

PSP Projects Limited

BUY

CMP Rs405

Target Rs520

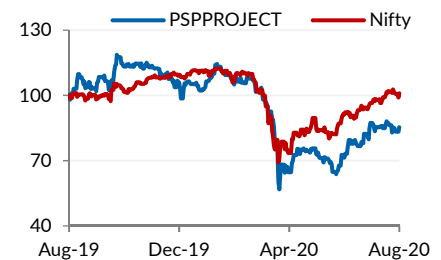
Upside 28.4%

HIGHLIGHTS	<ul style="list-style-type: none"> ✓ PSP Projects reported standalone topline of ~Rs.1.1bn (down 65.2% yoy) largely impacted by COVID-19 led disruption. At the operating level, margin deteriorated to 1.2% (down 1267 bps yoy) with lower revenue and higher fixed cost. ✓ At the end of Q1 FY21, order book stood healthy at Rs.29.6bn (~2x FY20 revenues) with Gujarat state contributing 62% to the total order book. Bid pipeline stood robust at Rs.30bn for PSP. ✓ PSP has faced major challenges in terms of labor availability and supply chain disruptions during Q1 FY21. However, the company has managed to remobilize ~75% of the total labor strength pre-COVID and expects full workforce by Aug'20-end. ✓ PSP is setting up manufacturing plant of Precast Concrete Building and allied Infrastructure elements at Gujarat. The annual production capacity is estimated to be 3 mn sq. ft. (Phase -1 production capacity: 1mn sq. ft. targeted to be operational by May'21). The total capex is ~Rs.750 mn to be funded from internal accruals.
Our View	<ul style="list-style-type: none"> ✓ Despite strong order book position, we expect revenues to be under pressure in FY21 as some of the big projects like Housing project (Pandharpur and Bhiwandi) are yet to ramp up. Also, shortage of labor across projects would impact execution. However, we believe execution would substantially pickup in FY22 as COVID related impact settles and several projects move into execution. ✓ Operating margin is likely to remain under pressure in near term with subdued revenues and higher fixed costs. However, we expect it to normalize from H2 FY21 onwards. ✓ With negligible private capex, the Company may bid for more Government projects.
Valuation	<ul style="list-style-type: none"> ✓ Considering the COVID impact on topline and margin, we cut our estimates for FY21. We believe, the Company would witness robust growth in FY22 as the COVID related impact settles down. We expect margins also to improve in FY22 as execution picks up. ✓ We believe, the Company is well placed to deliver backed by its robust order book, comfortable balance sheet position and superior execution capabilities. We maintain our BUY rating on the stock for target of Rs.520 (13x FY22 EPS).
Risk to our call	<ul style="list-style-type: none"> ✓ Slower than expected ramp up in execution.

Stock data (as on Aug 05, 2020)

Nifty	11,102
52 Week h/l (Rs)	577 / 232
Market cap (Rs/USD mn)	14580 / 195
Outstanding Shares (mn)	36
6m Avg t/o (Rs mn):	12
Div yield (%):	1.2
Bloomberg code:	PSPPL IN
NSE code:	PSPPROJECT

Stock performance



	1M	3M	1Y
Absolute return	-3.5%	16.0%	-12.0%

Shareholding pattern (As of Jun'20 end)

Promoter	74.0%
FII+DII	7.1%
Others	18.9%

Δ in earnings estimates

	FY20	FY21e	FY22e
EPS (New)	35.9	17.9	40.0
EPS (Old)	35.9	27.4	40.0
% change	-	(34.7)	-

Exhibit 1: Result table (Standalone)

Y/e 31 Mar (Rs mn)	Q1 FY21	Q1 FY20	yoy(%)	Q4 FY20	qoq (%)
Revenue	1,069	3,073	(65.2)	4,564	(76.6)
Operating Profit	13	427	(97.0)	505	(97.4)
OPM (%)	1.2	13.9	-1267 bps	11.1	-985 bps
Other Income	48	52	(7.7)	74	(35.4)
Depreciation	(62)	(59)	4.8	(76)	(19.0)
Interest	(29)	(28)	5.0	(42)	(30.7)
PBT	(30)	392	NA	461	NA
Tax	8	(137)	NA	(119)	NA
Reported PAT	(22)	255	NA	343	NA

