

Q4FY20 Result Update PSP Projects Ltd

**Robust topline growth exceeds expectations,
Lockdown impacted margins**

PSP Projects Ltd (PSP) reported better than expected numbers in a quarter which was impacted by lack of labour availability and lockdown. However, significant increase in unbilled revenue and thereby partial deterioration in working capital is a matter of concern for us and would be a key monitorable here onwards. Revenue in Q4FY20 grew by 35% YoY (vs expectation of 5%) to INR 456 cr. High execution in surat diamond bourse and other institutional projects in Gujarat drove the topline this quarter. EBITDA margins dipped by 370 bps YoY to 11% (vs expected 13%) due to comparatively higher construction cost. For the full year of FY20, topline grew by 43% YoY to INR 1499 cr and EBITDA grew by 28% YoY to INR 190 cr. EBITDA margin for FY20 came at 12.7% against 14.1% reported in the previous financial year. PAT in FY20 grew by 44% YoY to INR 129 cr driven due high operating profit and lower tax rates. The company added orders worth ~INR 1,578 cr in FY20 and currently has orderbook worth INR 3,075 cr. With a strong orderbook and healthy order pipeline, low working capital and industry leading RoCE, PSP is best placed to get the benefit of industrial and commercial developments in India. We reiterate our 'BUY' recommendation with a target price of INR 590.

A disciplined building contractor with strong order book and revenue visibility

PSP has achieved strong brand recall and recorded stellar performance in its small life of existence. The company gets consistent repeat orders from clients, like Zydus-Cadila, Claris, Torrent Pharma, DDU, MRF and AMUL. Currently, the company has INR 3,075 cr worth of orders (excluding INR 275 cr worth of L1 orders) and that offers more than 2 years of revenue visibility. The company is also having a bid pipeline of INR 1,700 cr which suggest strong order addition post the current crisis. We believe, order addition will be impacted in FY21E; however the company will be able to strengthen market share in this tough times and FY22E will be a rewarding year for the company.

Next two quarters will be challenging, Strong brand and financial health will aid market share gain

For PSP, next two quarters will be challenging. Currently due to low labour availability, the company is operating 6 large sites (~50% of the total orderbook) which will definitely impact execution in H1FY21E. However, due to strong brand, light balance sheet and focus on timely execution; the company is expected to come out stronger on the other side of the crisis. From a Gujarat focused constructor, PSP already expanded presence in other parts of the country. Gujarat consists of ~60% of the orderbook today against ~90% in FY18. Strong order-inflow and healthy bid pipeline will aid the company to grow its revenue by 30% YoY in FY22E. The EBITDA margin is also expected to remain in the range of 13%–14% going forward.

Partial deterioration in Working Capital is a matter of concern and would be a key monitorable

PSP's cash conversion cycle bumped up to 28 days in FY20 against 22 days in FY19. On the top of this, unbilled revenue increased to INR 110 cr in FY20 against INR 30 cr in FY19. Both this put together working capital profile deteriorated partially. We believe, a large part of this deterioration will be transient in nature and will come down post the crisis. However, 40% of the company projects today coming from Government where working capital cycle will be higher than private projects and we want to remain vigilant here. Even after deterioration of NWC, RoCE remained healthy at 31% in FY20.

Outlook and valuation: Reiterate 'BUY'

PSP is best placed amongst the building constructors with strong growth and highest return ratios. We remain confident about the growth prospect of the company in the medium term. At CMP of INR 382, the stock is trading at 11x / 8x of FY21E / FY22E EPS. We maintain 'BUY' with a target price of INR 590/share after assigning 12x PE multiple to FY21E EPS of INR 51/share.

