

PSP Projects Limited

PSP Project Ltd. (PSP) is a multidisciplinary construction company offering a diversified range of construction and allied services across industrial, institutional, government, government residential and residential projects in India. PSP provides services across the construction value chain, ranging from planning and design to construction and post-construction activities to private and public sector enterprises. Historically, PSP has focused on projects in the Gujarat region. PSP has recently diversified its portfolio of services across geographies and is undertaking or has bid for projects pan India. The company's standalone total order book as of March 31, 2017 was ₹729.2Cr, which comprised of 17 institutional projects, 4 industrial projects, 4 government projects and 2 government residential projects. Further, subsidiaries and JV's have total order book of ₹90.9Cr and ₹107.4Cr respectively as of March 31, 2017.

Positives: (a) Strong track record of successful project execution; (b) Long-standing relationships with customers; (c) Leveraging position as a rapidly growing construction company in Gujarat; (d) Augment customer relationships and optimize project mix; (e) Expanding geographical footprint; (f) Experienced management and promoter.

Investment concerns: (a) Historically PSP has executed ~70% of its total projects in Gujarat except three which have been recently added (i.e. two in Rajasthan & one in Karnataka); (b) PSP's aspiration of getting in the higher value projects may not capitalize as that space is highly competitive and dominated by bigger and renowned players; (c) Current strategy of bidding for project of tenure 12-18 months leaves less visibility of future order book vis-à-vis future revenue growth; (d) Margin profile may not be sustainable, as it is function of project mix; (e) Lack of experience in different geographies may escalate the cost of project and delivery.

Outlook and Valuation: In terms of valuation, PSP's P/BV multiple annualised 9MFY2017 at 7.9x, works out to be at premium to peers (Ahluwalia Contracts 5.2x, Nila Infra. 3.3x, JMC projects 1.4x, Prakash Controwell 0.4x, RPP Infra 3.7x). Moreover, PSP is aspiring to get in the higher ticket size projects, which is dominated by well reputed players. Management's lack of experience in diverse geographies and lack of visibility of future order book may become a cause of concern for growth strategy. **Hence, we recommend NEUTRAL rating on the issue.**

Key Financials

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016	9MFY17
Net Sales	257.2	210.4	280.5	476.0	278.5
% chg	44.0	-18.2	33.3	69.7	-
Net Profit	12.3	10.1	14.1	22.7	20.8
% chg	46.4	-17.7	39.4	60.8	6.0
OPM (%)	8.5	8.0	8.0	7.3	11.5
EPS (₹)	4.3	3.5	4.9	7.9	7.2
P/E (x)	49.2	59.8	42.9	26.7	-
P/BV (x)	22.7	17.4	12.9	9.5	-
RoE (%)	46.1	28.9	30.0	34.2	-
EV/Sales (x)	2.2	2.6	1.9	1.1	-
EV/EBITDA (x)	25.9	33.0	24.1	15.0	-

Source: Company, Angel Research; Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

NEUTRAL

Issue Open: May 17, 2017
 Issue Close: May 19, 2017

Face Value: ₹10

Present Eq. Paid up Capital: ₹28.8cr

Offer for Sale: **0.29cr Shares

Fresh issue: ₹151.2 cr

Post Eq. Paid up Capital: ₹36.0cr

Issue size (amount): *₹207cr - **212 cr

Price Band: ₹205-210

Lot Size: 70 shares and in multiple thereafter

Post-issue implied mkt. cap: *₹738cr - **₹756cr

Promoters holding Pre-Issue: 99.99%

Promoters holding Post-Issue: 71.99%

*Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	75% of issue
Non-Institutional	10% of issue
Retail	15% of issue

