

Q2FY23 Result Update PSP Projects Limited

Weak quarter owing to poor execution; strong orderbook position

- PSP’s Q2FY23 results were not in line with EWM and street estimates. Revenue from operations degrew 8% YoY but increased a marginal 3% QoQ.
- EBITDA margins contracted nearly 300bps YoY and QoQ on account of lower-than-expected revenue and increase in employee costs and other expenses. Consequent to the decline in revenue and EBITDA, PAT was down 41% YoY and 26% QoQ to INR22 crore.
- Order inflow momentum remains strong as the company received orders worth INR962 crore during the quarter and expects orders of nearly INR2,500 crore for FY23E. Furthermore, the company has the highest ever orderbook of INR5,081 crore currently, which is expected to support revenue growth going ahead.
- We remain positive on PSP given the strong orderbook position and brisk execution capabilities. We maintain our BUY rating with a revised TP of INR694/share, implying a 19% upside from the current share price.

Weak operating performance in Q2FY23; management targets 20–25% annual revenue growth

PSP’s revenue from operations degrew 8% YoY but increased 3% QoQ. The decline in revenue was primarily due to a prolonged monsoon in Gujarat and Uttar Pradesh affecting execution at sites. Moreover, as most projects were at the nascent stage of construction, the company could not ramp up execution. Despite the subdued execution, the management expects to achieve revenue guidance of INR2,200 crore in FY23E. We believe the revenue growth momentum will improve in 2HFY23E, led by its healthy orderbook position and brisk execution capabilities.

EBITDA margins also contracted around 300bps YoY and QoQ on account of lower-than-expected revenue and increase in employee costs and other expenses. We anticipate EBITDA margins to remain 12–13% going ahead.

Healthy orderbook position; strong order inflow in Q2FY23

PSP has the highest ever orderbook of INR5,081 crore currently, translating to healthy revenue visibility of 2.9x of the FY22 revenue. During the quarter, the company received order inflow of INR962 crore and has secured orders of INR1,857 crore thus far (including L1 of INR345 crore in Gujarat) against its full year guidance of around INR2,500 crore while maintaining guidance of steady annual growth of 20–25% in the orderbook. The company has a robust bidding pipeline and is well positioned to build the orderbook with the development of pre-qualification and government’s continued focus on infrastructure creation. Counter Party wise Government projects comprised 56% of the orderbook in Q2FY23 compared with 68% in FY22.

Expected ramp up in precast facility

PSP completed a precast facility spanning 1.1mn sq ft in Q3FY22 with an investment of INR109cr and plans to expand it to 3mn sq ft in the near future. The precast facility is currently operating at 50% capacity with orders worth INR236 crore. Utilisation will rise to 80–90% with increased application of precast material in other projects.

Outlook and valuation; maintain BUY

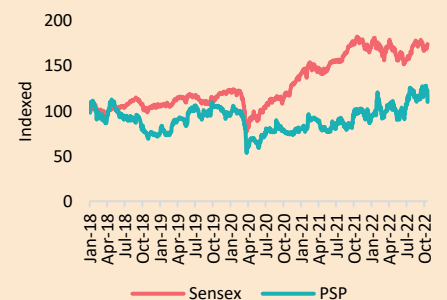
Due to a weak operating performance in Q2FY23, we trimmed our revenue growth estimates by 7% for FY23. Furthermore, due to a decline in EBITDA margins, we lowered our expectation by 50bps in FY23E and 30bps in FY24E. Despite a weak operating performance in 1HFY23, we expect revenue and PAT to post a CAGR of 18% and 24%, respectively, during FY21–24E. We believe PSP would benefit from its strong orderbook position, healthy order inflow, lean balance sheet, comfortable working capital cycle and favourable outlook of the construction sector. PSP is currently trading at 10.9x of the FY24E EPS and we reiterate BUY on PSP and revise our target price to INR694, valuing it at 13x of the FY24E EPS.

