

INDUSTRY INFRASTRUCTURE
CMP (as on 11 Feb 2019) Rs 396
Target Price Rs 603

Nifty 10,889

Sensex 36,395

KEY STOCK DATA

Bloomberg PSPPL IN

No. of Shares (mn) 36

MCap (Rs bn) / (\$ mn) 14/200

6m avg traded value (Rs mn) 15

STOCK PERFORMANCE (%)
52 Week high / low Rs 596/358

3M 6M 12M

Absolute (%) 2.8 (18.1) (23.3)

Relative (%) (0.7) (14.2) (30.3)

SHAREHOLDING PATTERN (%)

Promoters 73.28

FIs & Local MFs 6.16

FPIs 1.16

Public & Others 19.40

Source : BSE

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Inline performance

With a large contribution of ~Rs 0.9bn revenue coming from SDB (~Rs 2.3bn in 9MFY19) PSP posted a strong 53/24% YoY/QoQ top line growth. Margins continued to remain at the upper end of the 12-14% guidance band. With no significant interest outgo, PAT came at Rs 215mn (+41/22% YoY/QoQ).

PSP's 9MFY19 order inflow stood at ~Rs 8bn (including an affordable housing project in Maharashtra worth Rs 1.8bn). Order book is now at Rs 27.0bn with management guiding for further ~Rs 3/15bn inflows in 4QFY19E/FY20E. Current bid pipeline at Rs 30bn includes 2 big projects (~Rs 5bn each) in Gujarat and Rajasthan (Private – Corporates) and remaining across 4-5 other projects.

PSP reiterated that it will bid selectively for projects outside Gujarat (will limit to a max 30% share) as ample opportunities remain in its home state. We have pruned revenue contribution from SDB by ~Rs 1bn in FY20E resulting in a 3% decline in FY20E EPS. Maintain BUY with a TP of Rs 603/sh (18x Dec-20E EPS).

Financial Summary (Standalone)

Year Ending March (Rs mn)	3QFY19	3QFY18	YoY (%)	2QFY19	QoQ (%)	FY18	FY19E	FY20E	FY21E
Net Sales	2,611	1,708	52.9	2,100	24.4	7,298	10,404	14,057	15,336
EBITDA	368	265	38.8	294	25.1	1,014	1,457	1,893	2,066
APAT	215	152	41.4	176	22.2	649	889	1,114	1,236
Diluted EPS (Rs)	6.0	4.2	41.4	4.9	22.2	18	25	31	34
P/E (x)						22.0	16.0	12.8	11.5
EV / EBITDA (x)						11.9	9.0	6.7	5.8
RoE (%)						31.7	26.2	26.4	23.9

Source: Company, HDFC sec Inst Research

Highlights of the Quarter

- Large wins remain elusive:** PSP didn't proceed with its ~Rs 5.4bn SRA order in Mumbai due to non agreement of conditions pertaining to advances and milestone payments. Though the bid pipeline is considerably strong (incl. 2 projects > Rs 5bn), PSP requires successful wins here (after missing out previously on large projects like IIT Hyderabad) to alleviate concerns regarding the growth visibility beyond FY20E.
- Balance Sheet remains strong:** PSP has one of the lowest leverage ratios vs. peers (drawdown of ~Rs 350/150mn against FD-OD/CC facilities. With one of the best NWC cycles (<10 days), ~Rs 1.1bn of FDs without lien and modest FY20E capex requirements, we estimate net D/E to reduce to (-0.4x) by FY21E.
- Near-term outlook:** Key positives (1) SDB project's execution ramp up in FY20E (~Rs 7-7.5bn revenue guidance), (2) A healthy balance sheet, (3) Consistent >13.5% EBITDA margins expected and (4) Expected order inflows; makes us constructive on the stock.

