

An efficient player with strong fundamentals

PSP reported 50.4% YoY growth in revenue to ₹2.1 bn (2.6% below estimates) led by robust execution particularly in SDB project worth ₹560 mn. Excluding SDB, revenue up 10.3% YoY to ₹1.5bn. EBITDA margin expanded by 64bps YoY to 14.0% (116bps above estimates), primarily led by lower other expenses which was partially offset by higher construction and employee expense. PAT grew by 38.7% YoY to ₹176 mn (4.0% above estimates) led by robust operating performance.

Order book at 2.9x, enhances revenue visibility

PSP standalone received orders worth ₹25.4 bn/ ₹4.32 bn during FY18/ YTD FY19. The current order book (₹25.8 bn) provides revenue visibility for 2.9x TTM revenue. Excluding SDB project, orderbook stands at ₹12.0 bn. We expect SDB's revenue contribution of 45.7%/ 47.8% in FY19E/ FY20E from 9.5% in FY18. PSP has bid for ₹30 bn projects which includes 5-7 projects worth ₹3.5-4 bn each. PSP is also L1 in 6-7 projects (2 sizeable) where LOA to be announced very soon. Considering sizeable opportunity and L1, we factored ₹12 bn/ ₹14.4 bn fresh inflow for FY19E/ FY20E.

Net cash company coupled with efficient working capital

With its conservative strategy towards leverage and efficient capital allocation, PSP will continue to remain net cash company with negative Net D:E of 0.6x over FY18-20E. Though, it maintained negative NWC days (excl. cash), we factored higher average NWC days of 12 over FY18-20E.

Outlook and Valuation

We broadly maintain our revenue and PAT estimates for FY19E/ FY20E. However, we upgrade our EBITDA margin by 70/ 32 bps for FY19E/ FY20E considering H1FY19. We expect 51.6%/ 43.6% revenue/ PAT CAGR over FY18-20E with EBITDA margins of 13.5%/ 13.3% for FY19E/ FY20E.

PSP will continue to witness superior return ratios (average RoE/ RoCE of 29.3%/ 25.9% over FY18-20E) led by strong PAT growth, well managed lean balance sheet and efficient working capital management. With one of the best revenue and PAT CAGR, return ratios and FA turnover among peers over FY18-20E, we maintain 'BUY' with a TP of ₹590 (16x FY20E EPS).

Q2FY19 Result (₹ Mn)

Particulars	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)
Revenue	2,099	1,396	50.4	2,347	(10.6)
Total Expense	1,806	1,209	49.3	2,017	(10.5)
EBITDA	294	186	57.6	330	(11.0)
Depreciation	58	23	153.4	48	20.3
EBIT	236	164	44.2	282	(16.3)
Other Income	54	52	4.7	61	(10.8)
Interest	23	20	13.0	15	56.0
EBT	267	195	44.2	328	(18.5)
Tax	92	69	33.8	117	(21.6)
RPAT	176	127	38.7	211	(16.7)
APAT	176	127	38.7	211	(16.7)
			(bps)		(bps)
Gross Margin (%)	20.5	20.8	(28)	19.5	104
EBITDA Margin (%)	14.0	13.4	64	14.1	(6)
NPM (%)	8.4	9.1	(71)	9.0	(62)
Tax Rate (%)	34.4	35.2	(81)	35.7	(138)
EBIT Margin (%)	11.2	11.7	(48)	12.0	(77)

CMP	₹ 382
Target / Upside	₹ 590 / 54%
BSE Sensex	34,951
NSE Nifty	10,524

Scrip Details

Equity / FV	₹ 360mn / ₹ 10
Market Cap	₹ 14bn
	US\$ 188mn
52-week High/Low	₹ 595/₹ 358
Avg. Volume (no)	34,689
NSE Symbol	PSPPROJECT
Bloomberg Code	PSPPL IN

Shareholding Pattern Sep'18(%)

Promoters	73.0
MF/Banks/FIs	7.5
FII's	1.3
Public / Others	18.3

Valuation (x)

	FY18A	FY19E	FY20E
P/E	21.4	14.6	10.4
EV/EBITDA	11.4	7.3	4.9
ROE (%)	31.4	27.9	30.8
RoACE (%)	23.5	24.3	27.6

Estimates (₹ mn)

	FY18A	FY19E	FY20E
Revenue	7,298	11,810	16,783
EBITDA	1,014	1,595	2,235
PAT	644	944	1,327
EPS (₹)	17.9	26.2	36.9

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Risk to our valuation

Higher dependence on SDB project

PSP's current order book as on Q2FY19 has SDB as single largest project worth ₹15.2bn representing 53.5% of total order book. Any delay or cost overrun in this project compared to our estimates will negatively impact its revenue and profitability.

