

PSP Projects (PSP) is a buildings contractor based out of Ahmedabad, Gujarat which has flourished due to the experience, work ethic and vision of the promotor Mr. Prahaladbhai S. Patel (he has been in the field of civil construction since 1985). PSP's strength is in building factories, hospitals, government buildings, educational institutes, corporate offices and residential buildings specifically in the state of Gujarat (Ahmedabad, Gandhinagar, Surat), delivering them on time with the quality expected by clients. Formative years of PSP Projects saw a plethora of building contracts from Pharma and Chemical giants in the state with the Company getting repeat orders extensively from names like Torrent Pharma, Zydus, Cadila, Nirma, INTAS etc.

We like the Company's DNA – focus on quality of work with a strong culture to meet and exceed client requirement; this is expected from every employee in the organization to the extent that Company's biggest challenge is to find human resource with good skills and who think alike – we say that in a positive way. Testimony to Company's reputation and capabilities is the single largest order it won recently (Surat Diamond Bourse project in the "DREAM City"). We believe that this is just a beginning for the Company which is likely to be recognised for this project and which is likely to be the launchpad to land more prestigious projects in the future. Long term opportunity in the region is not a concern given the presence of pharma, chemicals, auto, food processing and oil & gas clusters in the region along with demand for institutional infrastructure (hospitals, educational institutes, housing, office and commercial districts such as GIFT City and DREAM City to name a few).

We initiate coverage on the Company with a positive view and with a "BUY" rating (balance sheet quality and growth prospects make us believe that Company's stock price @15x our FY20E EPS is undervalued compared to peers). Attributing 18x on our FY20E EPS we arrive at a target price of Rs. 640/ share for the stock. Peaked-out order inflow situation along with scalability of the business are but minor concerns.

• **Opportunities abound in the medium term:** Company traditionally works on buildings contracts of sizes Rs. 500-2,000mn and Company's focus will continue to remain in this segment in Gujarat from private clients where it competes with Shapoorji Pallonji, L&T, JMC and Tata Projects. We expect Company to be in the forefront to grab the upcoming industrial & institutional building opportunities in Gujarat – enquiries have come-in recently from Asahi Glass, MRF Tyres, Torrent Pharma, CEAT Tyres, Ahmedabad University, IIM Ahmedabad, private Commercial real estate players, DREAM City to name a few

• **Financials to follow:** With a book-to-bill of ~4x at present we expect Company to witness a top-line CAGR of 49% for the period FY18-20E primarily driven by execution revenues from Surat Diamond Bourse project (revenues to start flowing from 4QFY18 with completion time set at April 2020). With very few slow moving projects and a conservative order-inflow estimate for FY19 (Rs. 12bn p.a.) it is likely that Company posts stronger revenue growth than our estimate. Repeat of large order inflow as witnessed in FY18 and sustainability of the high growth beyond FY20E are likely to be the challenges for long term investors; a growing reputation and trend-setting projects on hand are likely to enable the Company to address this in time

• **Prudent working capital metrics with a quality balance sheet:** Working capital management, capital allocation and balance sheet quality are the important parameters we look at in evaluating a construction company and PSP scores well on all these (low working capital days, minimal capital diversion – except for a small investment into a subsidiary executing high-end residential projects in California, USA, and a low D/E ratio of 0.2x)

• **Cash Flow comfort exists:** With a clear focus on timely and efficient project execution, Company's cash requirements are restricted to working capital and CAPEX (hence raised capital from public to gear for the almost 4x growth in orderbook from FY17). Assuming no working capital shocks we expect Company to comfortably fund future CAPEX and working capital requirements resulting in healthy Free Cash Flow generation (FCF yield of 9.3% in FY20E)

Initiating Coverage December 18, 2017

Stock performance (%)

	1m	3m	12m
BSE 500	1%	3%	32%
PSPPL	24%	48%	-

CMP	Rs. 517
Target Price	Rs. 640

Key Stock Data

Bloomberg	PSPPL IN
Shares o/s	36mn
Market Cap	Rs. 19bn
52-wk High-Low	Rs. 541-189
3m ADV	Rs. 51mn

	May'17	Jun'17	Sep'17
Promoters	72.0	72.0	72.0
Institutions	16.3	14.7	11.7
Public	11.7	13.4	16.3
Pledge	-	-	-

