

PSP PROJECTS

Rating: ◀▶ | Target price: ▲ | EPS: ◀▶

CMP
Rs. 520

Target Price
Rs. 660

Rating
BUY



ONE YEAR OUTLOOK

Business & Earnings ◀▶

- PSP Projects reported a good quarter with the highest-ever quarterly revenues of Rs. 4.8bn (up 24% YoY). EBITDA margins came in at 15.3% (+330bps vs 3QFY21, +130bps vs 2QFY22) mainly due to execution of last vestiges of key major projects such as Kashi Vishwanath Temple and Surat Diamond Bourse – which resulted in finalization of bills and reversal of provisions; hence unlikely to recur; however, it augurs well for the company.
- The company has a strong bid pipeline of Rs. 35bn consisting primarily of a) a package in Central Vista project (~Rs. 11.7bn), b) a sports complex in Ahmedabad (Rs. 6bn) and c) a residential real estate project in Mumbai (Rs. 3bn) to name a few large ones. The possibility of qualifying and hence winning the Central Vista project (especially after it being technically qualified for projects worth Rs. 20bn post the completion of Surat Diamond Bourse project) is an exciting proposition for the company. We are positive on PSP Projects as we believe the company can grow in double digits if it can convert such large opportunities to reality.
- Improvement in construction opportunity in the Healthcare Infra segment is a boon. We expect the company to register a revenue CAGR of 24% over FY22E-24E with a similar PAT CAGR. Given this strong upside in execution visibility over the next two years, we maintain our BUY rating.

Valuation Multiples ◀▶

- We continue to be positive on building contractors and expect this CAPEX revival by Centre /State governments to remain strong in the upcoming quarters. We ascribe a multiple of 12x P/E to FY24E earning to arrive at a TP of Rs. 660/share (rolling forward to our FY24E EPS) & retain our “BUY” rating on the stock.

FINANCIAL SUMMARY - Standalone

	NET SALES (Rs. mn)	EBITDA %	PAT	EPS	P/E	ROE (%)
FY20	14,993	12.7%	1,293	35.9	14.5	31%
FY21	12,409	10.9%	809	22.5	23.1	16%
FY22E	17,003	13.6%	1,489	41.4	12.6	25%
FY23E	21,157	12.5%	1,742	48.4	10.7	23%

THREE YEAR OUTLOOK

Business & Earnings ◀▶

- We are positive on the company from a long-term perspective as well, since we believe the pandemic has spurred spending in a few spaces – healthcare infrastructure and real estate. Given “Public Health & Hospital” is a State subject, the primary responsibility to provide adequate medical facilities in public health care centres across the country falls on the State governments. To facilitate them, the Central government extends financial support through the Pradhan Mantri Swasthya Suraksha Yojana –this program is old, but the pandemic has given it renewed momentum – and the allocation to Healthcare jumped 137% in the FY22E Union Budget. Also, there is a Rs. 340bn opportunity in the near-term to build/upgrade All India Institutes of Medical Sciences, Hospitals and Medical Colleges across the country. All these are likely to benefit PSP Projects as it is increasingly concentrating on winning orders in this space.
- Pandemic-induced monetary policies have resulted in low interest rates (expected to encourage borrowing for mortgage); this coupled with the undeniable need to own a house amidst the “work from home” culture have come as a shot in the arm for the real estate sector. This was apparent from new launches that several organised real estate developers announced in FY22. We expect this momentum to continue in the medium-term; given PSP Projects has the ability to make a mark in the residential space as well, the upcoming opportunity is likely to be beneficial to the company.

Valuation Multiples ◀▶

- We expect PSP projects to deliver 110% returns over a 3-year period, assuming an exit multiple of 12x on our FY25E EPS to arrive at TP of Rs. 1070/ share and cumulative dividends of Rs. 20/ share.

