

PSP Projects

BUY

Impacted from seasonality

Summary

PSP Projects Ltd (PSP) Q2FY23 (standalone) PAT came 42%/43% lower than our/consensus estimate. Miss in the numbers is due to lower than expected revenue (Q2FY23 revenue at -9% YoY) which was impacted by heavy rains and initial stage of construction. Lower execution translated to a contracted EBITDA margin at 10.8% vs. 14% YoY. However, PSP has maintained FY23E guidance for revenue growth of 20-25% with improved execution in H2FY23. Order inflow for H1FY23 stood at Rs15bn and PSP has increased its inflow guidance to Rs25bn earlier it was Rs22bn. We have maintained our estimate and on unchanged TP of Rs715 at 12x FY24E EPS, re-iterate BUY rating. Catalyst for stock is clarity on slow moving order which is 14% of the order book, better execution, new order win as company has bided for projects worth Rs50bn.

Key Highlights and Investment Rationale

- **Q2FY23 snapshot:** PSP's revenue declined by 9% YoY at Rs3.6bn with EBITDA margin contracting to 10.8% (down 319bps YoY). PAT at Rs229mn which declined by 37% YoY, due to lower EBITDA coupled with increased D&A, interest costs; partly offset by increased other income. Company received order inflow of Rs15bn in H1FY23, which is highest ever inflow in 1H.
- **Guidance maintained:** Company maintained its full year guidance of revenue growth of 20-25% with EBITDA margin of 12-12.5%. Order inflow guidance was revised upwards to Rs25bn from Rs22bn with bid pipeline strong at Rs50bn. Of which 45% is from private player and state wise 82% is in Gujarat.
- **Slow moving order:** Bhiwandi and Pandharpur projects, 14% of total OB, are slow moving orders. Rest order book is fully mobilized and is in execution. PSP expects clarity on slow moving order in this year.

TP	Rs715
CMP	Rs572
Potential upside/downside	25%
Previous Rating	BUY

Price Performance (%)			
	-1m	-3m	-12m
Absolute	(10.9)	(12.5)	7.6
Rel to Sensex	(11.1)	(20.7)	12.1

V/s Consensus		
EPS (Rs)	FY23E	FY24E
IDBI Capital	48	60
Consensus	43	54
% difference	12.1	10.9

Key Stock Data	
Bloomberg/Reuters	PSPPL IN / PSPP.BO
Sector	Infrastructure
Shares o/s (mn)	36
Market cap. (Rs mn)	20,597
3-m daily avg Trd value (Rs mn)	14.2
52-week high / low	Rs684 / 447
Sensex / Nifty	58,961 / 17,487

Shareholding Pattern (%)	
Promoters	70.4
FII	1.9
DII	2.9
Public	24.8

Financial snapshot

Year	FY20	FY21	FY22	FY23E	FY24E
Revenue	14,993	12,409	17,488	21,268	25,614
Change (yoy, %)	44	-17	41	22	20
EBITDA	1,910	1,348	2,565	2,676	3,268
Change (yoy, %)	28	-29	90	4	22
EBITDA Margin(%)	12.7	10.9	14.7	12.6	12.8
Adj.PAT	1,292	835	1,620	1,725	2,144
EPS (Rs)	36	23	45	48	60
Change (yoy, %)	43	(35)	94	6	24
PE(x)	16	25	13	12	10
Dividend Yield (%)	2	1	1	1	1
EV/EBITDA (x)	4.5	3.8	3.0	2.5	2.0
RoE (%)	31	17	26	23	23
RoCE (%)	39	22	36	29	29

Source: IDBI Capital Research

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Conference call takeaways:

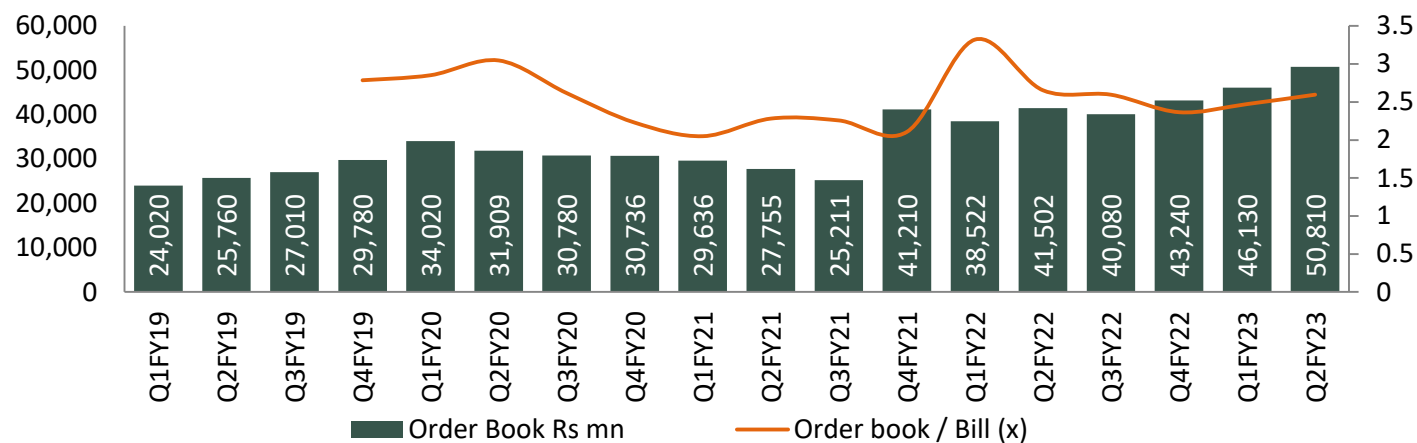
- Order book is highest ever at Rs51bn (3x FY22 revenue) with Government/ Institutional/ Industrial/ Residential/ Precast at 56%/ 22%/ 7%/ 10%/ 5%.
- Order inflow for H1FY23 stood at Rs15bn. Guidance for FY23E inflow revised upwards to Rs25bn from Rs22bn. Majority of new orders are based in Gujarat.
- Revenue declined 9% YoY due to seasonality and unusual rains in Gujarat, where the company has maximum exposure. Many ongoing projects are in the structural stage which has also impacted execution.
- However, guidance is maintained for revenue growth of 20-25% for FY23E on back of strong OB and execution. EBITDA margin is expected to be 12-12.5%. Company does not expect any impact from commodity prices going forward.
- Bid pipeline stands at Rs50bn of which 45% is expected from private player and 82% from Gujarat.
- Revenue generated from all 8 UP projects stood at Rs840mn in Q2FY23; cumulative revenue stood at Rs2.66bn. Execution in UP was affected negatively due to monsoons but is expected to normalize going forward.
- Bhiwandi and Pandharpur projects, 14% of total OB, are slow moving orders. Rest OB is fully mobilized.
- On capex front, company expects only maintenance capex of 3-4% of revenue.
- Total fund and non-fund based limit stood at Rs10.5bn, out of which company has utilized Rs6.45bn; Rs0.85bn fund based and Rs5.6bn non fund based.
- Long term debt stood at Rs460mn for Sep'22 and ST debt at Rs1.1bn (vs. Rs0.67bn in Mar'22). Increase in short term debt was due to working capital requirement.
- WC days stood at 30 with Debtor days/ Creditor days/ Inventory days at 72/ 71/ 29.
- Unbilled revenue/ Retention money/ Mobilization advance stood at Rs1.5bn/ Rs1.2bn/ Rs1.4bn as on Jun'22.

