

## ONE YEAR OUTLOOK

### BUSINESS & EARNINGS ▼

- We remain positive on the company and continue to rate the stock “BUY” as we expect Company’s strong order backlog to lead to robust EPC revenue growth with working capital under check and with sufficient cash flow generation
- With ~Rs. 27bn order book at end 3QFY18 (translates to a strong book-to-bill of 4.1x on FY18E revenues), we expect company to register a top-line CAGR of 56% over FY17-FY20E
- EBITDA margin is likely to be maintained at ~13% down from 16.4% witnessed in FY17 (due to execution of projects without raw materials component in FY17 which carries higher margin). As a result, expect EBITDA and PAT CAGR over the same period to come-in at ~44%.
- Work has commenced in Surat Diamond Bourse project (accounts for 57% of the order book) and is expected to start contributing to the top-line from 4QFY18. We expect ~Rs. 4.5bn of execution from this project in FY19E and ~Rs. 7bn in FY20E. Pace of execution, margins and working capital requirement for the project are key monitorables

### VALUATION MULTIPLES ◀▶

- We revise our estimates to reflect the quarter’s performance and value the stock attributing 18x P/E on our FY20E EPS to arrive at a TP of Rs. 620/ share (earlier target price Rs. 640/ share); likely re-rating is contingent upon Surat Diamond bourse order execution and new order inflows. Maintain “BUY” with a TP of Rs. 620/ share

### FINANCIAL SUMMARY

Year	Sales (Rs. mn)	EBITDA (Rs. mn)	PAT (Rs. mn)	EPS (Rs.)	P/E (x)	RoE(%)
FY17	4,569	668	414	14.4	35.7	48.6%
FY18E	7,266	941	582	16.2	31.7	28.4%
FY19E	11,803	1,493	932	25.9	19.8	27.0%
FY20E	15,156	1,987	1,238	34.4	14.9	27.9%

## THREE YEAR OUTLOOK

### BUSINESS & EARNINGS ◀▶

- We are positive on the company in the long term due to a) Strong leadership: Mr. Prahaladhbhai 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 have come-in from Asahi Glass, MRF Tyres, Torrent Pharma, CEAT Tyres, Ahmedabad University, IIM Ahmedabad, IIT Hyderabad, Grasim, 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 working capital position over FY12-FY17)
- We expect company to maintain its low working capital requirement and continue its strong cash generation profile - Company’s FCF/EBITDA conversion is expected to be ~50% over FY18-FY22E.
- Sustainability of Order inflows and the growth beyond FY21E are the key monitorables

### VALUATION MULTIPLES ◀▶

- We expect PSP projects to deliver 82% return over a 3-year period assuming an exit multiple of 18x FY22E EPS to arrive at TP Rs. 992/ share and cumulative dividends of Rs. 10.0/ share.

### KEY ESTIMATES REVISION - Consolidated

	FY19E			FY20E		
	Old	New	Change	Old	New	Change
Revenue	13,385	11,803	<b>-11.8%</b>	15,307	15,156	<b>-1.0%</b>
EBITDA	1,705	1,493	<b>-12.4%</b>	2,007	1,987	<b>-1.0%</b>
Margin (%)	12.7%	12.6%		12.7%	13.1%	
PAT	1,076	932	<b>-13.4%</b>	1,282	1,238	<b>-3.5%</b>
Margin (%)	8.0%	7.9%		8.0%	8.2%	
EPS	29.9	25.9	<b>-13.4%</b>	35.6	34.4	<b>-3.5%</b>

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

## OUTLOOK REVIEW 3QFY18 09 February 2018

Industry	Infrastructure
CMP	Rs. 513
Target Price	Rs. 620
Key Stock Data	
Bloomberg	PSPPL IN
Shares o/s	36mn
Market Cap	Rs. 18bn
52-wk High-Low	Rs. 595-189
3m ADV	Rs. 49mn
Index	-

	Jun'17	Sep'17	Dec'17
Promoters	72.0	72.0	72.0
Institutions	14.7	11.7	10.8
Public	13.4	16.3	17.2
Pledge	-	-	-

## RESEARCH ANALYSTS

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## Quarterly Financial Statements

