

# PSP Projects Ltd - Positive

## Robust show

PSP Projects Ltd (PSP) reported strong set of numbers during Q4 FY19 with revenues growing 28% yoy (to Rs. 3.4bn), largely driven by pick-up in execution of the Surat Diamond Bourse (SDB) project. Its operating margin improved to 14.7% (up 98bps yoy) mainly on account of muted construction expense. However, higher depreciation cost impacted performance at the PAT level. At the end of FY19, PSP's order book remained robust at Rs.29.8bn (2.9x FY19 revenues). In addition, the company is targeting order inflow of ~Rs.13bn in FY20, thus, promising healthy order book position in the near term. Going forward, we expect company to deliver strong topline growth over next couple of years, as SDB project (contract value: Rs.15.6bn; outstanding value: Rs.11.6bn) has picked up execution pace and revenue worth ~Rs.7.5bn is expected from this project in FY20 and balance in FY21. Also, top 5 projects worth Rs.9.5bn (other than SDB) are likely to contribute significantly in FY20. Given current mix of order book, operating margin is expected to remain stable at 12-14%. With D/E of 0.1x, its balance sheet position remains largely comfortable. At the CMP, the stock is trading at 20x FY19 P/E. We remain positive on the company's growth prospects.

## Strong order book driven by SDB; execution remains key

Including the big ticket SDB project, PSP order book stood at Rs.29.8bn at the end of FY19. While the revenue visibility stays strong, any delay in execution of SDB order can impact overall performance. New order wins, therefore, remains important to reduce dependence on the SDB. The company expects order inflow of Rs.13bn in FY20. However, we believe, the company is reasonably well placed to deliver strong growth over next couple of years backed by its improving execution capabilities.

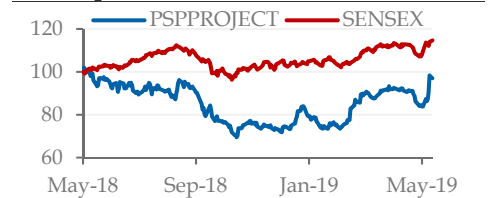
## CMP (Rs) 502

Stock data (As on May 27, 2019)

Sensex:	39,683
52 Week h/l (Rs)	529 / 359
Market cap (Rs mn)	18,072
Enterprise value (Rs mn)	16,105
6m Avg t/o (Rs mn):	15.4
FV (Rs):	10
Div yield (%):	1.0
Bloomberg code:	PSPPL IN
BSE code:	540544
NSE code:	PSPPROJECT

Sector: Infrastructure

## Stock performance



## Shareholding pattern (As of Mar'19 end)

Promoter	73.3%
FII+DII	7.6%
Others	19.1%

## Exhibit 1: Result table (Standalone)

Y/e 31 Mar (Rs mn)	Q4 FY19	Q4 FY18	yoy(%)	Q3 FY19	qoq (%)
Revenue	3,383	2,637	28.3	2,611	29.6
Operating Profit	499	363	37.4	367	35.9
OPM (%)	14.7	13.8	98 bps	14.1	69 bps
Other Income	66	59	13.3	48	37.4
Depreciation	(74)	(43)	73.1	(62)	19.6
Interest	(32)	(30)	6.3	(23)	41.1
PBT	459	349	31.7	331	38.9
Tax	(158)	(119)	32.6	(116)	36.0
PAT	301	230	31.2	215	40.4

