

PSP Projects

BUY

Order accretion remains key

We maintain BUY on PSP with an increased TP of Rs 579/sh (vs Rs 550 earlier). We have upgraded our FY21E Rev/EBITDA/APAT estimate by 4.4/4.4/5.2%.

HIGHLIGHTS OF THE QUARTER

- In-line execution:** PSP reported in-line 4QFY19 execution at Rs 3.4bn (+28/30% YoY/QoQ). Led by strong 14.8% margins (ahead of the 12-14% guidance band), it posted a 15% APAT beat. Interest expense is low at Rs 32mn (+7/39% YoY/QoQ) as PSP remains net cash. PSP avails short term funding against FD facility.
- Order book robust** – PSP has added orders worth ~Rs 6bn (~Rs 14bn in FY19) taking the order book to Rs 29.8bn (a healthy 2.9x FY19 book to bill). We believe PSP is likely to exceed its conservative ~Rs 15bn inflow guidance for FY20E given it is already in the final stages of securing ~Rs 2.5bn apart from being in the fray for ~Rs 35bn worth of works including 2 large projects in Barmer (Rs 17bn – residential colony for Vedanta) and Jamnagar (Rs 7.5bn)
- SDB Project update:** SDB accounted for ~Rs 1.2bn of 4QFY19's revenue. With a pending contract value of ~Rs 11.6bn, PSP expects to clock ~Rs 7-8bn here in FY20E.

- Update on consolidated operations:** While the metro depot project (partnership) is on the verge of completion (~Rs 550mn execution in FY19), the Gift City project has been paused due to delay of payments (~6-7 months, ~Rs 70mn revenue booked in FY19). In USA – sales in the Livermore project are expected by Jun-end (~Rs \$ 3mn revenue potential vs \$ 2.4mn cost incurred) whereas the San Francisco project is still a while away (~\$ 25mn revenue potential).

STANCE

PSP is maxing out on execution at current order book levels of Rs 30bn. It needs to replenish its order book and increase the average size of new order wins. Tailwinds provided by the SDB project execution augurs well for meeting qualification requirements of large government/private orders. PSP needs to increase its share of order book in the Mumbai/Bengaluru regions and reduce reliance on Gujarat. We believe further re-rating is contingent on this successful transformation. We maintain BUY. Key risks (1) Delay in diversification; (2) Slow private capex recovery; and (3) High interest rates.

Financial Summary (Standalone)

YE March (Rs mn)	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)	FY18	FY19P	FY20E	FY21E
Net Revenues	3,383	2,637	28.3	2,611	29.6	7,298	10,441	14,057	16,012
EBIT	499	363	37.5	368	35.6	1,014	1,490	1,893	2,157
APAT	301	230	31.0	215	40.1	649	902	1,119	1,302
Diluted EPS (Rs)	8.4	6.4	31.0	6.0	40.1	18	25	31	36
P/E (x)						28.0	20.2	16.2	14.0
EV / EBITDA (x)						15.8	10.9	8.8	7.3
RoE (%)						31.7	26.8	26.8	25.2

Source: Company, HDFC sec Inst Research

INDUSTRY	INFRASTRUCTURE
CMP (as on 27 May 2019)	Rs 505
Target Price	Rs 579
Nifty	11,925
Sensex	39,683

KEY STOCK DATA

Bloomberg	PSPPL IN
No. of Shares (mn)	36
MCap (Rs bn) / (\$ mn)	18/260
6m avg traded value (Rs mn)	15

STOCK PERFORMANCE (%)

52 Week high / low	Rs 540/358		
	3M	6M	12M
Absolute (%)	25.0	30.2	(4.4)
Relative (%)	14.5	18.4	(18.0)

SHAREHOLDING PATTERN (%)

	Dec-18	Mar-19
Promoters	73.28	73.28
FIs & Local MFs	6.16	6.43
FPIs	1.16	1.17
Public & Others	19.40	19.12
Pledged Shares	-	-

Source : BSE

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Revenue: Rs 3.4bn (+28/30% YoY/QoQ, in line)

Led by strong 14.8% margins (ahead of the 12-14% guidance band), it posted a 15% APAT beat

Interest continues to remain low at Rs 32mn (+7/39% YoY/QoQ) as PSP is net cash with any short term funding taken against FD facility

