

Q1FY21 Result Update PSP Projects Ltd

Robust topline growth exceeds expectations, Lockdown impacted margins

PSP Projects Ltd (PSP) reported its Q1FY21 numbers. Delay in execution due to lockdown and lack of manpower availability impacted the performance. Revenue in Q1FY21 de-grew by 70% YoY (lower than expectation) to INR 107 cr. Delay in execution across projects in Gujarat and Maharashtra impacted the performance. The company barely remained profitable at EBITDA levels and reported marginal loss of INR 2.22 cr at net profit levels. The company currently has 75-80% labors available at the sites which may impact second quarter performance also. Management did not give any guidance for FY21E revenue and order inflow and wants to wait for one more quarter to get further clarity. However, an orderbook of INR 2,965 cr, a bid pipeline of INR 3,500 cr and strong execution track record made us confident that 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 550.

A disciplined building contractor with strong order book and revenue visibility

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Operation Challenge impacted performance, Strong brand will aid market share gain

Lockdown and lack of labour availability impacted the performance of PSP in Q1FY21. 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 400, the stock is trading at 18x / 9x of FY21E / FY22E EPS. We maintain 'BUY' with a target price of INR 550/share after assigning 12x PE multiple to FY22E EPS of INR 45/share.

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CMP INR: 400

Rating: Maintain BUY

Target Price INR: 550

Upside: 38%

Bloomberg:	PSPPL:IN
52-week range (INR):	576 / 232
Share in issue (cr):	3.6
M cap (INR cr):	1,430
Promoter Holding (%)	73.96

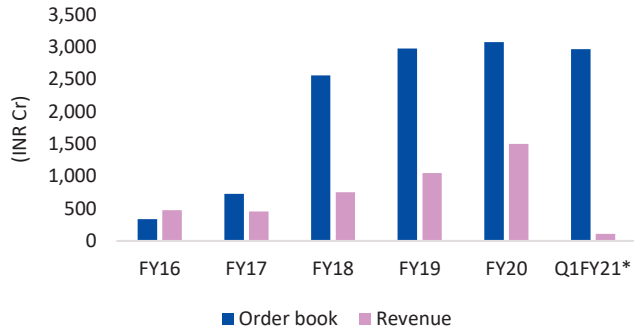
(INR Cr)	Q1FY21	Q1FY20	% change (YoY)	Q4FY20	% change (QoQ)	FY20	FY21E	FY22E
Revenues	107	307	-65%	456	-77%	1499	1259	1727
EBIDTA	1	43	-97%	51	-97%	191	120	233
EBIDTA Margin	1.2%	13.9%	-91%	11.1%	-89%	13%	10%	14%
PAT	-2	26	-109%	34	-106%	128	77	163
PAT Margin	-2.1%	8.3%	-125%	7.6%	-127%	9%	6%	9%
Diluted EPS (INR)	-1	7	-109%	10	-106%	36	22	45
Diluted PE (x)						11	19	9
EV/EBIDTA						7	11	5
ROE(%)						28%	15%	24%

Date: 10th August, 2020

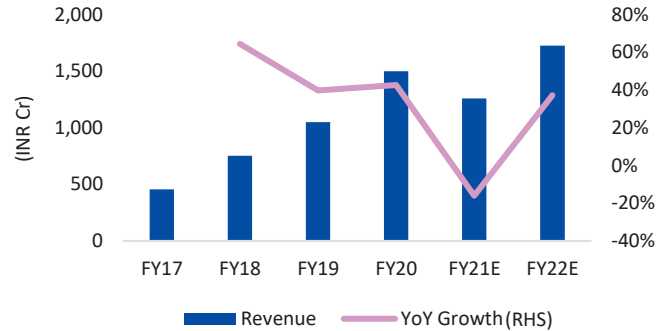
(INR Cr)	Q1FY21	Q1FY20	% change (YoY)	Q4FY20	% change (QoQ)	FY19	FY20	% change (YoY)
Income from operations	107	307	-65%	456	-77%	1050	1499	43%
Direct Expenses	94	247	-62%	386	-76%	849	1236	46%
Employee Cost	10	14	-30%	16	-39%	43	59	38%
Other Expenses	2	3	-37%	4	-49%	10	14	35%
Total operating expenses	106	265	-60%	406	-74%	902	1309	45%
EBITDA	1	43	-97%	51	-97%	149	190	28%
Depreciation and amortisation	6	6	5%	7	-17%	24	27	10%
EBIT	-5	37	-113%	43	-111%	124	164	32%
Interest expenses	3	3	5%	4	-31%	10	15	56%
Other income	5	5	-8%	7	-35%	23	24	7%
PBT	-3	39	-108%	46	-106%	137	173	26%
Provision for tax	-1	14	-105%	12	-106%	48	45	-7%
Core profit	-2	26	-109%	34	-106%	89	128	44%
Extraordinary items	-	-	-	-	-	-	-	-
Profit after tax	-2	26	-109%	34	-106%	89	128	44%
Minority Interest	-	-	-	-	-	-	-	-
Share from associates	-	-	-	-	-	-	-	-
Adjusted net profit	-2	26	-109%	34	-106%	89	128	44%
Equity shares outstanding (Crs)	4	4		4		4	4	
EPS	-1	7	-109%	10	-106%	25	36	-30%
EBITDA Margins	1%	14%		11%		14%	13%	
PAT Margin	-2%	8%		8%		8%	9%	