RESEARCH ANALYSTS

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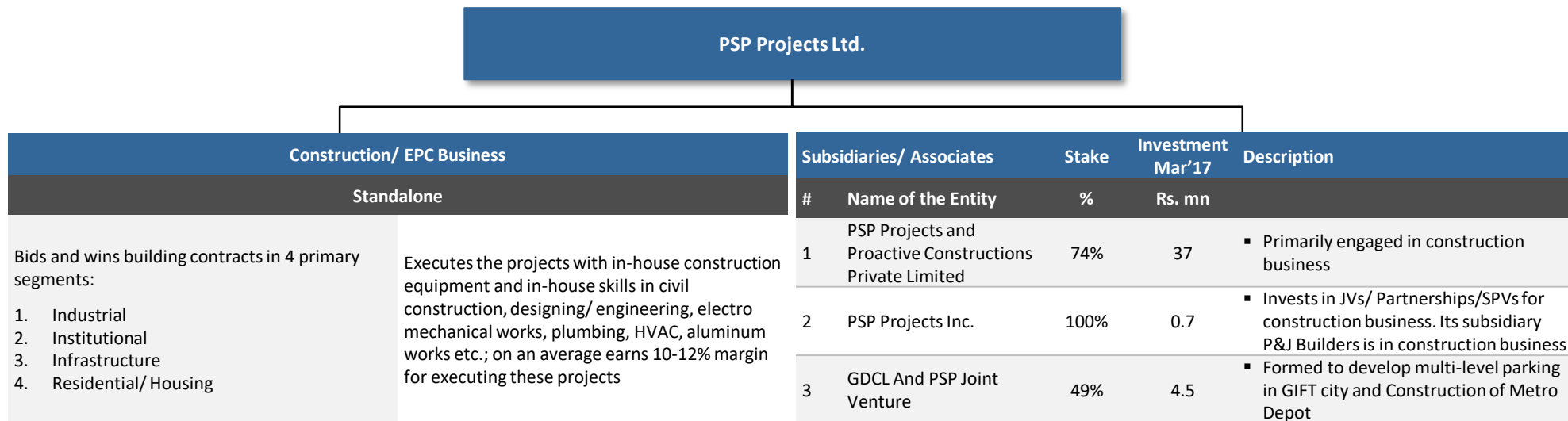
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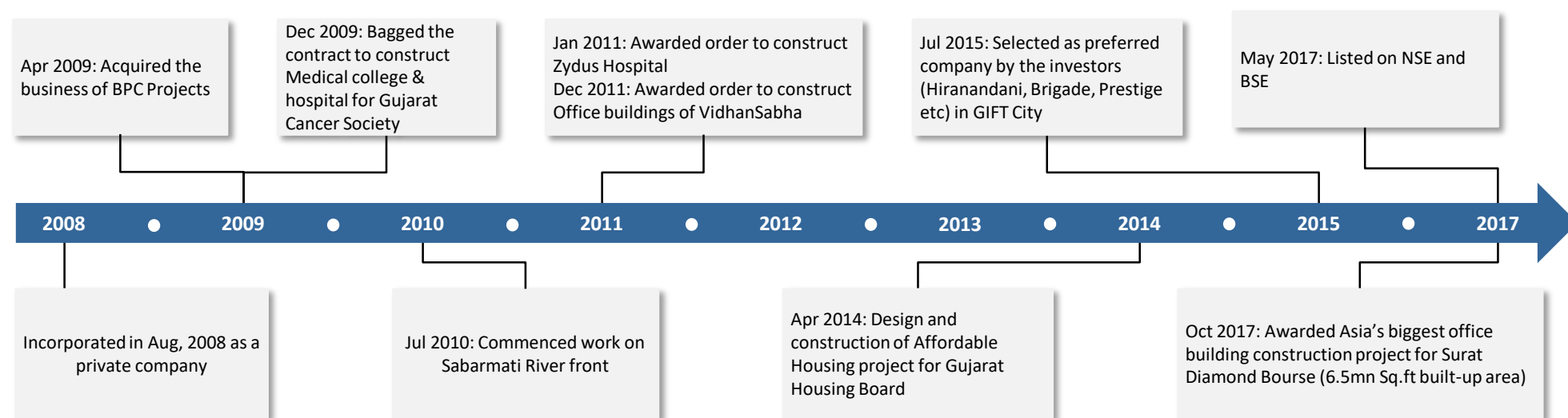
#1 Company Factsheet

Corporate Factsheet	
Company Background	Incorporated in 2008 by Mr. Prahaladbhai Shivrambhai Patel as a private company in Ahmedabad, Gujarat, it has over the years grown as the leading buildings/ civil construction contractor in Gujarat with experience spanning across construction of Hospitals, Industrial and Residential complexes, Educational Institutes and wide range of Government projects such as Office Buildings for Gujarat Ministers to developing the Sabarmati Riverfront
Presence	Company is headquartered in Ahmedabad and works predominantly in Gujarat (74% of order book) while it has diversified its geographic presence recently to Southern States (primarily Karnataka)
Management depth	<ul style="list-style-type: none"> ▪ Mr. Prahaladbhai S. Patel, Founder, Chairman & CEO – 30+ years experience in the buildings contracting industry ▪ Mr. Mahesh Patel, Vice President – Operations – 25+ years experience in the buildings contracting industry ▪ Mr. Maulik Patel, Director – Procurement/ Purchase ▪ Ms. Hetal Patel, Chief Financial Officer ▪ Mr. R.B. Parmar, General Manager – Tender
Business	The company is primarily engaged in civil construction of buildings in the Industrial, Institutional, Hospitals & Residential Housing and Commercial segments. Historically, company has focused on opportunities in Gujarat and has currently diversified into Southern states. Institutional and Industrial projects account for 81% of the current order book. As of 30-Sep-17, average ticket size of the project executed is Rs. 449mn
Corporate Structure	Company's construction business is part of its standalone entity; it also has 2 subsidiary companies and an associate company
Revenue Model	EPC Contract receipt constitutes 100% of company's revenue
Asset Span	There are 628+ admin staff plus >6,000 contract labourers in the Company at present (the count of contract labourers is likely to more than double in-lieu of the large Surat Diamond Bourse project recently won); it has in-house state-of-the-art core construction equipment stock
Key Clientele	Private Industrial houses like Nirma, Inductotherm, Gelco Electronics, Asahi Glass; Hospitals such as Zydus, Care Institute; Pharma companies such as Torrent, Zydus Cadila, Emcure, Claris, Intas; Dairy companies such as Amul and Government Institutions like Gujarat Housing Board, GMDC etc.
Key Success Factors	1) Young, experienced and motivated Leadership, 2) Skilled middle management and project managers, 3) Corporate ethos & culture to provide client satisfaction through quality and timely work, 3) Proven strategy to be selective in choosing projects/ clients, 4) In-house turn-key capabilities in executing building contracts (including EMP works) and 5) Reputation among clients enabling repeat orders
Credit Rating	Long Term: A, Short Term: A1
Corporate Bankers	The Kalupur Commercial Cooperative Bank Limited, ICICI Bank, HDFC Bank
Auditors	M/s. Prakash B. Sheth & Co