Year to March	Q2FY23	Q2FY22	% change	Q1FY23	% change	FY22	FY23E	FY24E
Net Revenues (INRcr)	360	390	-8	348	3	1,748	2,002	2,381
EBITDA (INRcr)	39.5	54.7	-28	48	-17	259	250	308
Net profit (INRcr)	22	36	-41	29	-26	167	158	192
EBITDA Margin	11%	14%		14%		15%	13%	13%
PAT Margin	6%	9%		8%		10%	8%	8%
Diluted EPS (INR)	6	10	-41	8	-26	46	44	53
Diluted P/E (x)						12	12	10
EV/EBITDA (x)						7	7	6
ROCE (%)						32%	24%	24%

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CMP: INR 585
Rating: BUY
Target Price: INR 694
Upside: 19%
Date: October 19, 2022

Bloomberg:	PSPPL:IN
52-week range (INR):	448 / 684
Share in issue (crore):	3.6
M-cap (INRcr):	2,057
Promoter holding (%)	70.39



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Key Management Commentary Highlights

Operating Performance

- PSP registered a decent overall operating performance in Q2FY23. Revenue growth primarily declined due to a prolonged monsoon in Uttar Pradesh and Gujarat resulting in lower-than-expected productivity and most orders being in the early stage of construction.
- EBITDA margins declined due to lower-than-expected revenue in Q2FY23.
- Consequent to lower operating margins, PAT margins also declined.
- The finance cost rose due to increase in short-term borrowings to fund the mobilisation of projects.
- The company expects operating performance to improve, led by its strong orderbook position.
- The company derived INR84 crore from projects in Uttar Pradesh and cumulative revenue of INR266 crore thus far.
- The company is likely to benefit from government focus on Infra and pickup in private capex.
- Management expects employee expenses to revert back to around 4% of the revenue going ahead.

Order Book

- PSP achieved the highest order book of INR5,081 crore in Q2FY23. Of the projects, 56% are from government entities and the remaining from private entities.
- By geography, nearly 50% orders are from Gujarat, followed by 36% from Uttar Pradesh, 14% from Maharashtra and remaining from Rajasthan and New Delhi.
- In H1FY23, PSP received new orders worth INR1,512 crore against orders of INR637 crore received during 1HFY22. The company was awarded 14 new projects.
- PSP has a strong bidding pipeline and has submitted the bid for Surat Municipal Corporation. However, since the company was the sole bidder, Surat Municipal Corporation will reinvoke the bid.
- Projects from Bhiwandi and Pandharpur are still under the non-moving category. The Bhiwandi project is under arbitration and the matter will be heard in November 2022. Both the projects account for around 14% of the total orderbook.

Capex

- The company is not planning any major capex. The overall capex would remain 3–4% of the revenue.

Precast Facility

- The precast facility is currently operating at 50% capacity.
- Currently, the company has orders of INR263 crore in the precast facility.
- Utilisation will improve to 80–90% with increased application of precast material in other projects.

Debt Structure and Liquidity

- PSP has long-term outstanding debt of INR45 crore and short-term debt of INR117 crore. The short-term debt was primarily increased to fund the mobilisation of new projects.
- The company has total FDRs of INR333 crore, of which INR116 crore are free FDRs, INR199 crore are under lien and INR18 crore serve as securities and EMDs.
- The company has a comfortable working capital cycle of 30 days.
- The company has total fund-based and non-fund-based limits of INR1,047 crore, of which INR85 crore is FB and INR560 crore is NFB.

Guidance

- The company is confident of achieving INR2,200 crore in revenue in FY23.
- EBITDA margins are expected to remain 11–13%.
- Order inflow of at least INR2,200 crore is expected in FY23.

