

# PSP Projects

BUY

## INDUSTRY INFRASTRUCTURE

**CMP (as on 9 Aug 2018)** Rs 482

**Target Price** Rs 639

Nifty 11,471

Sensex 38,024

### KEY STOCK DATA

Bloomberg PSPPL IN

No. of Shares (mn) 36

MCap (Rs bn) / (\$ mn) 17/253

6m avg traded value (Rs mn) 22

### STOCK PERFORMANCE (%)

**52 Week high / low** Rs 596/303

3M 6M 12M

Absolute (%) (13.7) (6.7) 51.7

Relative (%) (21.4) (18.5) 32.1

### SHAREHOLDING PATTERN (%)

Promoters 72.44

FIs &amp; Local MFs 8.43

FPIs 1.21

Public &amp; Others 17.92

Source : BSE

### Parikshit D Kandpal

parikshitd.kandpal@hdfcsec.com

+91-22-6171-7317

### Kunal Bhandari

kunal.bhandari@hdfcsec.com

+91-22-6639-3035

## Marginal miss

PSP's 1QFY19 revenue of Rs 2.3bn (+50.6%YoY, -11.0% QoQ) was largely driven by the SDB project (~Rs 830mn). EBITDA margin came in at 14%, about 100bps higher than management guidance. Change in project mix (SDB still in initial stage where material cost is significantly higher than labour) was key reason.

PSP has won Rs 520mn orders in 1QFY19 with further Rs 1.7bn in Jul-18 (including Rs 320mn for WTC in subsidiary). Order book is now Rs 25.8bn (including Jul-18 wins of Rs 1.7bn). Though this provides sufficient revenue visibility (3.5x FY18 revenue), PSP will need to add some big ticket orders to sustain its targeted growth rate.

PSP has won Rs 2.3bn order YTD FY19 and is targeting total Rs 10bn+ inflows for FY19E. PSP may bid for Education Institutions IIT/IIMs. We expect PSP's order book/APAT to grow ~1.2/2.0x over FY18-20E. We maintain a BUY with a TP of Rs 639/sh (18x Mar-20E EPS).

### Financial Summary (Standalone)

Year Ending March (Rs mn)	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)	FY17	FY18	FY19E	FY20E
Net Sales	2,347	1,558	50.6	2,637	(11.0)	4,008	7,298	12,845	17,354
EBITDA	329	199	65.4	363	(9.4)	658	1,014	1,570	2,058
APAT	210	136	55.0	230	(8.6)	416	649	998	1,278
Diluted EPS (Rs)	5.8	3.8	55.0	6.4	(8.6)	14	18	28	36
P/E (x)						33.3	26.7	17.4	13.6
EV / EBITDA (x)						20.2	15.0	9.8	7.3
RoE (%)						47.9	31.7	28.4	28.2

Source: Company, HDFC sec Inst Research

### Highlights of the Quarter

- **Gujarat dominance to continue:** Gujarat accounts for 91.6% of the order book. While management intends to diversify in other geographies (esp. South) and a couple of big ticket projects in the pipeline, focus will continue towards GIFT (1<sup>st</sup> mover advantage) Ahmedabad and Surat areas. SDL is currently L1 in Rs 4.5bn commercial project in South but is yet to hear from client on project finalization or award.
- **Southern market foray needs breakthrough:** Almost 92% of the order book is from Gujarat. PSP is badly looking at a Southern breakthrough. Lack of new launches, presence of established players and no historical track record poses high entry barrier. Turnaround remains key trigger for further re-rating.
- **Near-term outlook:** With (1) Strong Revenue visibility, (2) Ramp-up in execution capabilities, (3) Healthy balance sheet, (4) Consistent ~13% EBITDA margins expected and (5) Expected order inflows; makes us constructive on the stock.