Standalone Financial Results								
Rs. mn \ Period	31-Dec-17	31-Dec-16	YoY Growth	30-Sep-17	QoQ Growth	FY16	FY17	Annual Growth
<b>Revenue from Operations</b>	<b>1,708</b>	<b>754</b>	<b>127%</b>	<b>1,396</b>	<b>22%</b>	<b>4,580</b>	<b>4,008</b>	<b>-12%</b>
Cost of raw materials	592	240	146%	617	-4%	1,902	1,301	-32%
Construction & Contracting expenses	728	352	107%	488	49%	2,008	1,677	-16%
Employee benefit expenses	74	47	57%	67	10%	140	209	50%
Other Expenses	49	20	143%	36	34%	137	161	17%
Total Expenses	1,442	660	119%	1,209	19%	4,187	3,349	-20%
<b>EBITDA</b>	<b>266</b>	<b>94</b>	<b>181%</b>	<b>186</b>	<b>42%</b>	<b>393</b>	<b>659</b>	<b>68%</b>
<i>EBITDA margin (%)</i>	<i>15.5%</i>	<i>12.5%</i>		<i>13.4%</i>		<i>8.6%</i>	<i>16.4%</i>	
Other income	32	50	-35%	52	-38%	103	132	29%
Depreciation	28	19	43%	23	21%	71	76	7%
Finance expenses	23	22	5%	20	16%	31	75	145%
PBT	247	103	141%	195	26%	394	640	62%
Taxes	95	29	224%	69	38%	143	226	59%
PAT	152	73	107%	127	20%	252	413	64%
EPS (in Rs./Share)	4.2	2.0	107%	3.5	20%	7.0	11.5	64%

## Financial Summary

Consolidated Financial Statements					
Rs. mn	FY16	FY17	FY18E	FY19E	FY20E
<b>Profit &amp; Loss</b>					
Revenue	4,760	4,569	7,266	11,803	15,156
Gross profit					
EBITDA	349	668	941	1,493	1,987
Depreciation	71	80	107	153	186
EBIT	277	588	834	1,340	1,802
Other Income	103	133	178	193	235
Interest expense	34	81	92	104	135
Exceptional items	0	0	0	0	0
PBT	347	640	920	1,428	1,903
Reported PAT (after minority interest)	221	414	582	932	1,238
<b>Adj PAT</b>	<b>221</b>	<b>414</b>	<b>582</b>	<b>932</b>	<b>1,238</b>
<b>EPS (Rs.)</b>	<b>7.7</b>	<b>14.4</b>	<b>16.2</b>	<b>25.9</b>	<b>34.4</b>
<b>Balance Sheet</b>					
Net Worth	643	1,058	3,044	3,868	4,998
Deferred Tax	(25)	(26)	(29)	(29)	(29)
Total debt	468	771	652	787	887
Other liabilities and provisions	595	738	824	1,277	1,675
<b>Total Network and liabilities</b>	<b>1,682</b>	<b>2,541</b>	<b>4,491</b>	<b>5,903</b>	<b>7,531</b>
Gross Fixed assets	782	856	1,470	1,899	2,285
Net fixed assets	536	533	1,041	1,317	1,517
Capital work-in-progress	0	0	0	0	0
Goodwill	0	65	65	65	65
Investments	139	174	363	413	463
Cash and bank balances	1,121	1,375	1,836	2,550	3,521
Loans & advances and other assets	407	504	709	927	1,118
Net working capital	(521)	(110)	477	632	847
<b>Total assets</b>	<b>1,682</b>	<b>2,541</b>	<b>4,491</b>	<b>5,903</b>	<b>7,531</b>
Capital Employed	1,086	1,803	3,668	4,626	5,856
Invested Capital (CE - cash - CWIP)	(164)	288	1,682	1,926	2,185
Net debt	(653)	(603)	(1,184)	(1,763)	(2,634)
<b>Cash Flows</b>					
Cash flows from Operations (Pre-tax)	538	210	410	1,768	2,214
Cash flows from Operations (post-tax)	419	65	72	1,271	1,549
Capex	(273)	(77)	(614)	(429)	(386)
Free cashflows	146	(13)	(542)	842	1,163
Free cashflows (post interest costs)	130	(72)	(634)	738	1,029
Cash flows from Investing	(450)	(131)	(804)	(479)	(436)
Cash flows from Financing	46	235	1,193	(78)	(143)
Total cash & liquid investments	1,250	1,515	1,986	2,700	3,670