#2 Corporate Structure and Company History

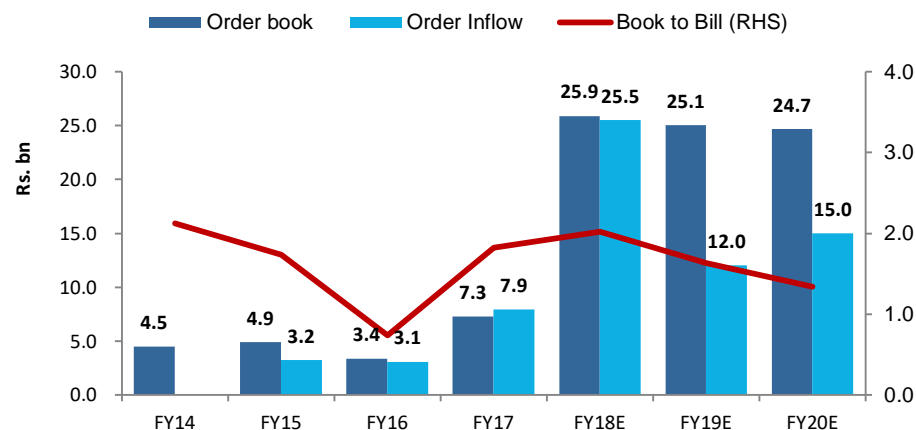


COMPANY HISTORY ►►



#3 Orderbook and Order Inflow

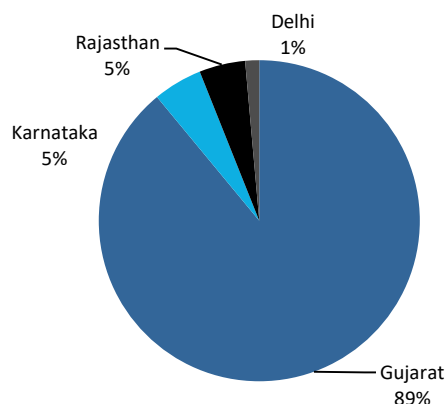
Order Inflow is likely to be a minimum of Rs. 12bn p.a. with positive surprises



Source: Company, Spark Capital Research

Western States (Gujarat) and Karnataka will be the focus geographies

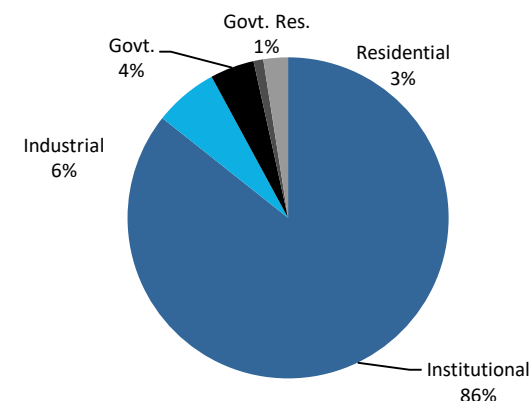
Order Book Split by Geography - Nov'17



Source: Company, Spark Capital Research

Industrial and Institutional projects will be major proportion going forward too

Order Book Split by Order Type - Nov'17

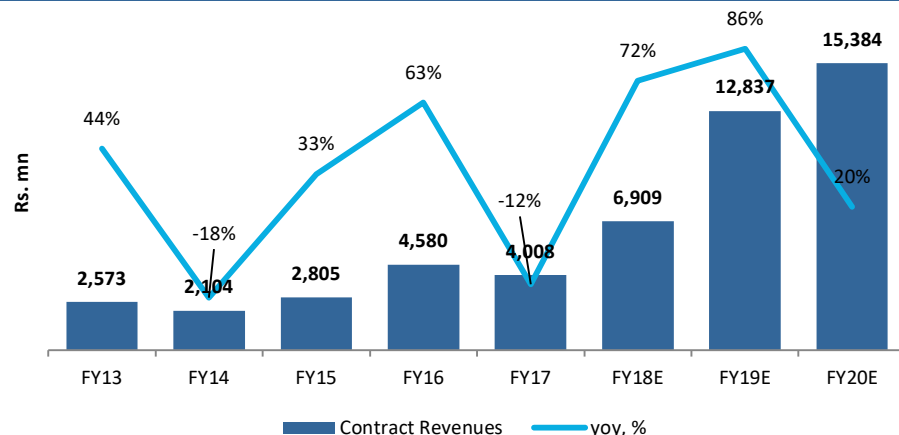


Source: Company, Spark Capital Research

- Company at present has a historically high book-to-bill of ~4x, primarily due to high order-inflow witnessed in FY17 (Rs. 22.5bn till Nov 2017 and is expected to get another Rs. 4bn by end of FY18E). The Rs. 15.75bn Surat Diamond Bourse project won in 2QFY18 has been the major contributor to the order-inflow in FY18 so far
- Company works with private industrial clients in and around Ahmedabad, Gujarat with an interest to work on select prestigious Government projects (e.g. Sabarmati Riverfront project, Vidansabha project, Gujarat Housing Board project); as a result Company's orderbook comprises of projects predominantly in Gujarat and in the Institutional/ Industrial space
- Company's focus will continue to remain in the Rs. 500mn to Rs. 2bn ticket-size of projects in Gujarat (>Rs. 2.5bn if it is in the Housing segment) from private clients where it competes with Shapoorji Pallonji, L&T, JMC and Tata Projects
- We expect Company to be in the forefront to grab the upcoming industrial & institutional building opportunities in Gujarat – enquiries have come-in from Asahi Glass, MRF Tyres, Torrent Pharma, CEAT Tyres, Ahmedabad University, IIM Ahmedabad, private Commercial real estate players, Surat Dream City to name a few
- Though a large inflow in the coming years like in FY18 is entirely possible, we are assuming a conservative Rs. 12-15bn inflow p.a. in the next 2 years

