

ONE YEAR OUTLOOK

BUSINESS & EARNINGS ◀▶

- We continue to like the Company given it is one of the few quality contractors in the organized buildings construction space in the economically sound geography (Gujarat). With an intention to diversify its geographical presence (Maharashtra accounts for 24% of the order book in 2QFY20) and with an enhanced qualification criterion (can bid for a single project worth >Rs. 20bn post the completion of a key ongoing project - Surat Diamond Bourse) we believe that company has strong potential to grow into a mid-size buildings contractor in the country. As a result, we maintain our positive stance on the company with a "BUY" rating
- While bidding pipeline in the near-term is healthy (Rs. 30bn of opportunity from corporates, residential colonies in the geographies where company already has a presence), we pencil-in a conservative order inflow of ~Rs. 15bn p.a. over FY20E-FY21E
- While Company has continued to demonstrate its strong execution capability (43% and 39% yoy revenue growth in FY19 & 1HFY20), we factor-in delays in execution of interiors in Surat Diamond bourse and expect a lower revenue and earnings CAGR of 17% and 30% respectively over FY19 in FY2) and FY21E with EBITDA margin likely maintained at 13.5% (comparable to peers). Also, we like company's good working-capital-management track record and lower capital employed which have led to Company's industry leading return metrics (>25% RoE). Execution delays, large order-inflows, working capital and Company's fund-raise plans are key monitorables

VALUATION MULTIPLES ◀▶

- We value the stock attributing 15x P/E on our FY21E EPS to arrive at a TP of Rs. 630/ share and maintain a "BUY" rating on the stock

FINANCIAL SUMMARY

Year	Sales (Rs. mn)	EBITDA (Rs. mn)	PAT (Rs. mn)	EPS (Rs.)	P/E (x)	RoE(%)
FY18	7,298	1,014	644	17.9	31.3	31.4%
FY19	10,440	1,489	902	25.1	22.3	26.8%
FY20E	12,233	1,674	1,154	32.1	17.5	27.6%
FY21E	15,950	2,153	1,503	41.7	13.4	28.4%

THREE YEAR OUTLOOK

BUSINESS & EARNINGS ◀▶

- We are positive on the company in the long term due to a) Strong leadership: Mr. Prahaladbhai S. Patel has been in the buildings construction space for >30 years b) Company's track record of delivering projects on time resulting in plethora of repeat order wins from the institutional and industrial clients c) attractive industrial and institutional opportunities from Gujarat (enquiries come-in from Industries for their factories, corporate buildings and residential colonies, educational institutions, hospitals, pharmaceutical companies, private Commercial real estate players, Surat Dream City to name a few) d) very few slow moving orders in the order book and e) excellent track record in managing its working capital (evident from the negative to low working capital position over FY12-FY18)
- We expect company's working capital to rise as the project size in the order book increases (post the commencement of SDB execution working capital increased to ~25days from negative levels). However, we expect cash generation profile to remain strong - Company's FCF/EBITDA conversion is expected to be ~43% over FY20E-FY23E.
- Ability to win large orders in the next few years and sustainability of margins are the key monitorables

VALUATION MULTIPLES ◀▶

- We expect PSP projects to deliver 68% return over a 3-year period assuming an exit multiple of 15x FY23E EPS to arrive at TP of Rs. 926/ share and cumulative dividends of Rs. 15.0/ share

KEY ESTIMATES REVISION - Standalone

	FY20E			FY21E		
	Old	New	Change	Old	New	Change
Revenue	13,438	12,233	-9.0%	18,129	15,950	-12.0%
EBITDA	1,774	1,674	-5.6%	2,357	2,153	-8.6%
Margin (%)	13.20%	13.7%		13.00%	13.5%	
PAT	1,067	1,154	8.2%	1,425	1,503	5.5%
Margin (%)	7.90%	9.4%		7.90%	9.4%	
EPS	29.6	32.1	8.3%	39.6	41.7	5.4%
Multiple	15x			15x		

All figures in Rs. mn except EPS, which is in Rs.

