

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 (demonstrated by its recent order win of affordable housing project in Maharashtra) 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 for growth in the medium term.
- While bidding pipeline in the near-term is healthy (Rs. 30bn of opportunity from corporates to build residential colonies in the geographies where company already has a presence), we pencil-in a conservative order inflow of Rs. 12bn and Rs. 15bn for FY20E and FY21E
- Company has continued to demonstrate its strong execution capability (51% yoy revenue growth in 9MFY19) and expect it to register a revenue and earnings CAGR of 29% each over FY19E-FY21E with EBITDA margin likely maintained at 13% (comparable to peers). Also, we like company's good working-capital-management track record (<25days) and lower capital employed (grossblock 1/3rd of peers) which have led to Company's industry leading return metrics (>25% RoE)

VALUATION MULTIPLES ◀▶

- We revise our estimates to reflect the quarter's performance and value the stock attributing 12x P/E on our FY21E EPS to arrive at a TP of Rs. 460/ share; likely multiple re-rating is contingent upon sizeable order inflows to substitute SDB project. Maintain "BUY" with a TP of Rs. 460/ share

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	22.1	31.4%
FY19E	10,003	1,378	836	23.2	17.0	25.1%
FY20E	16,089	2,092	1,301	36.1	10.9	31.0%
FY21E	16,543	2,151	1,383	38.4	10.3	26.0%

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 ~47% over FY19E-FY23E.
- Sustainability of margins and order inflow growth beyond FY19E are the key monitorables

VALUATION MULTIPLES ◀▶

- We expect PSP projects to deliver 41% return over a 3-year period assuming an exit multiple of 12x FY23E EPS to arrive at TP of Rs. 543/ share and cumulative dividends of Rs. 15.0/ share and could deliver ~76% return in a bull case scenario of winning a large order similar to SDB project

KEY ESTIMATES REVISION - Standalone

	FY20E			FY21E		
	Old	New	Change	Old	New	Change
Revenue	15,934	16,089	1.0%	16,718	16,543	-1.0%
EBITDA	2,071	2,092	1.0%	2,173	2,151	-1.0%
Margin (%)	13.0%	13.0%		13.0%	13.0%	
PAT	1,317	1,301	-1.2%	1,361	1,383	1.6%
Margin (%)	8.3%	8.1%		8.1%	8.4%	
EPS	36.6	36.1	-1.2%	37.8	38.4	1.6%

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

OUTLOOK REVIEW 3QFY19 12 February 2019

Industry	Infrastructure
CMP	Rs. 395
Target Price	Rs. 460
Key Stock Data	
Bloomberg	PSPPL IN
Shares o/s	36mn
Market Cap	Rs. 14bn
52-wk High-Low	Rs. 596-358
3m ADV	Rs. 14mn
Index	-

	Jun'18	Sep'18	Dec'18
Promoters	72.1	73.0	73.3
Institutions	9.8	9.6	7.3
Public	18.1	17.4	19.4
Pledge	-	-	-

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Quarterly Financial Statements

Standalone Financial Results								
Rs. mn \ Period	3QFY19	3QFY18	YoY Growth	2QFY19	QoQ Growth	9MFY18	9MFY19	YoY Growth
Revenue from Operations	2,611	1,708	53%	2,099	24%	4,662	7,058	51%
Cost of raw materials	1,014	564	80%	722	40%	1,853	2,899	56%
Construction & Contracting expenses	1,099	788	39%	947	16%	1,854	2,773	50%
Employee benefit expenses	107	74	45%	108	0%	201	315	57%
Other Expenses	23	16	50%	29	-19%	102	80	-22%
Total Expenses	2,244	1,442	56%	1,806	24%	4,010	6,067	51%
EBITDA	367	266	38%	294	25%	651	991	52%
<i>EBITDA margin (%)</i>	<i>14.1%</i>	<i>15.5%</i>		<i>14.0%</i>		<i>14.0%</i>	<i>14.0%</i>	
Other income	48	32	50%	54	-11%	125	163	31%
Depreciation	62	28	124%	58	7%	69	168	144%
Finance expenses	23	23	-4%	23	-1%	57	60	5%
PBT	331	247	34%	267	24%	650	926	42%
Taxes	116	95	22%	92	26%	236	325	38%
PAT	215	152	41%	176	22%	414	601	45%
EPS (in Rs./Share)	6.0	4.2	41%	4.9	22%	11.5	16.7	45%