Post Issue Shareholding Pattern

Promoters	72%
Others	28%

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Company background

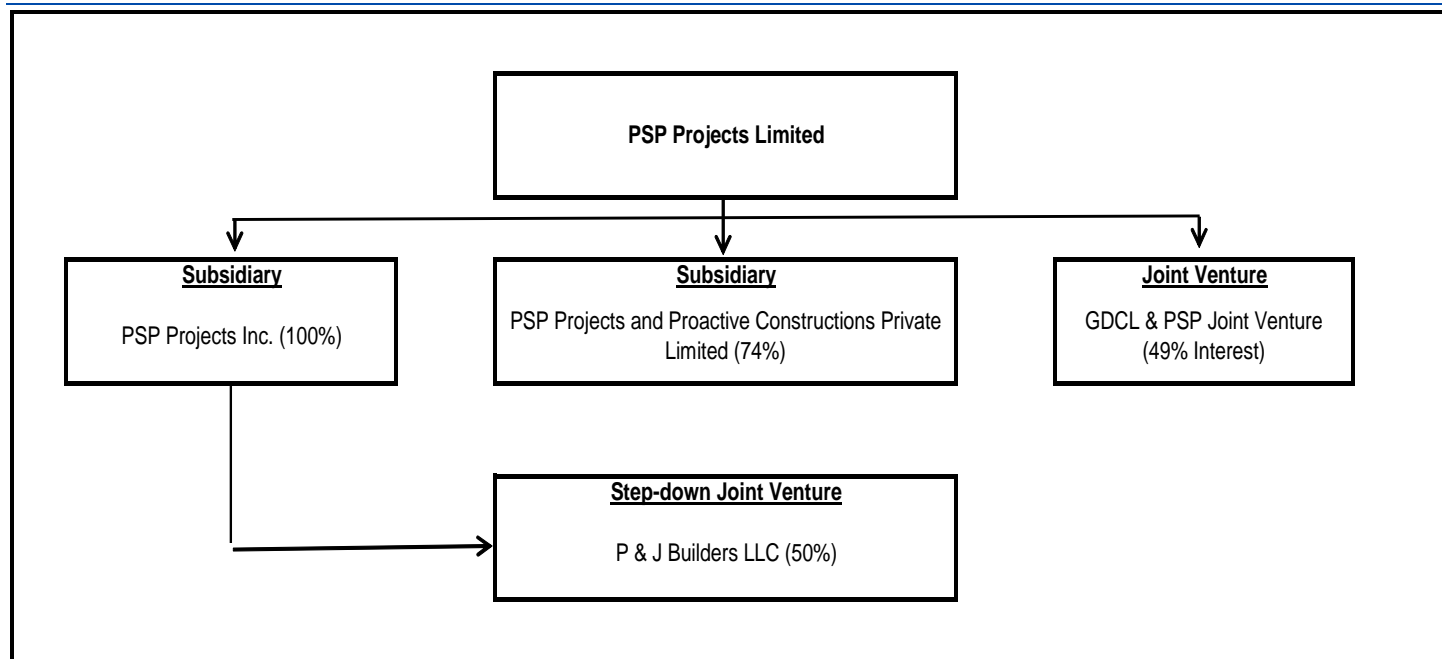
PSP Projects is a multidisciplinary construction company offering a diversified range of construction and allied services across industrial, institutional, government, government residential and residential projects in India. Company provides services across the construction value chain, ranging from planning and design to construction and post-construction activities to private and public sector enterprises. Historically, company has focused on projects in the Gujarat region. PSP has recently diversified its portfolio of services across geographies and is undertaking or has bid for projects pan India.

Over the years, PSP has successfully executed a number of prestigious projects across Gujarat. One of the first major projects that the company had completed was the construction of the GCS Medical College, Hospital and Research Centre (managed by the Gujarat Cancer Society) in June 2012. Subsequently, PSP has successfully executed a number of prestigious projects, including, Inter Alia, the construction and interior works of Swarnim Sankul 01 and 02 at Gandhinagar, Zydus Hospital at Ahmedabad, and various activities in relation to the Sabarmati Riverfront Development project at Ahmedabad. Further, company has completed or is currently undertaking projects for a number of reputed customers, including, Inter Alia, Cadila Healthcare Limited, Care Institute of Medical Sciences Limited (CIMS), Claris Injectables Limited, Emcure Pharmaceuticals Limited, Gelco Electronics Private Limited, GCS Medical College, Hospital and Research Centre (managed by the Gujarat Cancer Society), the Government of Gujarat (through the Executive Engineer, Capital Project Division), Inductotherm (India) Private Limited, Intas Pharmaceutical Limited, Kaira District Co-operative Milk Producers' Union Limited (Amul Dairy), KHS Machinery Private Limited, Nirma Limited, Sabarmati River Front Development Corporation Limited, Torrent Pharmaceuticals Limited and WTC Noida Development Company Private Limited.

