



## Seasonality Impacted the Performance; H2FY23 to Witness Recovery

PSP Projects Ltd (PSPPL) Q2FY23 numbers were below our expectations due to the seasonally challenging quarter, which was impacted by the monsoon and many projects being in the initial stage of execution. The company reported revenue of Rs 360 Cr (below expectation), down 8% YoY, EBITDA of Rs 39 Cr (below expectation) down 28% YoY, and APAT of Rs 22 Cr (below expectation), down 41% YoY. It registered EBITDA Margins of 11% in Q2FY23 (Our Estimate: 13.2%) as against 14% in Q2FY22. The company reported APAT margins of 6% in Q2FY23 against 9.3% in Q2FY22. The increase in other income was due to the reversal of the impairment loan given to the subsidiary company.

As of 30<sup>th</sup> Sep 2022, PSPPL has an order book of Rs 5,081 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 680/share, implying an upside of 19% from the CMP.

### Key Concall Highlights

- Orderbook stands at Rs 5,081 Cr as of Q2FY23 end:** The order book break up is as follows: 37% from the Government (Rs 1,524 Cr), 19% from the Government Residential (Rs 965 Cr), 7% from Industrial (Rs 355 Cr), 22% from Institutional (Rs 1,117 Cr), 10% from Residential (Rs 508 Cr), and 5% (Rs 254 Cr) from the Precast segment. Geography-wise out of the current executable projects, Gujarat constitutes 50%, UP 36%, Maharashtra 14%, and Rajasthan 0.5%.
- Margin Outlook:** During the quarter, the company reported a lower EBITDA margin of 11% due to the monsoons, many projects being in the initial stage, a hike in commodity prices and an increase in employee cost due to an increased workforce. It expects the margin to range between 11%-12.5% depending upon the projects on a conservative basis.

### Outlook & Valuation

Q2FY23 was impacted owing to seasonality and most projects are since on stream and better execution will drive the growth in H2FY23. The company is confident of achieving revenue guidance of 18%-20% from the previous year. With favourable attributes such as a strong and diversified order book position, healthy bidding pipeline, and order inflows, emerging opportunities in the construction space, efficient and timely execution, we expect the company to deliver Revenue/EBITDA/APAT growth of 26%/36%/39% CAGR over FY21-FY24E. Currently, the stock is trading at 12.5x and 9x FY23E and FY24E EPS. We value the company at 11x FY24E EPS to arrive at the TP of Rs 680/share, implying an upside potential of 19% from the CMP and retain our BUY rating on the stock

### Key Financials (Consolidated)

(Rs Cr)	FY22	FY23E	FY24E
Net Sales	1,748	2,008	2,510
EBITDA	258	264	336
Net Profit	166	165	223
EPS (Rs)	46	46	62
PER (x)	11	12	9
EV/EBITDA (x)	7	7	5
P/BV (x)	2.7	2.5	2.0
ROE (%)	27	21%	24%

Source: Company, Axis Research

(CMP as of 18<sup>th</sup> Oct 2022)

CMP (Rs)	572
Upside / Downside (%)	19
High/Low (Rs)	684/447
Market cap (Cr)	2062
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
Net Sales	1,748	2,008	2,510
EBITDA	258	264	336
Net Profit	166	165	223
EPS (Rs)	46	46	62
PER (x)	11	12	9
EV/EBITDA (x)	7	7	5
P/BV (x)	2.7	2.5	2.0
ROE (%)	27	21%	24%