KEY ESTIMATES REVISION

	FY22E			FY23E		
	Old	New	Change	Old	New	Change
Sales	15,821	17,003	7%	21,422	21,157	-1%
EBITDA %	12.9%	13.6%		12.5%	12.5%	
PAT	1,327	1,489	12%	1,791	1,742	-3%
EPS	36.9	41.4	12%	49.7	48.4	-3%
Target	Before: P/E		12x	After: P/E		12x

All figures in Rs.Mn

OUTLOOK REVIEW 3QFY22

28 January 2022

Industry	INFRASTRUCTURE
Key Stock Data	
Bloomberg	PSPPL IN
Shares o/s	36mn
Market Cap	Rs. 21bn (\$0.3bn)
52-wk High-Low	Rs. 588-394
3m ADV	Rs. 104mn (\$1mn)
Index	BSE SMALL CAP
F&O	NO

Latest Shareholding (%)			
	Dec-20	Mar-21	Jun-21
Promoters	74.2	74.2	70.2
Institutions	7.1	6.7	7.4
Public	18.8	19.1	22.4
Public	-	-	-

Stock Performance (%)			
	1m	3m	12m
PSPPL IN	23.3	12.8	40.5
Sensex	-1.1	-4.5	22.2

RESEARCH ANALYSTS

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Quarterly Financial Statement

- 3QFY22 Standalone Revenue stood at Rs. 4856mn, up 24% yoy.
- 3QFY22 Standalone EBITDA came in at Rs. 741mn, up 58% yoy.
- EBITDA margin for the quarter stood at 15.3% vs. 12.0% in the same period last year. Sequentially in 2QFY22, EBITDA margin was 14.0%.
- Strong revenue growth was reflected in PAT. PAT for 3QFY22 came in at Rs. 469mn (vs. Rs. 279mn in 3QFY21).
- Kashi Vishwanath Corridor was inaugurated on 13th December 2021 by honorable Prime Minister Shri Narendra Modi.
- Successfully exited investments in a US Subsidiary by selling the stake for a consideration of USD 10,000.
- Order Inflow during 9MFY22 was at Rs.9780 mn.

Standalone Financial Results								
Rs. mn \ Period	3QFY21	3QFY22	YoY Growth	2QFY22	QoQ Growth	9MFY21	9MFY22	YoY Growth
Revenue from Operations	3,902	4,856	24%	3,904	24%	7,401	11,934	61%
Cost of raw materials	1,420	1,302	-8%	1,255	4%	2,525	3,588	42%
Construction & Contracting expenses	1,829	2,573	41%	1,894	36%	3,676	6,014	64%
Employee benefit expenses	137	164	20%	155	6%	367	471	28%
Other Expenses	47	77	64%	52	46%	105	179	70%
Total Expenses	3,432	4,116	20%	3,357	23%	6,674	10,252	54%
EBITDA	469	741	58%	547	35%	728	1,682	131%
EBITDA margin (%)	12.0%	15.3%		14.0%		9.8%	14.1%	
Other income	38	76	100%	46	65%	131	160	22%
Depreciation	64	94	46%	70	33%	189	218	16%
Finance expenses	30	98	224%	38	159%	101	169	67%
PBT	413	625	52%	485	29%	568	1,454	156%
Taxes	106	156	47%	120	31%	140	368	163%
PAT	307	469	53%	366	28%	428	1,086	153%
EPS (in Rs./Share)	8.5	13.0	53%	10.2	28%	11.9	30.2	153%