#4 Standalone Financials

Contract Revenues

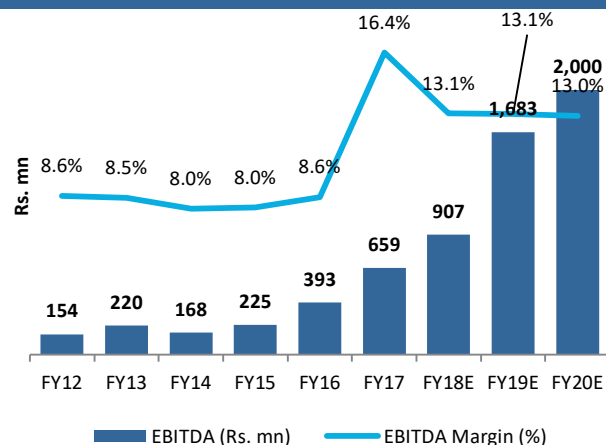


Source: Company, Spark Capital Research

Standalone Revenues and Profitability

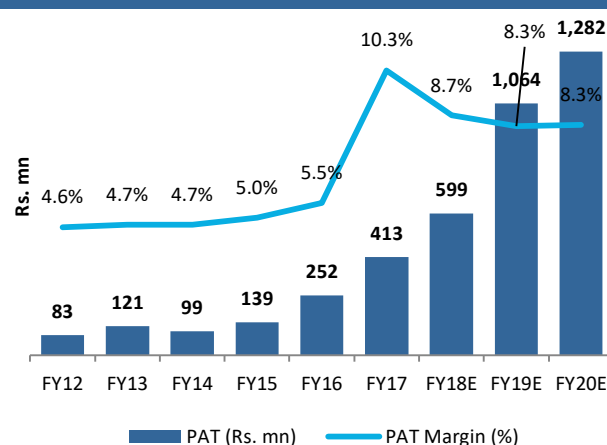
- At the standalone level we expect Company to witness a CAGR of 49% in topline for the period FY18-20E primarily driven by execution revenues from Surat Diamond Bourse project (revenues to start flowing from 4QFY18 with completion time set at April 2020)
- With very few slow moving projects, a conservative estimate on order-inflow for the upcoming years and the lower gestation period for other projects in the orderbook (1-2 years) it is likely that Company posts stronger revenue growth than our estimates
- Margins were higher in FY17 due to certain projects without the material component (however going forward this is unlikely to recur as such projects are minimal in the orderbook - ~Rs. 0.5bn); as result we expect EBITDA margins to average at ~13%
- FY18-20E is likely to be a high-growth phase for the Company, however, visibility of order inflow and sustainability of the high growth are likely to be the challenges for long term investors; with a long future ahead, a growing reputation and trend-setting projects on hand we believe that Company is favorably placed in the long-term

EBITDA margin



Source: Company, Spark Capital Research

Profitability



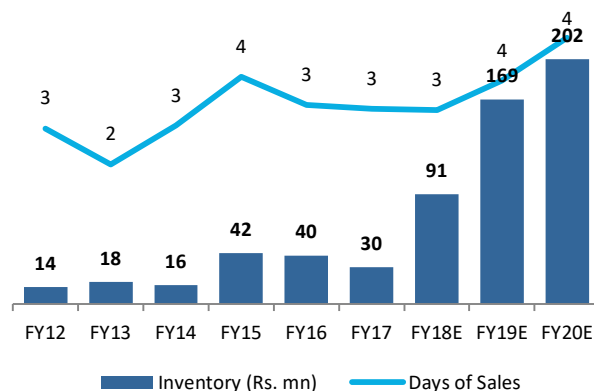
Source: Company, Spark Capital Research

CAGR of Standalone Financials

%	FY12-17	FY18-20E
Revenues	18%	49%
EBITDA	34%	49%
PAT	38%	46%

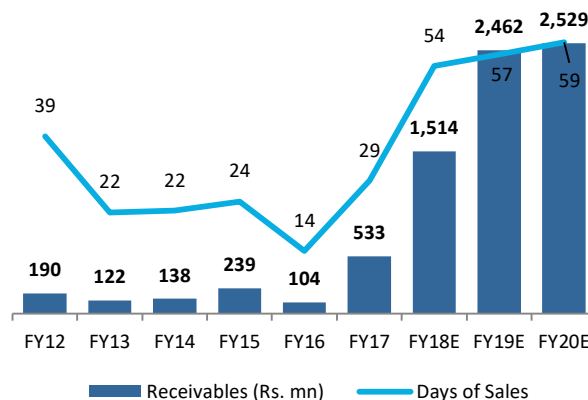
#5 Construction Business – Working Capital Management

