

## ONE YEAR OUTLOOK

### BUSINESS & EARNINGS ▼

- We continue to like the Company given it is one of the few quality contractors sought-after by clients in the organized buildings construction space. With strong presence in an economically sound geography (Gujarat) and intention to diversify the geographical presence and with an enhanced qualification criteria (can bid for projects >Rs. 20bn post the completion of a key ongoing project - Surat Diamond Bourse) we believe that Company will grow from strength to strength in establishing its reputation and in winning larger orders in the future
- With a good working-capital-management track record (<20days of working capital days), lower capital employed (grossblock 1/3<sup>rd</sup> of peers) and comparable margins (~13%) the Company has industry leading return metrics (>25% RoE); also we like the growth in execution revenue (45% CAGR for FY18-20E) driven by strong execution in SDB project. Company is likely to garner larger projects in the future (we are penciling-in an order inflow of Rs. 10bn for FY19E and Rs. 20bn for FY20E)
- Risks to our thesis include lower than expected order inflow (a 50% lower order inflow from FY20 results in our FY22E EPS to come-in lower by 42% lowering our 3 year TP from Rs. 883/ share to Rs. 512/ share); near term risks also include delays in execution of key projects

### 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. 625/ share (earlier TP Rs. 640/ share); likely re-rating is contingent upon sizeable order inflows to substitute SDB project. Maintain "BUY" with a TP of Rs. 625/ share

### FINANCIAL SUMMARY

Year	Sales (Rs. mn)	EBITDA (Rs. mn)	PAT (Rs. mn)	EPS (Rs.)	P/E (x)	RoE(%)
FY17	4,008	659	416	14.4	33.5	48.0%
FY18	7,298	1,014	644	17.9	27.1	31.4%
FY19E	10,855	1,415	911	25.3	19.1	27.0%
FY20E	15,386	1,936	1,246	34.6	14.0	29.4%

## 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 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 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 ~14days from negative levels). However, we expect cash generation profile to remain strong - Company's FCF/EBITDA conversion is expected to be ~52% over FY19E-FY22E.
- Sustainability of margins and order inflow growth beyond FY19E are the key monitorables

### VALUATION MULTIPLES ◀▶

- We expect PSP projects to deliver 85% return over a 3-year period assuming an exit multiple of 18x FY22E EPS to arrive at TP Rs. 883/ share and cumulative dividends of Rs. 15.0/ share

### KEY ESTIMATES REVISION - Standalone

	FY19E			FY20E		
	Old	New	Change	Old	New	Change
Revenue	11,207	10,855	-3.1%	15,394	15,386	0.0%
EBITDA	1,468	1,415	-3.6%	2,001	1,936	-3.3%
Margin (%)	13.1%	13.0%		13.0%	12.6%	
PAT	966	911	-5.7%	1,279	1,246	-2.5%
Margin (%)	8.6%	8.4%		8.3%	8.1%	
EPS	26.8	25.3	-5.6%	35.5	34.6	-2.5%

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

## OUTLOOK REVIEW 1QFY19 10 August 2018

Industry	Infrastructure
CMP	Rs. 484
Target Price	Rs. 625
Key Stock Data	
Bloomberg	PSPPL IN
Shares o/s	36mn
Market Cap	Rs. 18bn
52-wk High-Low	Rs. 596-303
3m ADV	Rs. 16mn
Index	-

	Dec'17	Mar'18	Jun'18
Promoters	72.0	72.1	72.1
Institutions	10.8	9.4	9.8
Public	17.2	18.5	18.1
Pledge	-	-	-

## RESEARCH ANALYSTS

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## Quarterly Financial Statements

