

May 27, 2022

INITIATING & RESULT UPDATE Q3FY22 | Sector: Infrastructure

PSP Projects Ltd

Moving up the curve

Our view

PSP Projects Ltd (PSPPL) 4Q performance was healthy with revenues and margins coming above our estimates. With Surat Diamond Bourse being on the verge of completion and expected to be done in 1QFY23; the company would be eligible to focus on single large ticket size project worth Rs20-25bn. On the back of strong awarding momentum and robust order book of Rs43bn, the management gave guidance of 20-25% YoY revenue growth along with EBITDA in the range of 11-12% in FY23.

With strong order book, timely project execution and prudent management pedigree, we expect PSPPL to post a revenue / EBITDA CAGR of 15%/14% over FY22/FY24E. At the CMP, the stock trades at an EV of 6.7x/ 5.1x FY23E/ FY24E EBITDA. Looking at the strong guidance we have revised our target from Rs675 to Rs716 and continue to maintain 'BUY' rating on the stock valuing the EPC business at 12x FY24E EPS, implying an upside potential of 38% from the current levels.

Result Highlights

- For Q4FY22, PSPPL's net revenues grew 25% YoY to Rs4.9bn (above Ysec estimate of Rs5.4bn) with pickup in execution momentum.
- For Q4FY22, PSPPL's net revenues grew 11% YoY to Rs5.6bn (in line with our estimate of Rs5.4bn) with pickup in execution momentum.
- EBITDA came in at ~Rs881mn, up 42% YoY (above Ysec ~Rs727mn and consensus estimate of Rs683mn) while EBITDA margins expanded by 348bps to 15.9% (above Ysec estimate of 13.5% and consensus estimate of 12.8%). The margins improved mainly *due to lower raw material cost.
- On bottom-line front, Adj PAT came in at Rs538mn (Ysec of Rs513mn) largely attributed to better operating margins. Interest cost grew by 108% to Rs95mn
- In Q4, the company bagged robust order worth Rs7.8bn comprising of construction of sports complex in Gujarat worth Rs5.6bn and industrial project in Gujarat worth Rs1.5bn
- At the CMP, the stock trades at a P/BV of 2.4x FY23E and 2.0x FY24E, and at an EV of 6.7x FY23E EBITDA.

Exhibit 1: Actual vs Estimate

Rsmn	Actual	Estimate		% variation		Comments
		YSec	Consensus	YSec	Consensus	
Sales	5,553	5,399	5,350	2.9	3.8	Revenue in line with estimates, with margins surprise led to earnings beat
EBITDA	881	727	683	21.2	29.0	
EBITDA margin %	15.9	13.5	12.8	240 bps	310 bps	
Adj.Pat	538	513	430	4.9	(25.1)	

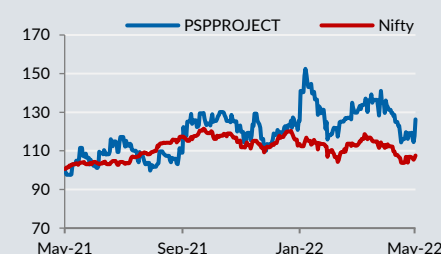
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 518
Target Price	: Rs 716
Potential Return	: 38%

Stock data (as on May 27, 2022)

Nifty	16,352
52 Week h/l (Rs)	639 / 397
Market cap (Rs/USD mn)	18643 / 240
Outstanding Shares (mn)	36
6m Avg t/o (Rs mn):	103
Div yield (%):	1.0
Bloomberg code:	PSPPL IN
NSE code:	PSPPROJECT

Stock performance



	1M	3M	1Y
Absolute return	-5.4%	7.0%	29.1%

Shareholding pattern (As of Mar'22 end)1

Promoter	70.2%
FII+DII	6.6%
Others	23.2%

Financial Summary

(Rs mn)	FY22	FY23E	FY24E
Revenues	17,488	20,080	23,268
Yoy growth (%)	40.9	14.8	15.9
OPM (%)	14.7	13.4	14.4
EPS (Rs)	45.1	46.7	59.7
EPS growth	94.4	3.5	27.8
P/E (x)	11.5	11.1	8.7
EV/EBITDA (x)	6.9	6.7	5.1
Debt/Equity (x)	0.1	0.1	0.1
RoE (%)	24.3	20.5	21.5
RoCE (%)	21.4	18.2	19.3

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RESULT HIGHLIGHTS

Exhibit 2: Result Table (Standalone)