Higher exposure in Gujarat

Though, PSP has started diversifying in other states namely Karnataka, Rajasthan & Delhi and set a target of 30% revenue outside Gujarat, Gujarat contributes 84.4%/ 85.8% for Q2FY19 revenue/ order book. In case of any adversity in the region, its performance would be adversely impacted.

Delay in order intake

Postponement in capex by private and government sectors will lead to a delay in the awarding of orders to PSP, negatively impacting its revenue and profitability.

Continuity of growth beyond FY20

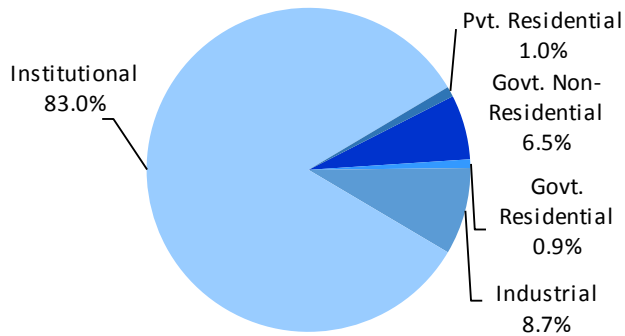
PSP needs to have higher profitable order inflows compared to our estimates to sustain strong revenue and PAT growth beyond FY20.

Exhibit 1: Q2FY19 Performance (Standalone)

Particulars (₹ mn)	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)	1HFY19	1HFY18	YoY (%)
Revenue	2,099	1,396	50.4	2,347	(10.6)	4,447	2,954	50.6
(Inc)/dec in stocks & WIP	(126)	48	-	91	-	(36)	(24)	-
Cons. of Raw materials	848	569	49.0	1,073	(20.9)	1,921	1,313	46.3
Sub - contract	376	165	127.1	245	53.4	621	332	87.1
Construction expenses	571	323	77.0	482	18.5	1,053	734	43.5
Employees cost	108	67	60.1	100	7.8	208	127	63.3
Other expenditure	29	36	(20.3)	27	6.9	56	86	(34.9)
Total expenditure	1,806	1,209	49.3	2,017	(10.5)	3,823	2,568	48.9
EBITDA	294	186	57.6	330	(11.0)	624	385	61.8
Depreciation	58	23	153.4	48	20.3	106	41	157.1
Operating profit	236	164	44.2	282	(16.3)	518	344	50.4
Other income	54	52	4.7	61	(10.8)	115	93	24.0
EBIT	290	215	34.7	343	(15.3)	633	437	44.8
Interest	23	20	13.0	15	56.0	37	34	10.5
EBT	267	195	37.0	328	(18.5)	596	403	47.6
Provision for taxation	92	69	33.8	117	(21.6)	209	141	48.2
Net income	176	127	38.7	211	(16.7)	386	262	47.4
EPS (₹)	4.9	3.5	38.7	5.9	(16.7)	10.7	7.3	47.4
			(bps)		(bps)			
EBIDTA Margin (Excl. O.I.)	14.0	13.4	64	14.1	(6)	14.0	13.1	98
EBIDTA Margin (Incl. O.I.)	16.6	17.1	(49)	16.7	(7)	16.6	16.2	42
NPM (%)	8.2	8.7	(60)	8.8	(60)	8.5	8.6	(14)
Tax/PBT (%)	34.4	35.2	(81)	35.7	(138)	35.1	35.0	12
Construction/Sales (%)	79.5	79.2	28	80.5	(104)	80.0	79.7	31