Financial Summary

Consolidated Financial Statements

Rs. mn	FY17	FY18	FY19	FY20	FY21	FY22e	FY23e	FY24e
Profit & Loss								
Revenue	4,448	7,516	10,504	14,993	12,409	17,003	21,157	26,180
Gross profit								
EBITDA	671	1,045	1,486	1,907	1,349	2,316	2,645	3,272
Depreciation	79	115	243	267	256	293	328	386
EBIT	592	930	1,243	1,640	1,093	2,022	2,316	2,886
Other Income	134	187	228	242	167	167	178	219
Interest expense	79	93	97	151	150	218	186	193
Exceptional items	0	0	0	0	0	0	0	0
PBT	647	1,024	1,374	1,731	1,109	1,971	2,309	2,912
Reported PAT (after minority interest)	416	660	892	1,280	834	1,478	1,731	2,184
Adj PAT	416	660	892	1,280	834	1,478	1,731	2,184
EPS (Rs.)	14.5	18.3	24.8	35.6	23.2	41.1	48.1	60.7
Balance Sheet								
Net Worth	1,053	3,025	3,702	4,549	5,359	6,657	8,208	10,212
Deferred Tax	-28	-28	-59	-70	-97	-104	-104	-104
Total debt	750	302	311	798	737	737	737	737
Other liabilities and provisions	735	1,415	1,746	2,114	1,218	913	1,495	1,195
Total Networth and liabilities	2,509	4,714	5,699	7,392	7,217	8,204	10,337	12,041
Gross Fixed assets	856	1,213	1,686	2,000	2,339	2,802	3,290	3,870
Net fixed assets	521	781	1,032	1,079	1,162	1,332	1,491	1,685
Capital work-in-progress	0	18	0	0	416	0	0	0
Goodwill	0	0	0	0	0	0	0	0
Investments	179	190	5	7	7	-30	-30	-30
Cash and bank balances	1,066	2,280	2,222	1,968	2,290	1,798	2,866	3,283
Loans & advances and other assets	867	1,144	1,802	3,186	2,783	3,461	3,990	4,629
Net working capital	-125	302	637	1,152	559	1,644	2,019	2,473
Total assets	2,509	4,714	5,699	7,391	7,217	8,204	10,337	12,041
Capital Employed	1,774	3,299	3,953	5,277	5,999	7,291	8,842	10,846
Invested Capital (CE - cash - CWIP)	567	851	1,731	3,309	3,292	5,493	5,976	7,563
Net debt	-317	-1,977	-1,911	-1,170	-1,553	-1,060	-2,129	-2,545
Cash Flows								
Cash flows from Operations (Pre-tax)	70	1,098	690	710	968	409	2,500	2,097
Cash flows from Operations (post-tax)	-75	681	211	155	735	-84	1,923	1,369
Capex	-64	-657	-394	-330	-792	-47	-488	-580
Free cashflows	-138	24	-184	-175	-57	-131	1,435	789
Free cashflows (post interest costs)	-201	-28	-233	-247	-141	-349	1,249	596
Cash flows from Investing	-35	-1,207	-226	-80	52	-10	-488	-580
Cash flows from Financing	220	813	-258	-18	-44	-398	-366	-373
Total cash & liquid investments	1,207	2,431	2,222	1,968	2,290	1,798	2,866	3,283

Source: Company data, Spark Capital Research

Financial Summary

	FY17	FY18	FY19	FY20	FY21	FY22e	FY23e	FY24e
Growth ratios								
Revenue	-6.6%	69.0%	39.7%	42.7%	-17.2%	37.0%	24.4%	23.7%
EBITDA	92.4%	55.8%	42.2%	28.3%	-29.2%	71.6%	14.2%	23.7%
Adj PAT	88.4%	58.6%	35.2%	43.5%	-34.9%	77.3%	17.1%	26.1%
Margin ratios								
Gross								
EBITDA	15.1%	13.9%	14.1%	12.7%	10.9%	13.6%	12.5%	12.5%
Adj PAT	9.4%	8.8%	8.5%	8.5%	6.7%	8.7%	8.2%	8.3%
Performance ratios								
Pre-tax OCF/EBITDA	10.4%	105.0%	46.5%	37.2%	71.7%	17.6%	94.5%	64.1%
OCF/IC (%)	-13.2%	80.0%	12.2%	4.7%	22.3%	-1.5%	32.2%	18.1%
RoE (%)	49.1%	32.4%	27%	31%	16.8%	25%	23%	23.7%
RoCE (%)	34.7%	29.7%	27.3%	31.0%	17.4%	25.5%	23.8%	24.1%
RoCE (Pre-tax)	50.8%	44.1%	40.6%	40.8%	22.3%	32.9%	30.9%	31.5%
RoIC (Pre-tax)	294.0%	131.2%	96.2%	65.1%	33.1%	46.0%	40.4%	42.6%
Fixed asset turnover (x)	5.4	7.3	7.2	8.1	5.7	6.6	6.9	7.3
Total asset turnover (x)	2.1	2.1	2.0	2.3	1.7	2.2	2.3	2.3
Financial stability ratios								
Net Debt to Equity (x)	(0.3)	(0.7)	(0.5)	(0.3)	(0.3)	(0.2)	(0.3)	(0.2)
Net Debt to EBITDA (x)	(0.5)	(1.9)	(1.3)	(0.6)	(1.2)	(0.5)	(0.8)	(0.8)
Interest cover (x)	(0.9)	7.3	2.2	1.0	4.9	(0.4)	10.3	7.1
Inventory days	-10	15	22	28	16	35	35	34
Working capital days	-38	-34	-5	18	24	57	48	55
Valuation metrics								
Fully Diluted Shares (mn)	29	36	36	36	36	36	36	36
Market cap (Rs.mn)		18,720						
P/E (x)	36.0	28.4	21.0	14.6	22.5	12.7	10.8	8.6
P/OCF(x)	(250.0)	27.5	88.8	120.7	25.5	(221.8)	9.7	13.7
EV (Rs.mn) (ex-CWIP)	18,263	16,592	16,809	17,550	17,167	17,660	16,591	16,175
EV/ EBITDA (x)	27.2	15.9	11.3	9.2	12.7	7.6	6.3	4.9
EV/ OCF(x)	(243.9)	24.4	79.8	113.2	23.4	(209.3)	8.6	11.8
FCF Yield	-0.7%	0.1%	-1.0%	-0.9%	-0.3%	-0.7%	7.7%	4.2%
Price to BV (x)	17.8	6.2	5.1	4.1	3.5	2.8	2.3	1.8
BPS (Rs./ share)	36.6	84.0	102.8	126.4	148.9	184.9	228.0	283.7
Dividend pay-out (%)	17.3%	27.3%	20.2%	14.1%	0.0%	12.2%	10.4%	8.2%
Dividend yield (%)	0.5%	1.0%	1.0%	1.0%	0.0%	1.0%	1.0%	1.0%

