

## 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 3QFY20) 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. 19bn p.a. over FY20E-FY21E
- EBITDA margin likely maintained at 13.5% (comparable to peers) while 3QFY20 margin levels stood at 12.8% (lowest in last 10 quarters) is a key monitorable to watch for.
- While Company has continued to demonstrate its strong execution capability, we factor-in delays in execution of interiors in Surat Diamond bourse and expect a lower revenue and earnings CAGR of 20% and 24% respectively over FY19 and FY23. Expecting large order-inflows from Government buildings opportunities in near term.

### VALUATION MULTIPLES ◀▶

- We value the stock attributing 15x P/E on our FY22E EPS to arrive at a TP of Rs. 715/ 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	10,504	1,486	892	24.8	20.6	26.5%
FY19	13,985	1,854	1,275	35.4	14.4	30.1%
FY20E	20,716	2,797	1,965	54.6	9.3	34.9%
FY21E	17,113	2,310	1,653	45.9	11.1	22.9%

## 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 78% return over a 3-year period assuming an exit multiple of 15x FY23E EPS to arrive at TP of Rs. 894/ share and cumulative dividends of Rs. 15.0/ share

#### KEY ESTIMATES REVISION - Standalone

	FY20E			FY21E		
	Old	New	Change	Old	New	Change
Revenue	12,233	13,794	<b>12.8%</b>	15,950	19,145	<b>20.0%</b>
EBITDA	1,674	1,829	<b>9.2%</b>	2,153	2,585	<b>20.0%</b>
Margin (%)	13.7%	13.3%		13.5%	13.5%	
PAT	1,154	1,256	<b>8.9%</b>	1,503	1,816	<b>20.8%</b>
Margin (%)	9.4%	9.1%		9.4%	9.5%	
EPS	32.1	34.9	<b>8.9%</b>	41.7	50.4	<b>20.8%</b>
Multiple	15x			15x		

All figures in Rs. mn except EPS, which is in Rs. | Valuation (P/E multiple ) rolled to FY22

## OUTLOOK REVIEW 3QFY20 09 February 2020

Industry	Infrastructure
CMP	Rs. 510
Target Price	Rs. 715
Key Stock Data	
Bloomberg	PSPPL IN
Shares o/s	36mn
Market Cap	Rs. 18bn
52-wk High-Low	
3m ADV	
Index	-

	Jun'19	Sep'19	Dec'19
Promoters	73.3	73.3	73.6
Institutions	7.6	7.6	7.7
Public	19.1	19.1	18.7
Pledge	-	-	-

## RESEARCH ANALYSTS

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## Quarterly Financial Statements

Standalone Financial Results								
Rs. mn \ Period	2QFY20	2QFY19	YoY Growth	1QFY20	QoQ Growth	FY18	FY19	YoY Growth
<b>Revenue from Operations</b>	<b>4,231</b>	<b>2,611</b>	<b>62%</b>	<b>3,125</b>	<b>35%</b>	<b>7,298</b>	<b>10,440</b>	<b>43%</b>
Cost of raw materials	1,401	1,056	33%	1,236	13%	2,705	4,128	53%
Construction & Contracting expenses	1,824	1,143	60%	1,553	18%	3,208	4,292	34%
Employee benefit expenses	152	107	42%	146	4%	286	432	51%
Other Expenses	313	(62)	-603%	(242)	-229%	86	99	16%
Total Expenses	3,690	2,244	64%	2,692	37%	6,284	8,951	42%
<b>EBITDA</b>	<b>541</b>	<b>367</b>	<b>47%</b>	<b>433</b>	<b>25%</b>	<b>1,014</b>	<b>1,489</b>	<b>47%</b>
<i>EBITDA margin (%)</i>	<i>12.78%</i>	<i>14.05%</i>		<i>13.85%</i>		<i>13.9%</i>	<i>14.3%</i>	
Other income	58	48	20%	69	-16%	184	230	25%
Depreciation	70	62	13%	62	12%	112	242	117%
Finance expenses	40	23	80%	37	10%	87	92	5%
PBT	488	331	48%	403	21%	999	1,385	39%
Taxes	121	116	4%	75	61%	355	483	36%
PAT	367	215	71%	327	12%	644	902	40%
EPS (in Rs./Share)	10.2	6.0	71%	9.1	12%	17.9	25.1	40%