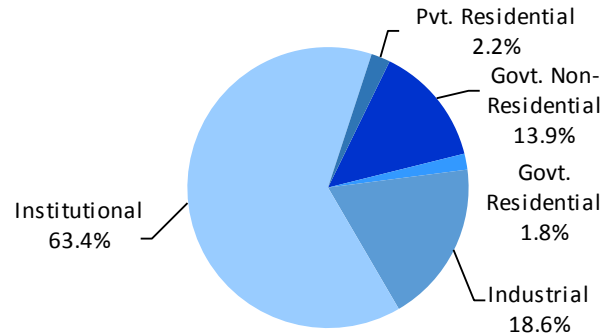
Source: Company, DART

Exhibit 2: ₹25.8 bn OB break up



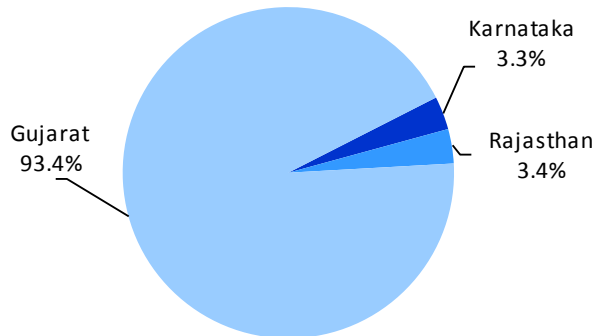
Source: DART, Company

Exhibit 3: ₹12.0 bn OB break up (excl SDB)



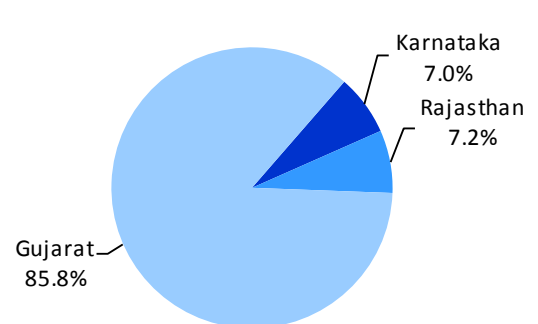
Source: DART, Company

Exhibit 4: ₹25.8 bn OB geographic break up



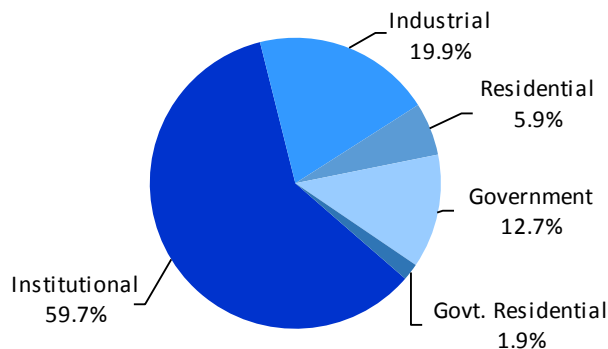
Source: DART, Company

Exhibit 5: ₹12.0 bn OB geographic break up (excl SDB)



