



Outlook Positive Albeit Impacted Execution; Maintain BUY

PSP Projects Ltd (PSPPL) Q1FY23 numbers were below our expectations. The company reported revenue of Rs 348 Cr (below expectation), up 10% YoY, EBITDA of Rs 48 Cr (below expectation) up 22% YoY, and APAT of Rs 29 Cr (below expectation), up 17% YoY. It registered EBITDA Margins of 13.8% in Q1FY23 (Our Estimate: 13.3%) as against 12.4% in Q4FY21. The company reported APAT margins of 8.3% in Q1FY23 against 7.8% in Q1FY22.

As of 31st March 2022, PSPPL has an order book of Rs 4,613 Cr, comprising both public and private sector projects, which implies revenue visibility for the next 2-3 years. With a robust bidding pipeline, we believe PSPPL is well-placed to capture growth opportunities in the sector. With a robust order book and the company's proven execution prowess, we expect PSP to post Revenues/EBITDA/PAT growth of 26%/36%/39% CAGR respectively over FY21-24E. We retain our BUY rating on the stock with a target price of Rs 660 /share, implying an upside of 10% from the CMP.

Key Concall Highlights

- Order book stands at Rs 4,613 Cr as of Q1FY23 end:** The order book break up is as follows: 42% from the government (Rs 1,937 Cr), 21% from the government Residential (Rs 968 Cr), 5% from Industrial (Rs 230 Cr), 17% from Institutional (Rs 784 Cr), 15% from Residential (Rs 692 Cr), and 1% (Rs 46 Cr) from the Precast segment. Out of the current executable projects, geography-wise; Gujarat constitutes 43%, UP 41%, and Maharashtra 16%. EPC and Turnkey segment forms 83% of the overall project and 16% comes from the Civil Construction segment.
- Margin Outlook:** During the quarter, the company reported an EBITDA margin of 13.8%. It expects the margin to range between 11%-13% depending upon the projects. UP Projects which forms 35%-40% of the order book are fixed price contract and the balance are having a price escalation clause. The management indicated that since prices of steel and other commodities are reducing, margins impact may be minimal.

Outlook & Valuation:

During Q1FY23, the company faced project execution hurdles due to a shortage of aggregates, and a long-drawn marriage season in UP, affecting its revenue growth. However, the management has indicated that the execution will improve substantially post-monsoon season and it maintains its target of achieving revenue of Rs 2,200 Cr in FY23, which would be led by better order inflows. We expect the company to report margins in the range of 13%-13.5% moving ahead.

With favourable attributes such as strong and diversified order book position, healthy bidding pipeline, and order inflows, asset-light model, emerging opportunities in the construction space, efficient and timely execution supported by high ROE and ROCE above 20% with the majority of Capex over, we expect the company to generate healthy free cash moving ahead and deliver Revenue/EBITDA/APAT growth of 26%/36%/39% CAGR over FY21-FY24E. Currently, the stock is trading at 12x and 9.5x FY23E and FY24E EPS. We value the company at 10.5x FY24E EPS to arrive at the TP of Rs 660 /share, implying an upside potential of 10% from the current levels.

Key Financials (Consolidated)

(Rs Cr)	FY22	FY23E	FY24E
Net Sales	1748	2081	2497
EBITDA	258	282	342
Net Profit	166	177	226
EPS (Rs)	46	49	63
PER (x)	11	12	10
EV/EBITDA (x)	7	7	6
P/BV (x)	2.7	2.5	2.0
ROE (%)	27	23	24

Source: Company, Axis Research

(CMP as of 10th Aug, 2022)

CMP (Rs)	598
Upside / Downside (%)	10
High/Low (Rs)	672/405
Market cap (Cr)	2152
Avg. daily vol. (6m) Shrs.	206756
No. of shares (Cr)	3.6

Shareholding (%)