OUTLOOK REVIEW 2QFY20 24 October 2019

Industry	Infrastructure		
CMP	Rs. 550		
Target Price	Rs. 630		
Key Stock Data			
Bloomberg	PSPPL IN		
Shares o/s	36mn		
Market Cap	Rs. 20bn		
52-wk High-Low	Rs. 617-358		
3m ADV	Rs. 9mn		
Index	BSE SMALL CAP		
	Dec'18	Mar'19	Jun'19
Promoters	73.3	73.3	73.3
Institutions	7.3	7.6	7.6
Public	19.4	19.1	19.1
Pledge	-	-	-

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Quarterly Financial Statements

Standalone Financial Results								
Rs. mn \ Period	2QFY20	2QFY19	YoY Growth	1QFY20	QoQ Growth	FY18	FY19	YoY Growth
Revenue from Operations	3,125	2,099	49%	3,073	2%	7,298	10,440	43%
Cost of raw materials	962	722	33%	1,149	-16%	2,705	4,128	53%
Construction & Contracting expenses	1,553	947	64%	1,326	17%	3,208	4,292	34%
Employee benefit expenses	146	108	35%	138	6%	286	432	51%
Other Expenses	32	29	10%	34	-6%	86	99	16%
Total Expenses	2,692	1,806	49%	2,646	2%	6,284	8,951	42%
EBITDA	433	294	47%	427	1%	1,014	1,489	47%
<i>EBITDA margin (%)</i>	<i>13.8%</i>	<i>14.0%</i>		<i>13.9%</i>		<i>13.9%</i>	<i>14.3%</i>	
Other income	69	54	26%	52	32%	184	230	25%
Depreciation	62	58	7%	59	6%	112	242	117%
Finance expenses	37	23	61%	28	33%	87	92	5%
PBT	403	267	50%	392	3%	999	1,385	39%
Taxes	75	92	-18%	137	-45%	355	483	36%
PAT	327	176	86%	255	28%	644	902	40%
EPS (in Rs./Share)	9.1	4.9	86%	7.1	28%	17.9	25.1	40%

Financial Summary

Standalone Financial Statements									
Rs. mn	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Profit & Loss									
Revenue	2,573	2,104	2,805	4,580	4,008	7,298	10,440	12,233	15,950
Gross profit									
EBITDA	220	168	225	393	659	1,014	1,489	1,674	2,153
Depreciation	37	37	52	71	76	112	242	243	278
EBIT	183	131	173	323	584	902	1,247	1,431	1,876
Other Income	37	44	65	103	134	184	230	221	250
Interest expense	38	20	25	31	75	87	92	110	117
Exceptional items	0	0	0	0	0	0	0	0	0
PBT	182	154	213	394	642	999	1,385	1,542	2,008
Reported PAT (after minority interest)	121	99	139	252	416	644	902	1,154	1,503
Adj PAT	121	99	139	252	416	644	902	1,154	1,503
EPS (Rs.)	4.2	3.5	4.8	8.7	14.4	17.9	25.1	32.1	41.7
Balance Sheet									
Net Worth	266	348	469	663	1,071	3,027	3,714	4,652	5,939
Deferred Tax	(2)	(3)	(5)	(9)	(15)	(18)	(49)	(49)	(49)
Total debt	149	259	334	452	677	216	263	263	263
Other liabilities and provisions	239	356	429	478	705	1,398	1,745	1,568	1,939
Total Network and liabilities	652	960	1,228	1,585	2,438	4,623	5,672	6,433	8,092
Gross Fixed assets	272	308	510	768	836	1,196	1,685	1,943	2,524
Net fixed assets	185	185	332	522	508	770	1,032	1,047	1,349
Capital work-in-progress	0	0	2	0	0	18	0	0	0
Goodwill	0	0	0	0	0	0	0	0	0
Investments	35	89	126	180	217	228	44	94	94
Cash and bank balances	446	684	848	1,064	1,018	2,232	2,217	2,250	3,080
Loans & advances and other assets	202	248	269	369	826	1,090	1,788	1,869	2,038
Net working capital	(216)	(247)	(350)	(550)	(130)	285	592	1,173	1,529
Total assets	652	960	1,228	1,585	2,438	4,623	5,672	6,433	8,092
Capital Employed	413	604	799	1,107	1,733	3,225	3,928	4,866	6,153
Invested Capital (CE - cash - CWIP)	(33)	(161)	(170)	(86)	574	823	1,711	2,616	3,072
Net debt	(297)	(425)	(514)	(611)	(341)	(2,016)	(1,955)	(1,987)	(2,818)
Cash Flows									
Cash flows from Operations (Pre-tax)	315	248	366	529	277	1,124	754	1,055	2,249
Cash flows from Operations (post-tax)	264	195	300	411	132	715	277	667	1,744
Capex	(42)	(37)	(201)	(258)	(59)	(656)	(394)	(258)	(580)
Free cashflows	222	158	98	152	73	59	(117)	409	1,164
Free cashflows (post interest costs)	193	144	84	135	15	13	(162)	299	1,047
Cash flows from Investing	19	(406)	(256)	(433)	(190)	(1,232)	(338)	(308)	(580)
Cash flows from Financing	(136)	94	41	25	167	805	(215)	(326)	(333)
Total cash & liquid investments	446	766	966	1,194	1,159	2,384	2,217	2,250	3,080

