

# PSP Projects Ltd.

Market Capital: ₹ 1,522.80 Cr.  
Enterprise Value: ₹ 1,400.91 Cr.  
No. Of Shares: ₹ 3.60 Cr.  
Div. Yield: 1.18%

52 Week High: ₹ 506  
52 Week Low: ₹ 336.75  
Face Value: ₹ 10



## PSP Projects Ltd.

## Buy

We recommend a Buy position on PSP Projects Ltd. with a medium to long-term view owing to strong government push, the future of precast projects, prudent capital allocation, infrastructural demand and new policies.

| Consolidated ( cr )      | FY2020 | FY2019 | FY2018 |
|--------------------------|--------|--------|--------|
| Sales                    | 1,499  | 1,044  | 729    |
| Net Profit Margin (%)    | 8.62   | 8.64   | 8.81   |
| Dividend/Share (Rs.)     | 5.00   | 5.00   | 5.00   |
| EBIT                     | 189    | 147    | 108    |
| Basic EPS                | 35.91  | 25.07  | 18.45  |
| ROE ( % )                | 28.27  | 24.29  | 21.26  |
| ROCE ( % )               | 40.96  | 40.96  | 40.96  |
| D/E ( % )                | 0.16   | 0.07   | 0.06   |
| Asset Turnover Ratio (%) | 156.28 | 142.91 | 142.91 |
| P/E ( % )                | 9.05   | 18.21  | 24.39  |
| P/B ( % )                | 2.53   | 4.46   | 5.35   |
| EV/EBITDA ( % )          | 4.79   | 8.49   | 11.81  |
| P/S ( % )                | 0.77   | 1.59   | 2.22   |

## Shareholding Pattern

| Shareholding %     | FY2020 |
|--------------------|--------|
| Promoters          | 74.19% |
| Promoter's Pledged | 0.00%  |
| FII's              | 1.27%  |
| DII's              | 5.41%  |
| Public             | 19.13% |
| Others             | 0.0%   |
| Total              | 100%   |

## Investment Hypothesis

### Government Push

Gujarat forms a crucial part of the order book contributing almost 60% and the contribution from revenue almost up to 95%. A large part of this order book comes from projects given by the government. Plans such as GIFT city (a fin-tech city), DREAM city and the smart city project serve as a major opportunity considering the company's successful hold over previous projects like the Surat diamond project.

The company plans on diving into aviation. This provides an incentive considering the announcement of UDAAN scheme which plans on developing 400 regional airport. The government's continued investments under flagship programs such as the Bharatmala scheme, 100 Smart Cities Mission, Housing for All 2022, the Atal Mission for Urban Rejuvenation and Transformation (AMRUT), Pradhan Mantri Gram Sadak Yojana (PMGSY), Make in India, and Power for All (PFA) are expected to drive the growth in construction.

### Exciting Future

While Gujarat remains the core market, the company is well-positioned to tap new construction projects in and around GIFT City Gandhinagar, Dream City, Surat, and noteworthy Gujarat Industrial Development Corporation (GIDC) projects at Sanand, Dahej, Becharaji etc. The company has also established itself in other zones of India by delivering several quality projects in Maharashtra, Rajasthan, Uttar Pradesh, and Karnataka. The portfolio includes affordable housing, aside from Smart City and institutional construction along with industrial and marquee government projects. A state-of-the-art manufacturing plant for precast concrete building and allied infrastructure elements near Sanand, Gujarat is being set up. The plant will have an annual production capacity of 3 Mn sq. ft. once fully operational. We are currently undertaking the first phase of the facility, which will have an annual production capacity of 1 Mn sq. ft. The first phase is slated to be operational soon. The plant will empower the efforts to drive seamless quality, speed in delivery, larger volumes in a controlled environment and reduce dependence on manpower. This facility will also strengthen the technical capabilities to execute all ongoing projects. Further, it will produce a wide range of products used in infrastructure and general development projects, which can be sold directly to infrastructure companies, EPC contractors, real estate developers, thereby enhancing our service offerings.