Source: Company, YES Sec - Research

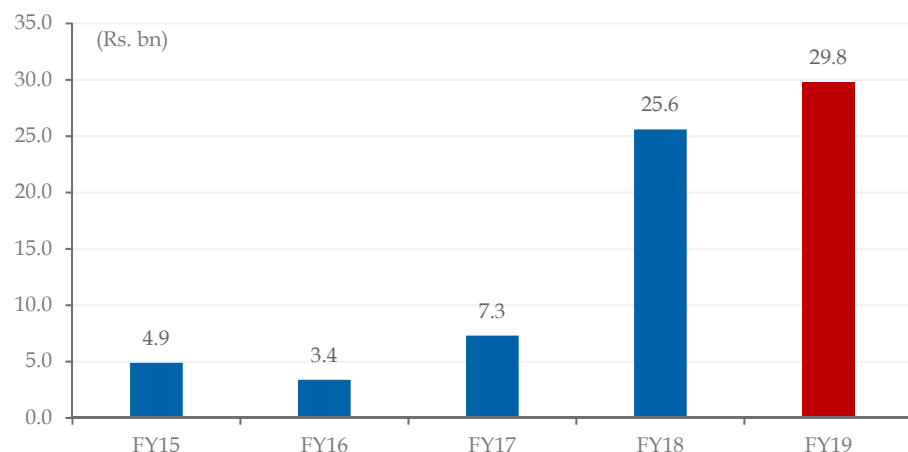
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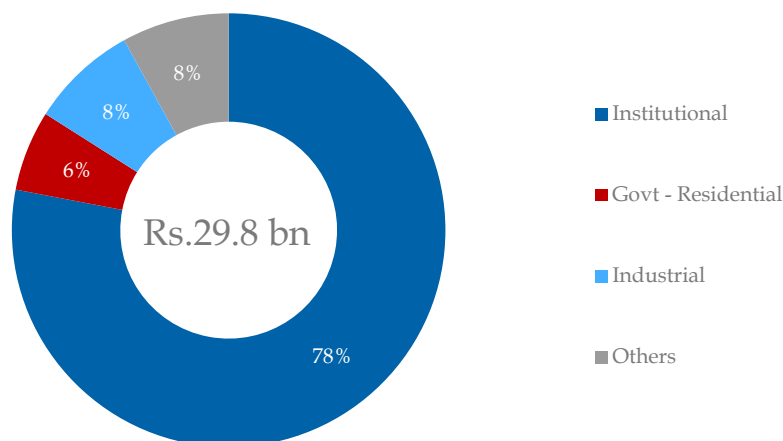
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## Exhibit 2: Order book at all time high



Source: Company, YES Sec - Research

## Exhibit 3: Institutional segment dominates the order book



Source: Company, YES Sec - Research

## CONFERENCE CALL HIGHLIGHTS

- ✓ PSP secured orders worth ~Rs.14.5 bn in FY19, which aided its order book position. The management has guided for ~Rs.13bn of inflows in FY20E, which is likely to keep its order book stable at ~Rs.30bn. Current bid pipeline is ~Rs.35bn.
- ✓ Including SDB, Gujarat with 88% has highest share in the order book of Rs.29.8bn, followed by Maharashtra (~5%), Karnataka (~5%) and Rajasthan (~2%). With robust order pipeline outside Gujarat as well, the management is actively looking ahead to diversify its presence.
- ✓ Contribution of top 5 projects (including SDB project) in the overall order book stood at ~65%. Average ticket size has moved up from ~Rs.90mn in FY13 to Rs.429mn in FY19.
- ✓ According to the management, the execution has picked up pace in the SDB project. Out of total 9 towers to be constructed, the company has completed construction of 13 floors in 5 towers and 8 floors in 4 towers. The management expects revenue of ~Rs.7.5bn from SDB project during FY20.
- ✓ Backed by the company's robust order book position and improving execution capabilities, the management has guided for ~30% topline growth during FY20. Given the current mix of order book, margins likely to remain in the range of 12-14%.
- ✓ The construction of two houses in Livermore (USA) is on the verge of completion, and will be available for sale by June-end. The company expects revenue of ~US\$ 3mn from the project sale (on its total investment of ~US\$ 2.4mn).
- ✓ The company has incurred capex of Rs.490mn in FY19. Going forward, capex would be broadly in the range of 3-4% of gross orders.

## Exhibit 4: Financial Summary (Standalone)

Y/e 31 Mar (Rs m)	FY16	FY17	FY18	FY19
Revenues	4,580	4,008	7,298	10,440
yoy growth (%)	63.3	(12.5)	82.1	43.0
Operating profit	393	659	1,014	1,489
OPM (%)	8.6	16.5	13.9	14.3
Adjusted PAT	249	416	644	902
yoy growth (%)	77.4	66.8	54.8	40.2
EPS (Rs)	6.9	11.6	17.9	25.1
P/E (x)	72.5	43.5	28.1	20.0
EV/EBITDA (x)	44.3	26.6	15.7	10.8
Debt/Equity (x)	0.7	0.6	0.1	0.1
RoE (%)	44.3	48.2	31.4	26.8

Source: Company, YES Sec - Research

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Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

**BUY > 15%**

**ADD 5% to 15%**

**HOLD -15% to +5%**

**SELL > - 15%**

**NOT RATED**

**UNDER REVIEW**

**POSITIVE:** Positive is rating given to stocks we like but yet to be formally included in our coverage universe.

**NEGATIVE:** Negative is rating given to stocks yet to be formally included in our coverage universe, but we find valuations expensive vis-a-vis fundamentals.

**NEUTRAL:** Neutral rating is given to stocks that are not under our formal coverage yet, but we find current valuation fairly representing fundamentals.

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