Standalone Quarterly Financials

Particulars (Rs mn)	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)	FY19	FY18	YoY (%)
Net Revenues	3,383	2,637	28.3	2,611	29.6	10,441	7,298	43.1
Material Expenses	(2,733)	(2,160)	26.5	(2,113)	29.3	(8,406)	(5,890)	42.7
Employee Expenses	(117)	(85)	37.8	(107)	9.3	(432)	(286)	50.9
Other Expenses	(34)	(29)	16.5	(23)	47.8	(113)	(109)	3.9
EBITDA	499	363	37.5	368	35.6	1,490	1,014	47.0
Depreciation	(74)	(43)	72.5	(62)	19.4	(242)	(112)	115.9
EBIT	425	320	32.8	306	38.9	1,248	901	38.4
Interest Cost	(32)	(30)	7.0	(23)	39.1	(92)	(87)	6.5
Other Income	66	59	12.8	48	37.5	229	183	24.9
PBT	459	349	31.6	331	38.7	1,385	998	38.7
Tax	(158)	(119)	32.8	(116)	36.2	(483)	(354)	36.4
RPAT	301	230	31.0	215	40.1	902	649	40.0

Source: Company, HDFC sec Inst Research

Margin Analysis

	4QFY19	4QFY18	YoY (bps)	3QFY19	QoQ (bps)	FY19	FY18	YoY (%)
Material Expenses % Net Sales	80.8	81.9	(111.9)	80.9	(14.5)	80.5	80.7	(19.1)
Employee Expenses % Net Sales	3.5	3.2	23.9	4.1	(64.0)	4.1	3.9	21.5
Other Operating Expenses % Net Sales	1.0	1.1	(10.2)	0.9	12.4	1.1	1.5	(40.8)
EBITDA Margin (%)	14.8	13.8	98.3	14.1	66.1	14.3	13.9	38.4
Tax Rate (%)	34.4	34.1	29.8	35.1	(63.5)	34.9	35.5	(60.9)
APAT Margin (%)	8.9	8.7	18.5	8.2	66.8	8.6	8.8	(18.6)

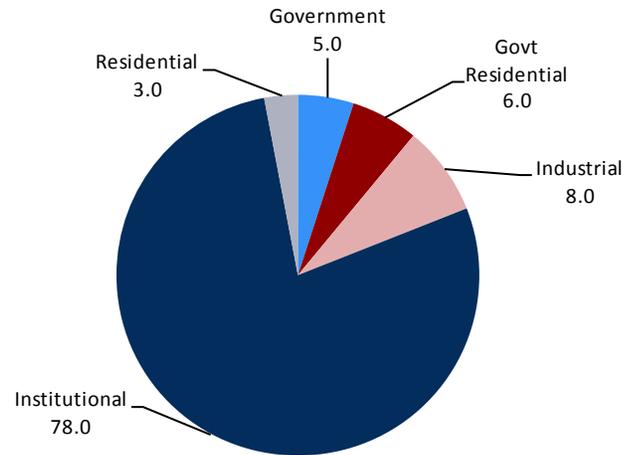
Source: Company, HDFC sec Inst Research

Order book is concentrated towards institutional projects with projects ranging from corporate houses, hospitals and educational institutes.

Gujarat continues to dominate the backlog with 88 % share led by the diamond bourse project in Surat (39%)

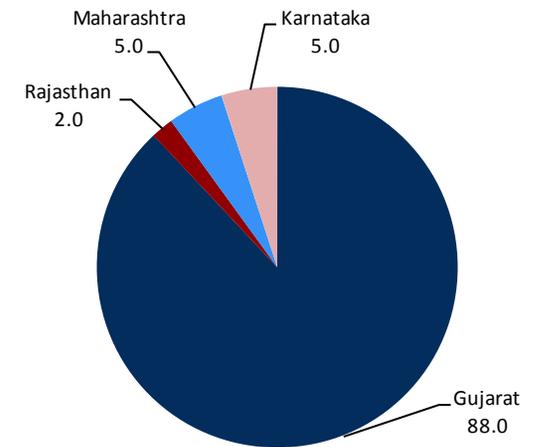
In FY19 PSP made its first breakthrough in Maharashtra with a 1.8bn affordable housing project in Pandharpur

Order Book (Segment Wise) – 4QFY19 (%)