**1QFY19 revenue was 16.9% below estimates at Rs 2.3bn (+50.6%YoY, -11.0% QoQ)**

**1QFY19 EBITDA came in at Rs 329mn (+65.4% YoY, -9.4% QoQ) which was 4.7% below estimates**

**PSP reported PAT of Rs 210mn which was 4.3% below our estimates**

**PSP has posted stellar EBITDA margins of 14.0% for 1QFY19 (+125bps YoY, +25bps QoQ) due to the mix of projects in differing stages (SDB still in initial stage where material cost is significantly higher than labour)**

### Standalone Quarterly Financials

Particulars (Rs mn)	1QFY19	1QFY18	YoY (%)	4QFY18	QoQ (%)
<b>Net Revenues</b>	<b>2,347</b>	<b>1,558</b>	<b>50.6</b>	<b>2,637</b>	<b>(11.0)</b>
Material Expenses	(1,891)	(1,250)	51.3	(2,160)	(12.4)
Employee Expenses	(100)	(60)	67.1	(85)	17.7
Other Expenses	(27)	(50)	(45.5)	(29)	(7.2)
<b>EBITDA</b>	<b>329</b>	<b>199</b>	<b>65.4</b>	<b>363</b>	<b>(9.4)</b>
Depreciation	(48)	(18)	162.2	(43)	12.2
<b>EBIT</b>	<b>281</b>	<b>181</b>	<b>55.5</b>	<b>320</b>	<b>(12.3)</b>
Interest Cost	(15)	(14)	7.1	(30)	(51.3)
Other Income	61	41	48.3	59	4.1
<b>PBT</b>	<b>327</b>	<b>208</b>	<b>57.3</b>	<b>349</b>	<b>(6.2)</b>
Tax	(117)	(72)	61.6	(119)	(1.6)
<b>RPAT</b>	<b>210</b>	<b>136</b>	<b>55.0</b>	<b>230</b>	<b>(8.6)</b>

Source: Company, HDFC sec Inst Research

### Margin Analysis

	1QFY19	1QFY18	YoY (bps)	4QFY18	QoQ (bps)
Material Expenses % Net Sales	80.6	80.2	37.1	81.9	(133.4)
Employee Expenses % Net Sales	4.3	3.8	41.8	3.2	103.7
Other Operating Expenses % Net Sales	1.2	3.2	(203.9)	1.1	4.8
<b>EBITDA Margin (%)</b>	<b>14.0</b>	<b>12.8</b>	<b>125.0</b>	<b>13.8</b>	<b>25.0</b>
Tax Rate (%)	35.8	34.8	95.5	34.1	166.7
<b>APAT Margin (%)</b>	<b>9.0</b>	<b>8.7</b>	<b>25.0</b>	<b>8.7</b>	<b>23.8</b>

Source: Company, HDFC sec Inst Research

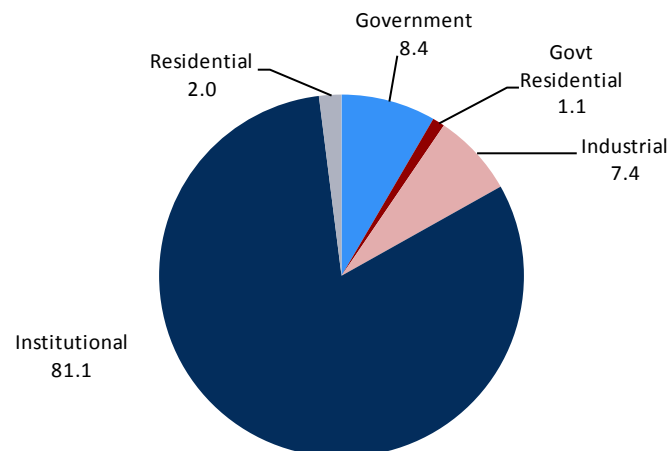
**Order book is concentrated towards institutional projects with projects ranging from corporate houses, hospitals and educational institutes.**

**Gujarat continues to dominate the backlog with a 91.6% share led by the diamond bourse project. PSP may look at incremental bidding in Southern India.**