Company's execution capabilities have grown significantly with time, both in terms of the size of projects bid for and the number of projects that it executes simultaneously. Since incorporation in August 2008, PSP has executed 80 projects as of March 31, 2017. Company's Chairman and Managing Director and CEO, Prahaladbhai Shivrambhai Patel, who is also a Promoter, has been associated with the construction business for over 30 years and has been instrumental in the growth of Company.

PSP Projects has two subsidiaries namely PSP Projects Inc. (USA, 100%) and PSP Projects and Proactive Constructions Private Limited (74%), and a joint venture between GDCL & PSP where company's economic interest is 49%. P & J Builders LLC is a step down subsidiary of the PSP Projects Inc.

Exhibit 1: Corporate Structure



Source: Company, Angel Research

Issue details

The company is raising ₹151.2cr through a fresh issue of equity shares in the price band of ₹205-210. The fresh issue will constitute ~20% of the post-issue paid-up equity share capital of the company, assuming the issue is subscribed at the upper end of the price band. The company is offering 0.29cr shares that are being sold by the promoter group.

Exhibit 2: Pre and Post-IPO shareholding pattern

	No. of shares (Pre-issue)	(%)	No. of shares (Post-issue)	(%)
Promoters	2,87,96,400	99.99	2,59,16,400	71.99
Others	3,600	0.01	1,00,83,600	28.01
	2,88,00,000	100	3,60,00,000	100

Source: RHP, Angel Research; Note: Calculated on upper price band

Objects of the offer

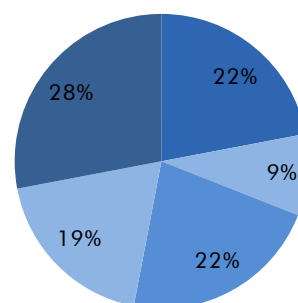
- Funding future working capital requirements of the company (₹63Cr will be utilized).
- Funding capital expenditure requirements of the company (₹52cr will be utilized).
- General corporate purpose.

Investment Rationale

Strong track record of successful project execution:

PSP has established a track record of successfully executing a diverse mix of construction projects. Since incorporation in August 2008, company has executed 80 projects as of March 31, 2017, for a host of corporate, government and other customers across diverse segments. One of the first major projects that had been completed was the construction of the GCS Medical College, Hospital and Research Centre (managed by the Gujarat Cancer Society) in June 2012. Subsequently, it has successfully executed a number of prestigious projects, including, Inter Alia, the construction and interior works of Swarnim Sankul 01 and 02 at Gandhinagar (the office of the Chief Minister and the Cabinet Ministers of the State of Gujarat), the construction of the Zydus Hospital at Ahmedabad, and various activities in relation to the Sabarmati Riverfront Development project at Ahmedabad. A breakdown of the Company's aggregate contract income for the preceding five Fiscals and the nine-month period ended December 31, 2016, on a restated standalone basis, is represented in the chart below:

Exhibit 3: Breakup of Contract Income



■ Industrial ■ Residential ■ Government ■ Government Residential ■ Institutional

Source: Company, Angel Research

The Company's standalone total order book as of March 31, 2017, was ₹729.2cr, which comprised of 17 institutional projects, four industrial projects, four government projects and two government residential projects.

PSP believes that its experienced management skills and execution teams give it a competitive advantage and has contributed significantly in increasing company's project execution capabilities. Over the years, PSP has developed its capabilities across various stages of a typical project life cycle, commencing from business development, tendering, engineering and design, procurement and construction. This has also helped build expertise in executing projects across a wide range of segments such as the construction of manufacturing and processing facilities, hospitals, government buildings, educational institutes, corporate offices and residential buildings, which in turn, enables it to diversify its order book and reduces its dependence on any one sector or type of project. Company believes that over the years, it has developed a reputation for undertaking challenging and

diverse projects in a timely manner, which is reflected by track record of project execution and long-standing relationships with a number of key customers.