## Precast Project

PSP is setting up a 3mn sq. ft precast concrete plant near Sanand, Gujarat for Rs750 mn (land cost of Rs200-250 mn) to be operational, for Phase-I of 1mn sq.ft. It will be financed through internal accruals. This plant will improve quality, reduce time and labour requirements. PSP intends to cater to both captive and third-party precast demand and envisages payback period to be ~5 years. The company believes that whilst cost of construction under precast is higher by ~10% vis-à-vis conventional RCC, it leads to gains in terms of quality and shorter completion timelines. Apart from this, the capex run rate will come down as equipment is to be redeployed from projects nearing completion. Private contract designs are largely consultant or client driven and, hence, projects are built in-situ. PSP is building awareness and client education for use of this technology. Few products from this plant may be used for captive purposes. Large use can be for affordable housing projects under PMAY which PSP has in Maharashtra.

## Prudent Capital Allocation

In a capital-intensive sector, PSP projects stand apart for having developed the capability of executing projects without deploying large amounts of capital. For most of the projects, the company receives upfront mobilization advance from clients. This advance is used for purchasing raw materials and some initial equipment, if required. On the other hand, the upfront margin money given to banks to get performance bank guarantees is generated from internal funds. The ways in which the company has built capital efficiency and predictability into execution makes them viable for repeated orders and new wins from clients.

## Infrastructural Demand

As the government plans to invest about 100 Lakh Crores in the infrastructure sector over the next five years; the construction industry in India is expected to become the 3rd largest construction market globally by 2022. Further, there is a growing demand for space from certain institutional sectors. Demand from the healthcare segment has been on the rise, driven by rising incomes, greater health awareness, increasing lifestyle diseases, and higher access to insurance. Education sector, on the other hand, has been witnessing growth on the back of favorable policy reforms and increasing number of schools and institutions. Our strong track record across healthcare, education and FMCG positions us well to benefit from new construction activity within these segments. The Government has also earmarked 102 trillion infrastructures as part of the National Infrastructure Pipeline over the next five years. In addition, game-changing policies such as GST and RERA have changed the face of the real estate sector and are expected to benefit the residential segment.

## New policies

The Real Estate Regulation Act (RERA), introduced in 2016, has brought uniformity in the residential real estate market, increased transparency in real estate deals, improved accountability of builders, and protected the interests of buyers from the malpractices of unfair builders, which in turn has led to increased demand. Other factors that drove real estate sales during the year include availability of a wide range of flexible property loans from NBFCs and digital lenders; income tax rebates on home loans; Credit Linked Subsidy Scheme; no floor rise cost; discounts and freebies offered by builders. The Department of Industrial Policy and Promotion has set up Japan Plus and Korea Plus to facilitate and fast-track investment proposals from Japan and South Korea

## Projects

### Industrial

These projects primarily involve the construction of industrial buildings for pharmaceutical plants, food processing units, engineering units and manufacturing and processing facilities. PSP Projects has significant experience in undertaking industrial projects that cater to the specialized needs of pharmaceutical manufacturers. Some of the significant industrial projects completed by the company in the past include constructing the manufacturing and processing facilities for customers such as Torrent Pharmaceuticals Limited, Nirma Limited, Intas Pharmaceuticals Limited, Cadila Healthcare Limited, Claris Injectables Limited, KHS Machinery Private Limited and Inductotherm (India) Private Limited.

### Institutional

Institutional projects typically involve the construction of buildings for hospitals and healthcare services, educational institutes, malls, hospitality services and corporate offices. Some of the major institutional projects completed by us in the past include the construction of Zydus Hospital, GCS Medical College, Hospital and Research Centre (managed by the Gujarat Cancer Society), and the CIMS Hospital.

### Government

Government projects such as the construction and interior work of Swarnim Sankul 01 and 02 at Gandhinagar, various works in relation to the Sabarmati Riverfront Development project at Ahmedabad, the interior work for the ICEM Building at Ahmedabad and the Vidhansabha of Gujarat.

The Sabarmati Riverfront Development project aims to provide Ahmedabad with a meaningful waterfront environment along the banks of the Sabarmati River and to redefine the identity of Ahmedabad around the river.

### Government Residential

'Mukhyamantri Gruh Yojana' - Mukhya Mantri GRUH Yojana where GRUH stands for "Gujarat Rural Urban Housing" is an affordable housing scheme

especially designed for home seekers belonging to EWS and LIG category of the society.

## Residential

Residential projects typically involve the construction of buildings for group housing and townships, as well as independent residences for select private customers.