Results are largely in line with our estimate

Revenue: Rs 2.6bn (+53/24% YoY/QoQ)

Margins: 14.1% (-142/+9bps YoY/QoQ). Margin trajectory remains promising

Interest expense continues to remain extremely low at Rs 23mn (flat YoY/QoQ) as PSP remains a net cash with any short term funding taken against FD facility

We have cut our FY20E EPS estimate by 3% factoring the dip in guided revenue contribution from SDB by ~Rs 0.5-1bn

Standalone Quarterly Financials

Particulars (Rs mn)	3QFY19	3QFY18	YoY (%)	2QFY19	QoQ (%)	9MFY19	9MFY18	YoY (%)
Net Revenues	2,611	1,708	52.9	2,100	24.4	7,058	4,662	51.4
Material Expenses	(2,113)	(1,353)	56.2	(1,669)	26.6	(5,673)	(3,730)	52.1
Employee Expenses	(107)	(74)	44.6	(108)	(0.6)	(315)	(201)	56.4
Other Expenses	(23)	(16)	43.8	(29)	(20.4)	(79)	(80)	(0.7)
EBITDA	368	265	38.8	294	25.1	991	650	52.3
Depreciation	(62)	(28)	121.4	(58)	7.1	(168)	(69)	142.8
EBIT	306	237	29.1	236	29.6	823	581	41.6
Interest Cost	(23)	(23)	0.0	(23)	1.3	(60)	(57)	6.3
Other Income	48	32	50.0	54	(11.6)	163	125	30.6
PBT	331	246	34.5	268	23.6	926	649	42.6
Tax	(116)	(94)	23.4	(92)	26.4	(325)	(235)	38.2
RPAT	215	152	41.4	176	22.2	601	414	45.0

Source: Company, HDFC sec Inst Research

Margin Analysis

	3QFY19	3QFY18	YoY (bps)	2QFY19	QoQ (bps)	9MFY19	9MFY18	YoY (%)
Material Expenses % Net Sales	80.9	79.2	171.6	79.5	144.1	80.4	80.0	35.7
Employee Expenses % Net Sales	4.1	4.3	(23.5)	5.1	(103.2)	4.5	4.3	14.3
Other Operating Expenses % Net Sales	0.9	0.9	(5.6)	1.4	(49.6)	1.1	1.7	(58.8)
EBITDA Margin (%)	14.1	15.5	(142.6)	14.0	8.6	14.0	14.0	8.7
Tax Rate (%)	35.1	38.2	(315.3)	34.3	76.6	35.1	36.2	(111.4)
APAT Margin (%)	8.2	8.9	(67.0)	8.4	(14.8)	8.5	8.9	(37.3)

Source: Company, HDFC sec Inst Research

Change in estimates

Rs mn	FY19E Old	FY19E New	% Change	FY20E Old	FY20E New	% Change
Revenues	10,404	10,404	-	14,907	14,057	(5.7)
EBIDTA	1,412	1,457	3.2	1,977	1,893	(4.2)
EBIDTA Margins (%)	13.6	14.0	43	13.3	13.5	21
APAT	864	889	2.9	1,153	1,114	(3.4)

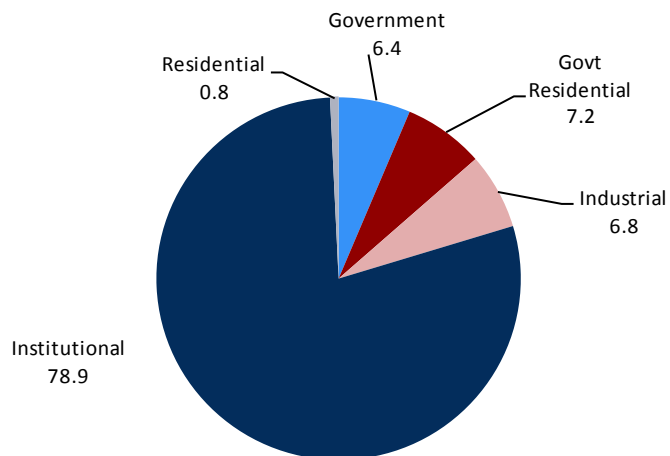
Source: HDFC sec Inst Research

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

Gujarat continues to dominate the backlog with 88.4% share led by the diamond bourse project in Surat (48%)