Financial Summary

Standalone Financial Statements									
Rs. mn	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Profit & Loss									
Revenue	2,573	2,104	2,805	4,580	4,008	7,298	10,003	16,089	16,543
Gross profit									
EBITDA	220	168	225	393	659	1,014	1,378	2,092	2,151
Depreciation	37	37	52	71	76	112	221	233	251
EBIT	183	131	173	323	584	902	1,156	1,858	1,899
Other Income	37	44	65	103	134	184	216	220	322
Interest expense	38	20	25	31	75	87	86	77	93
Exceptional items	0	0	0	0	0	0	0	0	0
PBT	182	154	213	394	642	999	1,286	2,001	2,128
Reported PAT (after minority interest)	121	99	139	252	416	644	836	1,301	1,383
Adj PAT	121	99	139	252	416	644	836	1,301	1,383
EPS (Rs.)	4.2	3.5	4.8	8.7	14.4	17.9	23.2	36.1	38.4
Balance Sheet									
Net Worth	266	348	469	663	1,071	3,027	3,647	4,731	5,898
Deferred Tax	(2)	(3)	(5)	(9)	(15)	(18)	(18)	(18)	(18)
Total debt	149	259	334	452	677	216	236	236	236
Other liabilities and provisions	239	356	429	478	705	1,398	1,211	1,820	1,865
Total Network and liabilities	652	960	1,228	1,585	2,438	4,623	5,076	6,769	7,981
Gross Fixed assets	272	308	510	768	836	1,196	1,845	2,334	2,790
Net fixed assets	185	185	332	522	508	770	1,198	1,454	1,659
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	278	328	328
Cash and bank balances	446	684	848	1,064	1,018	2,232	1,678	2,321	3,273
Loans & advances and other assets	202	248	269	369	826	1,090	1,236	1,564	1,588
Net working capital	(216)	(247)	(350)	(550)	(130)	285	685	1,102	1,133
Total assets	652	960	1,228	1,585	2,438	4,623	5,076	6,769	7,981
Capital Employed	413	604	799	1,107	1,733	3,225	3,865	4,949	6,116
Invested Capital (CE - cash - CWIP)	(33)	(161)	(170)	(86)	574	823	2,035	2,477	2,692
Net debt	(297)	(425)	(514)	(611)	(341)	(2,016)	(1,442)	(2,085)	(3,037)
Cash Flows									
Cash flows from Operations (Pre-tax)	315	248	366	529	277	1,124	860	2,175	2,462
Cash flows from Operations (post-tax)	264	195	300	411	132	715	410	1,475	1,717
Capex	(42)	(37)	(201)	(258)	(59)	(656)	(632)	(489)	(456)
Free cashflows	222	158	98	152	73	59	(222)	986	1,261
Free cashflows (post interest costs)	193	144	84	135	15	13	(308)	909	1,168
Cash flows from Investing	19	(406)	(256)	(433)	(190)	(1,232)	(682)	(539)	(456)
Cash flows from Financing	(136)	94	41	25	167	805	(282)	(293)	(309)
Total cash & liquid investments	446	766	966	1,194	1,159	2,384	1,830	2,473	3,424

Financial Summary

Standalone Financial Statements									
	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Growth ratios									
Revenue	44.0%	-18.2%	33.3%	63.3%	-12.5%	82.1%	37.1%	60.8%	2.8%
EBITDA	42.6%	-23.8%	34.0%	75.1%	67.7%	53.8%	35.9%	51.8%	2.8%
Adj PAT	46.7%	-18.1%	39.9%	80.8%	65.3%	54.7%	29.9%	55.6%	6.3%
Margin ratios									
Gross									
EBITDA	8.5%	8.0%	8.0%	8.6%	16.5%	13.9%	13.8%	13.0%	13.0%
Adj PAT	4.7%	4.7%	5.0%	5.5%	10.4%	8.8%	8.4%	8.1%	8.4%
Performance ratios									
Pre-tax OCF/EBITDA	143.1%	147.9%	163.0%	134.5%	42.0%	110.9%	62.4%	104.0%	114.5%
OCF/IC (%)	-801.7%	-120.9%	-176.6%	-475.7%	23.0%	86.9%	20.1%	59.5%	63.8%
RoE (%)	58.0%	32.4%	34.1%	44.5%	48.0%	31.4%	25.1%	31.0%	26.0%
RoCE (%)	29.6%	15.0%	14.1%	18.9%	25.2%	22.1%	19.9%	26.3%	20.9%
RoCE (Pre-tax)	53.4%	34.3%	33.9%	44.6%	50.5%	43.8%	38.7%	47.2%	40.1%
RoIC (Pre-tax)	2185.9%	-134.8%	-104.5%	-252.0%	239.4%	129.1%	80.9%	82.4%	73.5%
Fixed asset turnover (x)	10.2	7.3	6.9	7.2	5.0	7.2	6.6	7.7	6.5
Total asset turnover (x)	3.8	2.6	2.6	3.3	2.0	2.1	2.1	2.7	2.2
Financial stability ratios									
Net Debt to Equity (x)	(1.1)	(1.2)	(1.1)	(0.9)	(0.3)	(0.7)	(0.4)	(0.4)	(0.5)
Net Debt to EBITDA (x)	(1.4)	(2.5)	(2.3)	(1.6)	(0.5)	(2.0)	(1.0)	(1.0)	(1.4)
Interest cover (x)	7.0	9.5	12.0	13.4	1.8	8.2	4.8	19.1	18.4
Cash conversion days	(31)	(43)	(46)	(44)	(12)	14	25	25	25
Working capital days	(41)	(56)	(67)	(51)	(41)	(35)	(3)	(4)	(4)
Valuation metrics									
Fully Diluted Shares (mn)	29	29	29	29	29	36	36	36	36
Market cap (Rs.mn)						14,220			
P/E (x)	93.7	114.4	81.7	45.2	27.3	22.1	17.0	10.9	10.3
P/OCF(x)	53.9	72.9	47.5	34.6	107.9	19.9	34.7	9.6	8.3
EV (Rs.mn) (ex-CWIP)	13,923	13,714	13,588	13,479	13,738	12,053	12,627	11,984	11,032
EV/ EBITDA (x)	63.3	81.9	60.5	34.3	20.8	11.9	9.2	5.7	5.1
EV/ OCF(x)	52.8	70.3	45.3	32.8	104.2	16.9	30.8	8.1	6.4
FCF Yield	1.6%	1.1%	0.7%	1.1%	0.5%	0.4%	-1.6%	6.9%	8.9%
Price to BV (x)	53.5	40.9	30.3	21.4	13.3	4.7	3.9	3.0	2.4
BV/Share (x)	9.2	12.1	16.3	23.0	37.2	84.1	101.3	131.4	163.8
Dividend pay-out (%)	0.0%	8.0%	14.4%	23.8%	17.3%	28.0%	21.5%	13.8%	13.0%
Dividend yield (%)	0.0%	0.1%	0.2%	0.5%	0.6%	1.3%	1.3%	1.3%	1.3%