Source: Company data, Spark Capital Research

Earnings Call Notes

- EBITDA margin expansion in 3QFY22 is due to near completion of major projects (Kashi Vishwanath Temple project, Surat Diamond Bourse project), unlikely to recur
- Has bid for Executive Conclave as part of Central Vista where there is potential for another Rs. 150bn project yet to be awarded; Vishwanath Temple all over India is being planned – company will bid for them
- Rs. 9.78bn inflow 9MFY22
- Rs. 35bn bid pipeline of which 49% pvt, 60% from Gujarat – major projects – central vista – Rs. 11.70bn, Rs. 6bn sports complex in Ahmedabad, residential project in Mumbai for Rs. 3bn, corporate headquarters for a Company of Rs. 2bn in Ahmedabad, pharma expansion factory of Rs. 2bn, factory project at Surat Rs. 1.5bn, steel plant expansion project Rs. 1.5bn
- Pre-Cast facility fully commissioned; Rs. 1.09bn investment so far, has obtained an order to use this from L&T. Maximum Rs. 3bn of revenue per annum could be generated from this facility
- Exited PSP's stake in USA subsidiaries in the quarter
- Surat Diamond Bourse almost completed, expect to be hand over to client by end of 4QFY22; Company will be certified to bid for ~Rs. 20bn of project size post this
- Medical college and hospital projects in U.P. – all projects have started, revenue generation has started
- Maharashtra Projects update: Bhiwandi project – still held up, waiting for cost escalation to be approved; Pandarpur project – received letter from council that they would be paying Rs. 60mn out of the contested Rs. 200mn
- Company has total Credit facilities of Rs. 10.47bn – utilised Rs. 5.43bn, Rs. 840mn – fund-based, Rs. 4.69bn non-fund-based
- Rs. 2.15bn total Fixed Deposits, Rs. 430mn as free FDs, Rs. 1.66bn – lien with banks for credit facilities, Rs. 60mn – Fixed Deposit given as security deposit to clients
- Rs. 17bn order inflow expected in FY2022E
- Rs. 17-18bn revenues expected for inFY22E, with an EBITDA margin of 12-13%
- FY23E revenue growth of ~20% yoy expected
- Debtor days - 71, creditor days - 46, inventory days - 17 – net working capital days 43

Crystal Ball Gazing

We forecast the revenue to grow at a CAGR of ~32% over FY22-25E with a strong execution visibility across projects. We expect EBITDA to sustain ~13% with FY21 being an exception. Cash flow generation to remain healthy with Pre-Tax OCF/EBITDA conversion of ~60% over FY22-FY25E.