Source: Edelweiss Professional Investor Research

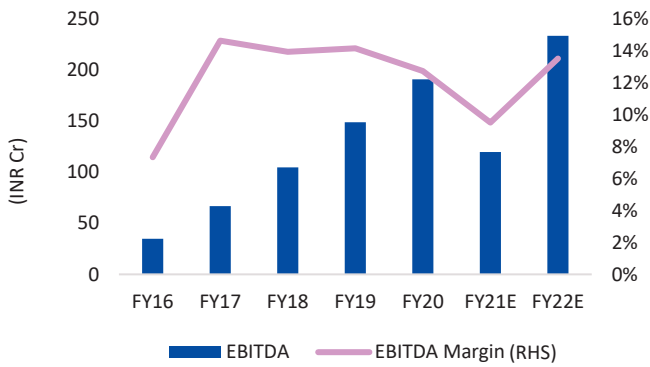
FY18 was a year of inflection mainly due to Surat Diamond Bourses (SDB) order win



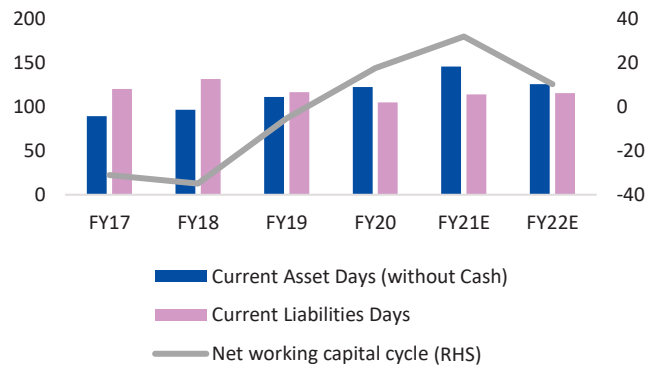
Revenue is expected to comeback strongly in FY22E



Operating profit to maintain momentum



Working capital cycle well in control as per industry standards



Source: Edelweiss Professional Investor Research

Financials

Income Statement (Consolidated)

(INR cr)

Year to March	FY18	FY19	FY20	FY21E	FY22E
Income from operations	752	1,050	1,499	1,259	1,727
Direct Expenses	290	416	535	466	639
Employee Cost	29	43	59	57	69
Other Expenses	329	443	714	617	786
Total operating expenses	647	902	1,309	1,140	1,494
EBITDA	105	149	191	120	233
Depreciation and amortisation	11	24	27	25	31
EBIT	93	124	164	95	202
Interest expenses	9	10	15	12	16
Other income	19	23	24	20	30
Profit before tax	102	137	173	103	217
Provision for tax	36	48	45	26	54
Core profit	66	89	128	77	163
Extraordinary items	0	0	0	0	0
Profit after tax	66	89	128	77	163
Minority Interest	0	0	0	0	0
Share from associates	-0	-0	-0	0	0
Adjusted net profit	66	89	128	77	163
Equity shares outstanding (Crs)	3.6	3.6	3.6	3.6	3.6
EPS (INR) basic	18.3	24.8	35.6	21.5	45.2
Diluted shares (Crs)	3.6	3.6	3.6	3.6	3.6
EPS (INR) fully diluted	18.3	24.8	35.6	21.5	45.2
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	90.5	86.5
Depreciation	1.5	2.3	1.8	2.0	1.8
Interest expenditure	1.2	0.9	1.0	0.9	0.9
EBITDA margins	13.9	14.1	12.7	9.5	13.5
Net profit margins	8.8	8.5	8.5	6.1	9.4

Growth metrics (%)