**Outside Gujarat focus would be on smaller projects with ~Rs 1bn size vs. ~ Rs 2-2.5bn single projects in Gujarat.**

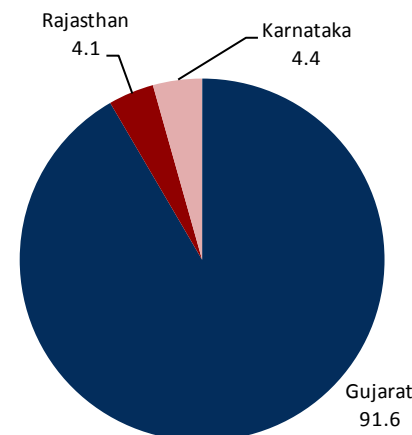
**EBITDA margins expected to remain around 12-13% given the order book composition of projects with materials included**

### Segmental Mix Order Book – 1QFY19 (%)



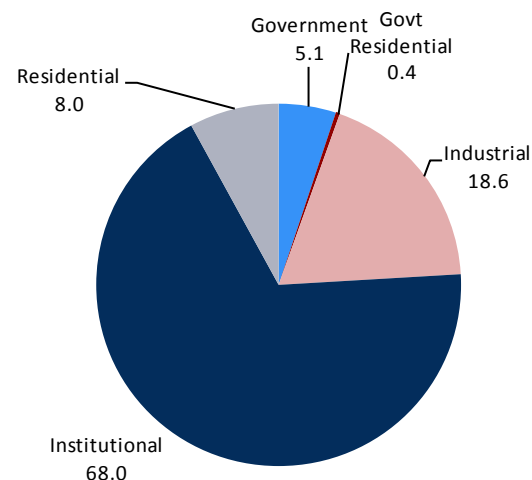
Source : Company, HDFC sec Inst Research

### Geographical Mix Order Book – 1QFY19 (%)



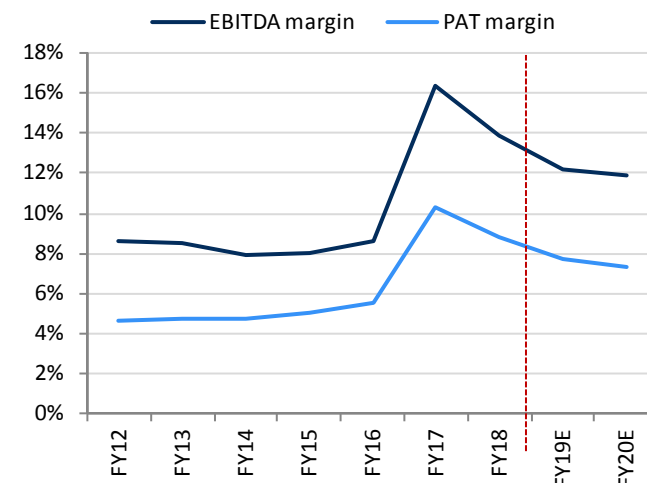
Source : Company, HDFC sec Inst Research

