28 January 2022

PSP Projects

New orders, the key to sustainable growth

Rating: NR

Share Price: Rs.578

PSP's Q3 FY22 was good, with a comforting pace of execution, strong operating profitability and a contained working-capital cycle. Order additions continued, but revenue assurance, adjusted for the slow/non-moving orders, seems good only for the immediate future. To keep growth going without any gap, it would need to add more. Its strong immediate bid-pipeline, hence, augurs well, and the bid-pipelines tilt in favour of PSP's home-region, too, is an augury. The recent commissioning of the pre-cast unit, too, is a positive, as it is likely to pave the way for the company to broadbase its service offerings. The leverage is comforting, and unlikely to pose any challenge to a scale-up in operations.

Pre-cast facility gets going. The company recently received its maiden pre-cast order from L&T, and commenced revenue recognition. Though small (~Rs0.5bn), management sees completion of this order (targeted by Jun'22) to set the stage for it to showcase its abilities and aim for larger orders (from L&T and others). Management holds the annual revenue potential of this facility at ~Rs3bn, subject to change based on the project-/order-mix.

Guidance largely held. With execution expected to gain further momentum in the coming quarter (Q4, generally seasonally strong), management expects to end the year with Rs17bn-17.5bn revenue (~Rs11.9bn already attained in 9M FY22). For growth beyond, management sees potential to grow ~20% annually. The EBITDA margin guidance was held at 12-13%.

Assurance needs attention. *Prima facie,* the end-Q3 FY22 ~Rs40.08bn OB implies a respectable ~2.4x book-to-bill. Adjusted for the two slow/non-moving Maharashtra orders (~Rs7.3bn), however, revenue assurance, at ~1.9x, leaves us desiring more. Management looks to the immediate Rs35bn bid-pipeline (~60% in its home state, Gujarat), and subsequent tendering for its FY22 targeted ~Rs17bn additions (~Rs7bn Q4 additions implied).

Valuation. At the CMP, the stock trades at 13.9x TTM EPS of Rs41.5. We do not have a rating for the company. **Risk:** Delays in order additions.

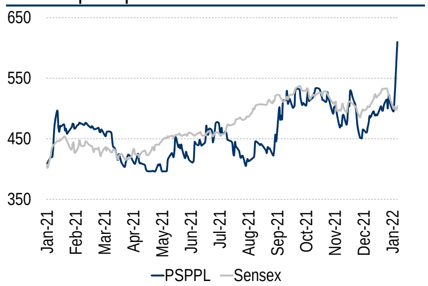
Key financials (YE Mar)	FY17	FY18	FY19	FY20	FY21
Sales (Rs m)	4,008	7,298	10,440	14,993	12,409
Net profit (Rs m)	416	644	902	1,293	835
EPS (Rs)	14.4	17.9	25.1	35.9	23.2
Growth (%)	66.9	23.8	40.2	43.2	-35.4
P/E (x)	14.5	25.1	18.3	9.0	20.0
EV / EBITDA (x)	8.4	13.8	9.8	5.4	11.3
P/BV (x)	5.6	5.3	4.5	2.5	3.1
RoE (%)	48.2	31.4	26.8	31.2	16.8
RoCE (%)	50.7	43.8	41.3	41.1	22.2
Net debt / equity (x)	-0.4	-0.7	-0.5	-0.3	-0.3

Source: Company

Key data	PSPPL IN / PSPP.BO
52-week high / low	Rs.624 / 394
Sensex / Nifty	57949 / 17333
3-m average volume	$1.4m
Market cap	Rs.20.8bn / $277m
Shares outstanding	36m

Shareholding pattern (%)	Dec'21	Sep'21	Jun'21
Promoters	70.2	69.9	74.2
- of which, Pledged	-	-	-
Free float	29.8	30.1	25.8
- Foreign institutions	1.7	1.3	1.0
- Domestic institutions	5.7	4.9	4.0
- Public	22.4	23.9	20.8

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations (standalone)