## Financial Summary

Standalone Financial Statements									
Rs. mn	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Profit &amp; Loss</b>									
Revenue	2,573	2,104	2,805	4,580	4,008	7,298	10,440	13,559	19,145
Gross profit									
EBITDA	220	168	225	393	659	1,014	1,489	1,823	2,585
Depreciation	37	37	52	71	76	112	242	251	274
EBIT	183	131	173	323	584	902	1,247	1,572	2,311
Other Income	37	44	65	103	134	184	230	220	228
Interest expense	38	20	25	31	75	87	92	111	102
Exceptional items	0	0	0	0	0	0	0	0	0
PBT	182	154	213	394	642	999	1,385	1,680	2,437
Reported PAT (after minority interest)	121	99	139	252	416	644	902	1,257	1,824
Adj PAT	121	99	139	252	416	644	902	1,257	1,824
EPS (Rs.)	4.2	3.5	4.8	8.7	14.4	17.9	25.1	34.9	50.7
<b>Balance Sheet</b>									
Net Worth	266	348	469	663	1,071	3,027	3,714	4,755	6,362
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	2,269	2,445
<b>Total Network and liabilities</b>	<b>652</b>	<b>960</b>	<b>1,228</b>	<b>1,585</b>	<b>2,438</b>	<b>4,623</b>	<b>5,672</b>	<b>7,238</b>	<b>9,021</b>
Gross Fixed assets	272	308	510	768	836	1,196	1,685	2,010	2,490
Net fixed assets	185	185	332	522	508	770	1,032	1,105	1,311
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	3,341	3,182
Loans & advances and other assets	202	248	269	369	826	1,090	1,788	1,397	1,548
Net working capital	(216)	(247)	(350)	(550)	(130)	285	592	1,300	2,885
<b>Total assets</b>	<b>652</b>	<b>960</b>	<b>1,228</b>	<b>1,585</b>	<b>2,438</b>	<b>4,623</b>	<b>5,672</b>	<b>7,237</b>	<b>9,021</b>
Capital Employed	413	604	799	1,107	1,733	3,225	3,928	4,968	6,576
Invested Capital (CE - cash - CWIP)	(33)	(161)	(170)	(86)	574	823	1,711	1,628	3,394
Net debt	(297)	(425)	(514)	(611)	(341)	(2,016)	(1,955)	(3,078)	(2,919)
<b>Cash Flows</b>									
Cash flows from Operations (Pre-tax)	315	248	366	529	277	1,124	754	1,520	1,613
Cash flows from Operations (post-tax)	264	195	300	411	132	715	277	1,097	1,000
Capex	(42)	(37)	(201)	(258)	(59)	(656)	(394)	(323)	(480)
Free cashflows	222	158	98	152	73	59	(117)	774	520
Free cashflows (post interest costs)	193	144	84	135	15	13	(162)	662	417
Cash flows from Investing	19	(406)	(256)	(433)	(190)	(1,232)	(338)	(373)	(480)
Cash flows from Financing	(136)	94	41	25	167	805	(215)	(327)	(318)
Total cash & liquid investments	446	766	966	1,194	1,159	2,384	2,217	3,341	3,182

## Financial Summary

Standalone Financial Statements									
	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Growth ratios</b>									
Revenue	44.0%	-18.2%	33.3%	63.3%	-12.5%	82.1%	43.0%	29.9%	41.2%
EBITDA	42.6%	-23.8%	34.0%	75.1%	67.7%	53.8%	46.9%	22.4%	41.8%
Adj PAT	46.7%	-18.1%	39.9%	80.8%	65.3%	54.7%	40.2%	39.3%	45.1%
<b>Margin ratios</b>									
Gross									
EBITDA	8.5%	8.0%	8.0%	8.6%	16.5%	13.9%	14.3%	13.4%	13.5%
Adj PAT	4.7%	4.7%	5.0%	5.5%	10.4%	8.8%	8.6%	9.3%	9.5%
<b>Performance ratios</b>									
Pre-tax OCF/EBITDA	143.1%	147.9%	163.0%	134.5%	42.0%	110.9%	50.6%	83.4%	62.4%
OCF/IC (%)	-801.7%	-120.9%	-176.6%	-475.7%	23.0%	86.9%	16.2%	67.4%	29.5%
RoE (%)	58.0%	32.4%	34.1%	44.5%	48.0%	31.4%	26.8%	29.7%	32.8%
RoCE (%)	29.6%	15.0%	14.1%	18.9%	25.2%	22.1%	21.4%	25.8%	29.4%
RoCE (Pre-tax)	53.4%	34.3%	33.9%	44.6%	50.5%	43.8%	41.3%	40.3%	44.0%
RoIC (Pre-tax)	2185.9%	-134.8%	-104.5%	-252.0%	239.4%	129.1%	98.4%	103.5%	92.0%
Fixed asset turnover (x)	10.2	7.3	6.9	7.2	5.0	7.2	7.2	7.3	8.5
Total asset turnover (x)	3.8	2.6	2.6	3.3	2.0	2.1	2.0	2.1	2.4
<b>Financial stability ratios</b>									
Net Debt to Equity (x)	(1.1)	(1.2)	(1.1)	(0.9)	(0.3)	(0.7)	(0.5)	(0.6)	(0.5)
Net Debt to EBITDA (x)	(1.4)	(2.5)	(2.3)	(1.6)	(0.5)	(2.0)	(1.3)	(1.7)	(1.1)
Interest cover (x)	7.0	9.5	12.0	13.4	1.8	8.2	3.0	9.8	9.8
Cash conversion days	(31)	(43)	(46)	(44)	(12)	14	21	35	55
Working capital days	(41)	(56)	(67)	(51)	(41)	(35)	(7)	80	83
<b>Valuation metrics</b>									
Fully Diluted Shares (mn)	29	29	29	29	29	36	36	36	36
Market cap (Rs.mn)								18,360	
P/E (x)	132.8	162.1	115.9	64.1	38.8	31.3	22.3	14.6	10.1
P/OCF(x)	76.5	103.4	67.3	49.1	152.9	28.2	72.8	16.7	18.4
EV (Rs.mn) (ex-CWIP)	19,863	19,654	19,528	19,419	19,678	17,993	18,205	15,282	15,441
EV/ EBITDA (x)	90.3	117.3	87.0	49.4	29.8	17.7	12.2	8.4	6.0
EV/ OCF(x)	75.3	100.8	65.2	47.3	149.3	25.2	65.7	13.9	15.4
FCF Yield	1.1%	0.8%	0.5%	0.8%	0.4%	0.3%	-0.6%	4.2%	2.8%
Price to BV (x)	75.8	57.9	43.0	30.4	18.8	6.7	5.4	3.9	2.9
BV/Share (x)	9.2	12.1	16.3	23.0	37.2	84.1	103.2	132.1	176.7
Dividend pay-out (%)	0.0%	8.0%	14.4%	23.8%	17.3%	28.0%	19.9%	14.3%	9.9%
Dividend yield (%)	0.0%	0.0%	0.1%	0.4%	0.4%	0.9%	0.9%	1.0%	1.0%