### Change in Estimates (%)

Y/E Mar	FY23E	FY24E
Revenue	-3%	1%
EBITDA	-6%	-2%
Net Profit	-7%	-3%

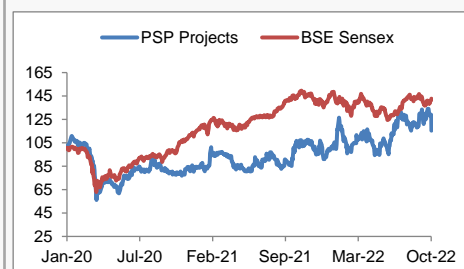
### ESG disclosure Score\*\*

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 10 projects which included High rise commercial building in GIFT city, a Corporate office building for Indian Potash Limited, Four Precast projects, and a medical college & hospital in Rajasthan. All the projects were completed on time. The order book includes 2 slow-moving projects- Bhiwandi and Pandarpur worth Rs 700 Cr together.
- **Revenue guidance:** FY23 revenue is expected to be in the range of Rs 2,000-2200 Cr.
- **Order Inflow:** The company received the highest-ever inflow compared to all previous H1 and was awarded 14 projects in this quarter. The order inflow in Q2FY23 stood at Rs 1,512 Cr which includes:
  - Corporate Office Building Project by a leading multi-national company of value Rs290 Cr
  - Repeat order in Precast for National High-Speed Project from L&T of value Rs195 Cr
  - Fore Court Development at Ahmedabad Airport of value Rs128 Cr
  - Repeat order to construct Phase II of the Noodle plant by a leading multinational company of value Rs115 Cr
  - Repeat order to construct manufacturing unit by a leading pharmaceutical company of value Rs99 Cr
  - Archaeological museum of value Rs97 Cr awarded by Government of Gujarat

In one project the company is L1, including this total order inflow stood at Rs1800 Cr in H1FY23.

- **Bidding Pipeline:** The current bidding pipeline is Rs 5,000 Cr. The bidding pipeline includes 45% of the project from private parties and 52% of the total projects from the State of Gujarat. The company expects order inflow to be around Rs 2,500 Cr during the year. In case order inflow increases, it can comfortably manage order inflow upto Rs 3000 Cr –Rs3500 Cr.
- **UP Project:** UP projects which include 7 medical colleges and Hospitals is expected to be completed partially by Mar'23 and Aug'23. Revenue booked from the UP project in Q2FY23 is Rs 84 Cr and total revenue booked till 30<sup>th</sup>Sep, 22 stood at Rs 266 Cr. The company expects a revenue run-rate of Rs 250 Cr for the next four quarters from the UP project.
- **Pre-cast:** Revenue billed in Q2FY23 stood at Rs20 Cr and management expects to keep margins at 11-12% going forward.
- **Credit Facility:** The total credit facility available is Rs 1045 Cr out of which Rs 645 Cr was utilised. The Fund based and Non-Fund based portion is Rs 85 Cr and Rs 560 Cr, respectively.
- **Working capital days:** Working capital days reduced to 30 days in Q2FY23, as compared to 35 days in Q1FY23.
- **Capex:** Going forward the company expects Capex to be in the range of 3-4% of the gross block.
- **Fixed Deposit:** As of 30<sup>th</sup>Sep 2022, the total fixed deposit stood at Rs330Cr out of which Rs116 Cr was a free deposit, Rs 119Cr under lien with the bank for credit facilities and Rs 18 Cr was given as a security deposit.
- As of date, Unbilled Revenue stood at Rs 147 Cr, Retention Money stood at Rs 36 Cr, and Mobilization Advance stood at Rs 141Cr.

**PSP Projects Limited: Result Update**

(Rs Cr)	Quarterly Performance				
	Q2FY23	Q1FY23	% Change (QoQ)	Q2FY22	% Change (YoY)
<b>Sales</b>	<b>360</b>	<b>348</b>	3%	<b>390</b>	-8%
Other Op. Inc	0	0		0	
<b>Total Revenue</b>	<b>360</b>	<b>348</b>	3%	<b>390</b>	-8%
<b>Expenditure</b>					
Cost of material consumed	117	104	12%	126	-7%
Changes in Inventories of Work-In-Progress	-35	-1	4562%	4	-979%
Construction expenses	211	169	24%	185	13%
Employee Cost	22	22	3%	16	45%
Other Expenses	5	5	-4%	5	-1%
<b>Total Expenditure</b>	<b>321</b>	<b>300</b>	7%	<b>336</b>	-5%
<b>EBITDA</b>	<b>39</b>	<b>48</b>	-18%	<b>55</b>	-28%
EBIDTA margin	11.0%	13.8%	(280bps)	14.0%	(300bps)
Oth. Inc.	6	6	13%	4	43%
Interest	7	6	26%	4	85%
Depreciation	9	9	4%	7	29%
Exceptional Items	0	0		0	
<b>PBT</b>	<b>30</b>	<b>39</b>	-24%	<b>48</b>	-39%
Tax	8	10	-20%	12	-32%
<b>PAT</b>	<b>22</b>	<b>29</b>	-26%	<b>36</b>	-41%
EPS (Rs.)	6.0	8.1	-26%	10.1	-41%