### Revenue Mix – 1QFY19 (%)



Source : Company, HDFC sec Inst Research

### EBITDA And PAT Margins (%)



Source : Company, HDFC sec Inst Research

**Order book to grow at a CAGR of 9.1% over FY18-20E**

**Revenue to grow at a CAGR of 54.2% over FY18-20E aided by the marquee Diamond Bourse project**

**EBITDA margins will stabilize between the 12-13% range**

**APAT will grow by 40.3% CAGR over FY18-20E**

### Key Assumptions And Estimates (Standalone)

Key Assumptions	FY19E	FY20E	Comments
Closing order book	23,745	30,391	Order book to grow at a CAGR of 9.1% over FY18-20E
Order book growth (%)	-7%	28%	
New order booking	11,000	24,000	
Book to bill ratio	1.8	1.8	
Total Revenue	12,845	17,354	Revenue to grow at a CAGR of 54.2% over FY18-20E aided by the marquee Diamond Bourse project.
Growth (%)	76.0	35.1	
EBIDTA	1,570	2,058	EBITDA to grow at a CAGR of 42.5% over FY18-20E
EBIDTA margin (%)	12.2	11.9	EBITDA margins will be stable between 12-13% range.
Depreciation	176	228	Increased Capex to increase execution ramp up will significantly increase depreciation charge.
Financial Charges	113	131	
PBT	1,559	1,997	Significant generation of other non operating income from fixed deposits to result in double digit PBT margins
PBT margin (%)	12.1	11.5	
Tax	561.4	719.0	
Tax rate (%)	36.0	36.0	Company operates at a full tax rate and the same is expected to continue over FY18-20E
RPAT	998	1,278	
Net margin (%)	7.8	7.4	
Extraordinary	-	-	
Adjusted PAT	998	1,278	APAT will grow by 40.3% CAGR over FY18-20E
Gross Block Turnover	8.1	8.4	
Debtor days	52	53	
CFO - a	173	895	As debtor days stabilize to ~50-55 days over FY19-20E, CFO to increase significantly in FY20E led by double digit EBITDA margins
CFI - b	(357)	(151)	We expect significant investment in capex to continue as PSP witnesses increased execution demand.
FCF - a+b	(463)	445	
CFF - c	418	(291)	
Total change in cash - a+b+c	234	452	

Source: HDFC sec Inst Research

***We rate PSP as BUY with a TP of Rs 639/share (18x one year forward Mar-20E EPS)***

## Outlook And Valuation

### Target Price Of Rs 639/sh

#### Valuation methodology

- We have valued PSP at 18x one-year forward Mar-20E EPS. This is in line with other players like Ahluwalia. Our rationale behind this is (1) Strong growth potential led by the Diamond bourse project, (2) Robust FY18 order backlog of Rs 23.0bn (3.2x FY18E revenue), (2) Net cash company and gross debt to continue to remain low, and (4) PSP getting repeat orders from dairy and pharma clients demonstrate 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.
- We maintain a BUY rating. We value the PSP at Rs 639/share (18x one-year forward Mar-20E EPS).

#### Valuation

Particulars	Segments	Value (Rs mn)	Value per share(Rs)	Rationale
EPC	Core construction business	23,005	639	At 18x Mar20E EPS
<b>Total</b>		<b>23,005</b>	<b>639</b>	

Source: HDFC sec Inst Research

## 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 (%)		
					FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Dilip Buildcon	112.8	825	BUY	1,434	46.5	63.1	68.5	16.9	12.4	11.5	9.6	7.8	6.2	14.6	14.4	14.6
IRB Infra Developers	70.1	200	BUY	328	22.6	29.1	26.7	3.7	4.4	3.4	3.7	3.8	3.1	30.3	25.3	30.9
NCC	60.1	100	BUY	159	5.2	5.8	7.7	17.4	15.4	11.6	8.6	8.0	6.7	4.2	3.5	3.8
Sadbhav Engineering	47.8	279	BUY	438	12.9	15.4	16.6	10.4	8.7	8.0	9.1	7.0	5.5	11.8	12.5	12.0
PNC Infratech	42.4	165	BUY	322	4.1	8.7	10.5	26.6	11.0	7.4	10.9	7.3	4.9	6.2	13.2	16.9
Ashoka Buildcon	40.4	144	BUY	348	(5.9)	6.5	7.4	7.9	7.7	7.6	6.4	6.2	5.8	12.8	12.3	11.1
KNR Constructions	33.2	236	BUY	385	13.6	11.5	13.8	12.5	14.8	11.2	6.6	6.8	5.3	18.7	12.8	14.4
ITD Cementation*	24.2	141	BUY	211	6.1	10.8	12.3	23.0	15.6	12.0	10.3	7.2	6.1	16.2	17.9	16.8
Ahluwalia Contracts	21.6	322	BUY	486	17.3	22.2	25.3	17.9	13.9	12.2	9.0	7.3	6.2	20.5	21.4	19.9
J. Kumar Infraprojects	17.8	236	BUY	415	18.1	22.2	27.7	13.1	10.6	8.5	7.1	5.4	4.8	9.4	10.7	12.2
JMC Projects	18.3	545	BUY	844	31.6	33.4	39.9	13.3	12.6	10.5	7.0	6.6	5.6	14.4	13.3	14.0
<b>PSP Projects</b>	<b>17.3</b>	<b>482</b>	<b>BUY</b>	<b>639</b>	<b>18.0</b>	<b>27.7</b>	<b>35.5</b>	<b>26.7</b>	<b>17.4</b>	<b>13.6</b>	<b>14.9</b>	<b>9.8</b>	<b>7.3</b>	<b>31.7</b>	<b>28.4</b>	<b>28.2</b>
HG Infra	15.9	245	NR	NR	12.9	19.6	24.7	18.9	12.5	9.9	8.8	5.7	4.7	23.5	21.1	21.5
<b>Average (Core EPC)</b>					<b>15.6</b>	<b>21.2</b>	<b>24.4</b>	<b>16.0</b>	<b>12.1</b>	<b>9.8</b>	<b>8.6</b>	<b>6.8</b>	<b>5.5</b>	<b>16.5</b>	<b>15.9</b>	<b>16.6</b>