## Sector Overview

The growth of this sector is well complemented by the growth in the corporate environment and the demand for office space as well as urban and semi-urban accommodations. Due to the presence of such a huge population the country is witnessing an acute shortage of housing. Increase in the population gives rise to the demand for the dwelling. There is also increasing migration from rural to urban areas of India for employment. The migrating population also gives rise to the demand for housing. It is also expected that this sector will incur more non-resident Indian (NRI) investment, both in the short term and the long term. By 2040, the real estate market will grow to Rs 65,000 crore (US\$ 9.30 billion) from Rs 12,000 crore (US\$ 1.72 billion) in 2019. Real estate sector in India is expected to contribute 13% to the country's GDP by 2025. Rapid urbanisation in the country is pushing the growth of real estate. >70–75% of India's GDP is contributed by urban areas by 2020.

The GDP and real estate sector of India are interlinked with each other. With a rise in GDP, employment increases due to investment in infrastructure and business. This leads to an increase in income and purchasing power of people. As purchasing power increases, demand for housing (rental and purchase) also rises. Therefore, the prices of the property also increase in that region.

The real estate market is vibrant, healthy, and vigorously competitive. Technology innovation in the real estate industry is robust, and the notion that real estate isn't highly competitive and listing data not readily available is unsubstantiated.

Government is also coming up with various types of policies which are favourable for the sector. The following are some of them:

- 'Housing for All' initiative is expected to bring US\$ 1.3 trillion investment in the housing sector by 2025
- Allowed FDI of up to 100% for townships and settlements development projects.
- Under Pradhan Mantri Awas Yojana (Urban) (PMAY (U)), 1.12 crore houses have been sanctioned in urban areas, creating 1.20 crore jobs.

## Company

### OVERVIEW

PSP Projects Limited 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. It provides its services across the construction value chain, ranging from planning and design to construction and post-construction activities, including MEP work and other interior fit-outs to private and public sector enterprises. Historically, it was more focused on projects in the Gujarat region. More recently, it has actively expanded its geographical presence to other states and diversified its portfolio of services.

Our execution capabilities have grown significantly with time, both in terms of the size of projects that we bid for and execute, and the number of projects that we execute simultaneously.

PSP Projects is currently constructing the world's biggest office complex (Surat Diamond Bourse) having Contract Value of Rs. 1575 Cr and 66 Lakhs Sq. Ft Built-up area.

## Peer Comparison

| Company                     | MCAP      | P/B  | P/E   | EPS   | ROE(%) | ROCE(%) | P/S   | EV/EBITA |
|-----------------------------|-----------|------|-------|-------|--------|---------|-------|----------|
| PSP Projects Ltd.           | 1,544.40  | 3.11 | 20.77 | 20.66 | 31.20  | 40.68   | 1.03  | 9.92     |
| Kolte Patil Developers Ltd. | 1,860.21  | 2.16 | 0     | -1.01 | 7.73   | 13.39   | 2.61  | 40.89    |
| Sobha Limited               | 4,840.93  | 2.13 | 48.22 | 10.59 | 13.26  | 22.50   | 1.29  | 9.41     |
| Phoenix Mill Ltd            | 14,877.18 | 3.52 | 50.90 | 17.00 | 5.30   | 7.02    | 33.47 | 36.87    |

### Kolte Patil Developers Ltd.

Revenue: 83 Cr

Net Profit: -9 Cr.

Employees: 973

Founded nearly 3 decades ago, Kolte-Patil Developers is a leading real estate company with a dominant presence in the Pune residential market. Kolte-Patil Developers Ltd. incorporated in 1991, is headquartered in Pune and is listed on NSE and BSE (BSE: 532924, NSE: KOLTEPATIL).

The company has been creating landmarks right from the start and has developed and constructed over 50 projects including residential complexes, commercial complexes and IT Parks covering a saleable area of ~20 million square feet across Pune, Mumbai and Bengaluru.

The Company's long-term bank debt and non-convertible debentures have been rated 'STABLE' by CRISIL, the highest rating accorded by CRISIL to any publicly listed residential real estate player in India.