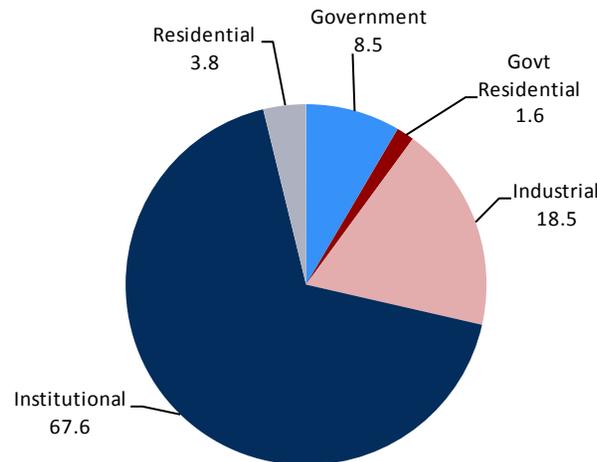
Source : Company, HDFC sec Inst Research

Order Book (State Wise) – 4QFY19 (%)



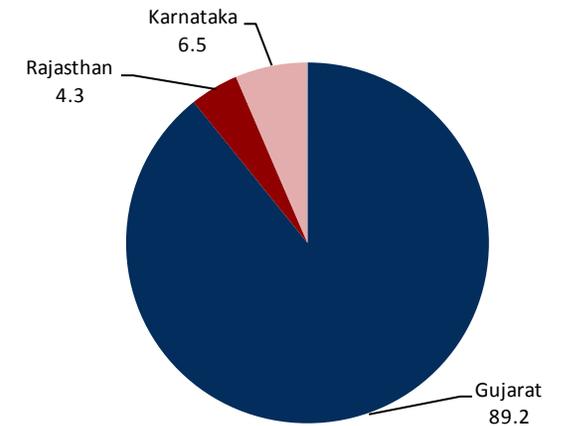
Source : Company, HDFC sec Inst Research

Revenue (Segment Wise) – 4QFY19 (%)



Source : Company, HDFC sec Inst Research

Revenue (State Wise) – 4QFY19 (%)



Source : Company, HDFC sec Inst Research

Order book to grow at a CAGR of 16.5% over FY19-21E

Revenue to grow at a CAGR of 23.8% over FY19-21E aided by the marquee SDB project.

EBITDA margins will stabilize at 13.5%

APAT will grow by 20.1% CAGR over FY19-21E

Key Assumptions And Estimates (Standalone)

Key Assumptions	FY20E	FY21E	Comments
Closing order book	35,723	39,711	Order book to grow at a CAGR of 16.5% over FY19-21E
Order book growth (%)	20%	11%	
New order booking	20,000	20,000	
Book to bill ratio	2.5	2.5	
Total Revenue	14,057	16,012	Revenue to grow at a CAGR of 23.8% over FY19-21E aided by the marquee SDB project
Growth (%)	34.6	13.9	
EBIDTA	1,893	2,157	EBITDA to grow at a CAGR of 20.3% over FY19-21E
EBIDTA margin (%)	13.5	13.5	EBITDA margins will be stable at 13.5%.
Depreciation	290	307	In line with increased capex requirements to support execution ramp up.
Financial Charges	112	119	
PBT	1,718	1,999	Significant generation of other non operating income from fixed deposits to result in double digit PBT margins
PBT margin (%)	12.2	12.5	
Tax	599.2	697.2	
Tax rate (%)	34.9	34.9	Company operates at a full tax rate and the same is expected to continue over FY19-21E
RPAT	1,119	1,302	
Net margin (%)	8.0	8.1	
Extraordinary	-	-	
Adjusted PAT	1,119	1,302	APAT will grow by 20.1% CAGR over FY19-21E
Gross Block Turnover	7.8	7.8	
Debtor days	53	53	
CFO - a	724	1,435	
CFI - b	(858)	(225)	
FCF - a+b	499	1,185	
CFF - c	191	(304)	
Total change in cash - a+b+c	56	906	

Source: HDFC sec Inst Research

Outlook And Valuation

Maintain BUY With An Increased Target Price Of Rs 579/sh (vs Rs 550/sh earlier)