Source: Company, YES Sec - Research

ALOK DEORA

Lead Analyst

alok.deora@ysil.in
 +91 98205 13792



LOKESH KASHIKAR, Analyst

lokesh.kashikar@ysil.in | +91 90044 47175

AMAR AMBANI, Sr. President, Head of Research

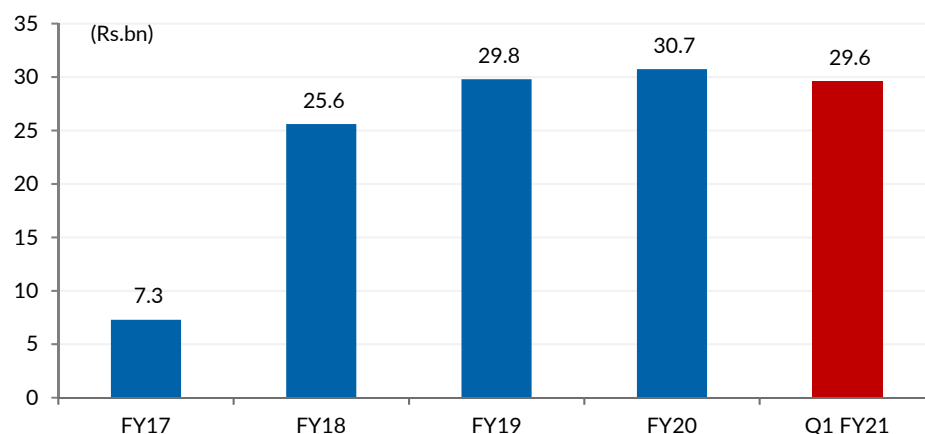
amar.ambani@ysil.in

CON-CALL HIGHLIGHTS

- ✓ PSP's performance during Q1 FY21 got impacted largely due to disruptions led by covid-19 pandemic (operating activity has picked up from 15th May'20). Also, lower revenue and higher fixed cost squeezed its operating margin to 1.2% (down 1,267bps yoy). Owing to the uncertain environment, the management refrained from giving any guidance for FY21.
- ✓ PSP has not able to start the work at the housing projects located in Pandharpur and Bhiwandi areas of Maharashtra due to pending of certain approvals and covid-19 challenges. These projects contribute ~25% to the total orderbook and the management expects to commence execution in these projects by Sept'20.
- ✓ The company has executed ~Rs.456mn worth of work in the Surat Diamond Bourse (SDB) project during Q1 FY21. At Jun'20-end, the outstanding contract value is Rs.5.7bn (~19% of the total order book). The management expects the Surat project to get completed by May-Jun'21.
- ✓ PSP order book position remained healthy at ~Rs.29.6bn with Gujarat state (including SDB project) contributing 62% to the total order book. Total bid pipeline currently stands at ~Rs.30bn for the company.
- ✓ Out of ready-to-sell two houses in United States, the company has managed to sell one house. However, the demand was subdued and it has booked Rs.8mn of loss on the same.
- ✓ Precast concrete plant is likely to benefit company with a) its improving capability by shifting a portion of work to off-site manufacturing and b) wide range of products such as precast slabs, beams and columns, and compound walls can be sold to infrastructure companies, EPC contractors and real estate players.
- ✓ Debtors, inventory, creditors at the end of Jun'20 stood at Rs.1.7bn, Rs.0.9bn and Rs.1.5bn respectively
- ✓ The company generally spends 3-4% of gross orders towards capex on annual basis. However, the management expects capex during FY21E to remain insignificant with reutilization of some of the assets currently located at SDB site.