Source: Company, Axis Securities

**Actual/ Axis Estimates**

(Rs cr)	Actual	Estimated	% Variance	Consensus	% Variance
<b>Net Sales</b>	<b>360</b>	<b>488</b>	<b>36%</b>	<b>475</b>	<b>32%</b>
<b>EBITDA</b>	<b>39</b>	<b>64</b>	<b>62%</b>	<b>63</b>	<b>60%</b>
<b>EBITDA margin</b>	<b>11.0%</b>	<b>13.20%</b>	<b>(220bps)</b>	<b>13.3%</b>	<b>(230bps)</b>
<b>PAT</b>	<b>22</b>	<b>39</b>	<b>81%</b>	<b>40</b>	<b>85%</b>

Source: Company, Axis Securities

## Financials (Consolidated)

### Profit & Loss

(Rs Cr)

Y/E March	FY22	FY23E	FY24E
<b>Net sales</b>	<b>1,748</b>	<b>2,008</b>	<b>2,510</b>
Other operating income	0	0	0
<b>Total income</b>	<b>1,748</b>	<b>2,008</b>	<b>2,510</b>
Cost of materials consumed	495	589	728
Changes in Inventories of Work-In-Progress	4	-35	0
Sub construction cost	0	0	0
Civil construction cost	892	1,063	1,305
Contribution (%)	20.4%	19.5%	19.0%
Other Expenses	99	127	141
<b>Operating Profit</b>	<b>258</b>	<b>264</b>	<b>336</b>
Other income	22	25	28
<b>PBIDT</b>	<b>280</b>	<b>289</b>	<b>364</b>
Depreciation	32	40	42
Interest & Fin Chg.	26	28	26
<b>Pre-tax profit</b>	<b>222</b>	<b>221</b>	<b>297</b>
Tax provision	55	56	74
<b>PAT</b>	<b>166</b>	<b>165</b>	<b>223</b>

Source: Company, Axis Securities

### Balance Sheet (Rs Cr)

Y/E March	FY22	FY23E	FY24E
<b>Total assets</b>	<b>1,270</b>	<b>1,483</b>	<b>1,789</b>
Net Block	207	202	196
CWIP	0	10	10
Investments	1	1	1
Wkg. cap. (excl cash)	135	141	177
Cash / Bank balance	196	280	393
Other assets	731	849	1012
<b>Capital employed</b>	<b>1,270</b>	<b>1,483</b>	<b>1,789</b>
Equity capital	36	36	36
Reserves	651	798	1002
Minority Interests	0	0	0
Borrowings	100	93	86
Other Liabilities	484	557	665

Source: Company, Axis Securities

Cash Flow		(Rs Cr)		
Y/E March	FY22	FY23E	FY24E	
PBT	222	221	297	
Depreciation	32	40	42	
Interest Expense	9	28	26	
Changes in Working Capital	-35	-28	-66	
Others	-17	-25	-28	
Tax Paid	-64	-56	-74	
<b>Net Cash from Operations</b>	<b>147</b>	<b>179</b>	<b>197</b>	
Capex	-77	-45	-35	
Investment	0	0	0	
Others	-88	2	3	
<b>Net Cash from Investing</b>	<b>(164)</b>	<b>(43)</b>	<b>(32)</b>	
Borrowings	16	-7	-7	
Interest Expense	-12	-28	-26	
Others	-14	-18	-18	
<b>Net Cash from Financing</b>	<b>(11)</b>	<b>(53)</b>	<b>(51)</b>	
<b>Net Change in Cash</b>	<b>(28)</b>	<b>84</b>	<b>113</b>	
Opening cash	116	88	172	
<b>Closing cash</b>	<b>88</b>	<b>172</b>	<b>285</b>	