(INR Cr)	Q4FY20	Q4FY19	% change (YoY)	Q3FY20	% change (QoQ)	FY19	FY20	% change (YoY)
Revenues	456	339	35%	423	8%	1050	1499	43%
EBIDTA	51	50	1%	54	-6%	149	190	28%
EBIDTA Margin	11%	15%	-	13%	-	14%	13%	-
PAT	34	30	15%	36	-6%	89	128	44%
PAT Margin	8%	9%	-	9%	-	8%	9%	-
Diluted EPS (INR)						25	36	

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CMP INR: 382

Rating: Maintain BUY

Target Price INR: 590

Upside: 54%

Bloomberg:	PSPPL:IN
52-week range (INR):	232 / 577
Share in issue (cr):	3.6
M cap (INR cr):	1,347
Avg. Daily Vol. BSE/NSE :('000):	45
Promoter Holding (%)	73.82

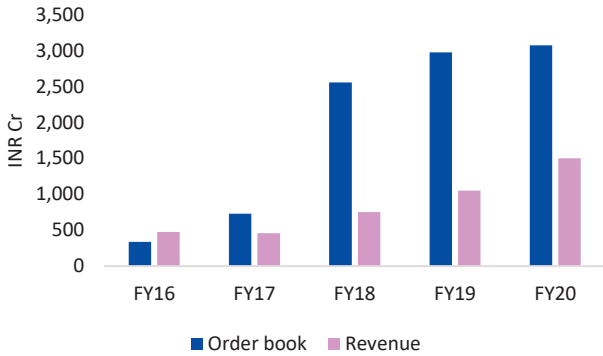
Date: 11th June, 2020

(INR Cr)	Q4FY20	Q4FY19	% change (YoY)	Q3FY20	% change (QoQ)	FY19	FY20	% change (YoY)
Income from operations	456	339	35%	423	8%	1050	1499	43%
Direct Expenses	386	273	41%	351	10%	849	1236	46%
Employee Cost	16	12	36%	15	4%	43	59	38%
Other Expenses	4	3	22%	3	28%	10	14	35%
Total operating expenses	406	288	41%	369	10%	902	1309	45%
EBITDA	51	50	1%	54	-6%	149	190	28%
Depreciation and amortisation	7	7	0%	7	6%	24	27	10%
EBIT	43	43	1%	47	-8%	124	164	32%
Interest expenses	4	3	27%	4	1%	10	15	56%
Other income	7	6	21%	6	31%	23	24	7%
PBT	46	46	2%	48	-4%	137	173	26%
Provision for tax	12	16	-24%	12	-1%	48	45	-7%
Core profit	34	30	15%	36	-6%	89	128	44%
Extraordinary items	-	-	-	-	-	-	-	-
Profit after tax	34	30	15%	36	-6%	89	128	44%
Minority Interest	-	-	-	-	-	-	-	-
Share from associates	-	-	-	-	-	-	-	-
Adjusted net profit	34	30	15%	36	-6%	89	128	44%
Equity shares outstanding (Crs)	4	4		4		4	4	
EPS	10	8	15%	10	-6%	25	36	-30%
EBITDA Margins	11%	15%		13%		14%	13%	
PAT Margin	8%	9%		9%		8%	9%	

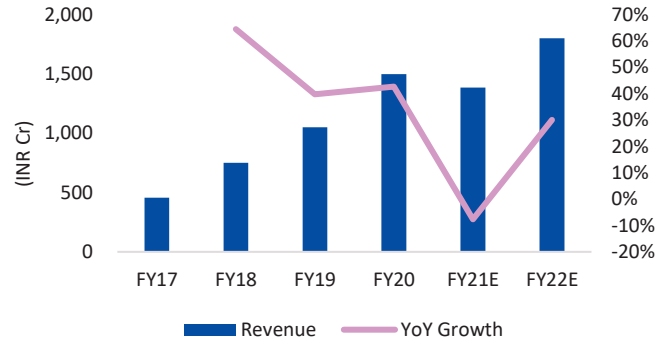
Other Key Highlights:

- The revenue recognised for Q4FY20 from the Surat Diamond Bourse (SDB) Project was INR 169 cr against INR 125 cr reported in the corresponding quarter of previous financial year and INR 191 cr in Q3FY20. In FY20, total revenue recognised from the project was INR 542 cr. Management is confident of completing the rest of work worth INR 618 cr in FY21E.
- Currently the company is working with 25-30% of the labour availability and normalisation will take another 35-40 days. 6 large projects (~50% of the orderbook) are under construction mode currently.
- Company also stated that it has a bid-pipeline of projects worth INR 1,700 cr and is at L1 at INR 275 cr GIDC project.
- Over the last few quarters the company expanded presence beyond Gujarat and entered into starts like, Maharashtra, UP and Rajasthan. Maharashtra and UP are currently 24% and 11% of the orderbook. The company won a prestigious order of Development of Kashi Viswanath Dham worth INR 333 cr in Q4FY20.
- 62% of the overall orderbook came from Gujarat in FY20 against 91% in FY18.
- The management has indicated that going beyond 14% EBITDA margins would be difficult as competition in bidding has increased and that it would vary between 12 to 14% going ahead.
- The company had ~INR 197 cr worth of cash & cash equivalent and INR 753cr worth of gross debt on its balance sheet at the end of FY20. It continues to remain cash surplus in net debt terms.
- Operating cash flow deteriorated to INR 19 cr in FY20 against INR 28 cr reported in FY19. Consequently Free Cash Flow came negative at INR 22 cr in FY20.

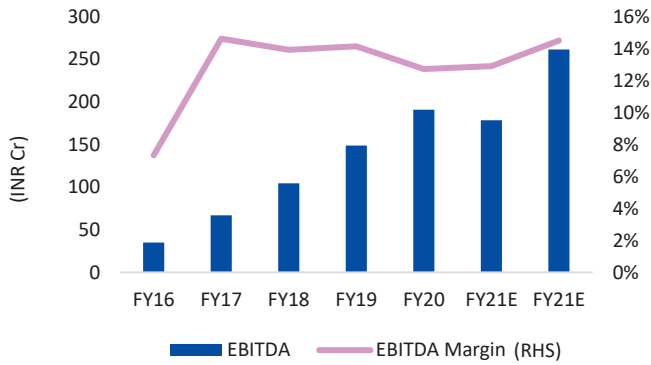
FY18 was a year of inflection mainly due to Surat Diamond Bourses (SDB) order win



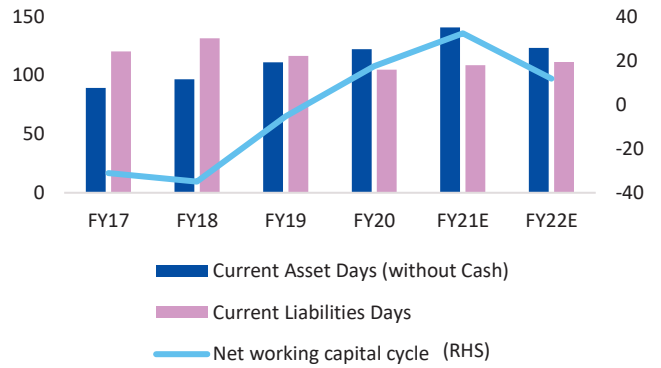
Revenue is expected to comeback strongly in FY22E



Operating profit to maintain momentum



Working capital cycle well in control as per industry standards



Source: Edelweiss Professional Investor Research

Previous Result Outlook

Q3FY20: PSP is best placed amongst the building constructors with strong growth and highest return ratios. We remain confident about the growth prospect of the company in the medium term. At CMP of INR 510, the stock is trading at 12.5x / 10x of FY20E / FY21E EPS. We maintain 'BUY' with a target price of INR 590/share after assigning 12x PE multiple to FY21E EPS of INR 49.7/share.

In Q2FY20: PSP is best placed amongst the building constructors with strong growth and highest return ratios. We remain confident on the growth prospect of the company in the medium term. At CMP of INR 548, the stock is trading at 15x / 13x of FY20E / FY21E EPS. We maintain 'BUY' with a target price of INR 590/share after assigning 14x PE multiple to FY21E EPS of INR 42.

In Q1FY20: PSP is best placed amongst the building constructors with strong growth and highest return ratios. We remain confident on the growth prospect of the company in the medium term. At CMP of INR 490, the stock is trading at 13x / 12x of FY20E / FY21E EPS. We maintain 'BUY' with a target price of INR 590/share after assigning 14x PE multiple to FY21E EPS of INR 42.