	Dec-21	Mar-22	Jun-22
Promoter	70.2	70.2	70.4
FII/FPIs	1.7	1.8	1.9
MFs / UTI	2.9	2.9	2.9
Banks / FIs	0	0	0
Public	25.2	25.1	24.8

Financial & Valuations

Y/E Mar (Rs Cr)	FY22	FY23E	FY24E
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Change in Estimates (%)

Y/E Mar	FY23E	FY24E
Revenue	0	-1
EBITDA	0	-1
Net Profit	0	-1

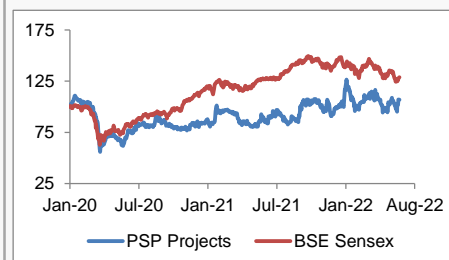
ESG disclosure Score**

Environmental Disclosure	NA
Social Disclosure Score	NA
Governance Disclosure	NA
Total ESG Disclosure	NA

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

Relative performance



Source: Capitaline, Axis Securities

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Key Concall Takeaways

- **Project completion:** During the quarter, the company timely completed 3 projects which include the largest retail mall in Gujarat.
- **Revenue guidance:** FY23 revenue is expected to be Rs 2,200 Cr.
- **Order Inflow:** The order inflow in Q1FY23 stood at Rs 550 Cr which includes:
 - Pile and Raft's foundation works for the proposed tallest temple in the world
 - One of the first tallest residential towers of Ahmedabad
 - Construction of institutional campus for a leading Mumbai-based management institute
- **Bidding Pipeline:** The current bidding pipeline is Rs 4000 Cr. The bidding pipeline includes 41% of the project from private parties and 59% of the total projects from the State of Gujarat. The company expects order inflow to be around Rs 2200 Cr. In the small project, competition is aggressive but in the larger project over Rs 1000 cr competition is niche. The company bidding for various projects in Gujarat, and Delhi and expects to win a few orders.
- **Surat Diamond Bourse:** Revenue billed in Q1FY23 stood at Rs 53 Cr and Rs 1,866 Cr on a cumulative basis.
- **UP Project:** UP projects which include 7 medical colleges and Hospitals, the current completion value of Rs 32 Cr is significant work is expected to be completed after the end of the monsoon season. Total revenue booked from UP project till 30th June, 22 stood at Rs 134 Cr.
- **Bhiwandi Project:** The company is in active discussion with the Bhiwandi Municipal Corporation for cost escalation and would proceed only after the same is addressed. During FY22 the company incurred Rs 9.64 Cr on the project and accordingly provisioning has been made.
- **Pre-cast:** Revenue billed in Q1FY23 stood at Rs 14 Cr and management expects to keep margins at 11-12% going forward.
- **Credit Facility:** The total credit facility available is Rs 1047 Cr out of which Rs 579 Cr was utilised. The Fund based and Non-Fund based portion is Rs 53 Cr and Rs 526 Cr, respectively.
- **Working capital days:** Net-working capital days increased to 35 days in Q1FY23, as compared to 28 days in Q4FY22.
- **Capex:** Increase in Property, Plant and Equipment are due to the setting up Precast segment. Going forward the company expects Capex to be in the range of 3-4% gross block.
- **Fixed Deposit:** As of 30th June 2022, the total fixed deposit stood at Rs317 Cr out of which Rs140 Cr was a free deposit, Rs 172 Cr under lien with the bank for credit facilities and Rs 5 Cr given as a security deposit.
- As of date, Unbilled Revenue stood at Rs 128 Cr, Retention Money stood at Rs 37 Cr, and Mobilization Advance stood at Rs 140 Cr.