Revenue to grow at a CAGR of ~30% for FY22-25E

Standalone	FY16-FY17	FY18-FY21	FY22-FY25E
Revenues CAGR	-12.5%	32.7%	32.0%
Gross Margin			
EBITDA CAGR	67.7%	19.6%	36.7%
EBITDA margin	12.5%	12.9%	12.8%
EPS CAGR	65.3%	18.1%	41.2%
Total Asset Turnover (x)	2.6	2.0	2.4
Total WC days	-44	-3	97
Pre-tax OCF/EBITDA (%)	88%	68%	57%
Post Tax OCF as a % of IC	-178%	48%	17%
Debt/EBITDA	(1.3)	(1.6)	(0.7)

Return metrics to remain stable and attractive in industry

Standalone	FY16-FY17	FY18-FY21	FY22-FY25E
RoE (%)	46.2%	26.4%	24.8%
RoCE (%)	31.8%	26.4%	25.1%
RoIC (%)	175.7%	118.4%	48.4%
Average 1 yr fwd			
PE (x)		14.5	11.6
EV/EBITDA (x)		8.3	6.7
PB (x)		3.3	2.3
Peak 1 yr fwd			
PE (x)		27.3	13.7
EV/EBITDA (x)		16.0	8.1
PB (x)		5.6	2.7

With project execution reviving in full swing, the stock can rerate to a higher multiple in the future

P/E multiple	FY25E EPS	Price target (Rs./ Share)
6x	89	537
9x	89	805
12x	89	1,073

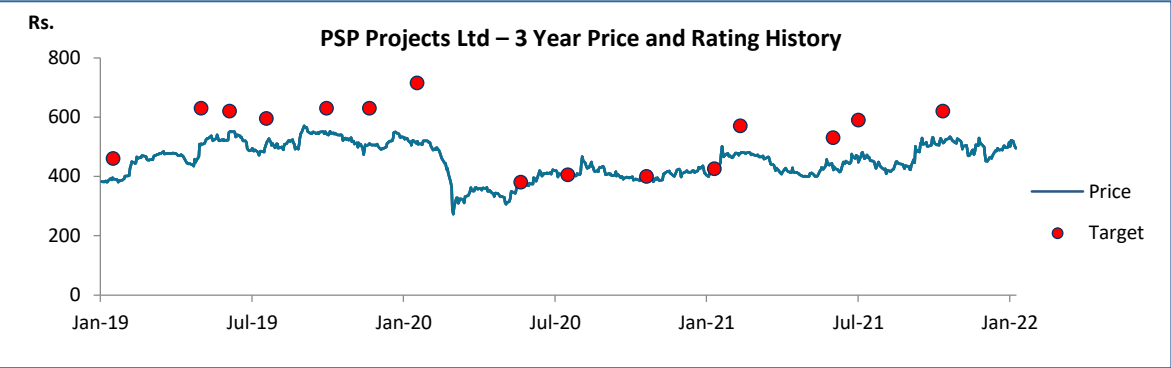
Entry = Rs. 520 @ 12x FY23E P/E

Cumulative Dividends of Rs. 20/
share

Strong EPS CAGR of 40% with
same Exit Multiple of 12x P/E

Total
Return of
110%

Spark Recommendation History



Absolute Rating Interpretation

BUY	Stock expected to provide positive returns of >15% over a 1-year horizon
ADD	Stock expected to provide positive returns of >5% – <15% over a 1-year horizon
REDUCE	Stock expected to provide returns of <5% – -10% over a 1-year horizon
SELL	Stock expected to fall >10% over a 1-year horizon

Symbol Interpretation

◀▶ No Change | ▼ Downgrade | ▲ Upgrade

Report Date	CMP (Rs.)	TP (Rs.)	Reco.
28-Oct-21	530	620	BUY
20-Jul-21	460	590	Buy
21-Jun-21	440	530	BUY
02-Mar-21	470	570	Buy
28-Jan-21	416	425	Add
10-Nov-20	390	400	Add
06-Aug-20	400	405	Add
11-Jun-20	375	380	Add
10-Feb-20	510	715	Buy
13-Dec-19	510	630	Buy
24-Oct-19	550	630	Buy
13-Aug-19	496	595	Buy
01-Jul-19	550	620	Buy
28-May-19	510	630	Buy
12-Feb-19	395	460	Buy

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