## Financial Summary

Consolidated Financial Statements					
	FY16	FY17	FY18E	FY19E	FY20E
<b>Growth ratios</b>					
Revenue		-4.0%	59.0%	62.4%	28.4%
EBITDA		91.6%	40.9%	58.7%	33.1%
Adj PAT		87.2%	40.6%	60.2%	32.8%
<b>Margin ratios</b>					
Gross					
EBITDA	7.3%	14.6%	13.0%	12.6%	13.1%
Adj PAT	4.6%	9.1%	8.0%	7.9%	8.2%
<b>Performance ratios</b>					
Pre-tax OCF/EBITDA	154.2%	31.4%	43.6%	118.4%	111.4%
OCF/IC (%)	-255.5%	22.5%	4.3%	66.0%	70.9%
RoE (%)	34.4%	48.6%	28.4%	27.0%	27.9%
RoCE (%)	13.9%	25.0%	18.1%	20.3%	21.7%
RoCE (Pre-tax)	35.0%	49.9%	37.0%	37.0%	38.9%
RoIC (Pre-tax)	-169.0%	949.4%	84.7%	74.3%	87.6%
Fixed asset turnover (x)	6.1	5.6	6.2	7.0	7.2
Total asset turnover (x)	2.8	2.2	2.1	2.3	2.3
<b>Financial stability ratios</b>					
Net Debt to Equity (x)	(1.0)	(0.6)	(0.4)	(0.5)	(0.5)
Net Debt to EBITDA (x)	(1.9)	(0.9)	(1.3)	(1.2)	(1.3)
Interest cover (x)	12.5	0.8	0.8	12.2	11.5
Cash conversion days	(40)	(9)	24	20	20
Working capital days	(54)	(30)	10	1	(0)
<b>Valuation metrics</b>					
Fully Diluted Shares (mn)	29	29	36	36	36
Market cap (Rs.mn)			18,468		
P/E (x)	66.9	35.7	31.7	19.8	14.9
P/OCF(x)	44.0	285.0	256.1	14.5	11.9
EV (Rs.mn) (ex-CWIP)	17,686	17,724	17,135	16,555	15,684
EV/ EBITDA (x)	50.7	26.5	18.2	11.1	7.9
EV/ OCF(x)	42.2	273.5	237.6	13.0	10.1
FCF Yield	0.8%	-0.1%	-2.9%	4.6%	6.3%
Price to BV (x)	28.7	17.5	6.1	4.8	3.7
Dividend pay-out (%)	27.2%	17.4%	15.5%	9.7%	7.3%
Dividend yield (%)	0.4%	0.5%	0.5%	0.5%	0.5%

### Crystal Ball Gazing

We forecast the revenue to grow at a CAGR of 37% over FY17-22E, driven by robust project execution. We expect EBITDA margin to improve from 12.4% in FY18E to 13.1% in FY20E and sustain at that level. Cash flow generation to remain healthy with a FCF/EBITDA conversion of 50% over FY18-FY22E.

Revenue to grow at a CAGR of 37% for FY17-21E



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	FY16-FY17	FY18-FY22E
Revenues CAGR	-4.0%	36.5%
Gross Margin		
EBITDA CAGR	91.6%	33.5%
EBITDA margin	11.0%	13.0%
EPS CAGR	112.2%	29.0%
Total Asset Turnover (x)	2.5	2.2
Total WC days	(24)	21
Pre-tax OCF/EBITDA (%)	92.8%	100.4%
Post Tax OCF as a % of IC	-117%	62%
Debt/EBITDA	(1.4)	(1.5)

Consolidated	FY16-FY17	FY18-FY22E
RoE (%)	41.5%	27.0%
RoCE (%)	19.5%	20.0%
RoIC (%)	252.8%	57.9%
<b>Average 1 yr fwd</b>		
PE (x)	-	-
EV/EBITDA (x)	-	-
PB (x)	-	-
<b>Peak 1 yr fwd</b>		
PE (x)	-	-
EV/EBITDA (x)	-	-
PB (x)	-	-

P/E multiple	FY22E EPS	Price target (Rs./ Share)
15.0x	51.2	768
18.0x	51.2	922
20.0x	51.2	1024

Entry = Rs. 513 @ 14.9x  
FY20E P/E



Cumulative Dividends of  
Rs. 10/share

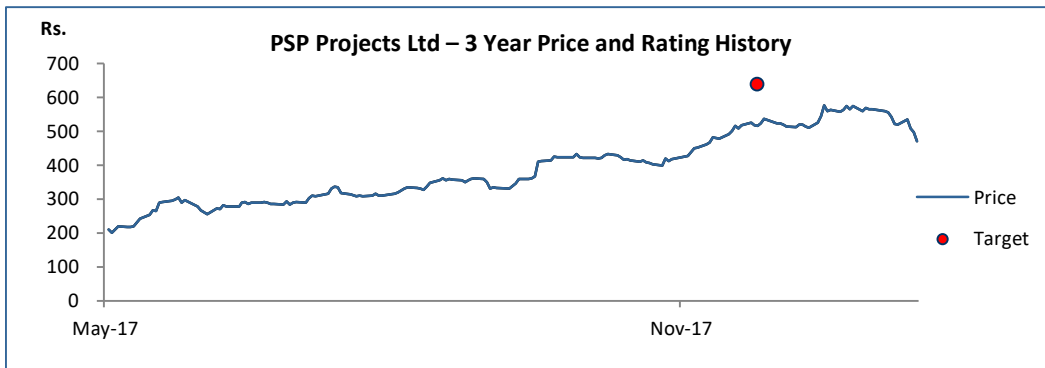


EPS CAGR of 29% with an  
Exit Multiple of 18x P/E



**TOTAL  
RETURN OF  
82%**

## Spark Recommendation History



Report Date	Price	Target	Reco.
18/Dec/17	517	640	Buy

### 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

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<b>Group/directors ownership of the subject company covered</b>	No
<b>Investment banking relationship with the company covered</b>	No
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