PSP Projects Limited: Result Update

(Rs Cr)	Quarterly Performance				
	Q1FY23	Q4FY22	% Change (YoY)	Q1FY22	% Change (YoY)
Sales	348	555	-37%	317	10%
Other Op. Inc	0	0		0	
Total Revenue	348	555	-37%	317	10%
Expenditure					
Cost of material consumed	104	137	-24%	103	1%
Changes in Inventories of Work-In-Progress	-1	7	-111%	-4	-81%
Construction expenses	169	287	-41%	159	7%
Employee Cost	22	25	-14%	15	43%
Other Expenses	5	11	-50%	5	8%
Total Expenditure	300	466	-36%	278	8%
EBITDA	48	88	-46%	39	22%
EBIDTA margin	13.8%	15.9%	(210bps)	12.4%	140bps
Oth. Inc.	6	5	18%	4	58%
Interest	6	9	-41%	3	62%
Depreciation	9	10	-15%	5	61%
Exceptional Items	0	0		0	
PBT	39	73	-47%	34	15%
Tax	10	19	-46%	9	9%
PAT	29	55	-47%	25	17%
EPS (Rs.)	8.1	15.3	-47%	6.9	17%

Source: Company, Axis Securities

Financials (Consolidated)
Profit & Loss

(Rs Cr)

Y/E March	FY22	FY23E	FY24E
Net sales	1,748	2,081	2,497
Other operating income	0	0	0
Total income	1,748	2,081	2,497
Cost of materials consumed	495	607	717
Changes in Inventories of Work-In-Progress	4	-1	0
Sub construction cost	0	0	0
Civil construction cost	892	1,071	1,299
Contribution (%)	20.4%	19.4%	19.3%
Other Expenses	99	121	140
Operating Profit	258	282	342
Other income	22	25	27
PBIDT	280	307	370
Depreciation	32	42	42
Interest & Fin Chg.	26	29	26
Pre-tax profit	222	236	301
Tax provision	55	59	75
PAT	166	177	226

Source: Company, Axis Securities

Balance Sheet (Rs Cr)

Y/E March	FY22	FY23E	FY24E
Total assets	1,270	1,505	1,801
Net Block	207	201	193
CWIP	0	10	10
Investments	1	1	1
Wkg. cap. (excl cash)	135	147	177
Cash / Bank balance	196	288	412
Other assets	731	858	1009
Capital employed	1,270	1,505	1,801
Equity capital	36	36	36
Reserves	651	810	1018
Minority Interests	0	0	0
Borrowings	100	93	86
Other Liabilities	484	566	662

Source: Company, Axis Securities

Cash Flow		(Rs Cr)		
Y/E March	FY22	FY23E	FY24E	
PBT	222	236	301	
Depreciation	32	42	42	
Interest Expense	9	29	26	
Changes in Working Capital	-35	-35	-59	
Others	-17	-25	-27	
Tax Paid	-64	-59	-75	
Net Cash from Operations	147	188	207	
Capex	-77	-45	-35	
Investment	0	0	0	
Others	-88	2	2	
Net Cash from Investing	(164)	(43)	(33)	
Borrowings	16	-7	-7	
Interest Expense	-12	-29	-26	
Others	-14	-18	-18	
Net Cash from Financing	(11)	(54)	(51)	
Net Change in Cash	(28)	91	124	
Opening cash	116	88	179	
Closing cash	88	179	303	