Exhibit 1: Financial snapshot

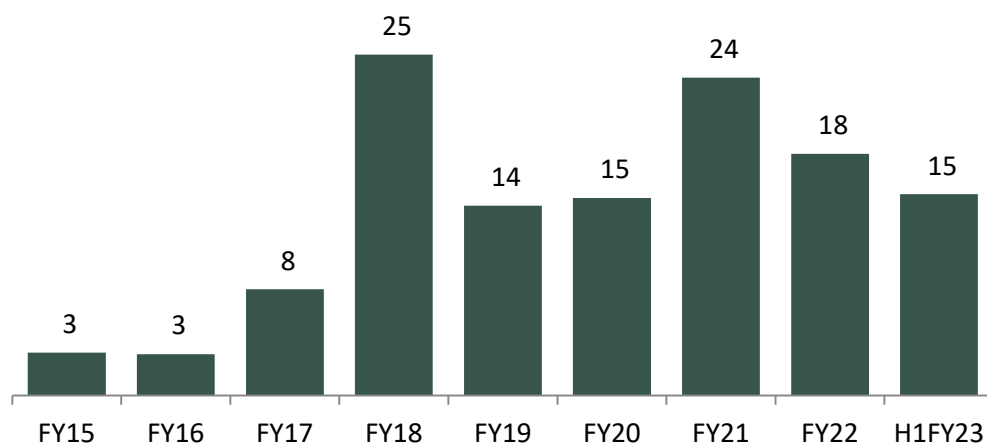
(Rs mn)

Particulars	Q2FY23	Q2FY22	YoY Chg (%)	Q1FY23	QoQ Chg (%)
Revenue	3,566	3,904	-9	3,452	3
Cost of Sales ex Depreciation	3,180	3,357	-5	2,981	7
EBITDA	386	547	-29	471	-18
Margin %	10.8	14.0	-319bps	13.6	-282bps
Depreciation	91	70	29	87	4
Other Income	83	46	80	56	48
Interest Expensed	70	38	87	56	26
Pre-tax profit	308	485	-36	384	-20
Tax	79	120	-34	99	-20
Adjusted net profit	229	366	-37	285	-20