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Q2FY23 Result Highlights

Particulars	Q2FY23	Q2FY22	% change	Q1FY23	% change
Income from operations	360	390	-8	348	3
Cost of goods sold	293	315	-7	273	7
Gross Profit	67	75	-11	75	-10
Employee expenses	22	16	45	22	3
Other expenses	5	5	-1	5	-4
Total operating expenses	321	336	-5	300	7
EBITDA	39	55	-28	48	-17
Depreciation and amortization	9	7	29	9	4
EBIT	30	48	-36	39	-22
Interest expenses	7	4	85	6	26
Other income	6	4	43	6	13
PBT	30	48	-39	39	-24
Provision for tax	8	12	-32	10	-20
Profit/Loss from Associates	0	0	-60	0	
Adjusted net profit	22	36	-41	29	-26
Extraordinary items/Adjustments	0	0		-	
Reported net profit	22	36	-41	29	-26
Number of shares (crore)	4	4		4	
Diluted EPS (INR)	6	10	-41	8	-26

Revised Estimates

	FY23E			FY24E		
	Previous	Revised	% change	Previous	Revised	% change
Sales	2,162	2,002	7%	2,381	2,381	0%
EBITDA	281	250	11%	316	308	2%
EBITDA margin	13%	13%	-50bps%	13%	13%	-30bps%
PAT	181	158	13%	198	192	3%
EPS	50.3	43.8	13%	54.9	53.4	3%

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Previous outlook

Q1FY23: At CMP, the stock is trading at 10.9x FY24E EPS. The company reported decent execution and a robust bid pipeline in Q1FY23. We anticipate revenue and PAT to increase at a CAGR of 24% and 34%, respectively, during FY21–24E. PSP also enjoys a healthy balance sheet, better working capital and improved return ratios. We maintain our 'BUY' rating with a target price of INR715 (13x FY24E EPS).

Q4FY22: At CMP, the stock is trading at 9.4x FY24E EPS. The company reported strong execution and a robust bid pipeline in Q4FY22. We anticipate revenue and PAT to increase at a CAGR of 24% and 34%, respectively, during FY21–24E. PSP also enjoys a healthy balance sheet, better WC and improved return ratios. We maintain our BUY rating with price target of INR715 (13x FY24E EPS).



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Financials

Income Statement

Year to March (INR Cr)	FY20	FY21	FY22	FY23E	FY24E
Income from operations	1,499	1,241	1,748	2,002	2,381
Direct Expenses	535	396	499	731	859
Employee Cost	59	51	72	80	95
Other Expenses	714	659	918	941	1,119
Total operating expenses	1,309	1,106	1,490	1,752	2,073
EBITDA	191	135	259	250	308
Depreciation and amortisation	27	26	32	42	52
EBIT	164	109	227	208	257
Interest expenses	15	15	26	20	25
Other income	24	17	22	22	25
Profit before tax	173	111	222	210	257
Provision for tax	45	28	55	53	64
Core profit	128	83	167	158	192
Extraordinary items	0	-3	0	0	0
Profit after tax	128	81	167	158	192
Minority Interest	0	0	0	0	0
Share from associates	-0	-2	0	0	0
Adjusted net profit	128	78	167	158	192
Equity shares outstanding (Crs)	3.6	3.6	3.6	3.6	3.6
EPS (INR) basic	35.6	21.7	46.3	43.8	53.4
Diluted shares (Crs)	3.6	3.6	3.6	3.6	3.6
EPS (INR) fully diluted	35.6	21.7	46.3	43.8	53.4
Dividend per share	0.0	0.0	0.0	0.0	0.0
Dividend payout (%)	0.0	0.0	0.0	0.0	0.0

Common size metrics- as % of net revenues

Year to March	FY20	FY21	FY22	FY23E	FY24E
Operating expenses	87.3	89.1	85.2	87.5	87.1
Depreciation	1.8	2.1	1.8	2.1	2.2
Interest expenditure	1.0	1.2	1.5	1.0	1.1
EBITDA margins	12.7	10.9	14.8	12.5	13.0
Net profit margins	8.5	6.3	9.5	7.9	8.1

Growth metrics (%)