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY17	FY18	FY19	FY20	FY21
Order backlog	7,292	25,590	29,780	30,736	41,210
Order inflows	7,918	25,582	14,150	15,780	22,815
Net revenues	4,008	7,298	10,440	14,993	12,409
Growth (%)	*-12.5*	*82.1*	*43.0*	*43.6*	*-17.2*
Direct costs	3,255	6,199	8,851	12,949	10,911
SG&A	93	87	99	134	150
EBITDA	659	1,013	1,489	1,910	1,348
EBITDA margins (%)	*16.5*	*13.9*	*14.3*	*12.7*	*10.9*
Depreciation	76	112	242	267	256
Other income	134	185	230	248	169
Interest expenses	75	87	92	146	147
PBT	642	999	1,385	1,744	1,114
Effective tax rate (%)	*35.2*	*35.6*	*34.9*	*25.9*	*25.0*
+ Associates / (Minorities)	-	-	-	-	-
Net income	416	644	902	1,293	808
Adjusted income	416	644	902	1,293	835
WANS	29	36	36	36	36
FDEPS (Rs / sh)	14.4	17.9	25.1	35.9	23.2

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY17	FY18	FY19	FY20	FY21
Share capital	288	360	360	360	360
Net worth	1,071	3,027	3,714	4,571	5,380
Debt	677	216	263	748	810
Minority interest	-	-	-	-	-
DTL / (Assets)	-15	-18	-49	-58	-92
Capital employed	1,733	3,225	3,928	5,262	6,098
Net tangible assets	503	763	1,021	1,065	1,149
Net intangible assets	5	7	10	14	12
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	-	18	-	-	416
Investments (strategic)	76	44	44	44	8
Investments (financial)	141	151	-	-	-
Current assets (ex cash)	1,389	2,604	3,964	6,444	5,938
Cash	1,018	2,232	2,217	1,967	2,288
Current liabilities	1,399	2,595	3,329	4,273	3,714
Working capital	-10	9	635	2,171	2,224
Capital deployed	1,733	3,225	3,928	5,262	6,098
Contingent liabilities	1,178	2,577	3,401	4,045	3,674

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY17	FY18	FY19	FY20	FY21
PBT + Net interest expense	584	901	1,247	1,643	1,092
+ Non-cash items	76	112	242	267	256
Oper. profit before WC chg.	659	1,013	1,489	1,910	1,348
- Incr. / (decr.) in WC	524	18	626	1,536	53
Others including taxes	226	355	483	452	279
Operating cash-flow	-91	639	381	-78	1,017
- Capex (tang. + intangibles)	71	392	486	314	756
Free cash-flow	-163	247	-105	-392	261
Acquisitions	-	-	-	-	-
- Dividend (incl. buyback & taxes)	-	108	217	434	-
+ Equity raised	-	1,419	-	-	-
+ Debt raised	222	-464	16	477	27
- Fin. investments	36	-21	-151	-0	-36
-Net interest expense + Misc.	(57)	(99)	(140)	(100)	4
Net cash-flow	80	1,214	-15	-250	320