Q3FY20

Q3FY20 Result Update
PSP Projects Ltd

Key Highlights:

- Revenue growth of 15% YoY
- Operating profit margin of 12%
- EPS of INR 15.5

Particulars	Q3FY20	Q3FY19	Q3FY20E	Q3FY21E
Revenue (INR Cr)	1,200	1,050	1,250	1,350
Operating Profit (INR Cr)	144	126	150	162
EPS (INR)	15.5	13.5	15.5	16.5

Q2FY20

Q2FY20 Result Update
PSP Projects Ltd

Key Highlights:

- Revenue growth of 18% YoY
- Operating profit margin of 13%
- EPS of INR 18.5

Particulars	Q2FY20	Q2FY19	Q2FY20E	Q2FY21E
Revenue (INR Cr)	1,350	1,150	1,400	1,500
Operating Profit (INR Cr)	175.5	149.5	182	195
EPS (INR)	18.5	16.5	18.5	19.5

Q1FY20

Q1FY20 Result Update
PSP Projects Ltd

Key Highlights:

- Revenue growth of 12% YoY
- Operating profit margin of 11%
- EPS of INR 14.5

Particulars	Q1FY20	Q1FY19	Q1FY20E	Q1FY21E
Revenue (INR Cr)	1,050	950	1,100	1,200
Operating Profit (INR Cr)	115.5	104.5	121	132
EPS (INR)	14.5	13.5	14.5	15.5

Financials

Income Statement (Consolidated)

(INR cr)

Year to March	FY18	FY19	FY20	FY21E	FY22E
Income from operations	752	1,050	1,499	1,385	1,801
Direct Expenses	290	416	535	512	648
Employee Cost	29	43	59	57	63
Other Expenses	329	443	714	637	829
Total operating expenses	647	902	1,309	1,206	1,540
EBITDA	105	149	191	178	261
Depreciation and amortisation	11	24	27	25	31
EBIT	93	124	164	154	230
Interest expenses	9	10	15	12	16
Other income	19	23	24	20	30
Profit before tax	102	137	173	162	245
Provision for tax	36	48	45	41	61
Core profit	66	89	128	122	184
Extraordinary items	0	0	0	0	0
Profit after tax	66	89	128	122	184
Minority Interest	0	0	0	0	0
Share from associates	-0	-0	-0	0	0
Adjusted net profit	66	89	128	122	184
Equity shares outstanding (Cr)	3.6	3.6	3.6	3.6	3.6
EPS (INR) basic	18.3	24.8	35.6	33.8	51.0
Diluted shares (Cr)	3.6	3.6	3.6	3.6	3.6
EPS (INR) fully diluted	18.3	24.8	35.6	33.8	51.0
Dividend per share	5.0	5.0	0.0	0.0	0.0
Dividend payout (%)	27.3	20.2	0.0	0.0	0.0

Common size metrics- as % of net revenues

Year to March	FY18	FY19	FY20	FY21E	FY22E
Operating expenses	86.1	85.9	87.3	87.1	85.5
Depreciation	1.5	2.3	1.8	1.8	1.7
Interest expenditure	1.2	0.9	1.0	0.8	0.9
EBITDA margins	13.9	14.1	12.7	12.9	14.5
Net profit margins	8.8	8.5	8.5	8.8	10.2

Growth metrics (%)

Year to March	FY18	FY19	FY20	FY21E	FY22E
Revenues	64.5	39.7	42.7	(7.6)	30.1
EBITDA	56.7	42.0	28.3	(6.4)	46.3
PBT	60.1	34.1	26.1	(6.5)	51.1
Net profit after minority interest	59.2	35.2	43.7	(5.2)	51.1
EPS	59.2	35.2	43.7	(5.2)	51.1