## Crystal Ball Gazing

We forecast the revenue to grow at a CAGR of 20% over FY19-23E, driven by robust project execution. We expect EBITDA margin to moderate from 14.3% in FY19 to 13.4% 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 20% for FY20-23E

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%	20.0%
Gross Margin		
EBITDA CAGR	54.8%	18.4%
EBITDA margin	12.2%	13.5%
EPS CAGR	48.6%	24.3%
Total Asset Turnover (x)	2.4	2.0
Total WC days	(13)	50
Pre-tax OCF/EBITDA (%)	103.8%	90.8%
Post Tax OCF as a % of IC	-102%	61%
Debt/EBITDA	(1.5)	(1.8)

Consolidated	FY15-FY19	FY20-FY23E
RoE (%)	36.9%	27.8%
RoCE (%)	20.3%	24.3%
RoIC (%)	14.6%	65.3%
<b>Average 1 yr fwd</b>		
PE (x)	17.5	14.1
EV/EBITDA (x)	10.0	7.5
PB (x)	4.0	3.5
<b>Peak 1 yr fwd</b>		
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	59.8	539
12.0x	59.8	718
15.0x	59.8	898

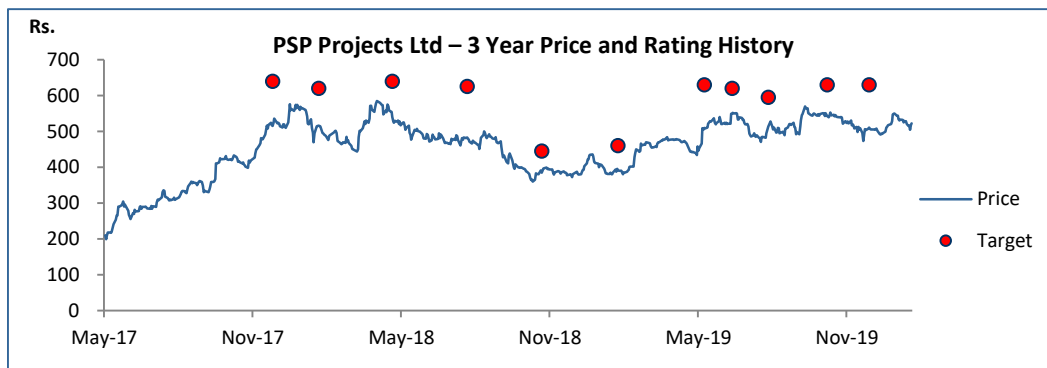
Entry = Rs. 510 @ 13x  
FY21E P/E

Cumulative Dividends of  
Rs. 15/share

EPS CAGR of 20% with an  
Exit Multiple of 15x P/E

TOTAL  
RETURN OF  
78%

## Spark Recommendation History



### Absolute Rating Interpretation

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

### Symbol Interpretation

◀ No Change | ▼ Downgrade | ▲ Upgrade

Report Date	Price	Target	Reco.
13-Dec-19	510	630	Buy
24-Oct-19	550	630	Buy
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

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