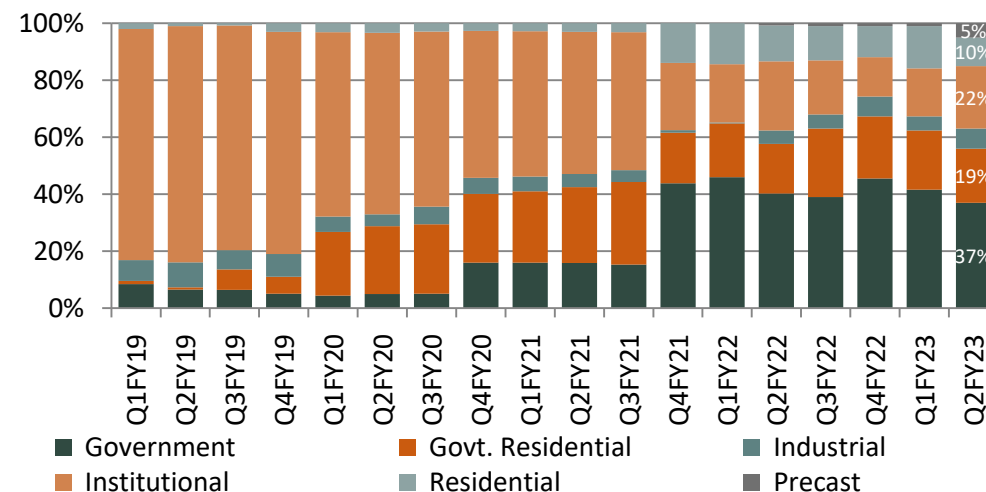
Source: Company

Exhibit 2: Order-book trajectory

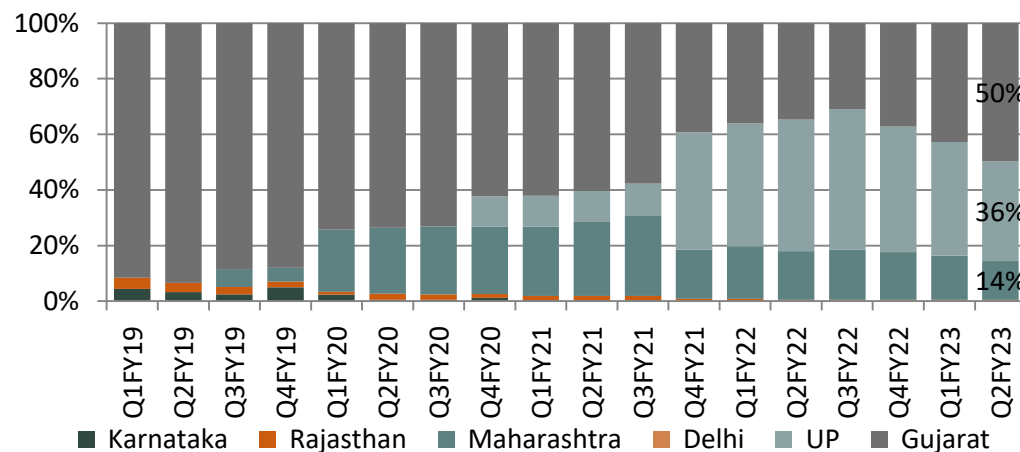
Source: Company

Exhibit 3: Order inflow For H1FY23 at Rs15bn

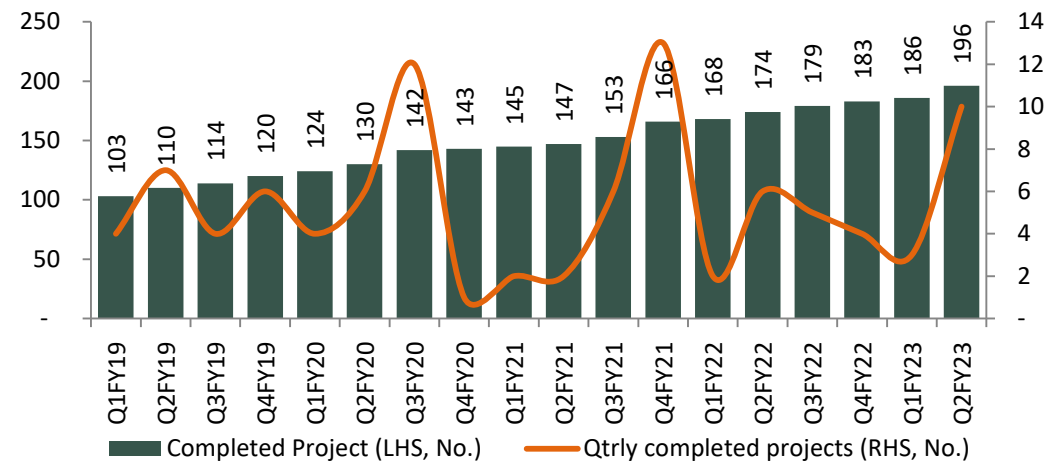
Source : Company

Exhibit 4: Order book break up segment wise

Source : Company

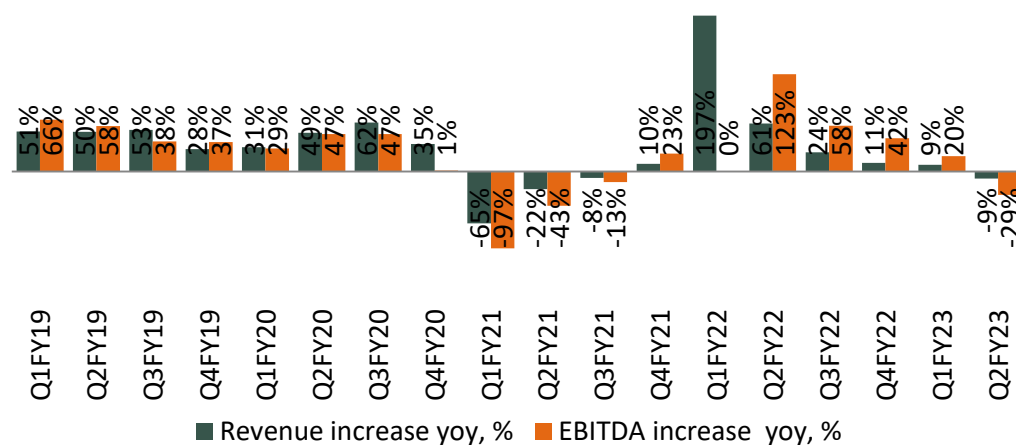
Exhibit 5: State wise order book profile