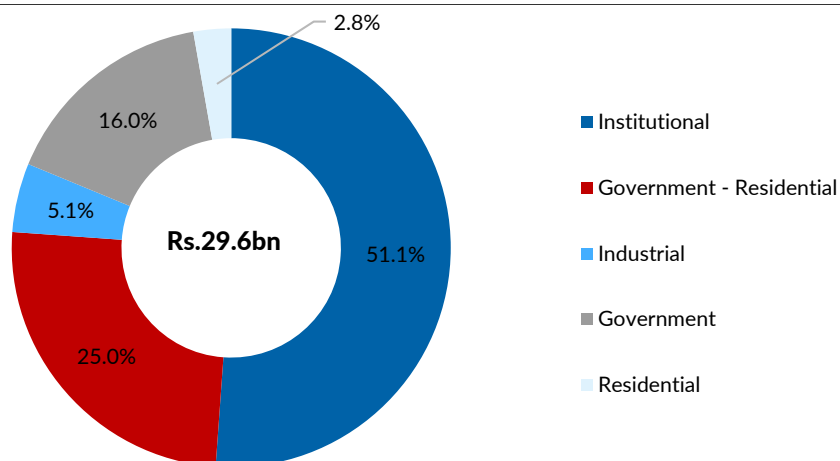
CHARTS

Exhibit 2: Healthy 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 Q1 FY21

Exhibit 4: Key Projects

Project Details	Location	Client	Total Value (Rs. mn)	Outstanding Value (Rs. mn)
SDB- Main Contract Works	Surat	SDB Diamond Bourse	15,750	5,727
EWS Housing Project	Bhiwandi	Municipal Corporation	6,014	6,014
Shri Kashi Vishwanath Dham	Varanasi	PWD	3,390	3,265
IIM Ahmedabad	Ahmedabad	IIM	3,280	2,706
Affordable Housing Project	Pandharpur	Municipal Corporation	1,576	1,404
Phoenix Mall	Ahmedabad	SGH Realty LLP	1,391	1,057
Sabha Hall & Residential Complex	Ahmedabad	A Private Trust	1,046	1,046

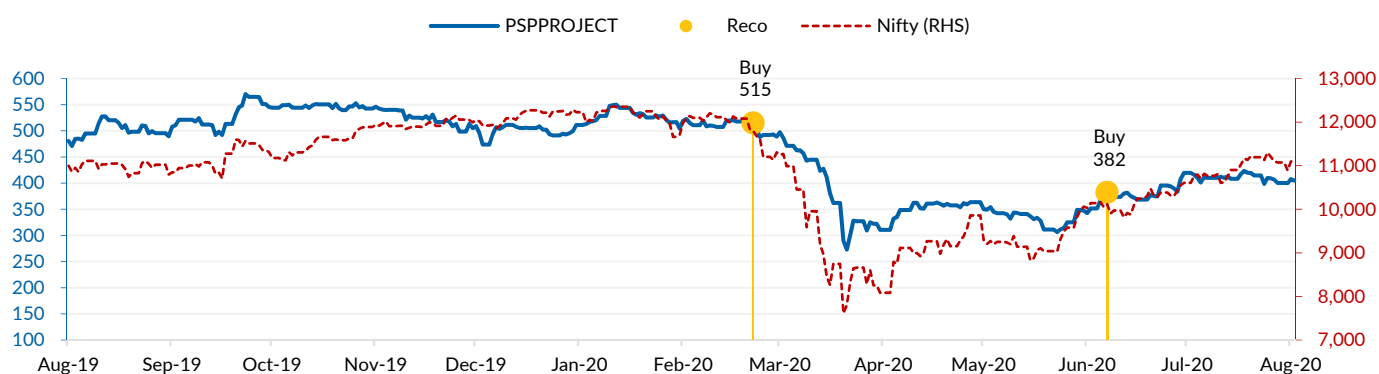
Source: Company, YES Sec - Research

Exhibit 5: Financial Summary (Standalone)

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E
Revenues	10,440	14,993	12,545	17,534
yoy growth (%)	43.0	43.6	(16.3)	39.8
Operating profit	1,489	1,910	1,237	2,420
OPM (%)	14.3	12.7	9.9	13.8
Adjusted PAT	902	1,293	644	1,440
yoy growth (%)	40.2	43.2	(50.2)	123.7
EPS (Rs)	25.1	35.9	17.9	40.0
P/E (x)	16.2	11.3	22.6	10.1
EV/EBITDA (x)	8.5	7.0	10.5	5.6
Debt/Equity (x)	0.1	0.2	0.4	0.4
RoE (%)	26.8	31.2	13.4	25.5

Source: Company, YES Sec – Research

Recommendation Tracker



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YES Securities (India) Limited

Registered Address: Unit No. 602 A, 6th Floor, Tower 1 & 2,
Indiabulls Finance Centre, Senapati Bapat Marg, Elphinstone Road,
Mumbai – 400013, Maharashtra, India.

Contact Details: +91-22-71123123
Email: research@ysil.in | Website: <https://yesinvest.in>

Registration Nos.: CIN: U74992MH2013PLC240971 | SEBI Single
Registration No.: NSE, BSE, MCX & NCDEX: INZ000185632 | Member
Code: BSE – 6538, NSE – 14914, MCX – 56355 & NCDEX - 1289 |
MERCHANT BANKER: INM000012227 | RESEARCH ANALYST:
INH000002376 | INVESTMENT ADVISER: INA000007331 |
AMFI ARN Code – 94338

Details of Compliance Officer: Name: Vaibhav Purohit,
Email id: compliance@ysil.in, Contact No-+91-22-33479208

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