Inventory



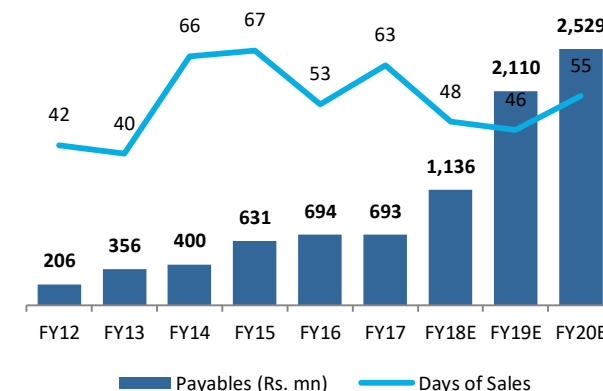
Source: Company, Spark Capital Research

Receivables



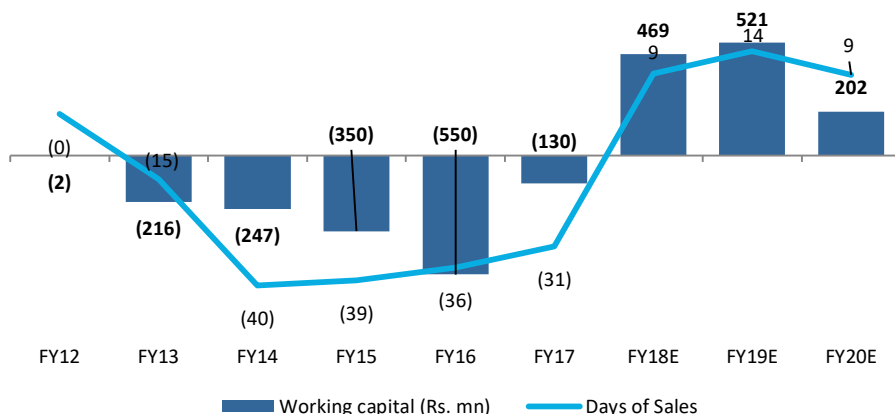
Source: Company, Spark Capital Research

Payables



Source: Company, Spark Capital Research

Working Capital Days



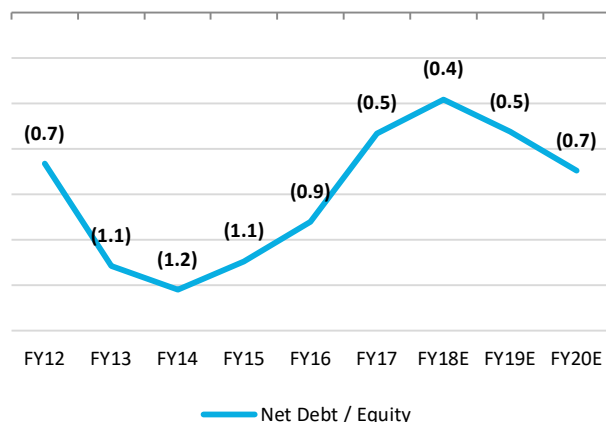
Source: Company, Spark Capital Research

Working Capital is likely to trend down from FY19E

- Company has a good track record in managing its working capital (evident from the negative working capital position since FY12); the capital requirement and hence the capital raise arose due to the growth aspirations rather than capital mismanagement
- GST led renegotiations of contracts and the resultant delays in billing for works done from August 2017 have resulted in a spike in receivable days as at Sept 2017 (this trend is likely to continue till end of FY18E); however, once this one-off factor wanes we expect Company to start witnessing lower working capital days
- Company's Fund Based Limit stands at Rs. 0.5bn and the Non Fund based Limit stands at Rs. 3.5bn at present. With good track-record of receipt of payments from clients there are no teething legacy receivables nor are their major instances of retention monies being withheld/ performance Bank Guarantees invoked by the clients. With the confidence we have on the management to choose projects based on clients and client relationships in the future Company is unlikely to witness working capital shocks

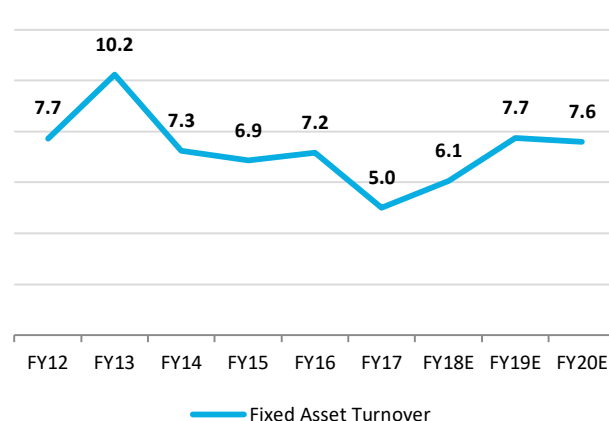
#6 Construction Business – Balance Sheet Quality and Return Metrics

Net Debt/ Equity



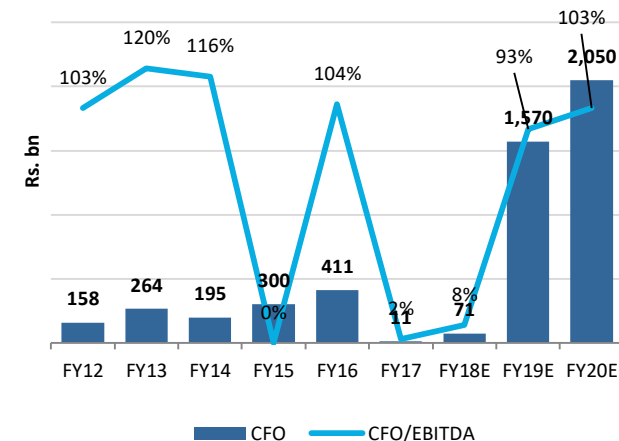
Source: Company, Spark Capital Research

Fixed Asset Turnover



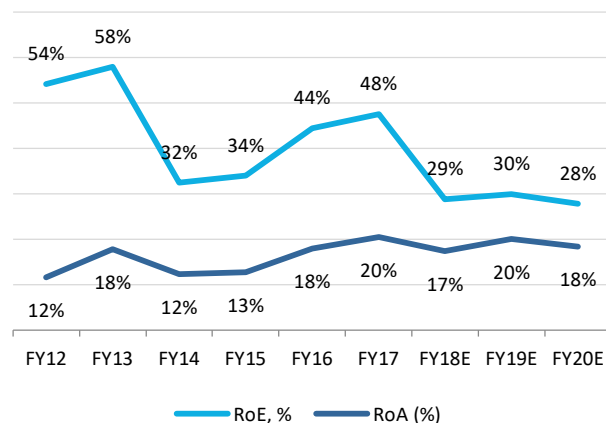
Source: Company, Spark Capital Research

CFO/ EBITDA ratio



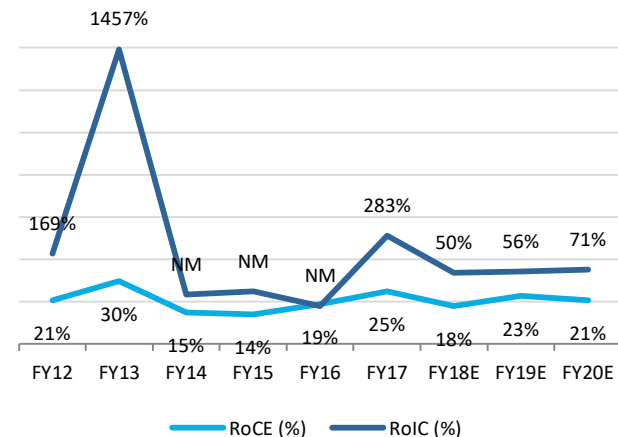
Source: Company, Spark Capital Research

RoE



Source: Company, Spark Capital Research

RoCE

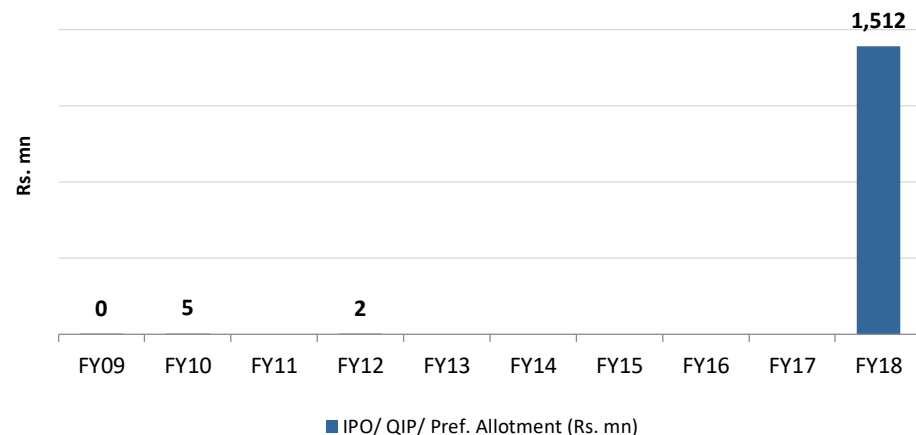


Source: Company, Spark Capital Research

- With a minimal equipment loan and working capital loans to meet the periodic requirements, Company's balance sheet is light with a -ve Net Debt/ Equity ratio. Going ahead we do not foresee Company exceeding Rs. 0.8bn of total debt
- Company's core construction assets include cranes, formwork and hoists; with this core gross-block of equipment Company can achieve fixed asset turnover of maximum 10x (as witnessed in FY13). With the current core equipment bank of ~Rs. 1bn (which is likely to go up to Rs. 1.5bn in the future) Company can comfortably execute the orderbook on hand
- Company's CFO/ EBITDA conversion is stellar (except in FY17 and FY18 due to higher working capital requirement) giving us comfort on its cash flow management abilities
- As a result of lean balance sheet, prudent working capital management and profitable execution the return metrics (RoE and RoCE) are good for the Company