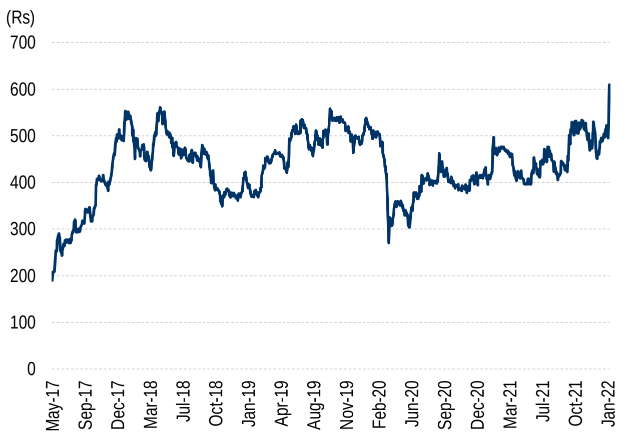
Source: Company

Fig 4 – Ratio analysis

Year-end: Mar	FY17	FY18	FY19	FY20	FY21
P/E (x)	14.5	25.1	18.3	9.0	20.0
EV / EBITDA (x)	8.4	13.8	9.8	5.4	11.3
EV / Sales (x)	1.4	1.9	1.4	0.7	1.2
P/B (x)	5.6	5.3	4.5	2.5	3.1
RoE (%)	48.2	31.4	26.8	31.2	16.8
RoCE (%)	50.7	43.8	41.3	41.1	22.2
Sales / FA (x)	7.9	9.3	10.1	13.9	7.9
DPS (Rs / sh)	-	2.5	5.0	10.0	-
Dividend yield (%)	-	0.6	1.1	3.1	-
Dividend payout (%) - incl. DDT	-	16.8	24.0	33.6	-
Net debt / equity (x)	-0.4	-0.7	-0.5	-0.3	-0.3
Receivables (days)	49	58	50	55	65
Inventory (days)	3	17	26	24	26
Payables (days)	63	61	55	53	76
CFO : PAT %	-22.0	99.3	42.2	-6.1	121.7

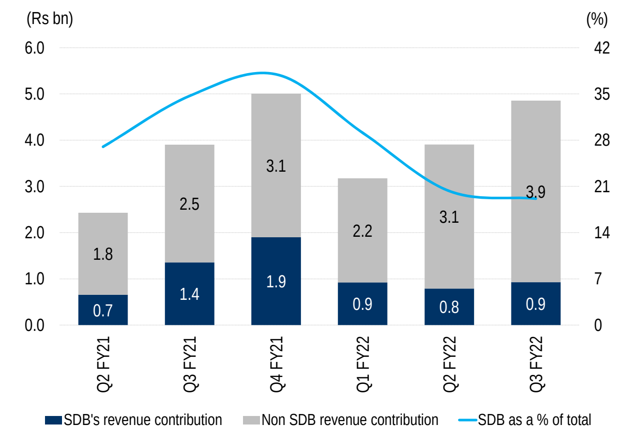
Source: Company

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Quarterly revenue trend



Source: Company

Result / concall highlights

Income statement

- **Comforting pace of execution.** A brisk pace of execution at the Shri Kashi Vishwanath Dham project and continuing healthy progress at the Surat Diamond Bourse hold the key to comforting Q3 revenue from operations of ~Rs4.9bn (up ~24% y/y and q/q). The performance could have been better were it not for the protracted monsoon, and the consequent less-than-expected contribution from the Uttar Pradesh healthcare orders (medical colleges and hospitals).
  - The Shri Kashi Vishwanath Dham and the Surat Diamond Bourse orders together accounted for ~45% of the Q3 revenue from operations.
  - With execution at the Uttar Pradesh healthcare orders set to gather pace (they contributed ~Rs0.38bn in Q3, ~Rs0.5bn monthly run-rate targeted in Q4), and as some of the recently added orders turn contributing / contribute better, management eyes ~Rs6bn revenues in Q4, and consequently, Rs17bn-17.5bn for FY22.
  - Management continues to see potential for an annualised secular 20% growth rate in its line of business as possible.

Fig 7 – Financial highlights – Shri Kashi Vishwanath Dham, key contributor; SDB, followed

(`m)	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	% Y/Y	% Q/Q
Sales	1,069	2,431	3,902	5,007	3,174	3,904	4,856	*24.5*	*24.4*
EBITDA	13	245	469	621	394	547	741	*57.8*	*35.4*
EBITDA margins (%)	*1.2*	*10.1*	*12.0*	*12.4*	*12.4*	*14.0*	*15.3*	*322bps*	*124bps*
Interest	29	42	30	46	34	38	98	*223.9*	*159.3*
Depreciation	62	63	64	68	54	70	94	*45.7*	*33.5*
Other income	48	45	38	38	38	46	76	*100.2*	*64.7*
Exceptional items	-	-	(27)	-	-	-	-	-	-
PBT	(30)	185	385	546	344	485	625	*62.3*	*28.8*
Tax	(8)	41	106	139	93	120	156	*47.1*	*30.6*
PAT	(22)	144	279	407	251	366	469	*68.0*	*28.2*
Adj. PAT	(22)	144	307	407	251	366	469	*53.0*	*28.2*