Valuation methodology

- We have valued PSP at 16x (based on our multi factor rating framework) one-year forward Mar-21E EPS. Our rationale behind this is (1) Strong growth potential led by the Diamond bourse project, (2) Robust FY19 order backlog of Rs 29.8bn (2.9x FY19 revenue), (2) Net cash company and gross debt to continue to remain low, and (3) PSP getting repeat orders from dairy and pharma clients demonstrating its execution quality.
- Investment in the building segment would remain robust on the back of institutional and industrial demand in addition to NBCC, CPWD and private capex in the segment. PSP will benefit from the strong demand in and around GIFT city and areas like Surat and Ahmedabad where it already enjoys a strong recall.
- PSP reiterated that it will remain selective while bidding for projects outside Gujarat (will limit to a max 30% share) as it expects decent opportunities to keep cropping up in its home state.
- We maintain a BUY rating. We value PSP at Rs 579/share (16x one-year forward Mar-21E EPS).

We rate PSP as BUY with a TP of Rs 579/share (16x one year forward Mar-21E EPS) vs Rs 550/sh earlier

Valuation

Particulars	Segments	Value (Rs mn)	Value per share(Rs)	Rationale
EPC	Core construction business	20,831	579	At 16x Mar-21E EPS
Total		20,831	579	

Source: HDFC sec Inst Research

Change in estimates

Rs mn	FY21E Old	FY21E New	% Change
Revenues	15,336	16,012	4.4
EBIDTA	2,066	2,157	4.4
EBIDTA Margins (%)	13.5	13.5	0
APAT	1,237	1,302	5.2

Source: HDFC sec Inst Research

We have upgraded our FY21E Rev/EBITDA/APAT by 4.4/4.4/5.2%

We summarize the valuations of the core EPC operations of our coverage universe and excluding the value of the asset portfolio, land and any other investment

Peer Set Comparison: Core EPC

COMPANY	MCap (Rs bn)	CMP (Rs)	RECO	TP (Rs)	Adj. EPS (Rs/sh)			P/E (x)			EV/EBITDA (x)			ROE (%)		
					FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Dilip Buildcon	84.2	616	BUY	737	55.6	53.1	51.9	9.0	9.5	9.7	6.4	5.7	5.4	26.9	20.4	16.7
NCC	69.1	115	BUY	170	10.4	10.6	10.8	10.3	10.1	9.9	5.7	5.2	4.8	13.8	12.5	11.4
PNC Infratech	48.0	187	BUY	339	9.1	13.6	15.8	14.6	9.8	8.4	8.1	5.8	4.9	11.9	15.3	15.4
Sadbhav Engineering	45.3	264	BUY	382	14.4	16.3	19.6	12.2	10.8	9.0	9.3	7.6	6.7	11.8	11.9	12.6
KNR Constructions	40.1	285	BUY	336	11.4	16.3	15.4	19.7	13.8	14.7	8.6	6.9	6.2	12.8	15.4	12.5
Ashoka Buildcon	40.7	145	BUY	261	11.5	10.9	12.7	6.3	6.6	5.7	5.3	4.7	4.1	15.5	13.0	13.5
Ahluwalia Contracts	24.5	366	BUY	443	18.9	23.2	26.9	18.6	15.2	13.1	9.4	7.6	6.3	18.5	18.9	18.3
ITD Cementation *	19.8	115	NEU	118	4.8	7.1	7.9	23.7	16.2	14.6	7.6	7.8	7.1	10.2	11.3	11.3
JMC Projects	24.7	147	BUY	164	8.5	8.6	9.3	14.4	14.2	13.2	8.1	7.0	6.2	16.6	14.5	13.7
HG Infra	18.9	290	BUY	462	19.0	25.7	29.6	13.5	10.0	8.7	6.4	4.9	4.2	20.6	22.4	20.8
Capacite Infra	18.6	274	BUY	351	14.1	16.7	22.6	19.7	15.7	11.6	7.4	6.2	5.0	12.0	12.7	15.1
PSP Projects	18.2	505	BUY	579	25.1	31.1	36.2	20.2	16.2	14.0	10.9	8.8	7.3	26.8	26.8	25.2
J. Kumar Infraprojects	12.9	171	BUY	335	22.0	26.6	33.5	7.8	6.4	5.1	4.0	3.3	2.7	10.6	11.7	13.4
Average								14.6	11.9	10.6	7.5	6.3	5.4	16.0	15.9	15.4