## Sobha Limited

Revenue: 670 Cr  
 Net Profit: 23 Cr.  
 Employees: 3,184

SOBHA Limited was founded in 1995 by P.N.C. Menon. The company has also executed projects for some of India's corporate houses, including Infosys, WIPRO, HCL, Dell, Bosch, Biocon, Taj Group of Hotels and ITC Hotels. The company is also planning to invest INR 500 crore residential development in Gujarat International Finance Tec-City (GIFT City). The company changed its name to "Sobha Ltd" on 18 August 2014. They have achieved growth with backward integration in the construction and real estate development business in India. Their long-term performance has been supported by the in-house production of construction items and furniture. The company has a geographic presence in 27 cities in 14 states. Internationally, Sobha Ltd has operations running in Oman and Dubai as Sobha Realty.

## Phoenix Mill Ltd

Revenue: 337 Cr  
 Net Profit: 60 Cr.  
 Employees: 3,993

Incorporated in 1905, Phoenix Mills started as a textile manufacturing company. It is engaged in the property development business. In 1987, the company forayed into the real estate market by developing High Street Phoenix. In 1992, the company built its first multi-storied residential towers which were built on Phoenix Mills Land. In The company has subsidiaries namely Pallazzio Hotels and Leisure, Bellona Finvest, Marketcity Developers and Kalani Holdings. Under this company is engaged in the development of malls. Company flagship development High Street Phoenix has emerged as the most frequented destination in Mumbai. The company has a strategic alliance with Pantaloon group which owns major brands like Big Bazaar and Pantaloon. The company has developed malls under the name Phoenix Market City located at Mumbai, Pune, Bangalore and Chennai. The company is also spread in Hospitality, Entertainment as well as Commercial Sector.

## Related to Industry

Industries related to real estate sector are:

### Ports, roads and railways Industry

Growth potential and Private sector participation in the road sector, construction of new roads, railway tracks and railway stations, development of airports along with addition of new runways and terminal buildings and different government policies favouring the infrastructure development serves as various opportunities for real estate firms.

### Agriculture and allied industries

Different firms engaged in construction of pipelines and agricultural developments are benefited from development in the agriculture sector.

### Steel, Cement, Metals and mining

Real estate sector has a high dependence on these industries as the raw materials for construction includes steel, cement and different metals. Hence, the real estate sector is sensitive to price and quantity supply fluctuations in steel and cement industries.

### Chemical and paint

Real Estate industry has a low dependence on Chemical and paint industry as they provide some raw materials used in construction activities.

### Entertainment (hotels etc.)

Hospitality real estate market growth is directly inclined to the tourism industry. Currently, key themes shaping the sector include globalization, technology, innovation, and consolidation. Large-scale mergers & acquisitions, cross-border investments, and technology, such as data analytics, have changed the global landscape for hospitality real estate.

### Demographics

Demographics are the data that describes the composition of a population, such as age, race, gender, income, migration patterns, and population growth. These statistics are an often overlooked but significant factor that affects how real estate is priced and properties are demand. Major shifts in the demographics of a nation can impact real estate trends for several decades.

## Government Policies/Subsidies -

Legislation is also another factor that can have a sizable impact on property demand and prices. Tax credits, deductions, and subsidies are some of the ways the government can temporarily boost demand for real estate for as long as they are in place. Being aware of current government incentives can help you determine changes in supply and demand and identify potentially false trends.

## The economy -

Another key factor that affects the value of real estate is the overall health of the economy. This is generally measured by economic indicators such as the GDP, employment data, manufacturing activity, the prices of goods, etc.

Broadly speaking, when the economy is sluggish, so is real estate.

The cyclical nature of the economy can have varying effects on different types of real estate. For example, if a REIT has a larger percentage of its investments in hotels, it would typically be more affected by an economic downturn than a REIT that had invested in office buildings. Hotels are a form of property that is very sensitive to economic activity due to the type of lease structure inherent in the business. Renting a hotel room can be thought of as a form of short-term lease that can be easily avoided by hotel customers should the economy be doing poorly. On the other hand, office tenants generally have longer-term leases that can't be changed in the middle of an economic downturn. Thus, although you should be aware of the part of the cycle the economy is in, you should also be cognizant of the real estate property's sensitivity to the economic cycle.