Rs mn	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	YoY (%)	QoQ (%)	FY22	FY21	YoY (%)
Revenue	5,007	3,174	3,904	4,856	5,553	10.9	14.4	17,488	12,409	40.9
Total Revenues	5,007	3,174	3,904	4,856	5,553	10.9	14.4	17,488	12,409	40.9
Expenditure	4,387	2,780	3,357	4,116	4,672	6.5	13.5	14,923	11,060	34.9
as % of sales	87.6	87.6	86.0	84.7	84.1			85.3	89.1	
Consumption of RM	1,525	990	1,295	1,274	1,441	-5.5	13.1	5,000	3,958	26.3
as % of sales	30.5	31.2	33.2	26.2	25.9			28.6	31.9	
Employee Cost	142	152	155	164	252	77.6	54.0	723	509	42.1
as % of sales	2.8	4.8	4.0	3.4	4.5			4.1	4.1	
Other expenditure	2,719	1,637	1,907	2,678	2,979	9.5	11.2	9,200	6,594	39.5
as % of sales	54.3	51.6	48.9	55.1	53.6			52.6	53.1	
EBITDA	621	394	547	741	881	42.0	19.0	2,565	1,348	90.3
Depreciation	67.6	54.2	70.3	93.8	102.2	51.1	8.9	320.5	256.4	25.0
EBIT	553	340	477	647	779	40.9	20.4	2,245	1,092	105.6
Other Income	38	38	46	76	54	42.0	-28.8	213	169	25.6
Interest	46	34	38	98	95	107.8	-3.1	264	147	79.7
PBT	546	344	485	625	739	35.4	18.1	2,193	1,114	96.9
Total Tax	139	93	120	156	201	44.6	28.5	569	279	104.2
Adjusted PAT	407	251	366	469	538	32.3	14.7	1,624	835	94.4
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	#DIV/0!	#DIV/0!	-	-	0.0
PAT after MI	407	251	366	469	538	32.3	14.7	1,624	835	94.4
Extra ordinary items	-	-	-	-	-	#DIV/0!	#DIV/0!	-	-	0.0
Reported PAT	407	251	366	469	538	32.3	14.7	1,624	835	94.4
Adjusted EPS	11	7	10	13	15	32.3	14.7	45	23	94.4
Margins (%)										
EBIDTA	12.4	12.4	14.0	15.3	15.9	347.6	61.8	14.7	10.9	380
EBIT	11.0	10.7	12.2	13.3	14.0	298.6	71.0	12.8	8.8	404
EBT	10.9	10.8	12.4	12.9	13.3	240.6	42.6	12.5	9.0	356
PAT	8.1	7.9	9.4	9.7	9.7	156.5	2.9	9.3	6.7	256
Effective Tax rate	25.4	27.0	24.6	25.0	27.2	172.2	218.0	25.9	25.0	93

Source: Company, YES Sec

Exhibit 3: Key Assumptions

Rs mn	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Order inflow	25,597	14,630	15,948	22,883	19,518	23,421	28,106
Revenues	7,298	10,440	14,993	12,409	17,488	19,998	23,178
Order book	25,590	29,780	30,736	41,210	43,240	46,663	51,590
Execution cycle (%)	22%	26%	33%	23%	29%	30%	31%
Ob to sales (x)	3.5	2.9	2.1	3.3	2.5	2.3	2.2

Source: Company, YES Sec

KEY CONCALL HIGHLIGHTS

- Management indicated the tender pipeline continues to remain healthy with projects worth Rs45bn bided for; of which 52% constitutes from private clients (~51% from Gujarat) which spread across the segments.
 - Some of the projects under bid pipeline includes commercial project in Mumbai – Rs10bn, govt residential project in Delhi– Rs10bn, Medical college in Gujarat – Rs5.5bn, Staff colony in Gujarat – Rs4.5bn, Museum at Gujarat – Rs 1.5bn, Industrial expansion in Sanand – Rs1.3bn
- As per management the construction work at most of its projects has started to garner pace and project sites are operating at full capacity.
 - Two projects i.e Pandharur and Bhiwandi project are on standstill which accounts for 17% of the order book. For both the projects management is evaluating whether to proceed on the project or not.
 - In FY22 for the Bhiwandi project, company has made a provision of Rs.96mn of which Rs30mn is done in 4QFY22.
- EBITDA margins came in healthy at 15.9% Vs 12.4% in 4QFY21 led by key projects attaining completion stage. During 4Q, the company has booked revenues of Surat Diamond Bourse – Rs1.5bn, UP project – Rs850mn and Precast – Rs150mn
- Order book stands healthy at Rs43bn as on 4QFY22 translating into order book-to-sales of 2.5x TTM revenues.
 - In 1QFY23 company has received orders worth Rs8.3bn comprising of construction of sports complex at Ahmedabad and additional scope in existing contracts of Rs1bn.
 - Of the total order book, government constitutes 46%, government residential – 22%, industrial – 7%, institutional – 14%, residential – 11% and precast – 1%
- The company has completed majority of the work of Surat Diamond Bourse (SDB) full and final completion will be done by 15th June'22. With this the company's technical bid qualification will increased to Rs20-25bn
- Gross debt as on 4QFY22 is Rs1.85bn and cash and cash equivalents of Rs2.0bn
 - Of the Rs10.5bn of limit, the company has only utilized ~52% limit (Fund base - Rs660mn, Non-Fund base-Rs4.8bn) as on 4QFY22
- Given strong FY22 performance and healthy order inflows pipeline; management expects revenues growth of 20-25% FY23E and EBITDAM in the range of 11-12%.