Long-standing relationships with customers

Company believes that its reputation for completing projects in a timely manner and focus on quality has helped build strong relationships with its customers. PSP has completed or is currently undertaking projects for a number of reputed customers, including, Inter Alia, Cadila Healthcare Limited, Care Institute of Medical Sciences Limited (CIMS), Claris Injectables Limited, Emcure Pharmaceuticals Limited, Gelco Electronics Private Limited, GCS Medical College, Hospital and Research Centre (managed by the Gujarat Cancer Society), the Government of Gujarat (through the Executive Engineer, Capital Project Division), Inductotherm (India) Private Limited, Intas Pharmaceutical Limited, Kaira District Co-operative Milk Producers' Union Limited (Amul Dairy), KHS Machinery Private Limited, Nirma Limited, Sabarmati River Front Development Corporation Limited, Torrent Pharmaceuticals Limited and WTC Noida Development Company Private Limited.

Further, Company has received additional projects from several of its customers despite increased competition in the region within which the company operates. For example, since incorporation in Fiscal 2009, PSP has executed 14 projects for Cadila Healthcare Limited and its affiliates, six projects for Torrent Pharmaceuticals Limited and its affiliates and four projects for Nirma Limited and its affiliates. Further, company has also executed various works in relation to the Sabarmati Riverfront Development project at Ahmedabad for the Sabarmati River Front Development Corporation Limited. PSP believes that its experienced management team and specifically, Chairman and Managing Director and CEO, Prahaladbhai Shivrambhai Patel, has been instrumental in establishing and preserving these customer relationships. Company intends to continue to leverage these long-standing relationships and continue to grow its business operations in the future.

Leveraging position as a rapidly growing construction company in Gujarat

PSP is a rapidly growing construction company based in Gujarat, and intends to establish itself as one of the leading construction companies in the state. As per the Restated Standalone Financial Statements, the Company's contract income has grown from ₹178.2Cr in FY2012 to ₹454.2Cr in FY2016, at a CAGR of 26.35%, and the Company's profit after tax, as restated, has increased from ₹8.4cr in FY2012 to ₹ 24.9cr in FY2016, at a CAGR of 31.44%. Further, as per the Restated Standalone Financial Statements, the Company's contract income for the nine months ended December 31, 2016, was ₹ 23.9Cr, and the Company's profit after tax, as restated, was ₹21.5Cr. Company intends to continue to focus on undertaking industrial, institutional and government projects in Gujarat, where it believes it has an established reputation associated with quality and a track record of successful execution. As of March 31, 2017, 70.20% of the Company's total order book consisted of projects that we are executing in Gujarat. Company believes that economic growth in Gujarat is expected to result in an increased demand for government and infrastructure, industrial, residential and commercial

projects. Thus, company intends to continue to leverage its growth and increased execution capacities to consolidate its position in the Gujarat market.

Augment customer relationships and optimize project mix

Company intends to further develop its long-standing customer relationships by providing high quality services with the same amount of dedication as it had in the past. Through its robust systems and capable project management teams, company intends to closely monitor client satisfaction and be responsive to its evolving needs. PSP believes that completing customers projects in a timely manner whilst upholding the highest-standards of quality, is the most effective manner in which companies can develop and maintain strong relationships with its customers. Thus, PSP intends to strive to exceed client expectations during every stage of the project life cycle.

To improve profitability and cash flows, company intends to select its future projects carefully and optimize its client mix. Over the years, the scale and complexity of projects has gradually increased and PSP seeks to continue to focus on projects with higher contract value. Further, PSP believe that its financial strength also enables it to access additional bank financing, which in turn, will allow it to bid for larger and more prestigious projects, with opportunities for potentially higher margins. Going forward, company intends to actively access such opportunities to bid for larger and more prestigious projects, with opportunities for potentially higher margins.