Year to March	FY20	FY21	FY22	FY23E	FY24E
Revenues	42.7	(17.2)	40.9	14.5	19.0
EBITDA	28.3	(29.2)	91.9	(3.3)	23.2
PBT	26.1	(36.0)	100.2	(5.2)	21.9
Net profit	43.7	(38.9)	113.0	(5.3)	21.9
EPS	43.7	(38.9)	113.0	(5.3)	21.9

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Balance sheet

As on 31st March (INR Cr)	FY20	FY21	FY22E	FY23E	FY24E
Equity share capital	36	36	36	36	36
Warrants	0	1	2	3	3
Reserves & surplus	418	500	585	744	936
Shareholders funds	454	538	623	783	975
Borrowings	78	75	75	75	75
Minority interest	1	2	3	4	4
Sources of funds	533	616	703	864	1,057
Gross block	198	229	319	419	519
Depreciation	92	113	145	187	239
Net block	106	116	174	232	280
Capital work in progress	3	42	0	0	0
Total fixed assets	110	158	174	232	280
Goodwill	0	0	0	0	0
Non Current Assets	156	141	151	161	171
Inventories	97	89	100	146	192
Sundry debtors	235	227	291	334	376
Cash and equivalents	197	229	211	224	278
Loans and advances	135	121	0	0	0
Other current assets	34	27	178	214	257
Total current assets	698	693	780	917	1,103
Sundry creditors and others	229	260	273	300	327
Other Current Liabilities	200	64	131	152	176
Provisions	1	1	0	0	0
Total CL & provisions	430	325	405	452	504
Net current assets	269	368	376	465	600
Net Deferred tax	0	0	0	0	0
Misc expenditure	0	0	0	0	0
Uses of funds	533	616	703	864	1,057
Book value per share (INR)	148	171	195	240	294

Cash flow statement

Year to March (INR Cr)	FY20	FY21	FY22E	FY23E	FY24E
Net profit	128	81	167	158	192
Add: Depreciation	27	26	32	42	52
Add: Interest net of tax	11	11	19	15	19
Add: Deferred tax	0	1	2	3	3
Add: Others	20	12	0	0	0
Gross cash flow	186	130	220	217	266
Less: Changes in W. C.	171	56	82	77	80
Operating cash flow	19	71	138	140	186
Less: Capex	31	31	92	100	100
Less: Investment in subsidiaries	0	0	0	0	0
Free cash flow	-12	40	47	40	86

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Ratios

Year to March	FY20	FY21	FY22	FY23E	FY24E
ROAE (%)	28%	15%	27%	20%	20%
ROACE (%)	31%	18%	32%	24%	24%
Debtors (days)	57	67	61	61	58
Current ratio	1.6	1.8	1.9	2.0	2.2
Gross Debt/Equity	0.0	0.0	0.1	0.1	0.1
Inventory (days)	24	26	21	27	30
Payable (days)	53	76	57	55	50
Cash conversion cycle (days)	28	16	25	33	37
Gross Debt/EBITDA	0.0	0.0	0.3	0.3	0.2
Net debt/Equity	(0.4)	(0.4)	(0.2)	(0.2)	(0.2)

Valuation parameters

Year to March	FY20	FY21	FY22	FY23E	FY24E
Diluted EPS (INR)	35.6	22.4	46.3	43.8	53.4
Y-o-Y growth (%)	43.7	(37.1)	106.7	(5.3)	21.9
CEPS (INR)	43.0	29.6	55.2	55.5	67.9
Diluted P/E (x)	11.2	19.4	11.8	12.5	10.2
Price/BV(x)	3.2	2.9	3.1	2.5	2.0
EV/Sales (x)	0.8	1.1	1.0	0.9	0.7
EV/EBITDA (x)	6.5	9.9	7.1	7.3	5.7
Diluted shares O/S	3.6	3.6	3.6	3.6	3.6
Basic EPS	35.6	22.4	46.3	43.8	53.4
Basic PE (x)	11.2	19.4	11.8	12.5	10.2
Dividend yield (%)	0%	0%	0%	0%	0%