Source: Company, Axis Securities

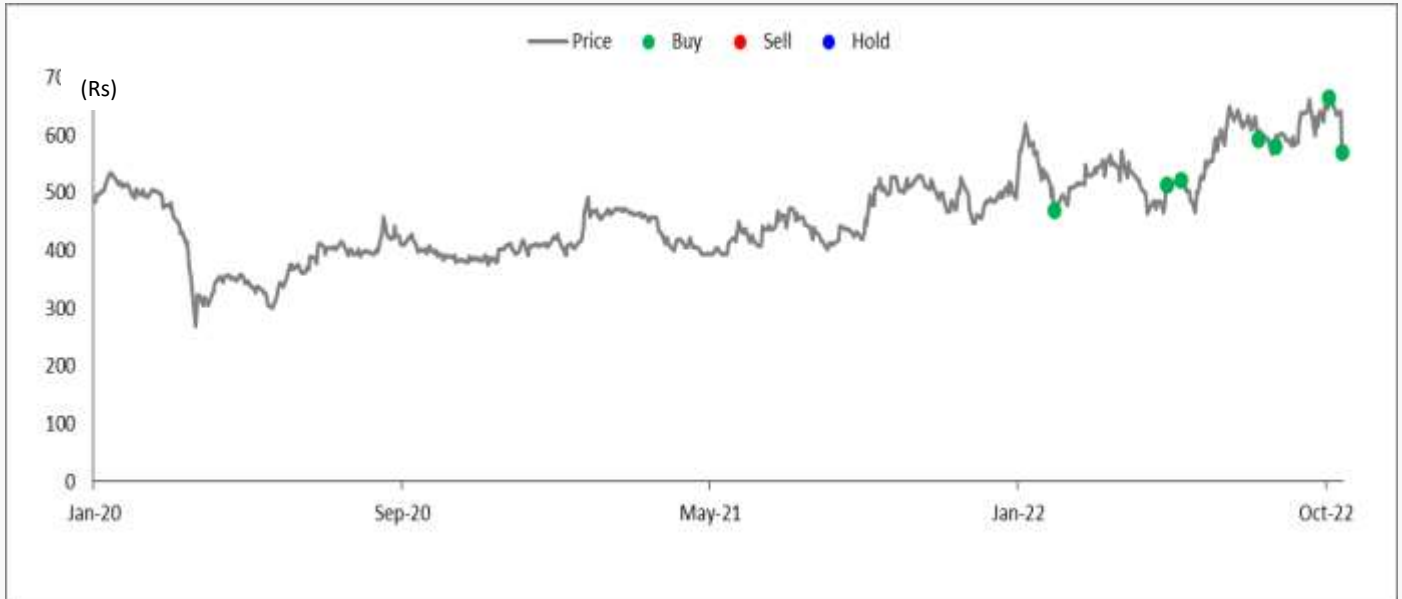
**Ratio Analysis**

(%)

<b>Y/E March</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>
Sales Growth	41%	15%	25%
EBITDA Growth	92%	2%	27%
PAT Growth	99%	-1%	35%
<b>Profitability Ratio</b>			
EBITDA Margin	14.8%	13.2%	13.4%
Adjusted net margin	9.5%	8.2%	8.9%
<b>Efficiency Ratio</b>			
Capital Turnover	2.5	2.4	2.4
Total Asset Turnover	2.5	2.4	2.4
Fixed Asset Turnover	8.4	9.5	12.2
Debtor days	65	63	63
Inventory days	20	20	20
Payable days	63	63	63
Cash Conversion Cycle (days)	22	20	20
<b>Leverage Ratios</b>			
Debt to equity	0.13	0.10	0.08
Net debt to equity	-0.1	-0.2	-0.3
Interest coverage	10	9	13
<b>Per Share Data</b>			
Diluted EPS (Rs)	46	46	62
Book value per share (Rs)	191	232	288
DPS (Rs)	-4.0	5.0	5.0
<b>Return Ratios</b>			
Return on equity	28%	21%	24%
Return on capital employed	40%	32%	34%
<b>Valuation Ratio</b>			
P/E	12	12	9
P/BV	3.0	2.5	2.0
EV/EBITDA	8.0	7.8	6.1
<b>Cash Flow Ratio (%)</b>			
OCF/EBITDA	57%	68%	58%
OCF/Sales	8%	9%	8%
FCF/Sales	3%	5%	5%
OCF/ROIC	55%	60%	55%

Source: Company, Axis Securities

## PSP Projects Price Chart and Recommendation History



Date	Reco	TP	Research
24-Feb-22	BUY	650	Initiating Coverage
30-May-22	BUY	665	Result Update
09-Jun-22	BUY	665	Company Update
11-Aug-22	BUY	660	Result Update
25-Aug-22	BUY	660	Company Update
10-Oct-22	BUY	715	AAA
19-Oct-22	BUY	680	Result Update

Source: Axis Securities

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Ratings	Expected absolute returns over 12-18 months
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<b>HOLD</b>	Between 10% and -10%
<b>SELL</b>	Less than -10%
<b>NOT RATED</b>	We have forward looking estimates for the stock but we refrain from assigning valuation and recommendation
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