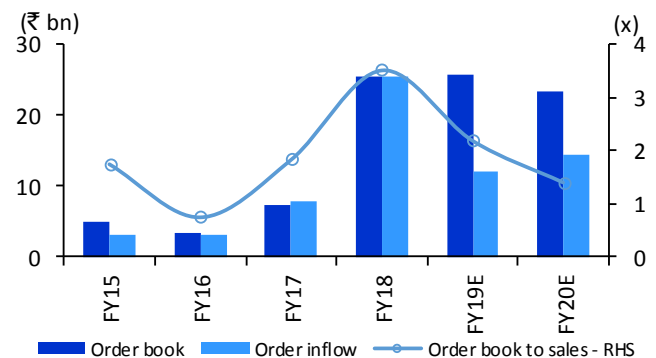
Source: DART, Company

Exhibit 6: ₹2.1 bn revenue break up

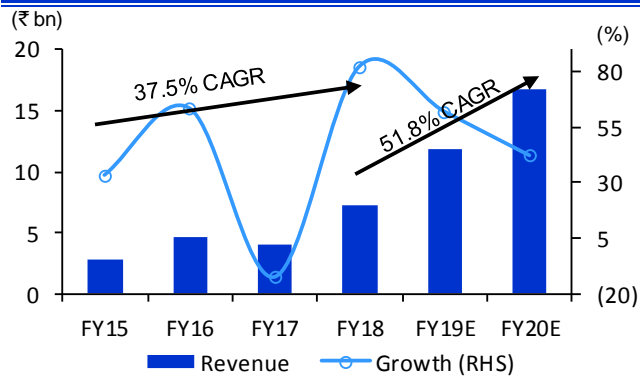


Source: DART, Company

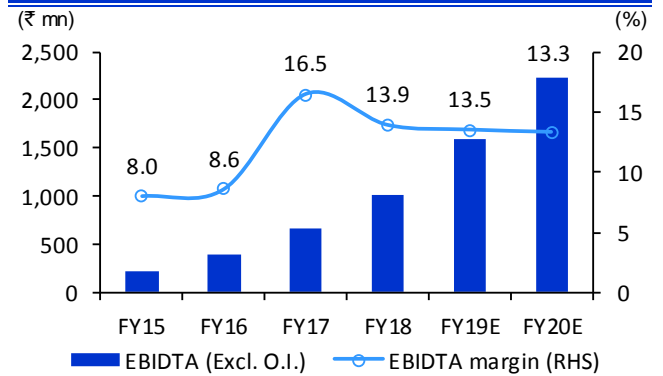
Exhibit 7: Order book trend (Standalone)



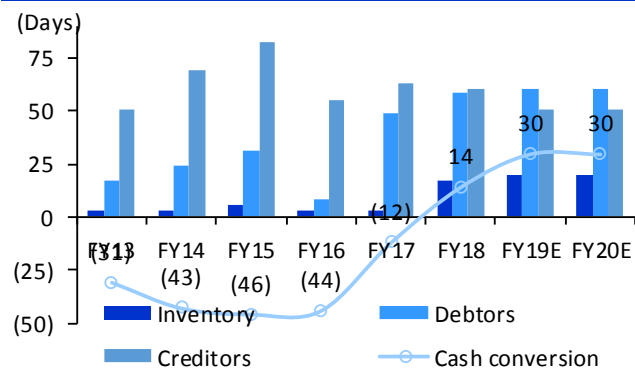
Source: DART, Company

Exhibit 8: 51.8% revenue CAGR over FY18-20E


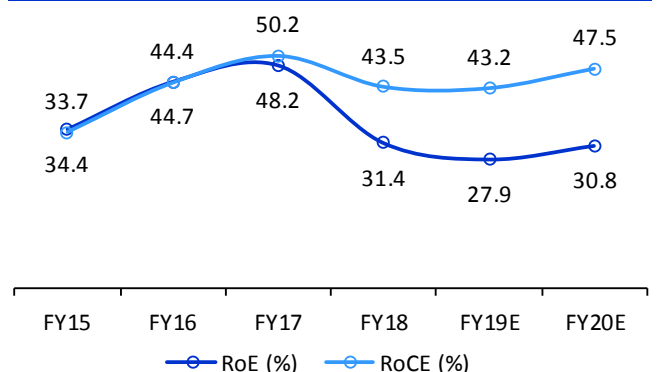
Source: DART, Company

Exhibit 9: Factored lower EBITDA margin


Source: DART, Company

Exhibit 10: Efficient cash conversion


Source: DART, Company

Exhibit 11: Superior return ratios to continue


Source: DART, Company

Profit and Loss Account

(₹ Mn)	FY17A	FY18A	FY19E	FY20E
Revenue	4,008	7,298	11,810	16,783
Total Expense	3,348	6,284	10,214	14,548
COGS	3,047	5,912	9,645	13,762
Employees Cost	208	286	458	641
Other expenses	93	86	112	145
EBIDTA	659	1,014	1,595	2,235
Depreciation	76	112	232	293
EBIT	584	902	1,364	1,942
Interest	75	87	90	90
Other Income	134	184	202	222
Exc. / E.O. items	0	0	0	0
EBT	642	999	1,476	2,074
Tax	226	355	531	747
RPAT	416	644	944	1,327
APAT	416	644	944	1,327