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The Team

Analysts	Sector
Vinay Khattar	Head of Research
Sandeep Raina	Head - Fundamental
Sagar Doshi	Head - Trading
Arun Jain	Practice Head - Trading
Kavita Chacko	Chief Economist
Amit Agarwal	Infra, Real Estate, Hotels
Praveen Sahay	Consumer Durables, Building materials, Healthcare services, Hospitality
Kapil Jagasia	Consumption, Textile, QSR, Retail
Raj Jha	BFSI, NBFC
Jigar Jani	BFSI, NBFC
Ranvir Singh	Pharma, Chemicals
Himanshu Yadav	Cement, Logistics, Mid-caps
Sushil Sharma	IT, Capital Goods, Defence
Tushar Chaudhari	Metals, Mid- Caps
Parag Shah	Technical Analyst
Ankit Narshana	Option Trader
Nikhil Shetty	Mid Caps

Sales Team	Location
Sharad Tripathi	Mumbai
Ketan Malkan	Mumbai
Vikas Sharma	Bengaluru
Abhishek Agarwal	Kolkata
Vivek Khanna	Delhi

Coverage Universe

Sr. No	Coverage
1	Aditya Birla Fashion & Retail Ltd
2	Aegis Logistics Ltd
3	Amber Enterprises India Ltd
4	Astral Ltd
5	Balaji Amines Ltd
6	Bata India Ltd
7	Birla Corporation Limited
8	Can Fin Homes Ltd
9	Century Plyboards India Ltd
10	Cholamandalam Inv and Finance Ltd
11	City Union Bank Ltd
12	CreditAccess Grameen Ltd
13	Crompton Greaves Consumer Electricals Ltd
14	CSB Bank Ltd
15	Deepak Nitrite Ltd
16	Easy Trip Planner Ltd
17	Escorts Ltd
18	Finolex Industries Ltd
19	Home First Finance Company India Ltd
20	Indo Count Industries Ltd
21	K P R Mill Ltd
22	KNR Constructions Ltd
23	Krishna Institute of Medical Sciences Ltd
24	Lumax Industries. Ltd
25	Metropolis Healthcare Ltd
26	Minda Industries Ltd
27	Motherson Sumi Ltd
28	Navin Fluorine International Ltd
29	Neogen Chemicals Ltd
30	Newgen Software Technologies Ltd
31	Orient Electric Ltd
32	PSP Projects Ltd
33	Rossari Biotech Ltd
34	Shriram Transport Finance Company Ltd
35	SRF Ltd
36	Vinati Organics Ltd
37	Voltas Ltd
38	Westlife Development Ltd
39	Zydus Wellness Ltd
40	Tarsons Products Ltd
41	MTAR Technologies Ltd.
42	S J S Enterprises Ltd

Sr. No	Tactical Buy
1	ACC Ltd
2	Ajanta Pharma Ltd
3	Ambuja Cements Ltd
4	Ashok Leyland Ltd
5	Axis Bank Ltd
6	Bharat Electronics Ltd
7	Brigade Enterprises Ltd
8	DLF Ltd
9	eClerx Services Ltd
10	Globus Spittits Ltd
11	GNA Axles Ltd
12	HDFC Life Insurance Co. Ltd
13	ICICI Bank Ltd
14	Indusind Bank Ltd
15	Jamna Auto Industries Ltd
16	JK Cement Ltd
17	Larsen & Toubro Ltd
18	Mahindra and Mahindra Ltd
19	Max Financial Services Ltd
20	Max Healthcare Institute Ltd
21	PNC Infratech Ltd
22	RBL Bank Ltd
23	Sun Pharma Ltd
24	TechMahindra Ltd
25	Ultratech Cement Ltd
26	Elecon Engineering Company Ltd
27	Kennametal India Ltd

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