Year to March	FY18	FY19	FY20	FY21E	FY22E
Revenues	64.5	39.7	42.7	(16.0)	37.2
EBITDA	56.7	42.0	28.3	(37.3)	95.0
PBT	60.1	34.1	26.1	(40.5)	110.1
Net profit after minority interest	59.2	35.2	43.7	(39.6)	110.1
EPS	59.2	35.2	43.7	(39.6)	110.1

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	496	659
Shareholders funds	302	370	454	532	695
Borrowings	28	30	78	78	78
Minority interest	0	1	1	1	1
Sources of funds	330	401	533	611	774
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
Goodwill	0	0	0	0	0
Non Current Assets	68	64	156	161	166
Inventories	34	75	97	93	116
Sundry debtors	123	148	235	229	288
Cash and equivalents	255	248	197	247	447
Loans and advances	19	59	135	180	190
Other current assets	22	37	34	0	0
Total current assets	453	567	698	749	1,041
Sundry creditors and others	135	159	217	393	546
Other Current Liabilities	134	162	212	0	0
Provisions	1	0	1	0	0
Total CL & provisions	270	322	430	393	546
Net current assets	183	245	269	357	495
Net Deferred tax	0	0	0	0	0
Misc expenditure	0	0	0	0	0
Uses of funds	330	401	533	611	774
Book value per share (INR)	92	111	148	170	215

Cash flow statement

(INR cr)

Year to March	FY18	FY19	FY20	FY21E	FY22E
Net profit	66	89	128	77	163
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	141	235
Less: Changes in W. C.	31	120	167	150	100
Operating cash flow	70	28	19	-9	135
Less: Capex	36	47	30	10	50
Less: Investment in subsidiaries	0	0	0	0	0
Free cash flow	34	-19	-11	-19	85

Profit & Efficiency Ratios

Year to March	FY18	FY19	FY20	FY21E	FY22E
ROAE (%)	22%	24%	28%	15%	24%
ROACE (%)	28%	31%	31%	16%	26%
Debtors (days)	60	51	57	66	61
Current ratio	1.7	1.7	1.6	1.9	1.9
Gross Debt/Equity	0.0	0.0	0.0	0.1	0.1
Inventory (days)	16	26	24	27	25
Payable (days)	62	55	53	56	52
Cash conversion cycle (days)	15	22	28	38	34
Gross Debt/EBITDA	0.0	0.0	0.0	0.6	0.3
Net debt/Equity	(0.8)	(0.7)	(0.4)	(0.3)	(0.5)

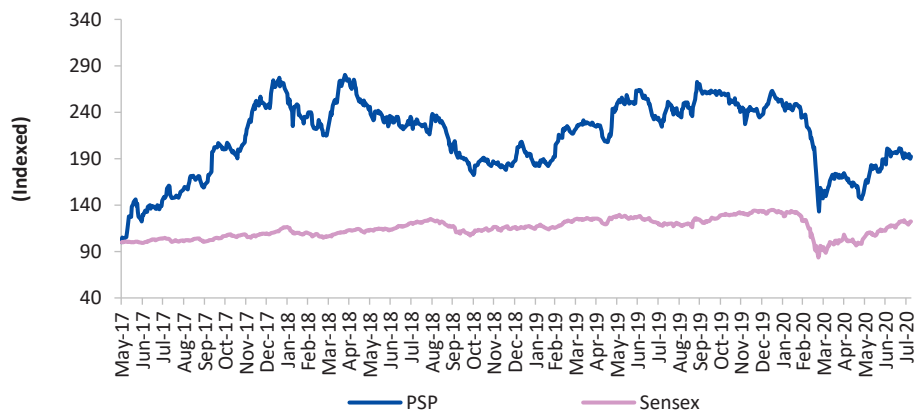
Valuation Parameters

Year to March	FY18	FY19	FY20	FY21E	FY22E
Diluted EPS (INR)	18.3	24.8	35.6	21.5	45.2
Y-o-Y growth (%)	60.1	35.2	43.7	(39.6)	110.1
CEPS (INR)	21.5	31.5	43.0	28.4	53.7
Diluted P/E (x)	21.8	16.1	11.2	18.6	8.9
Price/BV(x)	4.8	3.9	3.2	2.7	2.1
EV/Sales (x)	1.6	1.1	0.8	1.0	0.6
EV/EBITDA (x)	11.3	8.0	6.5	10.6	4.6
Diluted shares O/S	3.6	3.6	3.6	3.6	3.6
Basic EPS	18.3	24.8	35.6	21.5	45.2
Basic PE (x)	21.8	16.1	11.2	18.6	8.9
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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