Source: Company

Exhibit 6: Execution trajectory in terms of projects

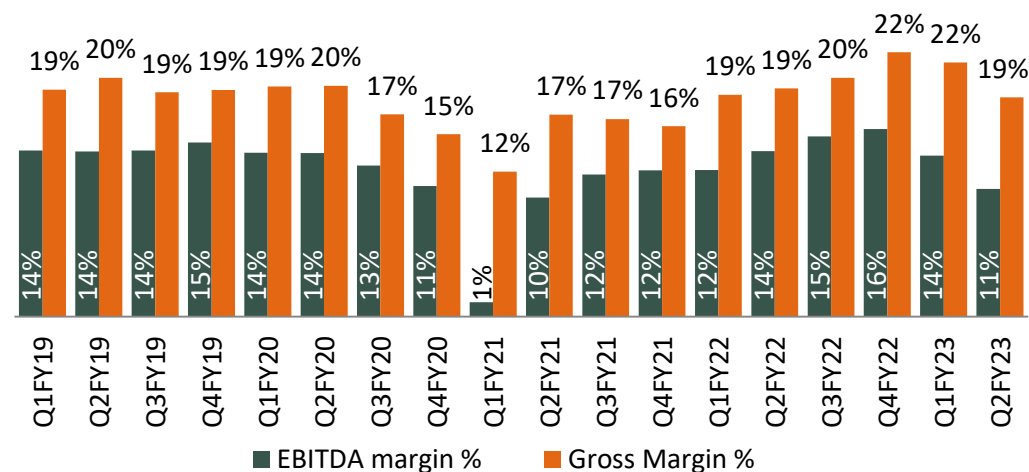
Source: Company

Exhibit 7: Slow execution in Q2FY23



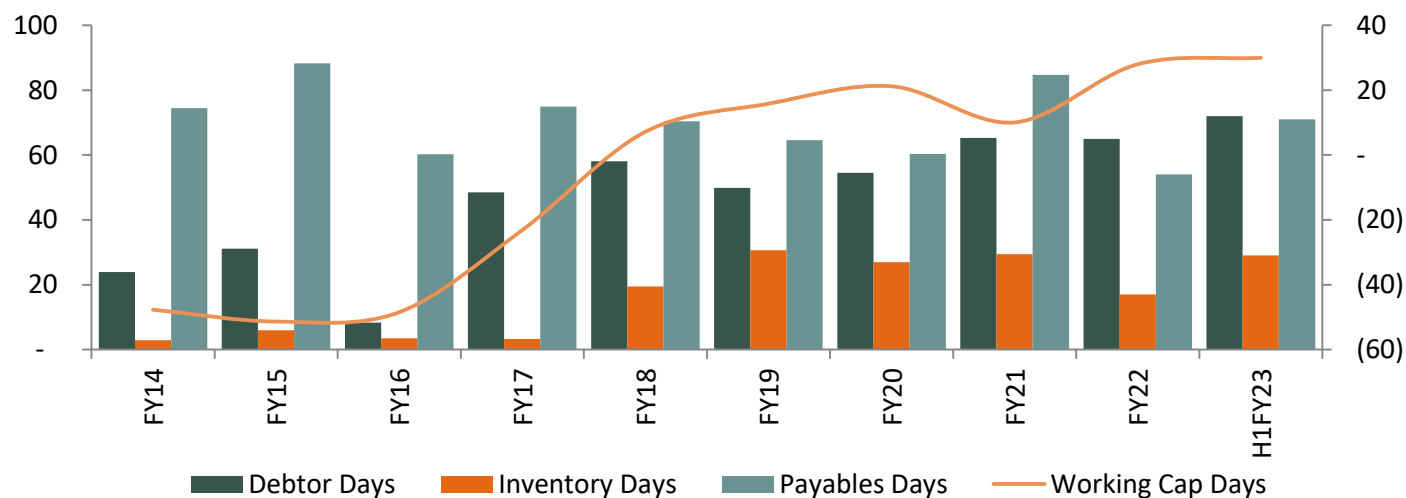
Source : Company

Exhibit 8: Margin declined due to less execution (%)