Expanding geographical footprint

PSP intends to expand its geographical footprint and grow its business by increasing orders from beyond Gujarat. To control diversification risks, PSP may at first, limit its expansion to other states for undertaking projects first in the areas where its core competencies lie. Through an increasingly diversified portfolio, company hopes to broaden its revenue base and also hedge against risks in specific areas or projects and protect themselves from fluctuations resulting from business concentration in limited geographical areas. With increased experience and success, however, company's rate of expansion may increase in terms of increases in the number of new states and projects it undertakes. In FY2017, the Company was awarded projects in Bangalore, Karnataka, in Churu, Rajasthan, and in Udaipur, Rajasthan and the aforesaid projects constituted 11.56%, 8.39% and 9.85%, respectively, of the Company's total order book as on March 31, 2017. The Company has also bid for projects in Kochi, Kerala, Hyderabad, Telangana and Udaipur, Rajasthan.

PSP believes that geographical diversification of projects will reduce its reliance on home state of Gujarat and allow it to capitalise on different growth trends in different states across the country.

Experienced management and promoter

Company has a qualified and dedicated management team, which is led by Chairman and Managing Director and CEO, Prahaladbhai Shivrambhai Patel,

who is also one of Promoters. Immediately prior to the incorporation of the Company, Prahaladbhai Shivrambhai Patel, had been carrying on the business of civil construction by way of a proprietorship firm, namely BPC Projects, whose business was taken over by the Company in 2009. Company believes that Prahaladbhai Shivrambhai Patel, who has over 30 years of experience in the business of construction, has played a significant role in the development of its business, and benefited from his technical expertise, industry knowledge and customer relationships. Further, management team also comprises of a number of qualified, experienced and skilled professionals, who have several years of experience across various sectors.

Company believes that its management team has been instrumental in the growth of its business operations, customer relationships and reputation. Further, company believes that management team's collective experience and execution capabilities enables it to understand and anticipate market trends, manage the growth and expansion of its business operations, and respond to trends in design, engineering and construction of projects based on the preferences of its customers. Company will continue to leverage on the experience of management team and their understanding of the construction market, particularly in the areas where company operates and proposes to operate, to take advantage of current and future market opportunities.

Outlook and Valuation

In terms of valuation, PSP's P/BV multiple annualised 9MFY2017 at 7.9x, works out to be at premium to peers (Ahluwalia Contracts 5.2x, Nila Infra. 3.3x, JMC projects 1.4x, Prakash Controwell 0.4x, RPP Infra 3.7x). Moreover, PSP is aspiring to get in the higher ticket size projects, which is dominated by well reputed players. Management's lack of experience in diverse geographies and lack of visibility of future order book may become a cause of concern for growth strategy. **Hence, we recommend NEUTRAL rating on the issue.**

Key risks

- Currently there are outstanding legal proceedings involving PSP. Any adverse decision may render it liable to liabilities and may adversely affect its business, operations and profitability.
- Company sources a large part of new orders from its relationships with corporate and other customers, both present and past. Any failure to maintain long-standing relationships with existing customers or forge similar relationships with new ones would have a material adverse effect on company's business operations and profitability.
- If the company is not successful in managing its growth, company's business may be disrupted and profitability may be reduced.

Consolidated Income Statement

Y/E March (Rs cr)	FY2013	FY2014	FY2015	FY2016	9MFY17
Total operating income	257	210	280	476	279
% chg	44.0	(18.2)	33.3	69.7	-
Total Expenditure	235	194	258	441	247
Cost of materials consumed	98	80	132	206	102
Construction & Subcontracting Expenses	119	95	93	205	119
Personnel	6	11	24	14	14
Others Expenses	12	8	9	16	11
EBITDA	22	17	22	35	32
% chg	42.6	(23.8)	33.9	55.9	
(% of Net Sales)	8.5	8.0	8.0	7.3	11.5
Depreciation & Amortisation	4	4	5	7	6
EBIT	18	13	17	27.8	26
% chg	45.1	(28.3)	31.8	61.3	
(% of Net Sales)	7.1	6.2	6.1	5.8	9.4
Interest & other Charges	4	2	2	4	6
Other Income	4	4	7	10	10
(% of PBT)	20.5	28.4	30.6	28.9	34.0
Exceptional Items	-	-	-	-	-
Recurring PBT	18	15	21	34	31
% chg		(15.3)	38.0	59.5	
Tax	6	5	7	12	10
PAT (reported)	12	10	14	22	21
% chg		(17.8)	39.6	55.3	
(% of Net Sales)	4.8	4.8	5.0	4.6	7.4
Basic & Fully Diluted EPS (Rs)	4.3	3.5	4.9	7.9	7.2
% chg		(17.7)	39.4	60.8	