Crystal Ball Gazing

We forecast the revenue to grow at a CAGR of 18% over FY19-23E, driven by robust project execution. We expect EBITDA margin to moderate from 13.8% in FY19 to 13.0% in FY20E and sustain at that level. Cash flow generation to remain healthy with a FCF/EBITDA conversion of 47% over FY19E-FY23E

Revenue to grow at a CAGR of 18% 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	FY13-FY17	FY18-FY23E
Revenues CAGR	17.5%	29.9%
Gross Margin		
EBITDA CAGR	33.7%	24.9%
EBITDA margin	9.9%	13.3%
EPS CAGR	38.1%	20.9%
Total Asset Turnover (x)	2.8	2.2
Total WC days	(35)	23
Pre-tax OCF/EBITDA (%)	126.5%	103.8%
Post Tax OCF as a % of IC	-310%	60%
Debt/EBITDA	(1.6)	(1.6)

Consolidated	FY13-FY17	FY18-FY23E
RoE (%)	43.4%	26.0%
RoCE (%)	20.6%	20.4%
RoIC (%)	259.3%	55.0%
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	FY23E EPS	Price target (Rs./ Share)
9.0x	45.2	407
12.0x	45.2	543
15.0x	45.2	678

Entry = Rs. 395 @ 10.3x
FY21E P/E



Cumulative Dividends of
Rs. 15/share

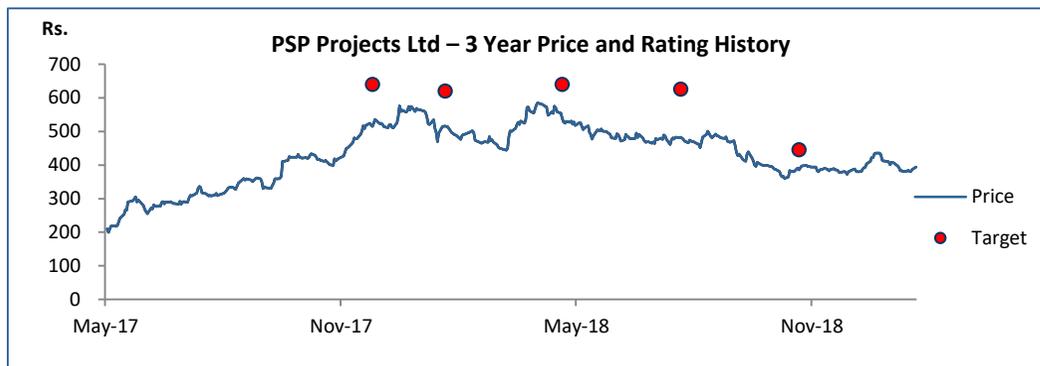


EPS CAGR of 18% with an
Exit Multiple of 12x P/E



**TOTAL
RETURN OF
41%**

Spark Recommendation History



Report Date	Price	Target	Reco.
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

Disclosure of Interest Statement

Details of Financial Interest of Research Entity [Spark Capital Advisors (India) Private Limited] and its Associates	No
Details of Financial Interest of covering analyst/ and his relatives	No
Investment banking relationship with the company covered	No
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