Standalone Financial Results								
Rs. mn \ Period	1QFY19	1QFY18	YoY Growth	4QFY18	QoQ Growth	FY17	FY18	Annual Growth
<b>Revenue from Operations</b>	<b>2,347</b>	<b>1,558</b>	<b>51%</b>	<b>2,637</b>	<b>-11%</b>	<b>4,008</b>	<b>7,298</b>	<b>82%</b>
Cost of raw materials	1,163	672	73%	892	30%	1,270	2,705	113%
Construction & Contracting expenses	727	578	26%	1,268	-43%	1,777	3,208	81%
Employee benefit expenses	100	60	67%	85	18%	208	286	37%
Other Expenses	27	50	-45%	29	-7%	93	86	-8%
Total Expenses	2,017	1,359	48%	2,274	-11%	3,348	6,284	88%
<b>EBITDA</b>	<b>330</b>	<b>199</b>	<b>66%</b>	<b>363</b>	<b>-9%</b>	<b>659</b>	<b>1,014</b>	<b>54%</b>
<i>EBITDA margin (%)</i>	<i>14.1%</i>	<i>12.8%</i>		<i>13.8%</i>		<i>16.5%</i>	<i>13.9%</i>	
Other income	61	41	48%	59	4%	134	184	37%
Depreciation	48	18	162%	43	12%	76	112	48%
Finance expenses	15	14	7%	30	-51%	75	87	16%
PBT	328	208	58%	349	-6%	642	999	55%
Taxes	117	72	62%	119	-1%	226	355	57%
PAT	211	136	55%	230	-8%	416	644	55%
EPS (in Rs./Share)	5.9	3.8	55%	6.4	-8%	11.6	17.9	55%

## Financial Summary

Standalone Financial Statements									
Rs. mn	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<b>Profit &amp; Loss</b>									
Revenue	1,786	2,573	2,104	2,805	4,580	4,008	7,298	10,855	15,386
Gross profit									
EBITDA	154	220	168	225	393	659	1,014	1,415	1,936
Depreciation	28	37	37	52	71	76	112	171	183
EBIT	126	183	131	173	323	584	902	1,244	1,752
Other Income	21	37	44	65	103	134	184	232	254
Interest expense	23	38	20	25	31	75	87	74	88
Exceptional items	0	0	0	0	0	0	0	0	0
PBT	124	182	154	213	394	642	999	1,402	1,918
Reported PAT (after minority interest)	83	121	99	139	252	416	644	911	1,246
<b>Adj PAT</b>	<b>83</b>	<b>121</b>	<b>99</b>	<b>139</b>	<b>252</b>	<b>416</b>	<b>644</b>	<b>911</b>	<b>1,246</b>
<b>EPS (Rs.)</b>	<b>2.9</b>	<b>4.2</b>	<b>3.5</b>	<b>4.8</b>	<b>8.7</b>	<b>14.4</b>	<b>17.9</b>	<b>25.3</b>	<b>34.6</b>
<b>Balance Sheet</b>									
Net Worth	153	266	348	469	663	1,071	3,027	3,722	4,752
Deferred Tax	(1)	(2)	(3)	(5)	(9)	(15)	(18)	(18)	(18)
Total debt	258	149	259	334	452	677	214	442	542
Other liabilities and provisions	302	239	356	429	478	705	1,401	1,757	2,210
<b>Total Network and liabilities</b>	<b>712</b>	<b>652</b>	<b>960</b>	<b>1,228</b>	<b>1,585</b>	<b>2,438</b>	<b>4,623</b>	<b>5,902</b>	<b>7,485</b>
Gross Fixed assets	231	272	308	510	768	836	1,210	1,711	2,109
Net fixed assets	180	185	185	332	522	508	770	1,100	1,314
Capital work-in-progress	0	0	0	2	0	0	18	0	0
Goodwill	0	0	0	0	0	0	0	0	0
Investments	3	35	89	126	180	217	228	278	328
Cash and bank balances	359	446	684	848	1,064	1,018	2,232	2,817	3,522
Loans & advances and other assets	172	202	248	269	369	826	1,090	1,261	1,478
Net working capital	(2)	(216)	(247)	(350)	(550)	(130)	285	446	843
<b>Total assets</b>	<b>712</b>	<b>652</b>	<b>960</b>	<b>1,228</b>	<b>1,585</b>	<b>2,438</b>	<b>4,623</b>	<b>5,902</b>	<b>7,485</b>
Capital Employed	410	413	604	799	1,107	1,733	3,222	4,145	5,276
Invested Capital (CE - cash - CWIP)	50	(33)	(161)	(170)	(86)	574	821	1,177	1,603
Net debt	(102)	(297)	(425)	(514)	(611)	(341)	(2,019)	(2,375)	(2,980)
<b>Cash Flows</b>									
Cash flows from Operations (Pre-tax)	198	315	248	366	529	156	1,211	1,671	2,028
Cash flows from Operations (post-tax)	158	264	195	300	411	11	856	1,180	1,357
Capex	(76)	(42)	(37)	(201)	(258)	(72)	(392)	(483)	(398)
Free cashflows	82	222	158	98	152	(61)	464	697	959
Free cashflows (post interest costs)	67	193	144	84	135	(117)	377	622	871
Cash flows from Investing	(218)	19	(406)	(256)	(433)	(70)	(403)	(533)	(448)
Cash flows from Financing	88	(136)	94	41	25	160	1,209	(62)	(204)
Total cash & liquid investments	360	446	766	966	1,194	1,159	2,384	2,968	3,673