Source: Company

- **Inspiring margin.** With the lion's share of Q3 revenue from two near-complete orders and as these entailed final cost adjustments (based on actual BOQs), the EBITDA margin expanded ~322bps y/y (~124bps q/q) to ~15.3%. The margin performance could have been even better were it not for provisioning for the stuck Bhiwandi project and the impairment of exposure to a subsidiary.
  - Adjusting for the ~Rs52m provision, Q3 EBITDA margin could have been ~16.3%. Of the total, ~Rs31.6m pertained to the stuck Bhiwandi housing project (after ~Rs29m was provided in Q2); the balance ~Rs20m relates to impaired exposure to a subsidiary.
  - Management does not see the recent margin performance (Q3 or Q2 reported margin) as sustainable; it expects the margin to revert to a normal 12-13%.
- **Earnings, led by operations.** Full capitalisation of the pre-cast unit led to higher depreciation (an additional charge of ~Rs20m in Q3). And

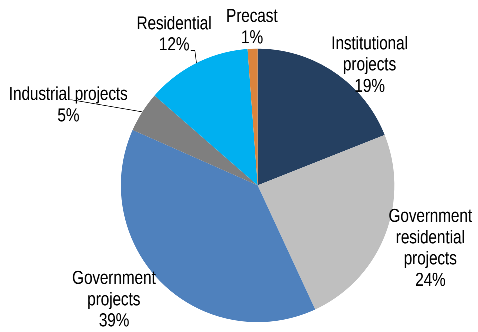
finance costs were higher on greater mobilisation advances, higher utilisation of working-capital limits and term loans for the recently commercialised pre-cast unit. Nevertheless, the strong operating profitability was still good to help deliver an inspiring ~53% y/y (~28% q/q) higher adjusted PAT.

- The earnings performance was also supported by the recovery of the earlier-provided exposure to a subsidiary. The recovery added ~Rs21.4m to the quarter's other income.

Order backlog / inflows / scope

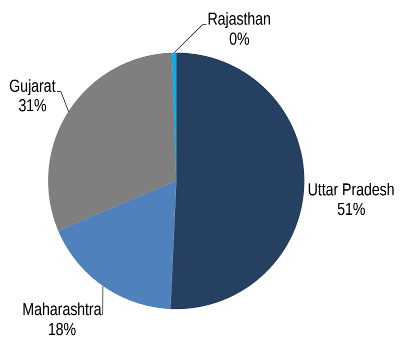
- PSP saw success with three orders of aggregate ~Rs3.4bn EPC potential. With this, the 9M FY22 order additions are a respectable ~Rs9.8bn.
- With Q3 additions short of covering the works executed in the quarter, the end-Q3 OB was down ~Rs1.4bn q/q to ~Rs40.08bn.
  - The sequentially compressed OB and higher TTM revenue from operations meant the book-to-bill ratio softens to ~2.4x, from ~2.6x the quarter prior.
  - However, one of its two public-sector housing projects in Maharashtra (Bhiwandi) is still under litigation; slow progress is seen in the second (Pandharpur) on payment issues.
  - Adjusted for the above two orders (~Rs7.3bn combined), the OB works out to ~Rs32.8bn, and the book-to-bill drops to ~1.9x. The assurance is good to deliver in the immediate future, but leaves us desiring more as significant delay in additions could create a void.