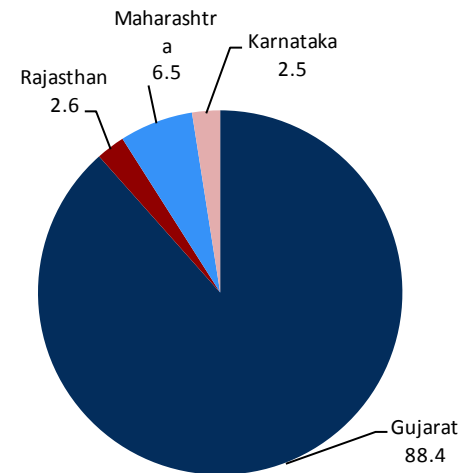
In 3QFY19 PSP made its first breakthrough in Maharashtra with a 1.8bn affordable housing project in Pandharpur

Order Book (Segment Wise) – 3QFY19 (%)



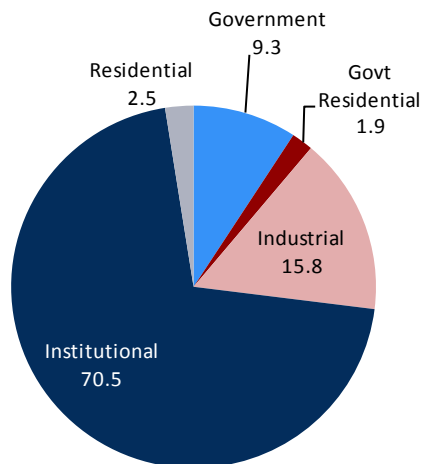
Source : Company, HDFC sec Inst Research

Order Book (State Wise) – 3QFY19 (%)



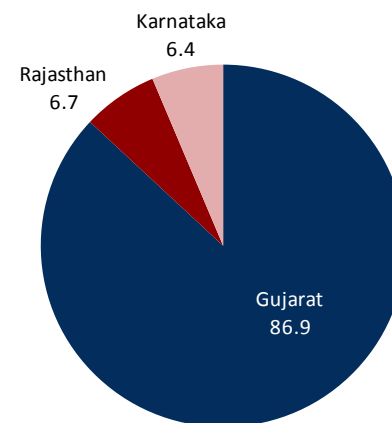
Source : Company, HDFC sec Inst Research

Revenue (Segment Wise) – 3QFY19 (%)



Source : Company, HDFC sec Inst Research

Revenue (State Wise) – 3QFY19 (%)



Source : Company, HDFC sec Inst Research

Order book to grow at a CAGR of 18.5% over FY19-21E

Revenue to grow at a CAGR of 21.4% over FY19-21E aided by the marquee SDB project.

EBITDA margins will stabilize between the 13.5-14% range

APAT will grow by 17.9% CAGR over FY19-21E

Key Assumptions And Estimates (Standalone)

Key Assumptions	FY19E	FY20E	FY21E	Comments
Closing order book	26,186	32,129	36,793	Order book to grow at a CAGR of 18.5% over FY19-21E
Order book growth (%)	2%	23%	15%	
New order booking	11,000	20,000	20,000	
Book to bill ratio	2.5	2.3	2.4	
Total Revenue	10,404	14,057	15,336	Revenue to grow at a CAGR of 21.4% over FY19-21E aided by the marquee SDB project.
Growth (%)	42.6	35.1	9.1	
EBIDTA	1,457	1,893	2,066	EBITDA to grow at a CAGR of 19.2% over FY19-21E
EBIDTA margin (%)	14.0	13.5	13.5	EBITDA margins will be stable between 13.5-14% range.
Depreciation	185	229	259	In line with increased capex requirements to support execution ramp up.
Financial Charges	93	137	145	
PBT	1,389	1,741	1,931	Significant generation of other non operating income from fixed deposits to result in double digit PBT margins
PBT margin (%)	13.4	12.4	12.6	
Tax	500.1	626.8	695.2	
Tax rate (%)	36.0	36.0	36.0	Company operates at a full tax rate and the same is expected to continue over FY19-21E
RPAT	889	1,114	1,236	
Net margin (%)	8.5	7.9	8.1	
Extraordinary	-	-	-	
Adjusted PAT	889	1,114	1,236	APAT will grow by 17.9% CAGR over FY19-21E
Gross Block Turnover	7.3	8.0	7.7	
Debtor days	52	53	53	
CFO - a	(136)	1,141	1,363	As debtor days stabilize to ~50-55 days over FY20-21E, CFO to increase significantly led by double digit EBITDA margins
CFI - b	(620)	(468)	(141)	
FCF - a+b	(578)	916	1,113	
CFF - c	244	(267)	(317)	
Total change in cash - a+b+c	(511)	406	906	