Source: Company, HDFC sec Inst Research *ITD Cementation FY19E/FY20E should be read as 15MFY19E/FY20E

Income Statement(Standalone)

Year ending March (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Net Revenues	4,008	7,298	10,441	14,057	16,012
Growth (%)	-12.5	82.1	43.1	34.6	13.9
Material Expenses	3,047	5,912	8,406	11,461	13,054
Employee Expenses	208	286	432	562	640
Other Operating Expenses	95	86	113	141	160
EBIDTA	658	1,014	1,490	1,893	2,157
EBIDTA (%)	16.4	13.9	14.3	13.5	13.5
EBIDTA Growth (%)	67.3	54.2	46.9	27.1	14.0
Depreciation	76	112	242	290	307
EBIT	582	902	1,248	1,603	1,850
Other Income (Incl. EO Items)	134	184	229	227	269
Interest	75	87	92	112	119
PBT	640	999	1,385	1,718	1,999
Tax	226	355	483	599	697
RPAT	414	644	902	1,119	1,302
EO items (net of tax)	2	6	-	-	-
APAT	416	649	902	1,119	1,302
APAT Growth (%)	64.9	56.0	38.9	24.1	16.3
EPS	14.5	18.0	25.1	31.1	36.2
EPS Growth (%)	(81.7)	24.8	38.9	24.1	16.3

Source: Company, HDFC sec Inst Research

Balance Sheet (Standalone)

As at March (Rs mn)	FY17	FY18	FY19P	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital	288	360	360	360	360
Reserves	783	2,667	3,354	4,271	5,339
Total Shareholders Funds	1,071	3,027	3,714	4,631	5,699
Minority Interest	-	-	-	-	-
Long Term Debt	34	17	4	4	4
Short Term Debt	644	199	246	750	800
Total Debt	677	216	250	754	804
Deferred Taxes	(15)	(18)	(49)	(49)	(49)
TOTAL SOURCES OF FUNDS	1,733	3,225	3,915	5,337	6,454
APPLICATION OF FUNDS					
Net Block	508	770	1,032	967	909
CWIP	-	18	-	-	-
Investments, LT Loans & Advances	664	911	894	1,755	1,999
Total Non-current Assets	1,171	1,699	1,926	2,721	2,908
Inventories	30	335	750	770	877
Debtors	533	1,162	1,426	2,022	2,303
Cash & Equivalents	1,159	2,384	2,217	2,273	3,178
Other Current Assets	238	255	938	1,348	1,535
Total Current Assets	1,960	4,136	5,331	6,413	7,894
Creditors	693	1,213	1,585	1,926	2,193
Other Current Liabilities & Provns	705	1,398	1,757	1,872	2,155
Total Current Liabilities	1,398	2,611	3,342	3,798	4,348
Net Current Assets	561	1,525	1,989	2,615	3,546
Misc Expenses & Others	-	-	-	-	-
TOTAL APPLICATION OF FUNDS	1,733	3,225	3,915	5,337	6,454

Source: Company, HDFC sec Inst Research

Cash Flow (Standalone)