Fig 8 – Government projects, the majority



Source: Company

Fig 9 – Uttar Pradesh dominant, led by healthcare orders



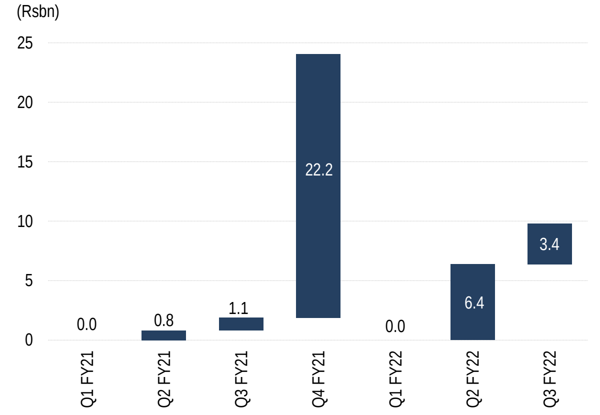
Source: Company

- Management is not overly concerned, and hopes to add orders in time that meet its margin/profitability requirements. Having faced issues with the two public housing projects in Maharashtra, it intends to further strengthen its pre-bid due diligence.
- It sees ~Rs17bn of new orders in FY22 as sufficing to keep growth going in the foreseeable future. Given this, 9M FY22 orders added of ~Rs9.8bn imply it needs to add at least ~Rs7bn in Q4 FY22. It does not rule out potential to the targeted FY22 order additions.
- For this, the immediate bid-pipeline has been identified at ~Rs35bn. This comprises ~Rs11.7bn of the Central Vista project, ~Rs6bn of the Sports Complex in Ahmedabad, ~Rs3bn of

residential development in Mumbai, and other prospects (~Rs1bn-2bn each).

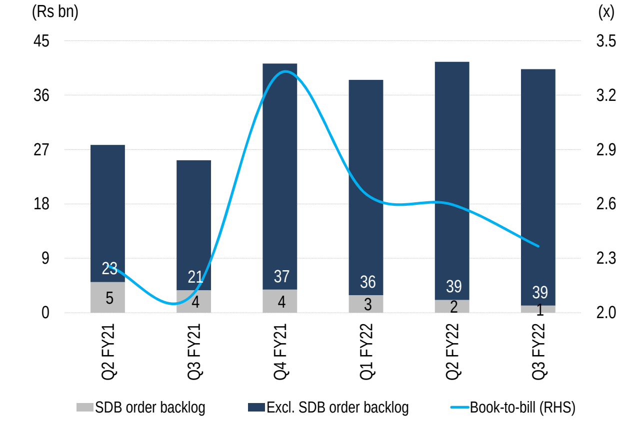
- With ~60% share, the prospect pipeline is Gujarat dominated. In terms of public-private mix, it is a fair balance of ~49% private.
- Besides the immediate bid-pipeline, fresh tenders would be evaluated objectively to deliver on its FY22 inflow guidance.

Fig 10 – 9M additions at ~Rs9.8bn, FY22 target: Rs17bn; immediate bid-pipeline of ~Rs35bn



Source: Company

Fig 11 – End-Q3 OB: ~Rs40.1bn, incl. ~Rs7.3bn of slow moving or non-moving orders



Source: Company

- On the Central Vista project, management said that it awaits completion of the Surat Diamond Bourse to further strengthen its PQ. Once delivered, management sees potential to be able to qualify for single projects exceeding Rs20bn+.

Balance sheet

- At end-Q3 FY22, company had utilised ~Rs0.84bn of the working-capital limits; the term loan availed of for the pre-cast unit was ~Rs0.3bn. This compares to ~Rs1.2bn of working capital utilisation at end-Q2, and the term loan of ~Rs0.23bn.
  - We believe the lower utilisation of working capital limits would have been partly supported by liquidation of the company's US subsidiary, and consequent recoveries of ~$5m (investment as well as loans extended).
  - Higher term loans appear to be a function of ~Rs100m of further capex to completely commercialise the phase-I of pre-cast unit (total capex incurred rose from ~Rs0.99bn the quarter prior to ~Rs1.1bn at end-Q3).
- On 31st Dec'21, the company had access to fixed deposits of ~Rs2.15bn (down from ~Rs2.21bn at end-Q2). These comprised ~Rs0.43bn of unencumbered FDs (q/q down from ~Rs0.58bn), ~Rs1.66bn of FDs with liens (up from ~Rs1.58bn q/q) and ~Rs60m extended to clients as security deposits (up from ~Rs50m the quarter prior).
- Management pegs the Q3 FY22 cash-conversion cycle at 43 days. This is a sequential reduction of seven days due to fewer receivables days (71, down from 91 at end-H1 FY22) and inventory days (down from 22 to 17). This was partly offset by the 17-day shorter trade payables cycle.