Financials

Balance Sheet (Consolidated)					(INR cr)
As on 31st March	FY18	FY19	FY20	FY21E	FY22E
Equity share capital	36	36	36	36	36
Warrants	0	0	0	0	0
Reserves & surplus	266	334	418	540	724
Shareholders funds	302	370	454	576	760
Borrowings	28	30	78	78	78
Minority interest	0	1	1	1	1
Sources of funds	330	401	533	655	839
Gross block	120	167	197	206	256
Depreciation	42	64	91	116	146
Net block	78	103	106	91	110
Capital work in progress	2	0	-0	-2	-2
Total fixed assets	80	103	106	89	108
Non Current Assets	68	64	156	161	166
Inventories	34	75	97	102	118
Sundry debtors	123	148	235	252	300
Cash and equivalents	255	248	197	278	502
Loans and advances	19	59	135	180	190
Other current assets	22	37	34	0	0
Total current assets	453	567	698	813	1,110
Sundry creditors and others	135	159	217	412	550
Total CL & provisions	270	322	430	412	550
Net current assets	183	245	269	401	560
Uses of funds	330	401	533	655	839
Book value per share (INR)	92	111	148	182	233

Cash flow statement					(INR cr)
Year to March	FY18	FY19	FY20	FY21E	FY22E
Net profit	66	89	128	122	184
Add: Depreciation	11	24	27	25	31
Add: Interest net of tax	6	6	11	9	12
Add: Deferred tax	0	0	0	0	0
Add: Others	18	28	20	30	30
Gross cash flow	101	147	186	185	256
Less: Changes in W. C.	31	120	167	150	100
Operating cash flow	70	28	19	35	156
Less: Capex	36	47	30	10	50
Less: Investment in subsidiaries	0	0	0	0	0
Free cash flow	34	-19	-11	25	106

Profit & Efficiency Ratios

Year to March	FY18	FY19	FY20	FY21E	FY22E
ROAE (%)	22%	24%	28%	21%	24%
ROACE (%)	28%	31%	31%	24%	28%
Debtors (days)	60	51	57	66	61
Current ratio	1.7	1.7	1.6	2.0	2.0
Gross Debt/Equity	0.0	0.0	0.0	0.1	0.1
Inventory (days)	16	26	24	27	24
Payable (days)	62	55	53	56	50
Cash conversion cycle (days)	15	22	28	38	34
Gross Debt/EBITDA	0.0	0.0	0.0	0.4	0.3
Net debt/Equity	(0.8)	(0.7)	(0.4)	(0.3)	(0.6)

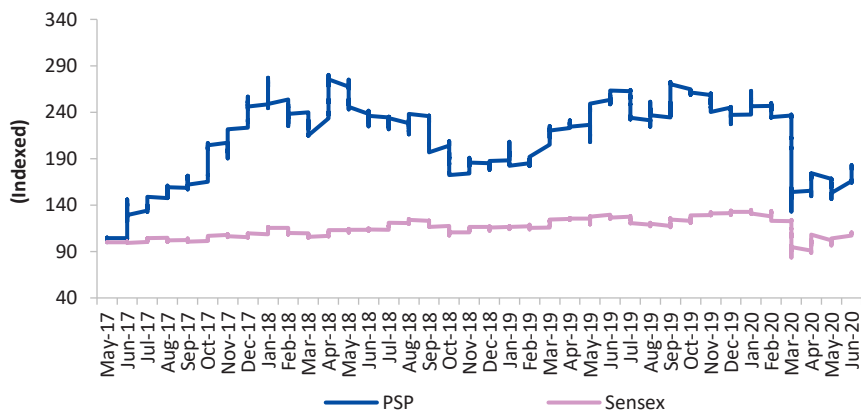
Valuation Parameters

Year to March	FY18	FY19	FY20	FY21E	FY22E
Diluted EPS (INR)	18.3	24.8	35.6	33.8	51.0
Y-o-Y growth (%)	60.1	35.2	43.7	(5.2)	51.1
CEPS (INR)	21.5	31.5	43.0	40.6	59.6
Diluted P/E (x)	20.8	15.4	10.7	11.3	7.5
Price/BV(x)	4.5	3.7	3.0	2.4	1.8
EV/Sales (x)	1.5	1.1	0.8	0.8	0.5
EV/EBITDA (x)	10.7	7.6	6.2	6.6	3.6
Diluted shares O/S	3.6	3.6	3.6	3.6	3.6
Basic EPS	18.3	24.8	35.6	33.8	51.0
Basic PE (x)	20.8	15.4	10.7	11.3	7.5
Dividend yield (%)	1%	1%	0%	0%	0%

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Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate between 5-15% over a 12-month period
Reduce	Return below 5% over a 12-month period



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