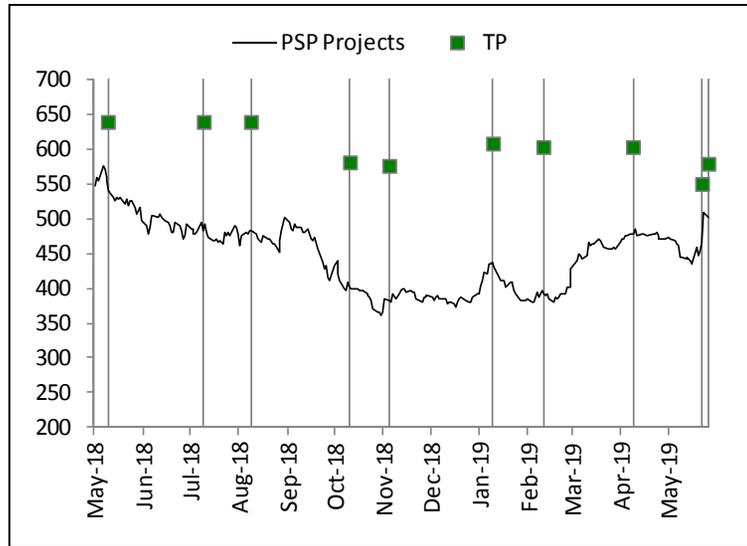
Year ending March (Rs mn)	FY17	FY18	FY19P	FY20E	FY21E
PBT	639	999	1,385	1,718	1,999
Non-operating & EO items	(69)	(178)	(229)	(227)	(269)
Interest expenses	7	46	92	112	119
Depreciation	76	112	242	290	307
Working Capital Change	(497)	145	(650)	(570)	(25)
Tax paid	(145)	(409)	(483)	(599)	(697)
OPERATING CASH FLOW (a)	11	716	357	724	1,435
Capex	(71)	(475)	(495)	(225)	(250)
Free cash flow (FCF)	(60)	241	(139)	499	1,185
Investments + Investment Income	(9)	178	246	(633)	25
INVESTING CASH FLOW (b)	(80)	(296)	(249)	(858)	(225)
Share capital Issuance	-	1,421	(52)	-	-
Debt Issuance	215	(461)	33	504	50
Interest expenses	(55)	(46)	(92)	(112)	(119)
Dividend + Other Misc	-	(108)	(162)	(201)	(234)
FINANCING CASH FLOW (c)	160	805	(273)	191	(304)
NET CASH FLOW (a+b+c)	90	1,225	(166)	56	906
Closing Cash & Equivalents	1,159	2,384	2,217	2,273	3,178

Source: Company, HDFC sec Inst Research

Key Ratios (Standalone)

Year ending March	FY17	FY18	FY19P	FY20E	FY21E
PROFITABILITY (%)					
GPM	24.0	19.0	19.5	18.5	18.5
EBITDA Margin	16.4	13.9	14.3	13.5	13.5
EBIT Margin	14.5	12.4	12.0	11.4	11.6
APAT Margin	10.4	8.9	8.6	8.0	8.1
RoE	48.2	31.7	26.8	26.8	25.2
Core RoCE	(419.3)	327.1	101.1	79.8	94.3
RoCE	26.8	21.9	24.6	22.3	21.4
EFFICIENCY					
Tax Rate (%)	35.3	35.6	34.9	34.9	34.9
Asset Turnover (x)	4.9	6.1	6.1	7.3	7.4
Inventory (days)	3	17	26	20	20
Debtors (days)	49	58	50	53	53
Payables (days)	63	61	55	50	50
Other Current Assets (days)	22	13	33	35	35
Other Current Liab (days)	64	70	61	49	49
Net Working Capital Cycle (Days)	(54)	(43)	(8)	9	8
Debt/EBITDA (x)	1.0	0.2	0.2	0.4	0.4
Net D/E	(0.4)	(0.7)	(0.5)	(0.3)	(0.4)
Interest Coverage	7.7	10.4	13.6	14.3	15.5
PER SHARE DATA					
EPS (Rs/sh)	14.5	18.0	25.1	31.1	36.2
CEPS (Rs/sh)	17.1	21.1	31.8	39.1	44.7
DPS (Rs/sh)	0.0	3.0	4.5	5.6	6.5
BV (Rs/sh)	37	84	103	129	158
VALUATION					
P/E	34.9	28.0	20.2	16.2	14.0
P/BV	13.6	6.0	4.9	3.9	3.2
EV/EBITDA	21.4	15.8	10.9	8.8	7.3
OCF/EV (%)	0.0	0.0	0.0	0.0	0.1
FCF/EV (%)	(0.4)	1.5	(0.9)	3.0	7.5
FCFE/Market Cap (%)	0.7	(1.5)	(1.1)	4.9	6.1
Dividend Yield (%)	0.0	0.6	0.9	1.1	1.3

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY


Date	CMP	Reco	Target
10-May-18	560	BUY	639
10-Jul-18	495	BUY	639
10-Aug-18	482	BUY	639
11-Oct-18	408	BUY	581
6-Nov-18	382	BUY	576
10-Jan-19	436	BUY	608
11-Feb-19	396	BUY	603
9-Apr-19	479	BUY	603
23-May-19	457	BUY	550
28-May-19	505	BUY	579

Rating Definitions

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

INSTITUTIONAL RESEARCH

Disclosure:

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