Source: HDFC sec Inst Research

We rate PSP as BUY with a TP of Rs 603/share (18x one year forward Dec-20E EPS)

Outlook And Valuation

Target Price Of Rs 603/sh

Valuation methodology

- We have valued PSP at 18x one-year forward Dec-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 9MFY19 order backlog of Rs 27.0bn (2.6x FY19E 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.

- Current bid pipeline is strong at Rs 30bn including 2 big ticket projects (~Rs 5bn each) in Gujarat and Rajasthan (Residential Colony for a Corporate).
- 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 the PSP at Rs 603/share (18x one-year forward Dec-20E EPS).

Valuation

Particulars	Segments	Value (Rs mn)	Value per share(Rs)	Rationale
EPC	Core construction business	21,696	603	At 18x Dec 20E EPS
Total		21,696	603	

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 (%)		
					FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
NCC	47.5	79	BUY	175	8.0	8.8	9.3	8.8	7.9	7.5	5.1	4.6	4.3	10.8	10.8	10.3
Dilip Buildcon	48.5	355	BUY	833	58.1	57.2	54.0	4.5	4.6	4.5	4.0	3.5	3.3	27.8	21.5	16.8
Sadbhav Engineering	30.9	180	BUY	449	16.0	16.9	18.8	3.8	3.6	3.2	4.6	3.7	3.3	13.0	12.1	12.0
PNC Infratech	37.2	145	BUY	312	8.7	13.9	14.1	10.5	6.6	6.0	6.3	4.4	3.8	11.6	16.0	14.1
Ashoka Buildcon *	31.7	113	BUY	262	10.2	10.4	10.6	4.0	4.0	3.6	3.8	3.4	3.0	14.0	12.6	11.6
KNR Constructions	28.1	200	BUY	336	11.6	15.0	15.4	12.1	9.3	9.1	5.7	4.5	3.8	13.0	14.3	12.8
Ahluwalia Contracts	17.6	263	BUY	487	21.1	25.1	26.8	11.8	10.0	9.3	5.7	4.7	4.1	20.4	19.9	17.7
ITD Cementation *	18.7	109	BUY	188	8.3	10.5	10.4	13.1	10.4	10.5	6.1	6.1	5.8	16.7	15.3	13.2
Capacite Infra	13.4	197	BUY	352	15.1	18.2	24.1	12.0	10.1	7.7	4.8	3.8	2.9	12.9	13.8	15.9
PSP Projects	14.3	396	BUY	603	24.7	30.9	34.3	16.0	12.8	11.5	9.0	6.7	5.8	26.2	26.4	23.9
JMC Projects	15.3	91	BUY	175	7.4	8.1	8.4	9.0	8.2	7.8	5.3	4.6	4.2	14.6	13.9	12.8
HG Infra	12.6	194	BUY	408	20.1	25.6	26.7	9.1	7.1	6.5	4.4	3.6	3.2	21.6	22.1	18.8
J. Kumar Infraprojects	9.7	128	BUY	298	20.3	23.7	25.2	6.3	5.4	5.1	3.5	3.0	2.8	9.8	10.6	10.4
Average								9.3	7.7	7.1	5.3	4.4	3.9	16.3	16.1	14.6