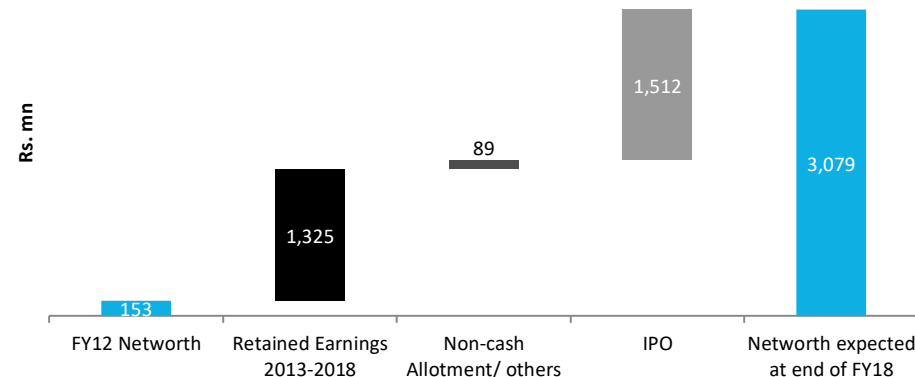
#7 Capital Raise History and Cash Flows

IPO/QIP/Pref. Allotment History



Source: Company, Spark Capital Research

Networth Movement



Source: Company, Spark Capital Research

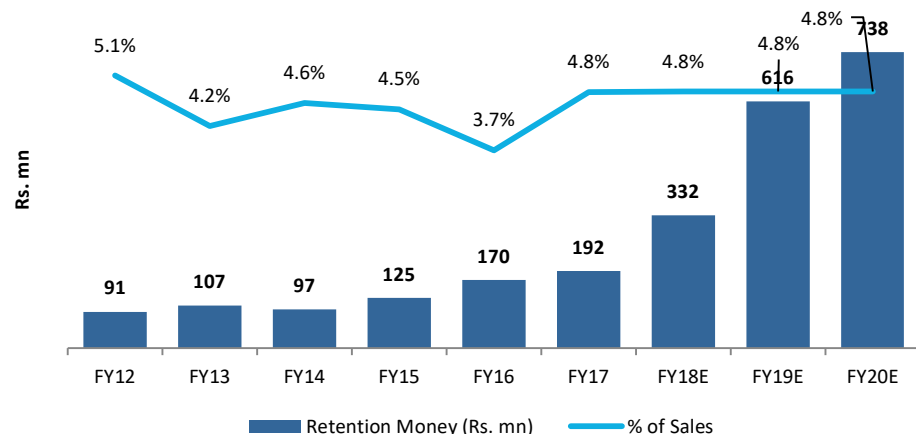
Stand Alone - Cashflows, Rs mn	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Sources of Funds									
Operating Cash before Working Capital	156	217	166	218	393	653	1,096	1,886	2,290
Interest Income	20	36	43	61	95	127	0	0	0
Equity	2	0	0	0	0	0	1,512	0	0
Net Borrowings	101	(107)	118	78	114	215	(119)	228	100
Sources of Funds	279	147	327	358	602	995	2,489	2,114	2,390
Application of Funds (positive number indicates cash outflow)									
Taxes	40	51	53	66	118	145	323	573	690
Working Capital	(36)	(99)	(93)	(224)	(129)	312	759	(257)	(451)
CAPEX in Gross Block	76	42	37	201	258	72	610	425	314
Investments/ Loans & Advances	(7)	34	(15)	77	36	217	124	50	50
Investment in liquid short term instruments	159	(61)	437	113	225	94	9	0	0
Interest	18	33	16	17	19	55	72	100	135
Dividend Payment	0	0	9	24	72	0	108	108	108
Application of Funds	251	(0)	444	273	599	895	2,004	998	847
Net Cash	28	147	(116)	85	3	100	485	1,116	1,543
FCFF	83	189	185	98	110	(93)	(719)	1,096	1,686

Cash Flows likely to be sufficient to meet outflows

- Company has not raised equity capital from any source in the past before the IPO; IPO has been primarily towards growth capital to meet the increased working capital and CAPEX requirements
- Company's cash-flow generation is sufficient to meet the working capital and CAPEX requirements going forward
- We expect Free Cash generation at the Company to be high as a result of low capital outflows and strong operating cash generation

#8 Retention Money and Contingent Liabilities

Retention Money

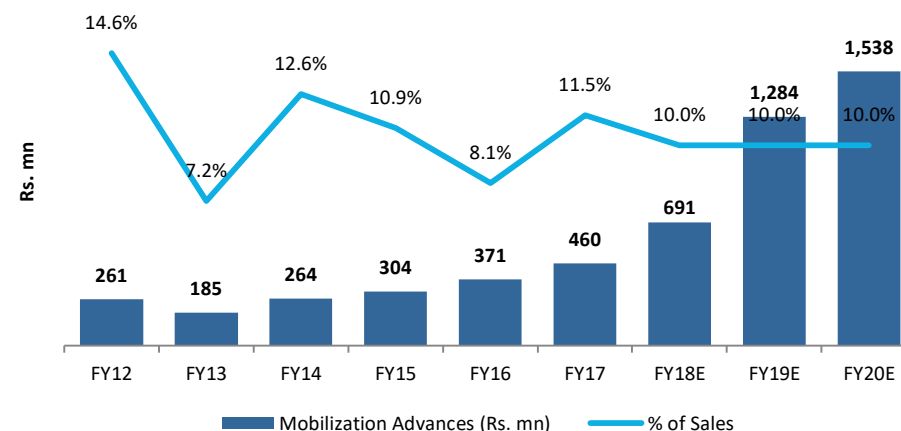


Source: Company, Spark Capital Research

Contingent Liabilities

Rs. mn	FY12	FY13	FY14	FY15	FY16	FY17
Tax Liability	1	12	13	13	11	14
Bank Guarantees	205	165	170	443	715	1,164
Total Contingent Liabilities	206	177	183	457	727	1,178
% of networth	135%	66%	53%	97%	110%	109%
% of Sales	12%	7%	9%	16%	16%	29%