## Risks and Concerns

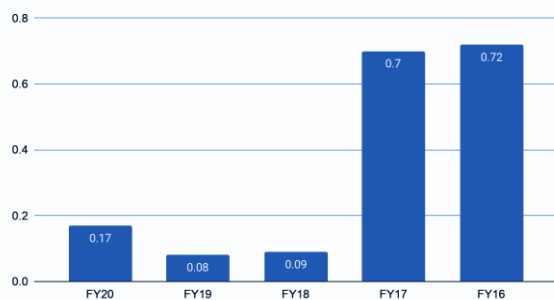
**Construction cost** - The cost of completion will be fundamental to the financial viability of the project as the financial assumptions and ratios are all dependent on the assumed cost of construction of the project. The lenders will need some mechanism to manage the risk if the project company's cost of completion increases as compared with that anticipated at financial close. The project company will also seek to lock in certain costs such as costs of commodities, as early as possible in the project, so as to limit price escalation.

**Social risk** - Infrastructure projects generally have an important impact on local communities and quality of life, in particular delivery of essential services like water and electricity or land intensive projects like toll roads. Project impact on society, consumers and civil society generally, can result in resistance from local interest groups that can delay project implementation, increase the cost of implementation and undermine project viability. This social risk should be high on a lender's due diligence agenda, though it often is not. The lenders and project companies often look to the grantor to manage this risk. The grantor in turn may underestimate its importance, since the social risk paradigm for public utilities is very different, the grantor may not have experience of its implications for private investors.

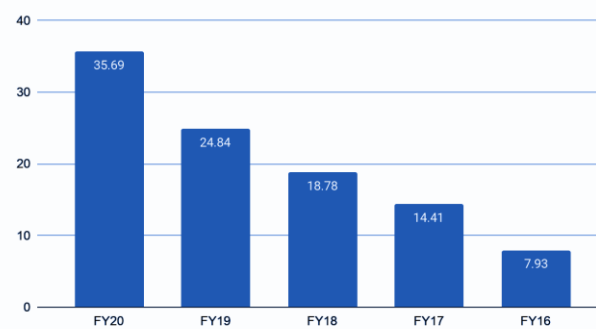
**Currency Exchange Risk** - Project finance debt is often sourced from foreign lenders, in foreign currencies, yet project revenues are generally denominated in local currency. Where the exchange rate between the currency of revenue and the currency of debt diverge, the cost of debt can increase, often dramatically. Though under the theory of purchasing power parity, inflation pressures on the devalued currency will eventually bring the foreign exchange rate back to parity, project finance lenders are generally not prepared to wait quite so long (with average periods of about 10 years).

**Environmental Risk** - Environmental and social laws and regulations will impose liabilities and constraints on a project. The cost of compliance can be significant, and will need to be allocated between the project company and the grantor. In order to attract international lenders, in particular IFIs, the project must meet minimum environmental and social requirements that may exceed those set out in applicable laws and regulations.

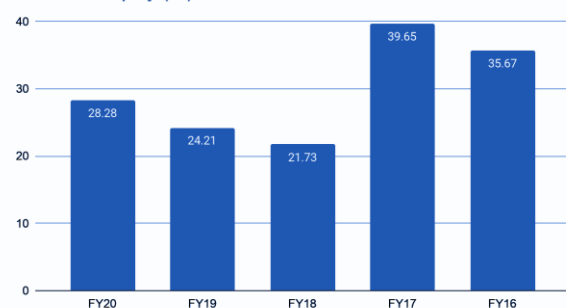
D/E Ratio



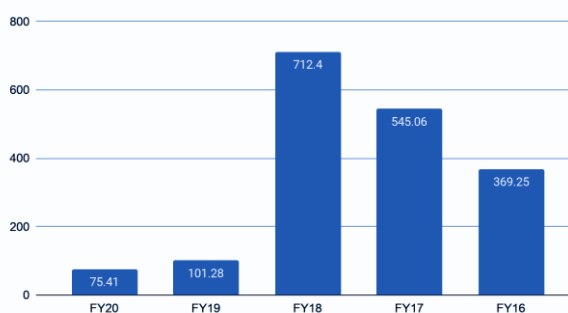
EPS



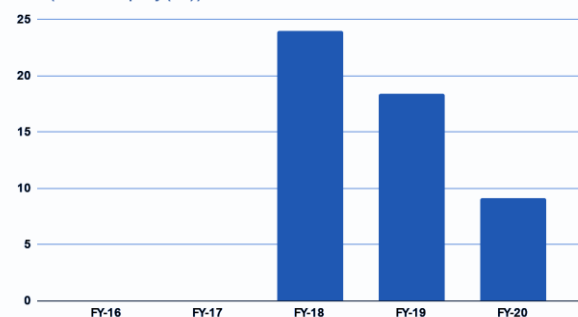
Return on Equity (%)