FINANCIALS

Exhibit 4: Balance Sheet (Standalone)

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Sources of Funds					
Equity capital	360	360	360	360	360
Reserves	4,211	5,020	6,487	7,832	9,551
Non Minority Controlling Int.					
Net worth	4,571	5,380	6,847	8,192	9,911
Debt	748	810	997	1,097	1,197
Deferred tax liab (net)	(58)	(92)	(94)	(94)	(94)
Total liabilities	5,262	6,098	7,750	9,195	11,014
Application of Funds					
Gross Block	1,998	2,337	3,570	4,070	4,570
Depreciation	919	1,175	1,496	1,952	2,464
Fixed Asset	1,079	1,162	2,074	2,118	2,106
CWIP	0	416	0	0	0
Investments	44	8	7	7	7
Net Working Capital	4,139	4,511	5,669	7,070	8,901
Inventories	968	892	806	935	1,084
Sundry debtors	2,240	2,220	3,118	3,576	4,144
Cash & equivalents	1,967	2,288	1,952	1,790	2,886
Loans & Advances	394	343	59	763	884
Other Current Asset	2,842	2,483	4,556	5,444	6,308
Sundry creditors	2,163	2,566	2,576	2,751	3,187
Provisions	19	87	17	20	23
Other current liabilities	2,091	1,061	2,229	2,667	3,194
Total Assets	5,262	6,098	7,750	9,195	11,014

Source: Company, YES Sec

Exhibit 5: Income statement (Standalone)

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Revenue	14,993	12,409	17,488	20,080	23,268
% Change YoY	44%	-17%	41%	15%	16%
Operating profit	1,910	1,348	2,565	2,691	3,351
EBITDA margins	12.7	10.9	14.7	13.4	14.4
% Change YoY	28%	-29%	90%	5%	25%
Depreciation	267	256	321	456	512
EBIT	1,643	1,092	2,245	2,235	2,839
EBIT margins	11.0	8.8	12.8	11.1	12.2
Interest expense	146	147	264	274	299
Other income	248	169	213	281	326
Profit before tax	1,744	1,114	2,193	2,242	2,865
Taxes	452	279	569	560	716
Effective tax rate (%)	25.9	25.0	25.9	25.0	25.0
Net profit	1,293	835	1,624	1,681	2,149
Minorities and other	0	0	0	0	0
Net profit after minorities	1,293	835	1,624	1,681	2,149
Exceptional items	0	(27)	0	0	0
Net profit	1,293	808	1,624	1,681	2,149
% Change YoY	0.4	(0.4)	1.0	0.0	0.3
EPS (Rs)	35.9	23.2	45.1	46.7	59.7

Source: Company, YES Sec

Exhibit 6: Cash Flow Statement (Standalone)

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Profit before Tax	1,744	1,087	2,193	2,242	2,865
Interest	68	82	91	274	299
Depreciation	267	256	321	456	512
Other Items	(217)	(113)	(144)	(281)	(326)
(Inc)/Dec in WC	(1,116)	(362)	(620)	(1,563)	(734)
Direct Taxes Paid	556	243	636	560	716
CF from Oper.Activity	190	708	1,205	567	1,900
(Inc)/Dec in FA	(331)	(793)	(766)	(500)	(500)
Free Cash Flow	521	1,501	1,971	1,067	2,400
(Pur)/Sale of Invest.	218	847	(639)	281	326
CF from Inv. Activity	(112)	54	(1,405)	(219)	(174)
Change in Network	-	-	-	-	-
Inc/(Dec) in Debt	486	61	187	100	100
Interest Paid	(68)	(82)	(120)	(274)	(299)
Dividends Paid	(434)	-	(144)	(336)	(430)
Others	-	-	-	-	-
CF from Fin. Activity	(16)	(21)	(77)	(510)	(629)
Inc/(Dec) in Cash	62	741	(277)	(162)	1,097
Opening cash Balance	350	412	1,153	1,952	1,790
Others	-	-	-	-	-
Closing cash Balance	412	1,153	876	1,790	2,887