## Financial Summary

Standalone Financial Statements									
	FY12	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
<b>Growth ratios</b>									
Revenue		44.0%	-18.2%	33.3%	63.3%	-12.5%	82.1%	48.7%	41.7%
EBITDA		42.6%	-23.8%	34.0%	75.1%	67.7%	53.8%	39.6%	36.8%
Adj PAT		46.7%	-18.1%	39.9%	80.8%	65.3%	54.7%	41.6%	36.8%
<b>Margin ratios</b>									
Gross									
EBITDA	8.6%	8.5%	8.0%	8.0%	8.6%	16.5%	13.9%	13.0%	12.6%
Adj PAT	4.6%	4.7%	4.7%	5.0%	5.5%	10.4%	8.8%	8.4%	8.1%
<b>Performance ratios</b>									
Pre-tax OCF/EBITDA	128.6%	143.1%	147.9%	163.0%	134.5%	23.6%	119.4%	118.1%	104.8%
OCF/IC (%)	318.9%	-801.7%	-120.9%	-176.6%	-475.7%	1.9%	104.3%	100.2%	84.7%
RoE (%)	54.1%	58.0%	32.4%	34.1%	44.5%	48.0%	31.4%	27.0%	29.4%
RoCE (%)	20.6%	29.6%	15.0%	14.1%	18.9%	25.2%	22.1%	20.5%	23.0%
RoCE (Pre-tax)	35.8%	53.4%	34.3%	33.9%	44.6%	50.5%	43.8%	40.1%	42.6%
RoIC (Pre-tax)	253.7%	2185.9%	-134.8%	-104.5%	-252.0%	239.4%	129.4%	124.5%	126.1%
Fixed asset turnover (x)	7.7	10.2	7.3	6.9	7.2	5.0	7.1	7.4	8.1
Total asset turnover (x)	2.5	3.8	2.6	2.6	3.3	2.0	2.1	2.1	2.3
<b>Financial stability ratios</b>									
Net Debt to Equity (x)	(0.7)	(1.1)	(1.2)	(1.1)	(0.9)	(0.3)	(0.7)	(0.6)	(0.6)
Net Debt to EBITDA (x)	(0.7)	(1.4)	(2.5)	(2.3)	(1.6)	(0.5)	(2.0)	(1.7)	(1.5)
Interest cover (x)	6.9	7.0	9.5	12.0	13.4	0.1	9.8	15.9	15.4
Cash conversion days	(0)	(31)	(43)	(46)	(44)	(12)	14	15	20
Working capital days	(34)	(41)	(56)	(67)	(51)	(41)	(35)	(26)	(16)
<b>Valuation metrics</b>									
Fully Diluted Shares (mn)	29	29	29	29	29	29	36	36	36
Market cap (Rs.mn)							17,424		
P/E (x)	168.5	114.8	140.1	100.1	55.4	33.5	27.1	19.1	14.0
P/OCF(x)	110.2	66.1	89.4	58.1	42.4	1,624.2	20.4	14.8	12.8
EV (Rs.mn) (ex-CWIP)	17,321	17,127	16,918	16,792	16,683	16,942	15,254	14,898	14,293
EV/ EBITDA (x)	112.3	77.9	101.0	74.8	42.4	25.7	15.0	10.5	7.4
EV/ OCF(x)	109.5	65.0	86.8	56.0	40.6	1,579.3	17.8	12.6	10.5
FCF Yield	0.5%	1.3%	0.9%	0.6%	0.9%	-0.4%	2.7%	4.0%	5.5%
Price to BV (x)	114.0	65.5	50.1	37.1	26.3	16.3	5.8	4.7	3.7
BV/Share (x)	5.3	9.2	12.1	16.3	23.0	37.2	84.1	103.4	132.0
Dividend pay-out (%)	0.0%	0.0%	8.0%	14.4%	23.8%	17.3%	28.0%	19.8%	14.4%
Dividend yield (%)	0.0%	0.0%	0.1%	0.1%	0.4%	0.5%	1.0%	1.0%	1.0%