Mobilization Advances



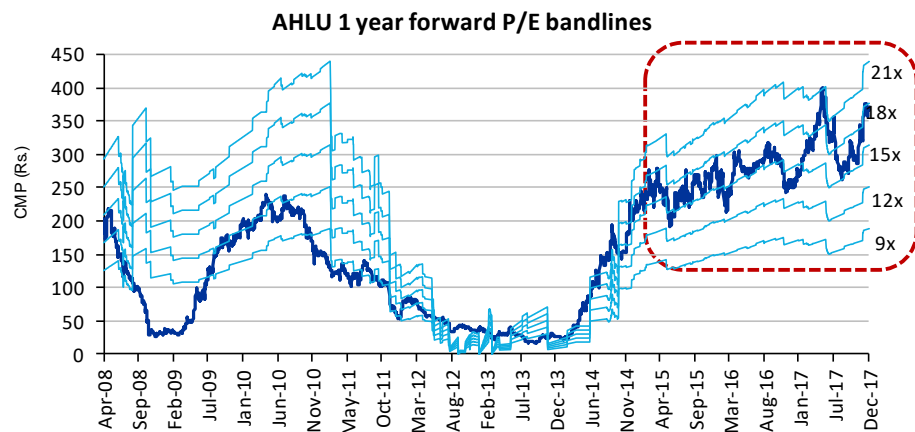
Source: Company, Spark Capital Research

Risk Metrics are business as usual and has not given a cause for concern so far

- Retention Monies as % of Sales has been stable and within Industry standards
- Contingent liabilities are not large and within Industry standards (Bank Guarantees likely to increase from FY18E due to higher scale of project execution)

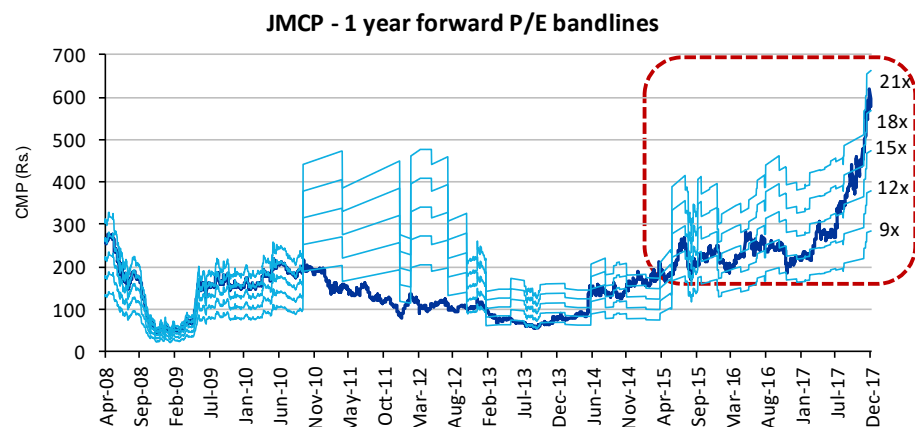
#9 Valuation Discussion

Last 6 months Ahluwalia has traded at an average of ~18x 1-Year forward multiple



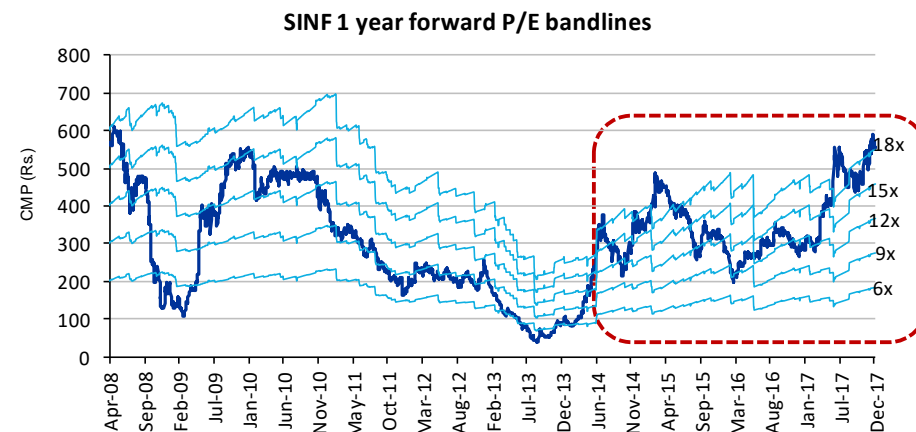
Source: Company, Spark Capital Research

...JMC Projects has traded at average of ~17x 1-Year forward multiple



Source: Company, Spark Capital Research

While Simplex has traded at an average of ~19x 1-Year forward multiple...