Financial Summary

Standalone Financial Statements									
	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Growth ratios									
Revenue	44.0%	-18.2%	33.3%	63.3%	-12.5%	82.1%	43.0%	17.2%	30.4%
EBITDA	42.6%	-23.8%	34.0%	75.1%	67.7%	53.8%	46.9%	12.4%	28.6%
Adj PAT	46.7%	-18.1%	39.9%	80.8%	65.3%	54.7%	40.2%	27.9%	30.2%
Margin ratios									
Gross									
EBITDA	8.5%	8.0%	8.0%	8.6%	16.5%	13.9%	14.3%	13.7%	13.5%
Adj PAT	4.7%	4.7%	5.0%	5.5%	10.4%	8.8%	8.6%	9.4%	9.4%
Performance ratios									
Pre-tax OCF/EBITDA	143.1%	147.9%	163.0%	134.5%	42.0%	110.9%	50.6%	63.0%	104.5%
OCF/IC (%)	-801.7%	-120.9%	-176.6%	-475.7%	23.0%	86.9%	16.2%	25.5%	56.8%
RoE (%)	58.0%	32.4%	34.1%	44.5%	48.0%	31.4%	26.8%	27.6%	28.4%
RoCE (%)	29.6%	15.0%	14.1%	18.9%	25.2%	22.1%	21.4%	23.7%	24.9%
RoCE (Pre-tax)	53.4%	34.3%	33.9%	44.6%	50.5%	43.8%	41.3%	37.6%	38.6%
RoIC (Pre-tax)	2185.9%	-134.8%	-104.5%	-252.0%	239.4%	129.1%	98.4%	66.2%	65.9%
Fixed asset turnover (x)	10.2	7.3	6.9	7.2	5.0	7.2	7.2	6.7	7.1
Total asset turnover (x)	3.8	2.6	2.6	3.3	2.0	2.1	2.0	2.0	2.2
Financial stability ratios									
Net Debt to Equity (x)	(1.1)	(1.2)	(1.1)	(0.9)	(0.3)	(0.7)	(0.5)	(0.4)	(0.5)
Net Debt to EBITDA (x)	(1.4)	(2.5)	(2.3)	(1.6)	(0.5)	(2.0)	(1.3)	(1.2)	(1.3)
Interest cover (x)	7.0	9.5	12.0	13.4	1.8	8.2	3.0	6.1	14.9
Cash conversion days	(31)	(43)	(46)	(44)	(12)	14	21	35	35
Working capital days	(41)	(56)	(67)	(51)	(41)	(35)	(7)	17	14
Valuation metrics									
Fully Diluted Shares (mn)	29	29	29	29	29	36	36	36	36
Market cap (Rs.mn)								20,160	
P/E (x)	132.8	162.1	115.9	64.1	38.8	31.3	22.3	17.5	13.4
P/OCF(x)	76.5	103.4	67.3	49.1	152.9	28.2	72.8	30.2	11.6
EV (Rs.mn) (ex-CWIP)	19,863	19,654	19,528	19,419	19,678	17,993	18,205	18,173	17,342
EV/ EBITDA (x)	90.3	117.3	87.0	49.4	29.8	17.7	12.2	10.9	8.1
EV/ OCF(x)	75.3	100.8	65.2	47.3	149.3	25.2	65.7	27.2	9.9
FCF Yield	1.1%	0.8%	0.5%	0.8%	0.4%	0.3%	-0.6%	2.0%	5.8%
Price to BV (x)	75.8	57.9	43.0	30.4	18.8	6.7	5.4	4.3	3.4
BV/Share (x)	9.2	12.1	16.3	23.0	37.2	84.1	103.2	129.2	165.0
Dividend pay-out (%)	0.0%	8.0%	14.4%	23.8%	17.3%	28.0%	19.9%	15.6%	12.0%
Dividend yield (%)	0.0%	0.0%	0.1%	0.4%	0.4%	0.9%	0.9%	0.9%	0.9%