- Retention money, unbilled revenue and mobilisation advances were pegged largely at similar levels as at end-Q2 FY22.
  - The company has potential to drawdown some more mobilisation advances, especially another ~Rs0.8bn from the UP healthcare orders (~Rs0.8bn already availed of). However, these would be availed of keeping in mind the cash-flow situation.
- Keeping in mind the targeted scale of operations, fund- and nonfund-based limits were raised to ~Rs10.47bn (from ~Rs.6.1bn at end-FY21). Of the total limits, the current utilisation is ~Rs5.4bn (~Rs0.84bn fund-based, ~Rs4.59bn nonfund-based). Unutilised limits augur well for the targeted order additions and scale-up.

Guidance

- Buoyed by a healthy prospect pipeline of ~Rs35bn, and ~Rs9.8bn already in the bag in 9M FY22, management looks to end FY22 with order additions of ~Rs17bn in FY22. It does not rule out exceeding the guidance if it finds success with any large order (like Central Vista).
  - To maintain the revenue growth momentum, management, on a longer-term basis, hopes yearly additions to exceed revenues by ~20%.
- With execution expected to gain further pace in the coming quarter (Q4, generally seasonally strong), management expects to end the year with Rs17bn-17.5bn revenue (~Rs11.9bn already attained in 9M FY22). The guidance is mostly in line with its earlier-guided-to figure. For FY23, the company eyes more than 20% revenue growth.
- On EBITDA margins, it largely retained its 12-13% guidance for FY22.
- With the pre-cast unit commercialised, management pegs the Q3 depreciation of ~Rs0.09bn as the new quarterly run-rate. Any significant capex would likely add to this figure.
- Finance cost during the quarter was a one-off due to some portion of interest of Q2 being included in the quarter, along with interest on higher mobilisation advances, utilisation of working-capital-loan limits and interest on the term loan for the pre-cast facility. Management expects it to normalise in the coming quarter.

Other highlights

- **Pre-cast facility, capitalised.** In the quarter, the company spent ~Rs0.1bn to take total capex incurred on this facility to ~Rs1.1bn. It has already received an order of ~Rs0.5bn from L&T, and has commenced the revenue recognition (~Rs45.7m booked in Q3). Management sees the current order from L&T as critical, and success with this to set the stage for future orders from the large potential available with L&T (as part of the Mumbai-Ahmedabad High-Speed rail) and otherwise.
  - Management said successful completion of the first order could pave the way to eye the pre-cast portion of the different station that L&T needs to construct as part of the High-Speed rail project.
  - Besides, PSP has its eyes set on track-related pre-cast work of ~Rs7bn potential (though it sees L&T to give it to 2-3 vendors). Management expects this work to be up for grabs next year.
  - It highlights that annual revenue potential of the facility would depend on type of the project and mix (of buildings and

infrastructure works). Nevertheless, assuming a mix of buildings and infrastructure, management looks at ~Rs3bn revenue as possible from this facility.

- **Divestment of stake in the US subsidiary.** The company divested its stake in its wholly-owned US subsidiary, PSP Projects, Inc. for $10,000. Besides this, it recovered ~$5m toward the loans and advances extended (incl. ~Rs21.4m provided earlier). With this sale (to its US partner), it no longer has any business in the USA.