Balance Sheet

(₹ Mn)	FY17A	FY18A	FY19E	FY20E
Sources of Funds				
Equity Capital	288	360	360	360
Minority Interest	0	0	0	0
Reserves & Surplus	783	2,667	3,394	4,505
Net Worth	1,071	3,027	3,754	4,865
Total Debt	677	216	250	250
Net Deferred Tax Liability	(15)	(18)	(40)	(60)
Total Capital Employed	1,733	3,225	3,964	5,055

Applications of Funds

Net Block	508	770	1,137	1,443
CWIP	0	18	20	20
Investments	76	77	77	77
Current Assets, Loans & Advances	2,548	4,971	6,304	8,571
Inventories	30	335	650	923
Receivables	533	1,162	1,949	2,769
Cash and Bank Balances	1,018	2,232	2,335	3,000
Loans and Advances	164	248	409	582
Other Current Assets	662	842	962	1,296
Less: Current Liabilities & Provisions	1,399	2,611	3,573	5,056
Payables	693	1,213	1,634	2,328
Other Current Liabilities	705	1,398	1,939	2,729
Net Current Assets	1,149	2,360	2,731	3,514
Total Assets	1,733	3,225	3,964	5,055

E – Estimates

Important Ratios

Particulars	FY17A	FY18A	FY19E	FY20E
(A) Margins (%)				
Gross Profit Margin	24.0	19.0	18.3	18.0
EBIDTA Margin	16.5	13.9	13.5	13.3
EBIT Margin	14.6	12.4	11.5	11.6
Tax rate	35.2	35.6	36.0	36.0
Net Profit Margin	10.4	8.8	8.0	7.9
(B) As Percentage of Net Sales (%)				
COGS	76.0	81.0	81.7	82.0
Employee	5.2	3.9	3.9	3.8
Other	2.3	1.2	0.9	0.9
(C) Measure of Financial Status				
Gross Debt / Equity	0.6	0.1	0.1	0.1
Interest Coverage	7.8	10.4	15.2	21.6
Inventory days	3	17	20	20
Debtors days	49	58	60	60
Average Cost of Debt	13.3	19.5	38.6	36.0
Payable days	63	61	51	51
Working Capital days	105	118	84	76
FA T/O	7.9	9.5	10.4	11.6
(D) Measures of Investment				
AEPS (₹)	11.6	17.9	26.2	36.9
CEPS (₹)	13.7	21.0	32.7	45.0
DPS (₹)	0.0	3.0	6.0	6.0
Dividend Payout (%)	0.0	16.8	22.9	16.3
BVPS (₹)	29.7	84.1	104.3	135.1
RoANW (%)	48.2	31.4	27.9	30.8
RoACE (%)	26.7	23.5	24.3	27.6
RoAIC (%)	133.7	105.7	104.1	105.4
(E) Valuation Ratios				
CMP (₹)	382	382	382	382
P/E	33.0	21.4	14.6	10.4
Mcap (₹ Mn)	13,747	13,747	13,747	13,747
MCap/ Sales	3.4	1.9	1.2	0.8
EV	13,265	11,579	11,661	10,996
EV/Sales	3.3	1.6	1.0	0.7
EV/EBITDA	20.1	11.4	7.3	4.9
P/BV	12.8	4.5	3.7	2.8
Dividend Yield (%)	0.0	0.8	1.6	1.6
(F) Growth Rate (%)				
Revenue	(12.5)	82.1	61.8	42.1
EBITDA	67.9	53.8	57.3	40.1
EBIT	81.3	54.5	51.1	42.4
PBT	63.0	55.5	47.7	40.6
APAT	65.6	54.7	46.7	40.6
EPS	65.6	54.7	46.7	40.6

Cash Flow

(₹ Mn)	FY17A	FY18A	FY19E	FY20E
CFO	132	716	623	1,349
CFI	(218)	(307)	(247)	(378)
CFF	167	805	(273)	(307)
FCFF	74	241	23	749
Opening Cash	938	1,018	2,232	2,335
Closing Cash	1,018	2,232	2,335	3,000

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)*
Jun-18	Buy	658	482
Aug-18	Buy	658	483

*Price as on Recommendation Date

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