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	FY19E	FY20E	FY21E
Net Revenues	4,008	7,298	10,404	14,057	15,336
Growth (%)	-12.5	82.1	42.6	35.1	9.1
Material Expenses	3,047	5,912	8,410	11,461	12,503
Employee Expenses	208	286	423	562	613
Other Operating Expenses	95	86	114	141	153
EBIDTA	658	1,014	1,457	1,893	2,066
EBIDTA (%)	16.4	13.9	14.0	13.5	13.5
EBIDTA Growth (%)	67.3	54.2	43.6	30.0	9.1
Depreciation	76	112	185	229	259
EBIT	582	902	1,272	1,665	1,806
Other Income (Incl. EO Items)	134	184	210	213	269
Interest	75	87	93	137	145
PBT	640	999	1,389	1,741	1,931
Tax	226	355	500	627	695
RPAT	414	644	889	1,114	1,236
EO items (net of tax)	2	6	-	-	-
APAT	416	649	889	1,114	1,236
APAT Growth (%)	64.9	56.0	36.9	25.3	10.9
EPS	14.5	18.0	24.7	30.9	34.3
EPS Growth (%)	(81.7)	24.8	36.9	25.3	10.9

Source: Company, HDFC sec Inst Research

Balance Sheet (Standalone)

As at March (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital	288	360	360	360	360
Reserves	783	2,667	3,396	4,309	5,323
Total Shareholders' Funds	1,071	3,027	3,756	4,669	5,683
Minority Interest	-	-	-	-	-
Long Term Debt	34	17	34	34	34
Short Term Debt	644	199	680	750	800
Total Debt	677	216	714	784	834
Deferred Taxes	(15)	(18)	(11)	(11)	(11)
TOTAL SOURCES OF FUNDS	1,733	3,225	4,458	5,442	6,505
APPLICATION OF FUNDS					
Net Block	508	770	1,035	1,032	1,023
CWIP	-	18	18	18	18
Investments, LT Loans & Advances	664	911	1,299	1,755	1,914
Total Non-current Assets	1,171	1,699	2,352	2,805	2,955
Inventories	30	335	570	770	840
Debtors	533	1,162	1,468	2,022	2,206
Cash & Equivalents	1,159	2,384	1,872	2,278	3,184
Other Assets	238	255	998	1,348	1,471
Total Current Assets	1,960	4,136	4,908	6,418	7,700
Creditors	693	1,213	1,425	1,926	2,101
Other Current Liabilities & Provns	705	1,398	1,376	1,855	2,049
Total Current Liabilities	1,398	2,611	2,802	3,780	4,150
Net Current Assets	561	1,525	2,106	2,637	3,550
Misc Expenses & Others	-	-	-	-	-
TOTAL APPLICATION OF FUNDS	1,733	3,225	4,458	5,442	6,505

Source: Company, HDFC sec Inst Research

Cash Flow (Standalone)

Year ending March (Rs mn)	FY17	FY18	FY19E	FY20E	FY21E
PBT	639	999	1,389	1,741	1,931
Non-operating & EO items	(69)	(178)	(210)	(213)	(269)
Interest expenses	7	46	93	137	145
Depreciation	76	112	185	229	259
Working Capital Change	(497)	145	(1,092)	(125)	(7)
Tax paid	(145)	(409)	(500)	(627)	(695)
OPERATING CASH FLOW (a)	11	716	(136)	1,141	1,363
Capex	(71)	(475)	(442)	(225)	(250)
Free cash flow (FCF)	(60)	241	(578)	916	1,113
Investments + Investment Income	(9)	178	(178)	(243)	109
INVESTING CASH FLOW (b)	(80)	(296)	(620)	(468)	(141)
Share capital Issuance	-	1,421	-	-	-
Debt Issuance	215	(461)	497	70	50
Interest expenses	(55)	(46)	(93)	(137)	(145)
Dividend + Other Misc	-	(108)	(160)	(201)	(222)
FINANCING CASH FLOW (c)	160	805	244	(267)	(317)
NET CASH FLOW (a+b+c)	90	1,225	(511)	406	906
Closing Cash & Equivalents	1,158	2,383	1,872	2,278	3,184