Consolidated Balance Sheet

Y/E March (` cr)	FY2013	FY2014	FY2015	FY2016	9MFY17
SOURCES OF FUNDS					
Equity Share Capital	1	1	1	3	29
Reserves & Surplus	26	34	46	61	56
Shareholders Funds	27	35	47	64	85
Minority Interest	-	-	-	0	0
Total Loans	13	25	33	46	86
Deferred Tax Liability	-	-	-	-	-
Total Liabilities	40	60	80	110	171
APPLICATION OF FUNDS					
Net Block	18	19	33	54	53
Capital Work-in-Progress	-	-	0	-	-
Investments	3	9	13	14	17
Goodwill	-	-	-	0	0
Current Assets	79	109	140	183	222
Inventories	2	2	4	10	19
Sundry Debtors	12	14	24	20	13
Cash	45	68	85	112	145
Loans & Advances	16	19	14	27	33
Other Assets	4	6	13	14	12
Current liabilities	61	76	107	143	125
Net Current Assets	18	32	33	40	97
Deferred Tax Asset	0	0	0	2	3
Mis. Exp. not written off	-	-	-	-	-
Total Assets	40	60	80	110	171

Source: Company, Angel Research

Consolidated Cash Flow Statement

Y/E March (Rs cr)	FY2013	FY2014	FY2015	FY2016	9MFY17
Profit before tax	18	15	21	34	31
Depreciation	4	4	5	1	6
Change in Working Capital	10	8	15	55	(25)
Interest / Dividend (Net)	0	0	0	0	0
Direct taxes paid	(5)	(5)	(7)	42	(10)
Others	(0)	(2)	(5)	(132)	(5)
Cash Flow from Operations	26	20	30	0	(4)
(Inc.)/ Dec. in Fixed Assets	4	(4)	3	(27)	7
(Inc.)/ Dec. in Investments	(2)	(37)	(28)	27	(16)
Cash Flow from Investing	2	(41)	(26)	0	(9)
Issue of Equity	4	4	6	(27)	8
Inc./(Dec.) in loans	0	0	(0)	(0)	(1)
Others	(17)	5	(2)	29	29
Cash Flow from Financing	(14)	9	4	1	36
Inc./(Dec.) in Cash	15	(12)	8	1	23
Opening Cash balances	69	84	72	82	82
Closing Cash balances	84	72	81	84	105

Key Ratios

Y/E March	FY2013	FY2014	FY2015	FY2016
Valuation Ratio (x)				
P/E (on FDEPS)	49.2	59.8	42.9	26.7
P/CEPS	37.8	44.0	31.5	20.9
P/BV	22.7	17.4	12.9	9.5
EV/Sales	2.2	2.6	1.9	1.1
EV/EBITDA	25.9	33.0	24.1	15.0
EV / Total Assets	14.3	9.2	6.8	4.8
Per Share Data (Rs)				
EPS (Basic)	4.3	3.5	4.9	7.9
EPS (fully diluted)	4.3	3.5	4.9	7.9
Cash EPS	5.5	4.8	6.7	10.1
Book Value	9.2	12.1	16.3	22.2
Returns (%)				
ROCE	45.7	21.8	21.6	25.4
ROE	46.1	28.9	30.0	34.2
Turnover ratios (x)				
Inventory / Sales (days)	3	3	5	8
Receivables (days)	17	24	31	16
Payables (days)	50	69	82	63

Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

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