Source: Company, HDFC sec Inst Research \*ITD Cementation FY19E/FY20E should be read as 15MFY19E/FY20E , 8<sup>th</sup> August 2018 Prices

## Change in estimates (Standalone)

Rs mn	FY19E		% Change	FY20E		% Change
	New	Old		New	Old	
Revenues	12,845	12,845	-	17,354	17,354	-
EBIDTA	1,570	1,570	-	2,058	2,058	-
APAT	998	998	-	1,278	1,278	-
Adj. EPS (INR)	28	28	-	36	36	-

Source: HDFC sec Inst Research

*There has been no change in our estimates*

## Income Statement (Standalone)

Year ending March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
<b>Net Revenues</b>	<b>4,580</b>	<b>4,008</b>	<b>7,298</b>	<b>12,845</b>	<b>17,354</b>
<b>Growth (%)</b>	<b>63.3</b>	<b>(12.5)</b>	<b>82.1</b>	<b>76.0</b>	<b>35.1</b>
Material Expenses	1,902	1,270	2,705	4,692	6,376
Labour/Subcontracting/Employee Expenses	2,147	1,985	3,494	6,230	8,399
Other Operating Expenses	137	95	86	353	521
<b>EBIDTA</b>	<b>393</b>	<b>658</b>	<b>1,014</b>	<b>1,570</b>	<b>2,058</b>
<b>EBIDTA (%)</b>	<b>8.6</b>	<b>16.4</b>	<b>13.9</b>	<b>12.2</b>	<b>11.9</b>
<b>EBIDTA Growth (%)</b>	<b>75.4</b>	<b>67.3</b>	<b>54.2</b>	<b>54.8</b>	<b>31.1</b>
Depreciation	71	76	112	176	228
<b>EBIT</b>	<b>322</b>	<b>582</b>	<b>902</b>	<b>1,394</b>	<b>1,830</b>
Other Income (Incl. EO Items)	103	134	184	279	299
Interest	31	75	87	113	131
<b>PBT</b>	<b>394</b>	<b>640</b>	<b>999</b>	<b>1,559</b>	<b>1,997</b>
Tax	142	226	355	561	719
<b>RPAT</b>	<b>252</b>	<b>414</b>	<b>644</b>	<b>998</b>	<b>1,278</b>
EO items (net of tax)	-	2	6	-	-
<b>APAT</b>	<b>252</b>	<b>416</b>	<b>649</b>	<b>998</b>	<b>1,278</b>
<b>APAT Growth (%)</b>	<b>79.6</b>	<b>64.9</b>	<b>56.0</b>	<b>53.7</b>	<b>28.1</b>
<b>EPS</b>	<b>8.8</b>	<b>14.5</b>	<b>18.0</b>	<b>27.7</b>	<b>35.5</b>
<b>EPS Growth (%)</b>	<b>79.6</b>	<b>64.9</b>	<b>24.8</b>	<b>53.7</b>	<b>28.1</b>