Source: Company, Spark Capital Research

1 year forward P/E trading ranges

Multiple range	No. of days traded since April 2014			% of traded days since April 2014		
	Ahluwalia	Simplex	JMC Projects	Ahluwalia	Simplex	JMC Projects
Traded above 21x	153	103	40	11%	8%	3%
Traded above 18x	299	231	221	22%	17%	16%
Traded above 15x	1,138	588	476	84%	43%	35%
Total no. of days	1,357	1,357	1,357	100%	100%	100%

- All three companies 1-y fwd multiple has been on the rising trend since Apr-2014
- Ahluwalia Contracts has traded at 18x P/E above 22% of the time since Apr-2014 while Simplex and JMC projects have traded for 17% and 16% of the time respectively
- More importantly, multiple rise has been more pronounced over the last 6 months

Consolidated Financial Statements					
Rs. mn	FY16	FY17	FY18E	FY19E	FY20E
Profit & Loss					
Revenue	4,760	4,569	7,457	13,385	15,307
Gross profit					
EBITDA	349	668	926	1,705	2,007
Depreciation	71	80	107	153	182
EBIT	277	588	819	1,552	1,825
Other Income	103	133	194	208	286
Interest expense	34	81	87	110	140
Exceptional items	0	0	0	0	0
PBT	347	640	926	1,650	1,971
Reported PAT (after minority interest)	221	414	604	1,076	1,282
Adj PAT	221	414	604	1,076	1,282
EPS (Rs.)	7.7	14.4	16.8	29.9	35.6
Balance Sheet					
Net Worth	643	1,058	3,066	4,034	5,209
Deferred Tax	(25)	(26)	(29)	(29)	(29)
Total debt	468	771	652	787	887
Other liabilities and provisions	595	738	843	1,436	1,690
Total Networth and liabilities	1,682	2,541	4,533	6,228	7,757
Gross Fixed assets	782	856	1,470	1,899	2,214
Net fixed assets	536	533	1,041	1,317	1,449
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	1,865	2,898	4,441
Loans & advances and other assets	407	504	709	994	1,116
Net working capital	(521)	(110)	490	542	223
Total assets	1,682	2,541	4,533	6,228	7,757
Capital Employed	1,086	1,803	3,690	4,793	6,067
Invested Capital (CE - cash - CWIP)	(164)	288	1,676	1,745	1,476
Net debt	(653)	(603)	(1,212)	(2,112)	(3,555)
Cash Flows					
Cash flows from Operations (Pre-tax)	538	210	417	2,170	2,744
Cash flows from Operations (post-tax)	419	65	95	1,596	2,055
Capex	(273)	(77)	(614)	(429)	(314)
Free cashflows	146	(13)	(519)	1,167	1,741
Free cashflows (post interest costs)	130	(72)	(606)	1,057	1,601
Cash flows from Investing	(450)	(131)	(804)	(479)	(364)
Cash flows from Financing	46	235	1,198	(83)	(148)
Total cash & liquid investments	1,250	1,515	2,014	3,048	4,591

Consolidated Financial Statements					
	FY16	FY17	FY18E	FY19E	FY20E
Growth ratios					
Revenue		-4.0%	63.2%	79.5%	14.4%
EBITDA		91.6%	38.6%	84.2%	17.7%
Adj PAT		87.2%	46.1%	78.1%	19.2%
Margin ratios					
Gross					
EBITDA	7.3%	14.6%	12.4%	12.7%	13.1%
Adj PAT	4.6%	9.1%	8.1%	8.0%	8.4%
Performance ratios					
Pre-tax OCF/EBITDA	154.2%	31.4%	45.1%	127.3%	136.7%
OCF/IC (%)	-255.5%	22.5%	5.7%	91.5%	139.2%
RoE (%)	34.4%	48.6%	29.3%	30.3%	27.7%
RoCE (%)	13.9%	25.0%	18.1%	23.1%	20.9%
RoCE (Pre-tax)	35.0%	49.9%	36.9%	41.5%	38.9%
RoIC (Pre-tax)	-169.0%	949.4%	83.4%	90.8%	113.3%
Fixed asset turnover (x)	6.1	5.6	6.4	7.9	7.4
Total asset turnover (x)	2.8	2.2	2.1	2.5	2.2
Financial stability ratios					
Net Debt to Equity (x)	(1.0)	(0.6)	(0.4)	(0.5)	(0.7)
Net Debt to EBITDA (x)	(1.9)	(0.9)	(1.3)	(1.2)	(1.8)
Interest cover (x)	12.5	0.8	1.1	14.6	14.7
Cash conversion days	(40)	(9)	24	15	5
Working capital days	(54)	(30)	9	(4)	(15)
Valuation metrics					
Fully Diluted Shares (mn)	29	29	36	36	36
Market cap (Rs.mn)			18,612		
P/E (x)	67.4	36.0	30.8	17.3	14.5
P/OCF(x)	44.4	287.2	195.3	11.7	9.1
EV (Rs.mn) (ex-CWIP)	17,830	17,868	17,250	16,351	14,908
EV/ EBITDA (x)	51.1	26.7	18.6	9.6	7.4
EV/ OCF(x)	42.5	275.7	181.0	10.2	7.3
FCF Yield	0.8%	-0.1%	-2.8%	6.3%	9.4%
Price to BV (x)	29.0	17.6	6.1	4.6	3.6
Dividend pay-out (%)	27.2%	17.4%	14.9%	8.4%	7.0%
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 42% over FY17-21E, driven by robust project execution. We expect EBITDA margin to improve from 12.4% in FY18E to 13.1% in FY21E and sustain at that level. Cash flow generation to remain healthy with a FCF/EBITDA conversion of 58% over FY18-FY21E.

Revenue to grow at a CAGR of 42% 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-FY21E
Revenues CAGR	-4.0%	41.5%
Gross Margin		
EBITDA CAGR	91.6%	37.7%
EBITDA margin	11.0%	12.8%
EPS CAGR	112.2%	32.3%
Total Asset Turnover (x)	2.5	2.2
Total WC days	(24)	12
Pre-tax OCF/EBITDA (%)	92.8%	107.7%
Post Tax OCF as a % of IC	-117%	93%
Debt/EBITDA	(1.4)	(1.6)

Consolidated	FY16-FY17	FY18-FY21E
RoE (%)	41.5%	28.5%
RoCE (%)	19.5%	20.4%
RoIC (%)	252.8%	70.6%
Average 1 yr fwd		
PE (x)	-	-
EV/EBITDA (x)	-	-
PB (x)	-	-
Peak 1 yr fwd		
PE (x)	-	-
EV/EBITDA (x)	-	-
PB (x)	-	-

P/E multiple	FY21E EPS	Price target (Rs./ Share)
15.0x	44.0	660
18.0x	44.0	791
20.0x	44.0	879

Entry = Rs. 517 @ 17.3x
FY19E P/E

Cumulative Dividends of
Rs. 7.5/share

EPS CAGR of 40% with an
Exit Multiple of 18x P/E

TOTAL
RETURN OF
55%