Source: Company, YES Sec

Exhibit 7: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Tax burden (x)	2.7	2.9	2.9	3.0	3.0
Interest burden (x)	0.3	0.3	0.3	0.3	0.3
EBIT margin (x)	0.1	0.1	0.1	0.1	0.1
Asset turnover (x)	2.8	2.0	2.3	2.2	2.1
Financial leverage (x)	1.2	1.1	1.1	1.1	1.1
RoE (%)	26.6%	15.2%	24.3%	20.5%	21.5%

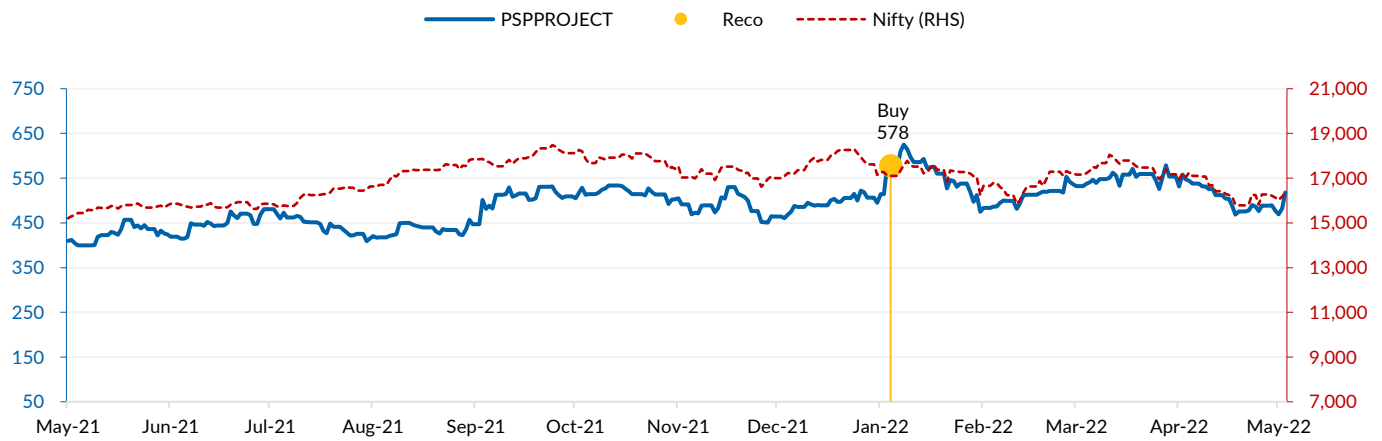
Source: Company, YES Sec

Exhibit 8: Ratio Analysis

Y/e 31 Mar	FY20	FY21	FY22	FY23E	FY24E
Basic (Rs)					
EPS	35.9	23.2	45.1	46.7	59.7
Dividend per share	10.0	4.0	5.0	9.3	11.9
Cash EPS	43.3	30.3	54.0	59.4	73.9
Book value per share	127	149	190	228	275
Div. payout (%)	28%	18%	11%	20%	20%
Valuation ratios (x)					
P/E	14.4	22.3	11.5	11.1	8.7
P/CEPS	12.0	17.1	9.6	8.7	7.0
P/B	4.1	3.5	2.7	2.3	1.9
EV/EBIDTA	9.1	12.7	6.9	6.7	5.1
Dividend yield (%)	1.9	0.8	1.0	1.8	2.3
Profitability Ratios (%)					
RoIC	31.4	13.4	23.3	21.9	23.2
RoE	26.6	15.2	24.3	20.5	21.5
RoCE	23.1	13.4	21.4	18.2	19.3
Liquidity ratios					
Debtor (days)	55	65	65	65	65
Inventory (days)	24	26	17	17	17
Creditor (days)	53	75	54	50	50
Net working Capital (days)	101	133	118	129	140
Asset Turnover (x)	2.8	2.0	2.3	2.2	2.1

Source: Company, YES Sec

Exhibit 9: Recommendation Tracker



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