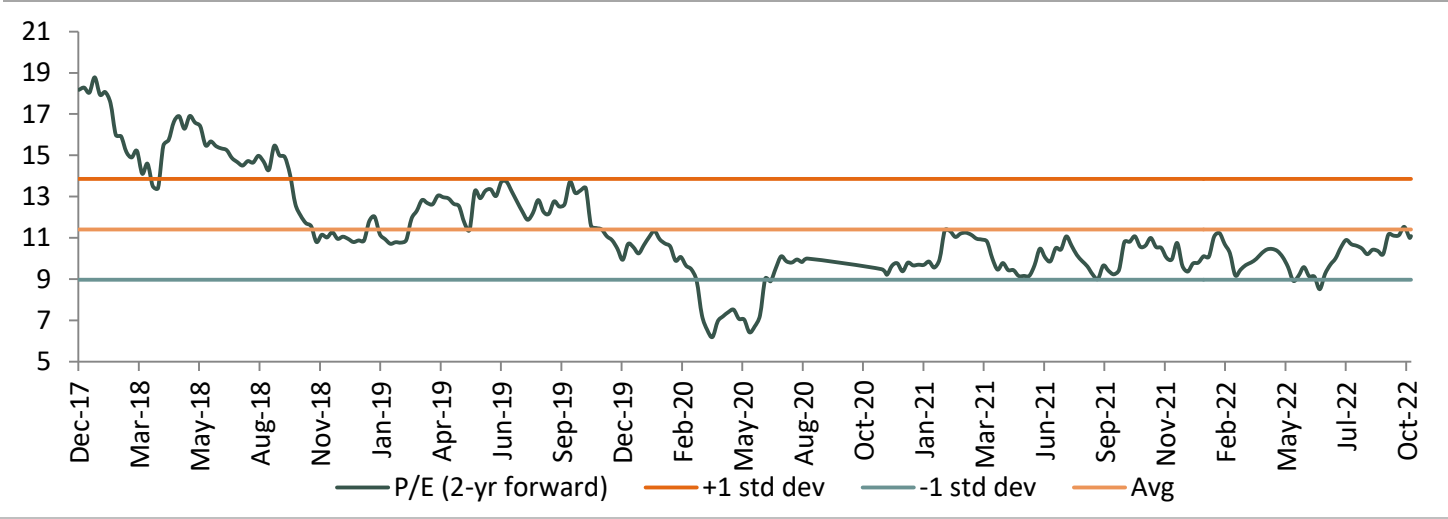
Source Company

Exhibit 9: Working Capital trend



Source: Company

Exhibit 10: Valuation band (PE ratio)



Source: Bloomberg

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Net sales	10,440	14,993	12,409	17,488	21,268	25,614
<i>Change (yoy, %)</i>	43	44	(17)	41	22	20
Operating expenses	(8,951)	(13,083)	(11,060)	(14,923)	(18,593)	(22,345)
EBITDA	1,489	1,910	1,348	2,565	2,676	3,268
<i>Change (yoy, %)</i>	47	28	-29	90	4	22
<i>Margin (%)</i>	14.3	12.7	10.9	14.7	12.6	12.8
Depreciation	(242)	(267)	(256)	(321)	(378)	(469)
EBIT	1,247	1,643	1,092	2,245	2,298	2,800
Interest paid	(92)	(146)	(147)	(264)	(319)	(185)
Other income	229	247	169	212	276	287
Pre-tax profit	1,385	1,744	1,087	2,193	2,255	2,902
Tax	(483)	(452)	(279)	(573)	(531)	(758)
<i>Effective tax rate (%)</i>	34.9	25.9	25.7	26.1	23.5	26.1
Minority Interest	-	-	-	-	-	-
Net profit	902	1,292	808	1,620	1,725	2,144
Exceptional items	-	-	(27)	-	-	-
Adjusted net profit	902	1,292	835	1,620	1,725	2,144
<i>Change (yoy, %)</i>	40	43	(35)	94	6	24
EPS	25	36	23	45	48	60
Dividend per sh	5	10	4	5	4	4
<i>Dividend Payout %</i>	20	28	17	11	8	7