Source: Company, HDFC sec Inst Research

## Balance Sheet (Standalone)

As at March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
<b>SOURCES OF FUNDS</b>					
Share Capital	32	288	360	360	360
Reserves	629	788	2,667	3,651	4,699
<b>Total Shareholders Funds</b>	<b>661</b>	<b>1,076</b>	<b>3,027</b>	<b>4,011</b>	<b>5,059</b>
Minority Interest	-	-	-	-	-
Long Term Debt	10	34	17	34	34
Short Term Debt	433	625	178	680	750
<b>Total Debt</b>	<b>444</b>	<b>658</b>	<b>195</b>	<b>714</b>	<b>784</b>
Deferred Taxes	(9)	(11)	(18)	(11)	(11)
<b>TOTAL SOURCES OF FUNDS</b>	<b>1,096</b>	<b>1,723</b>	<b>3,203</b>	<b>4,714</b>	<b>5,832</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	522	518	770	1,230	1,452
CWIP	-	-	18	-	-
Investments, LT Loans & Advances	50	76	911	496	896
<b>Total Non-current Assets</b>	<b>572</b>	<b>593</b>	<b>1,699</b>	<b>1,726</b>	<b>2,347</b>
Inventories	40	30	335	528	713
Debtors	104	533	1,162	1,812	2,496
Cash & Equivalents	1,064	1,250	2,384	2,617	3,069
ST Loans & Advances, Others	242	460	62	1,056	1,284
Other Assets	257	275	193	534	719
<b>Total Current Assets</b>	<b>1,706</b>	<b>2,548</b>	<b>4,137</b>	<b>6,547</b>	<b>8,282</b>
Creditors	694	693	1,213	1,760	2,377
Other Current Liabilities & Provns	489	724	1,420	1,799	2,420
<b>Total Current Liabilities</b>	<b>1,183</b>	<b>1,418</b>	<b>2,633</b>	<b>3,559</b>	<b>4,797</b>
<b>Net Current Assets</b>	<b>524</b>	<b>1,130</b>	<b>1,504</b>	<b>2,988</b>	<b>3,485</b>
Misc Expenses & Others	-	-	-	-	-
<b>TOTAL APPLICATION OF FUNDS</b>	<b>1,096</b>	<b>1,723</b>	<b>3,203</b>	<b>4,714</b>	<b>5,832</b>

Source: Company, HDFC sec Inst Research

### Cash Flow (Standalone)

Year ending March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
PBT	394	639	999	1,559	1,997
Non-operating & EO items	(72)	(69)	(184)	(279)	(299)
Interest expenses	1	7	87	113	131
Depreciation	71	76	112	176	228
Working Capital Change	136	(497)	(76)	(835)	(444)
Tax paid	(118)	(145)	(355)	(561)	(719)
<b>OPERATING CASH FLOW ( a )</b>	<b>411</b>	<b>11</b>	<b>583</b>	<b>173</b>	<b>895</b>
Capex	(258)	(71)	(382)	(636)	(450)
Free cash flow (FCF)	153	(60)	201	(463)	445
Investments	38	87	184	279	299
<b>INVESTING CASH FLOW ( b )</b>	<b>(220)</b>	<b>16</b>	<b>(198)</b>	<b>(357)</b>	<b>(151)</b>
Share capital Issuance	-	-	1,584	-	-
Debt Issuance	114	215	(464)	519	70
Interest expenses	(17)	(55)	(87)	(113)	(131)
Dividend + Other Misc	(72)	-	(285)	12	(230)
<b>FINANCING CASH FLOW ( c )</b>	<b>25</b>	<b>160</b>	<b>748</b>	<b>418</b>	<b>(291)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>216</b>	<b>186</b>	<b>1,133</b>	<b>234</b>	<b>452</b>
Closing Cash & Equivalents	1,064	1,250	2,383	2,617	3,069