Crystal Ball Gazing

We forecast the revenue to grow at a CAGR of 21% over FY19-23E, driven by robust project execution. We expect EBITDA margin to moderate from 14.3% in FY19 to 13.7% in FY20E and sustain at that level. Cash flow generation to remain healthy with a FCF/EBITDA conversion of 43% over FY19E-FY23E

Revenue to grow at a CAGR of 21% for FY19-23E



Return metrics to decrease due to low base and higher cash in the books.



Flat Multiple
On account of cost + margin nature of business

Consolidated	FY15-FY19	FY20-FY23E
Revenues CAGR	37.8%	21.5%
Gross Margin		
EBITDA CAGR	54.8%	19.8%
EBITDA margin	12.2%	13.5%
EPS CAGR	48.6%	25.3%
Total Asset Turnover (x)	2.4	2.1
Total WC days	(13)	39
Pre-tax OCF/EBITDA (%)	103.8%	90.5%
Post Tax OCF as a % of IC	-102%	47%
Debt/EBITDA	(1.5)	(1.4)

Consolidated	FY15-FY19	FY20-FY23E
RoE (%)	36.9%	27.4%
RoCE (%)	20.3%	23.8%
RoIC (%)	14.6%	50.2%
Average 1 yr fwd		
PE (x)	17.5	14.1
EV/EBITDA (x)	10.0	7.5
PB (x)	4.0	3.5
Peak 1 yr fwd		
PE (x)	27.3	14.6
EV/EBITDA (x)	16.0	7.7
PB (x)	5.6	3.7

P/E multiple	FY23E EPS	Price target (Rs./ Share)
9.0x	61.7	555
12.0x	61.7	741
15.0x	61.7	926

Entry = Rs. 550 @ 13x
FY21E P/E



Cumulative Dividends of
Rs. 15/share

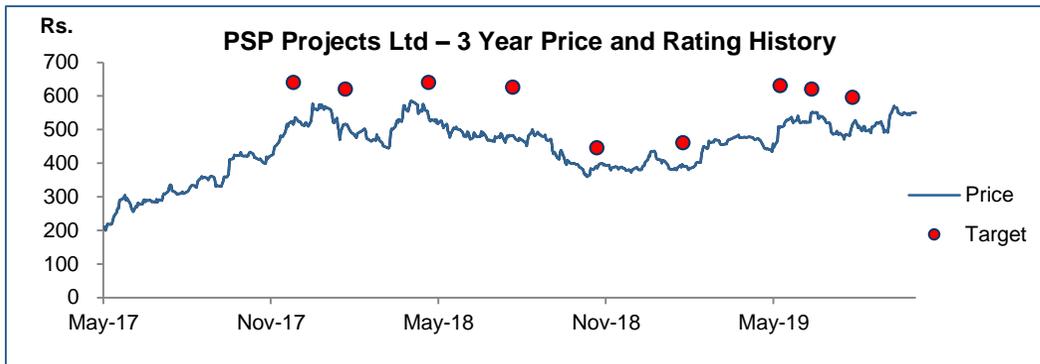


EPS CAGR of 25% with an
Exit Multiple of 15x P/E



**TOTAL
RETURN OF
68%**

Spark Recommendation History



Report Date	Price	Target	Reco.
13-Aug-19	496	595	Buy
01-Jul-19	550	620	Buy
28-May-19	510	630	Buy
12-Feb-19	395	460	Buy
09-Nov-18	389	445	Buy
10-Aug-18	484	625	Buy
11-May-18	555	640	Buy
09-Feb-18	513	620	Buy
18-Dec-17	517	640	Buy

Absolute Rating Interpretation

BUY	Stock expected to provide positive returns of >15% over a 1-year horizon
ADD	Stock expected to provide positive returns of >5% – <15% over a 1-year horizon
REDUCE	Stock expected to provide returns of <5% – -10% over a 1-year horizon
SELL	Stock expected to fall >10% over a 1-year horizon

Symbol Interpretation

◀▶ No Change | ▼ Downgrade | ▲ Upgrade

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