

# PSP Projects Ltd

BUY

CMP Rs382

Target Rs520

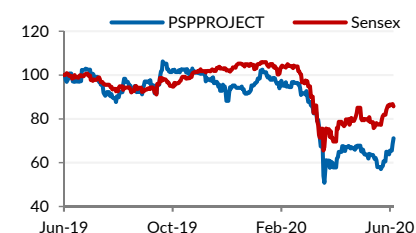
Upside 36.1%

<b>HIGHLIGHTS</b>	<ul style="list-style-type: none"> <li>✓ PSP Projects delivered robust topline performance during Q4 FY20 with standalone revenues growing 35% yoy to Rs.4.6 bn. The growth was strong despite the COVID related shutdown of ~10 days. Surat Diamond project (SDB) witnessed execution of ~Rs.1.7 bn during the quarter.</li> <li>✓ At the operating level, margin deteriorated to 11.1% (down 368 bps yoy). This was primarily due to revenue loss during the last ~10 days of Q4 FY20 while fixed costs continued to be incurred.</li> <li>✓ The Company closed the year with order book of ~Rs.31 bn (2x FY20 revenues).</li> <li>✓ The Company is facing severe labor issues with labor strength reducing by 75-80%. The Company expects the situation to ease by end of June. It expects execution to normalize from Q2 onwards.</li> <li>✓ As there have been delays in payment from client side, the working capital days have increased to 26 days at FY20 end (21 days in FY19) The Company expects the working capital to stabilize as lockdown is lifted.</li> </ul>
<b>Our View</b>	<ul style="list-style-type: none"> <li>✓ Despite strong order book position, we expect revenues to be under pressure in FY21 as some of the big projects like Housing project (Bhiwandi) is yet to ramp up. Also, shortage of labor across projects would impact execution.</li> <li>✓ Operating margin is likely to remain under pressure in near term as execution would be severely impacted in Q1 FY21.</li> <li>✓ With negligible private capex, the Company may bid for more Government projects.</li> </ul>
<b>Valuation</b>	<ul style="list-style-type: none"> <li>✓ Considering the COVID impact on topline and margins, we cut our estimates for FY21 and FY22. We believe, the Company would witness robust growth as the COVID related impact settles down. We expect margins also to improve in FY22 as execution picks up.</li> <li>✓ We believe, the Company is well placed to deliver backed by its comfortable balance sheet position. We maintain our BUY rating on the stock for revised target of Rs.520 (13x FY22 EPS).</li> </ul>
<b>Risk to our call</b>	<ul style="list-style-type: none"> <li>✓ Slower than expected ramp up in execution.</li> </ul>

## Stock data (as on June 09, 2020)

Sensex:	33,957
52 Week h/l (Rs)	577 / 232
Market cap (Rs/USD mn)	13747 / 182
Outstanding Shares	36
6m Avg t/o (Rs mn):	12
Div yield (%):	1.3
Bloomberg code:	PSPPL IN
NSE code:	PSPPROJECT

## Stock performance



	1M	3M	1Y
Absolute return	11.5%	-16.4%	-27.2%

## Shareholding pattern (As of Mar'20 end)

Promoter	73.8%
FII+DII	7.0%
Others	19.1%

## Δ in earnings estimates

	FY20	FY21e	FY22e
EPS (New)	35.9	27.4	40.0
EPS (Old)	36.0	43.3	50.5
% change	-0.3%	-36.7%	-20.8%

## Exhibit 1: Result table (Standalone)

Y/e 31 Mar (Rs mn)	Q4 FY20	Q4 FY19	yoy(%)	Q3 FY20	qoq (%)
Revenue	4,564	3,383	34.9	4,231	7.9
Operating Profit	505	499	1.3	541	(6.6)
OPM (%)	11.1	14.7	-368 bps	12.8	-171 bps
Other Income	74	66	11.7	58	28.4
Depreciation	(76)	(74)	2.6	(70)	9.1
Interest	(42)	(32)	31.2	(40)	3.1
PBT	461	459	0.5	488	(5.5)
Tax	(119)	(158)	(24.7)	(121)	(1.6)
Reported PAT	343	301	13.7	367	(6.8)

Source: Company, YES Sec – Research

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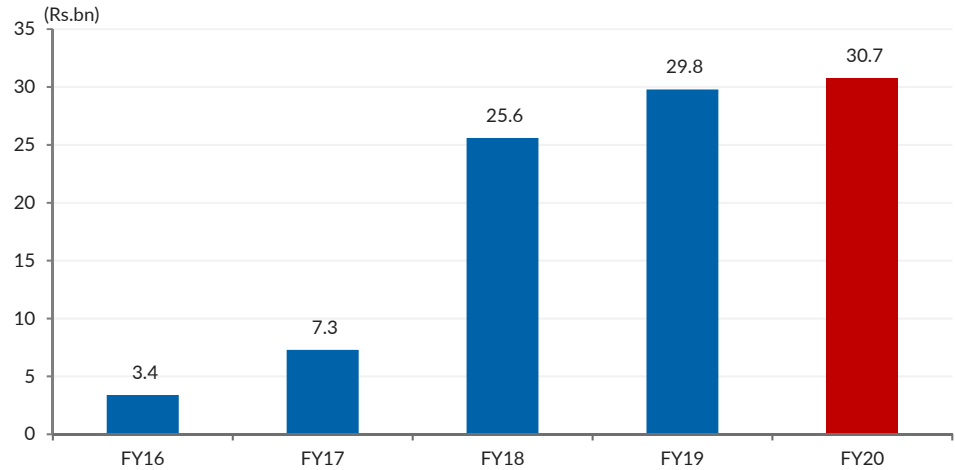
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## CON-CALL HIGHLIGHTS