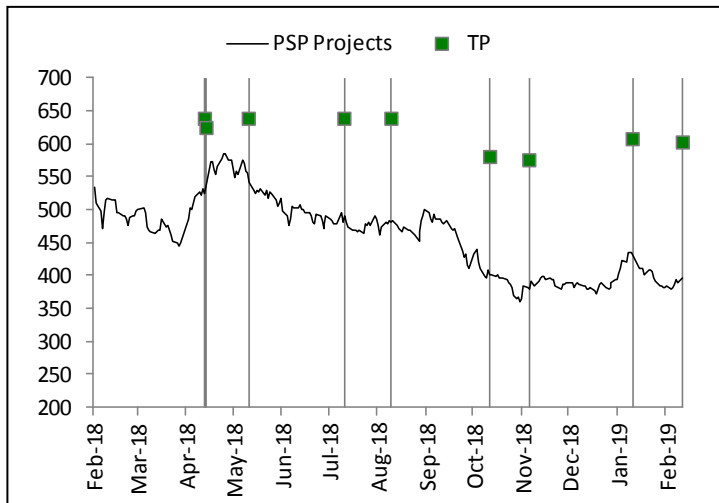
Source: Company, HDFC sec Inst Research

Key Ratios (Standalone)

Year ending March	FY17	FY18	FY19E	FY20E	FY21E
PROFITABILITY (%)					
GPM	24.0	19.0	19.2	18.5	18.5
EBITDA Margin	16.4	13.9	14.0	13.5	13.5
EBIT Margin	14.5	12.4	12.2	11.8	11.8
APAT Margin	10.4	8.9	8.5	7.9	8.1
RoE	48.2	31.7	26.2	26.4	23.9
Core RoCE	-	327.1	63.2	75.6	82.1
RoCE	26.8	21.9	21.3	22.1	20.4
EFFICIENCY					
Tax Rate (%)	35.3	35.6	36.0	36.0	36.0
Asset Turnover (x)	4.9	6.1	6.3	7.5	7.2
Inventory (days)	3	17	20	20	20
Debtors (days)	49	58	52	53	53
Payables (days)	63	61	50	50	50
Other Current Assets (days)	22	13	35	35	35
Other Current Liab (days)	64	70	48	48	49
Net Working Capital Cycle (Days)	(54)	(43)	8	9	9
Debt/EBITDA (x)	1.0	0.2	0.5	0.4	0.4
Net D/E	(0.4)	(0.7)	(0.3)	(0.3)	(0.4)
Interest Coverage	7.7	10.4	13.7	12.2	12.5
PER SHARE DATA					
EPS (Rs/sh)	14.5	18.0	24.7	30.9	34.3
CEPS (Rs/sh)	17.1	21.1	29.8	37.3	41.5
DPS (Rs/sh)	0.0	3.0	4.4	5.6	6.2
BV (Rs/sh)	37	84	104	130	158
VALUATION					
P/E	27.4	22.0	16.0	12.8	11.5
P/BV	10.7	4.7	3.8	3.1	2.5
EV/EBITDA	16.6	11.9	9.0	6.7	5.8
OCF/EV (%)	0.0	0.1	(0.0)	0.1	0.1
FCF/EV (%)	(0.6)	2.0	(4.4)	7.2	9.4
FCFE/Market Cap (%)	0.9	(1.9)	(1.2)	6.0	7.1
Dividend Yield (%)	0.0	0.8	1.1	1.4	1.6

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
11-Oct-18	408	BUY	581
6-Nov-18	382	BUY	576
10-Jan-19	436	BUY	608
11-Feb-19	396	BUY	603

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:

We, **Parikshit D Kandpal, CFA** and **Kunal Bhandari, ACA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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