Balance Sheet

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Shareholders' funds	3,714	4,571	5,380	6,847	8,428	10,428
Share capital	360	360	360	360	360	360
Reserves & surplus	3,354	4,211	5,020	6,487	8,068	10,068
Total Debt	4	40	28	172	172	172
Other liabilities	-	4	8	15	15	15
Curr Liab & prov	3,587	4,977	4,488	5,632	6,194	7,158
Current liabilities	3,584	4,970	4,478	5,630	6,192	7,156
Provisions	3	7	10	2	2	2
Total liabilities	3,591	5,022	4,524	5,819	6,381	7,345
Total equity & liabilities	7,305	9,593	9,904	12,666	14,809	17,773
Net fixed assets	1,032	1,079	1,578	2,074	2,196	2,227
Investments	-	-	-	-	-	-
Other non-curr assets	942	1,594	1,414	2,399	2,959	3,532
Current assets	5,332	6,920	6,911	8,194	9,654	12,014
Inventories	750	968	892	806	1,149	1,384
Sundry Debtors	1,426	2,240	2,220	3,118	3,792	4,567
Cash and Bank	2,217	1,967	2,288	1,952	2,053	3,052
Loans and advances	158	119	85	59	74	89
Total assets	7,305	9,593	9,904	12,666	14,809	17,773

Cash Flow Statement

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Pre-tax profit	1,385	1,744	1,087	2,193	2,255	2,902
Depreciation	242	267	256	321	378	469
Tax paid	(477)	(556)	(243)	(636)	(531)	(758)
Chg in working capital	(720)	(1,116)	(362)	(620)	(1,208)	(819)
Other operating activities	(153)	(149)	(30)	(52)	42	(103)
Cash flow from operations (a)	277	190	708	1,205	937	1,691
Capital expenditure	(394)	(331)	(792)	(766)	(500)	(500)
Chg in investments	(160)	(2)	678	(814)	-	-
Other investing activities	215	220	168	175	276	287
Cash flow from investing (b)	(339)	(112)	54	(1,405)	(224)	(213)
Equity raised/(repaid)	-	-	-	-	-	-
Debt raised/(repaid)	2	418	(21)	67	(469)	(335)
Dividend (incl. tax)	(217)	(434)	-	(144)	(144)	(144)
Chg in minorities	-	-	-	-	-	-
Other financing activities	-	-	-	-	-	-
Cash flow from financing (c)	(215)	(16)	(21)	(77)	(613)	(479)
Net chg in cash (a+b+c)	(277)	61	741	(277)	101	1,000

Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Book Value (Rs)	103	127	149	190	234	290
Adj EPS (Rs)	25.1	35.9	23.2	45.0	47.9	59.6
Adj EPS growth (%)	40	43	-35	94	6	24
EBITDA margin (%)	14.3	12.7	10.9	14.7	12.6	12.8
Pre-tax margin (%)	13	12	9	13	11	11
Net Debt/Equity (x)	-0.6	-0.4	-0.4	-0.3	-0.2	-0.3
ROCE (%)	37	39	22	36	29	29
ROE (%)	27	31	17	26	23	23

DuPont Analysis

Asset turnover (x)	1.6	1.8	1.3	1.5	1.5	1.6
Leverage factor (x)	1.9	2.0	2.0	1.8	1.8	1.7
Net margin (%)	8.6	8.6	6.7	9.3	8.1	8.4

Working Capital & Liquidity ratio

Inventory days	26	24	26	17	20	20
Receivable days	50	55	65	65	65	65
Payable days	65	60	85	63	63	63

Valuations

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
PER (x)	23	16	25	13	12	10
Price/Book value (x)	5.6	4.5	3.8	3.0	2.5	2.0
EV/Net sales (x)	2	1	1	1	1	1
EV/EBITDA (x)	12	10	14	7	7	5
Dividend Yield (%)	1	2	1	1	1	1

Source: Company; IDBI Capital Research



Notes

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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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