Source: Company, Axis Securities

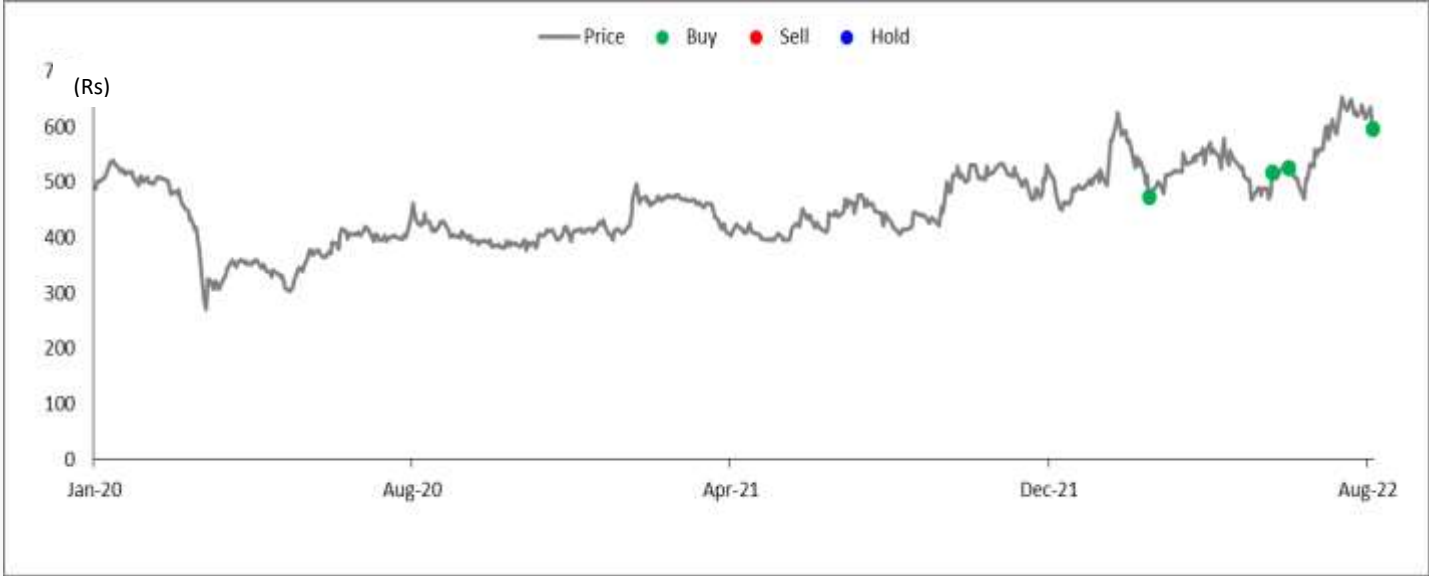
Ratio Analysis

(%)

Y/E March	FY22	FY23E	FY24E
Sales Growth	41%	19%	20%
EBITDA Growth	92%	9%	21%
PAT Growth	99%	6%	28%
Profitability Ratio			
EBITDA Margin	14.8%	13.6%	13.7%
Adjusted net margin	9.5%	8.5%	9.1%
Efficiency Ratio			
Capital Turnover	2.5	2.5	2.4
Total Asset Turnover	2.5	2.4	2.4
Fixed Asset Turnover	8.4	9.9	12.3
Debtor days	65	63	63
Inventory days	20	20	20
Payable days	63	63	63
Cash Conversion Cycle (days)	22	20	20
Leverage Ratios			
Debt to equity	0.15	0.11	0.09
Net debt to equity	-0.1	-0.2	-0.3
Interest coverage	10	10	13
Per Share Data			
Diluted EPS (Rs)	46	49	63
Book value per share (Rs)	191	235	293
DPS (Rs)	0.0	5.0	5.0
Return Ratios			
Return on equity	27%	23%	24%
Return on capital employed	40%	34%	34%
Valuation Ratio			
P/E	13	12	10
P/BV	3.1	2.5	2.0
EV/EBITDA	8.4	7.6	6.3
Cash Flow Ratio (%)			
OCF/EBITDA	57%	67%	61%
OCF/Sales	8%	9%	8%
FCF/Sales	4%	7%	7%
OCF/ROIC	55%	62%	58%

Source: Company, Axis Securities

PSP Projects Price Chart and Recommendation History



Date	Reco	TP	Research
24-Feb-22	BUY	620	Initiating Coverage
30-May-22	BUY	665	Result Update
09-Jun-22	BUY	665	Company Update
11-Aug-22	BUY	660	Result Update

Source: Axis Securities

About the analyst

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HOLD	Between 10% and -10%
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