Source: Company, HDFC sec Inst Research

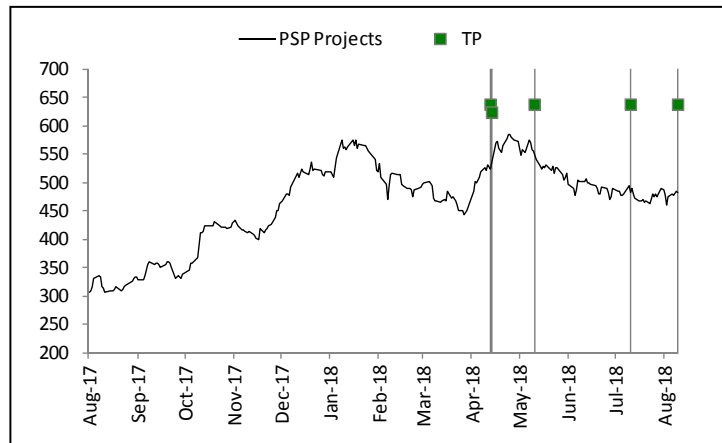
### Key Ratios (Standalone)

Year ending March	FY16	FY17	FY18	FY19E	FY20E
<b>PROFITABILITY (%)</b>					
GPM	58.5	68.3	62.9	63.5	63.3
EBITDA Margin	8.6	16.4	13.9	12.2	11.9
EBIT Margin	7.0	14.5	12.4	10.9	10.5
APAT Margin	5.5	10.4	8.9	7.8	7.4
RoE	44.7	47.9	31.7	28.4	28.2
Core RoCE	(1,153.5)	94.6	78.2	55.7	62.7
RoCE	24.8	27.0	22.0	22.7	23.4
<b>EFFICIENCY</b>					
Tax Rate (%)	36.0	35.3	35.6	36.0	36.0
Asset Turnover (x)	6.0	4.8	5.5	7.0	7.6
Inventory (days)	3	3	17	15	15
Debtors (days)	8	49	58	52	53
Payables (days)	55	63	61	50	50
Other Current Assets (days)	40	67	13	45	42
Other Current Liab (days)	39	66	71	51	51
Net Working Capital Cycle (Days)	(43)	(11)	(44)	11	9
Debt/EBITDA (x)	1.1	1.0	0.2	0.5	0.4
Net D/E	(0.9)	(0.5)	(0.7)	(0.5)	(0.5)
Interest Coverage	10.5	7.7	10.4	12.3	14.0
<b>PER SHARE DATA</b>					
EPS (Rs/sh)	8.8	14.5	18.0	27.7	35.5
CEPS (Rs/sh)	11.2	17.1	21.1	32.6	41.8
DPS (Rs/sh)	0.1	0.0	0.2	(0.0)	0.2
BV (Rs/sh)	23	37	84	111	141
<b>VALUATION</b>					
P/E	55.0	33.3	26.7	17.4	13.6
P/BV	21.0	12.9	5.7	4.3	3.4
EV/EBITDA	33.7	20.2	15.0	9.8	7.3
OCF/EV (%)	3.1	0.0	0.0	0.0	0.1
FCF/EV (%)	1.2	(0.5)	1.3	(3.0)	3.0
FCFE/Market Cap (%)	1.8	0.7	(2.0)	(0.3)	2.2
Dividend Yield (%)	0.0	0.0	0.0	(0.0)	0.0

Source: Company, HDFC sec Inst Research



## RECOMMENDATION HISTORY



Date	CMP	Reco	Target
12-Apr-18	522	BUY	639
14-Apr-18	536	BUY	625
10-May-18	560	BUY	639
10-Jul-18	495	BUY	639
10-Aug-18	482	BUY	639

### 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

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**HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066**

**Compliance Officer: Binkle R. Oza Email: [complianceofficer@hdfcsec.com](mailto:complianceofficer@hdfcsec.com) Phone: (022) 3045 3600**

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