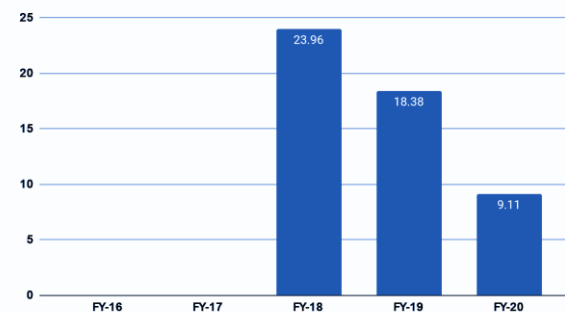
3 Yr CAGR Net Profit



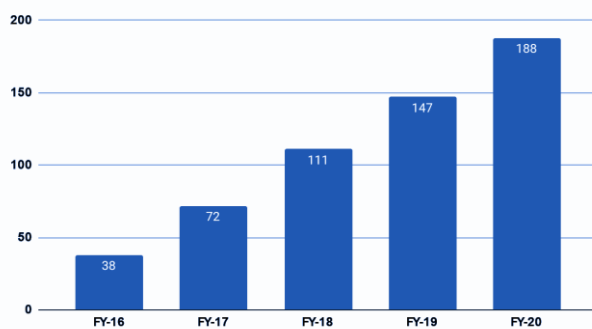
P/E (Profit/Equity(%))



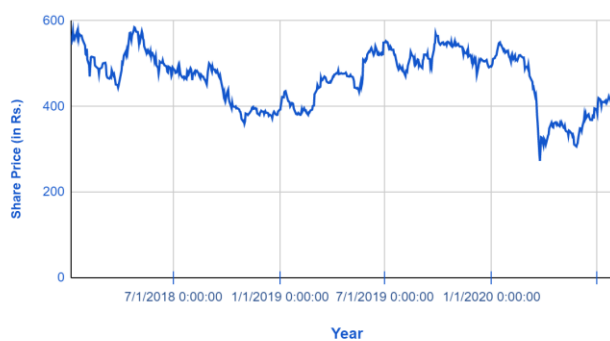
ROCE(Return on Capital Employed)



EBIT



Share Price vs. Year



## Summing up:

We recommend a **BUY** position on PSP Projects Ltd. with a medium to long-term view owing to following:

- Strong Government Push
- Exciting upcoming Future
- Precast Project
- Prudent Capital Allocation
- Infrastructural Demand
- New policies

After looking at sector growth from recent years, and policies that the government has made recently, we expect a high growth in the real-estate sector.

The following industries are directly or indirectly related to Real-estate sector:

- Ports, roads and railways
- Agriculture and allied industries
- Steel, Cement, Metals and mining
- Chemical and paint
- Entertainment (hotels etc.)

Any major change in these sectors will strongly affect the growth of the Real-estate industry.

PSP-Projects is strongly placed to face the competition and its management is constantly trying to come up with new policies to take it's growth further.

Made by:

---

**Sudhanshu Bhatia**

Former Fund Manager

+918399023228

[Sudhansh18@iitg.ac.in](mailto:Sudhansh18@iitg.ac.in)

**Yash Chapalgaonkar**

Former Fund Manager

+919509481262

[yashchapalgaonkar@gmail.com](mailto:yashchapalgaonkar@gmail.com)

**Ishant Khurana**

Fund Manager

+918930790887

[i.khurana@iitg.ac.in](mailto:i.khurana@iitg.ac.in)

**Dheeraj Nahar**

Fund Manager

+918094850283

[dnahar@iitg.ac.in](mailto:dnahar@iitg.ac.in)

**Neeraj Ravva**

Fund Member 2020

+919511908092

[rneeraj@iitg.ac.in](mailto:rneeraj@iitg.ac.in)

**Daksh Jain**

Core Team Member

+918290650000

[j.daksh@iitg.ac.in](mailto:j.daksh@iitg.ac.in)

**Anoushka Menon**

Design Head

+919443816227

[a.menon@iitg.ac.in](mailto:a.menon@iitg.ac.in)