### Crystal Ball Gazing

We forecast the revenue to grow at a CAGR of 30% over FY18-22E, driven by robust project execution. We expect EBITDA margin to moderate from 13.9% in FY18 to 13.0% in FY20E and sustain at that level. Cash flow generation to remain healthy with a FCF/EBITDA conversion of 52% over FY19E-FY22E.

Revenue to grow at a CAGR of 30% for FY18-22E



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	FY13-FY17	FY18-FY22E
Revenues CAGR	17.5%	39.1%
Gross Margin		
EBITDA CAGR	33.7%	32.7%
EBITDA margin	9.9%	13.1%
EPS CAGR	38.1%	27.7%
Total Asset Turnover (x)	2.8	2.1
Total WC days	(35)	21
Pre-tax OCF/EBITDA (%)	123.5%	109.4%
Post Tax OCF as a % of IC	-315%	88%
Debt/EBITDA	(1.6)	(1.7)

Consolidated	FY13-FY17	FY18-FY22E
RoE (%)	43.4%	28.2%
RoCE (%)	20.6%	21.6%
RoIC (%)	259.3%	78.8%
<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	49.0	736
18.0x	49.0	883

Entry = Rs. 484 @ 14.0x  
FY20E P/E



Cumulative Dividends of  
Rs. 15/share

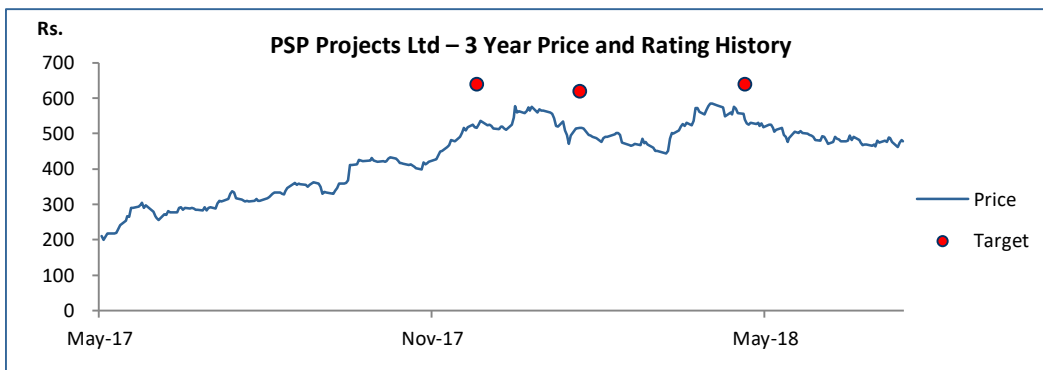


EPS CAGR of 29% with an  
Exit Multiple of 18x P/E



**TOTAL  
RETURN OF  
85%**

## Spark Recommendation History



Report Date	Price	Target	Reco.
11/May/18	555	640	Buy
09/Feb/18	513	620	Buy
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

## Disclosure of Interest Statement

<b>Analyst financial interest in the company</b>	No
<b>Group/directors ownership of the subject company covered</b>	No
<b>Investment banking relationship with the company covered</b>	No
<b>Spark Capital's ownership/any other financial interest in the company covered</b>	No
<b>Associates of Spark Capital's ownership more than 1% in the company covered</b>	No
<b>Any other material conflict of interest at the time of publishing the research report</b>	No
<b>Receipt of compensation by Spark Capital or its Associate Companies from the subject company covered for in the last twelve months:</b>	No
<ul style="list-style-type: none"> <li>Managing/co-managing public offering of securities; Investment banking/merchant banking/brokerage services; Products or services other than those above; In connection with research report</li> </ul>	No
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<b>Whether the Research Analyst or Research Entity has been engaged in market making activity of the Subject Company;</b>	No

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