- ✓ PSP reported ~35% revenue growth (to Rs.4.6bn) during Q4 FY20, despite operations being impacted in the month of Mar'20 owing to covid-19 related disruptions. However, higher fixed cost squeezed its operating margin to 11.1% (down 368bps yoy). During FY20, its revenue/bottom-line on standalone basis has improved by 44%/43% (to Rs.15bn/Rs.1.3bn) on yoy basis respectively. Owing to the uncertain environment, the Company refrained from giving any guidance for FY20.
- ✓ PSP is facing major challenges in terms of labor availability and supply chain disruptions. Migration of labor has reduced the labor strength by whopping ~80%. However, the management is anticipating that by Jun'20 end, the labor strength would be back to 70%-80% of the pre-COVID'19 levels (depending on travel restrictions being lifted).
- ✓ PSP secured orders worth ~Rs.16 bn during FY20, which aided its order book position to remain strong at ~Rs.31 bn (excluding L1: Rs.2.8 bn). Total bid pipeline for the company currently stands at ~Rs.17 bn. The Company doesn't expect significant new tenders to be floated in the near term.
- ✓ The company has executed ~Rs.1.7 bn of work in the Surat Diamond Bourse project during Q4 FY20. At Mar'20-end, the outstanding contract value is Rs.6.2bn (20% of the total order book). However, despite delay in SDB project, the management expects project to get completed by Mar'21.
- ✓ Gujarat state (including SDB project) with 62%, has highest share in the order book, followed by Maharashtra (~24%). In line with PSP's strategy to diversify its order book geographically, the company is actively looking for projects outside Gujarat. Also, the Private capex is likely to be impacted due to COVID and Company may look to focus on more Government projects.
- ✓ One of its major projects - the EWS Housing (Bhiwandi) has just received clearance for execution. The Company expects ramp up in this project from Q2 onwards.
- ✓ Working capital days for the company has increased to ~26 days at the end of FY20'end (Debtors: 55days; Inventory: 24 days; Creditor: 53 days) from ~21 days a year ago. The Working capital may rise further as the Company bids for more Government projects.
- ✓ The company has incurred capex of Rs.310 mn in FY20. Going forward, capex would be broadly in the range of 3-4% of gross orders.

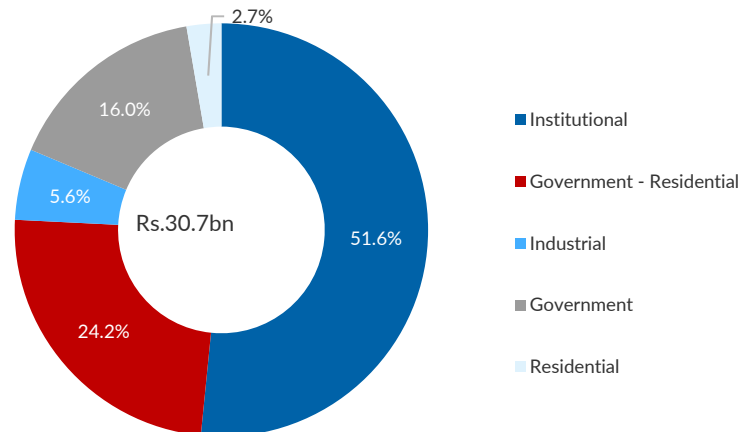
## CHARTS

**Exhibit 2: Strengthening order book position**



Source: Company, YES Sec - Research

**Exhibit 3: Institutional segment dominates the order book\***



Source: Company, YES Sec - Research; \*Order book at the end of FY20

**Exhibit 4: Major Projects**

Project Details	Location	Client	Total Value (Rs. mn)	Outstanding Value (Rs. mn)
SDB Main Contract Works	Surat	SDB Diamond Bourse	15,750	6,183
EWS Housing Project	Bhiwandi	Municipal Corporation	6,014	6,014
Shri Kashi Vishwanath Dham	Varanasi	Public Works Department	3,390	3,334
IIM Ahmedabad	Ahmedabad	Indian Institute of Management	3,280	2,706
Affordable Housing	Pandharpur	Pandharpur Municipal Corp	1,575	1,425
Phoenix Mall	Ahmedabad	SGH Realty	1,390	1,063
Sabha Hall & Residential Complex	Ahmedabad	A Private Trust	1,046	1,046
Zydus Hospital	Baroda	Zydus Hospitals & Healthcare Research	1,069	959

Source: Company, YES Sec - Research

## Exhibit 5: Financial Summary (Standalone)

Y/e 31 Mar (Rs m)	FY19	FY20	FY21E	FY22E
Revenues	10,440	14,993	13,943	17,429
yoy growth (%)	43.0	43.6	(7.0)	25.0
Operating profit	1,489	1,910	1,678	2,402
OPM (%)	14.3	12.7	12.0	13.8
Adjusted PAT	902	1,293	986	1,439
yoy growth (%)	40.2	43.2	(23.7)	46.0
EPS (Rs)	25.1	35.9	27.4	40.0
P/E (x)	15.2	10.6	13.9	9.6
EV/EBITDA (x)	7.9	6.5	7.0	4.8
Debt/Equity (x)	0.1	0.2	0.4	0.4
RoE (%)	26.8	31.2	19.8	24.0

Source: Company, YES Sec - Research

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