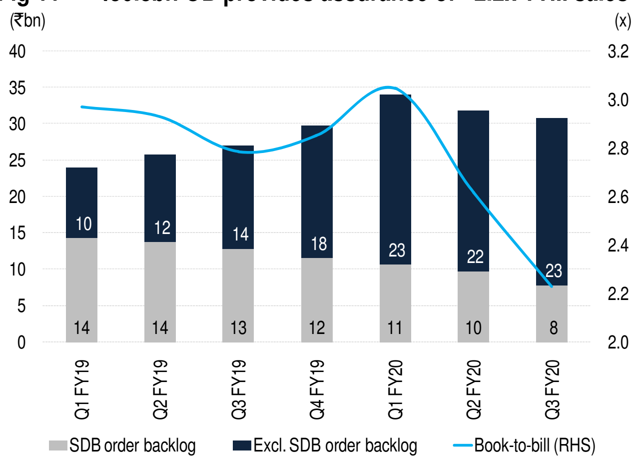
- With ample inflows ahead of its expectations and a ~₹3bn L1 position for the GIDC Tech-Hub building at GIFT City (a design and build contract), the company is well placed to deliver on its raised FY20 inflow guidance of ~₹17bn-18bn. It currently eyes a ~₹8.5bn-10bn bid-pipeline.
- In terms of geographies, the company is comfortable bidding for projects in Uttar Pradesh, Rajasthan, Delhi, Maharashtra and Gujarat. While it is not keen on actively looking at opportunities in Bengaluru, it is open to orders from Brigade Enterprises and Prestige Projects.

Fig 10 – YTD inflows at ~₹15.5bn; post-Q3 orders at ~₹4bn



Source: Company

Fig 11 – ~₹30.8bn OB provides assurance of ~2.2x TTM sales



Source: Company

- Post completion of the Surat Diamond Bourse project, the company would be qualified to place bids on public projects of ~₹30bn. Even before completion, on attainment of ~60% physical progress at the SDB, its pre-qualification limits would be enhanced to ~₹20bn.

The Surat Diamond Bourse

- The company booked ~₹1.9bn revenues from the project in Q3 FY20 (against ~₹1.8bn in H1 FY20). Incl. this, PSP has already booked cumulative revenues of ~₹7.8bn from the project.
  - Having already booked revenues of ~₹3.7bn in 9M FY20, it is well placed to deliver on its' ~₹5bn FY20 revenue guidance from the project.
  - PSP aims to complete the ~₹7.9bn of pending works in six months of the (10 months) extension given, thereby targeting a 36-month execution period.
  - This implies a targeted completion in Dec'20 (implying an average execution of ~₹1.5bn-2bn a quarter).
- Finishing works have already been commenced including flooring works and PSP expects to complete pending RCC works by end-FY20. It has also already installed 48 elevators and more would follow suit shortly.
- On additional scope of works at the project pertaining to the interiors and fit-outs, management is not too keen on this opportunity as it would require it to focus and cater to individual needs of 2,000+ clients.

Balance sheet

- The company had short-term and long-term borrowings of ~₹0.7bn and ~₹0.05bn respectively, pegging cumulative debt at ~₹0.75bn at end-Q3 FY20. Against this, the company had cash and equivalents of ~₹2.3bn, but of the total ~₹1.9bn of the FDs either had lien created on them or were given to clients has security deposits. Consequently, the free cash and FD limit, as at 31st Dec'19, stood at ~₹0.4bn.
- The cash conversion cycle for 9M FY20 stood at ~18days, comprising of debtor and inventory days of 54 and 25 respectively.
- The company incurred capex of ~₹240m in 9M FY20.
- The company has total fund and non-fund based facilities of ₹6.1bn, of which ~₹1.8bn has yet to be utilized.

Guidance

- Having already delivered ~₹10.4bn in 9M FY20, the company is well-placed to deliver on its earlier guided-to revenue guidance of ~₹13bn-14bn. For FY21 it envisages a revenue growth of ~10-15%.
- Having already delivered ~₹15.5bn inflows in 9M and another ~₹3bn L1 position, it is well placed to deliver order inflows of ₹18bn+ in FY20. For FY21, it expects inflows of ~₹20bn.
- The company maintains its EBITDA margins guidance between ~12-14%, the variance arising on the nature of works executed.

Project updates

- **Maharashtra housing projects.** Cumulatively an opportunity of ~₹7.6bn of works, the company faced initial teething issues at both the projects. Now with all issues past, the company has already mobilised at the Pandharpur project and commenced execution, booking ~₹63m revenues in Q3. The Bhiwandi EWS housing project recently received its environmental clearance and execution has commenced recently.
- **The Livermore project.** With two houses up for offer, the company is looking to unlock ~$2.2m, of which ~$1m would go towards repayment of loans taken from bank (for construction purpose), with the balance expected to be used to fund for equity needs of another project in San Francisco. The houses are yet to undergo sale and the response till now has been slow. In case the sale continues to see delays, management envisages infusion of ~₹60m-100m as sufficing for the second venture.

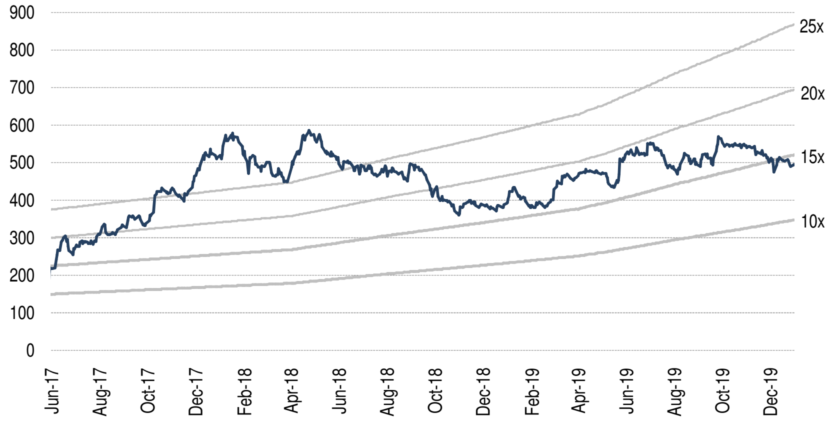
Other highlights

- **Fund raising plans, no news yet.** The company was looking to raise up to ~₹3bn through one or many instruments (debt or equity) as it needed monies, to prepare for the Central Vista projects.
  - Projects of ~₹100bn-110bn in Delhi from the CPWD are expected to come up for bidding, pertaining to the development and construction of the Delhi Central Vista, the Parliament building and other such works.
  - To be able to bid for this project, the company looked to enhance its fund and non-fund limits. If successful, it could need non-fund limits of ~₹6bn (Currently, fund and non-fund based limits cumulatively amount to ~₹6.1bn).
  - To avail this, it would need margin money of ~₹1.5bn. Besides, working capital will be required as well.
  - Thus, in order to have margin money to seek higher non-fund-based limits, the company was looking to raise funds, through equity or debt.
  - On potential equity raise or debt financing, the decision is yet to be made and as such management is appraising its options.
  - On Central Vista, management indicated a delay in the tendering, earlier expected sometime in Feb'20. It said, it now expects the projects to be tendered in Mar'20.

Valuation

At the CMP, the stock trades at 15x TTM EPS of ₹35. The healthy 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 12 – PE band



Source: Bloomberg, Anand Rathi Research

Risks

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

Appendix

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