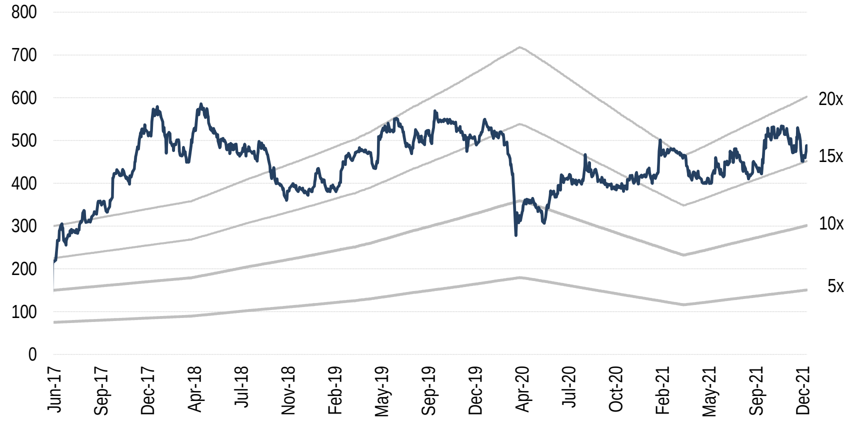
Project updates

- **The Surat Diamond Bourse.** During Q3 FY22, the project was one of the key revenue contributors with absolute contribution of ~Rs0.9bn. With this, the company has cumulatively booked ~Rs16.6bn revenues, and the balance potential was pegged on 31st Dec'21 at ~Rs1.2bn. Management expects to execute the balance work by end-Feb'22, and hand over the complete project to the client to carry out fit-outs.
- **The Bhiwandi EWS housing project.** Secured in Q1 FY20, this long-delayed project entailed revenue potential of ~Rs6bn. However, execution could not be taken up for want of work-front / approvals.
  - Significant delays have led to changes in cost estimates. Management was in touch with the client to seek approval for cost escalations or terminate the project. If the company's terms are agreed upon, it will go on with the project.
  - During the quarter, the company made provision of ~Rs31.6m. Including ~Rs29m provided in Q2 FY22, it has cumulatively provided for ~Rs60.6m from total costs incurred of ~Rs90m.
  - The Authority earlier served the company with a show-cause notice.
  - The company approached a court of law seeking a stay against the invoking of bank guarantees (of ~Rs67m) furnished to the client. The court declared a stay.
  - There was a hearing scheduled for Nov'22, postponed on account of Covid-19. The next hearing is awaited.
- **The Pandharpur affordable-housing project.** The delayed payments led to management halting work at the site. It recently received a letter from the client toward releasing ~Rs60m of total dues of ~Rs0.2bn. Management expects to decide on a course of action based on comfort with payment cycles. On 31st Dec 21, the balance executable potential was ~Rs1.3bn.
- **The Medical College and hospitals at seven locations in UP.** At this ~Rs14.9bn project, construction work has started across all the seven sites. The company was able to book ~Rs0.38bn revenue in the quarter, and cumulative recognition is pegged at ~Rs0.64bn. The prolonged monsoon curbed a ramp-up in execution in Q3. With this now behind, management looks to hit a monthly revenue run-rate of ~Rs0.5bn in Q4 FY22 itself. It received a mobilisation advance for this project, of ~5% (~Rs0.8bn); if more is required, the company has the option to avail of another ~Rs0.8bn. The advances are interest-bearing.
- **Shri Kashi Vishwanath Dham project.** The company completed this ~Rs3.4bn project in a record 20 months and handed it over to the clients. The outstanding OB is ~Rs240m.

Valuation

At the ruling price, the stock trades at 13.9x TTM EPS of Rs41.5. We do not have a rating on the company. Its well-managed balance sheet, proven execution capabilities and healthy return ratios augur well. Keeping in mind the current pace of execution, 20%+ annual revenue growth aspiration and the couple of slow /non-moving orders in its order backlog, order additions become the key deliverable (to brighten the outlook).

Fig 12 – PE band



Source: Bloomberg, Anand Rathi Research

Risks

- Considerable delays in securing orders.
- Any slow pace of execution.
- Failure to maintain prudence.

Appendix

Analyst Certification

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Ratings Guide (12 months)			
	Buy	Hold	Sell
Large Caps (>US$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US$1bn)	>25%	5-25%	<5%

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