

Infra & Construction | Q3FY23 Result Update

Poor quarter; Execution to pick up from Q4FY23; Maintain BUY

- PSPPL reported result much below estimates except EBITDA margin in line.
- PSPPL posted marginal growth of 2.4% YoY in revenue to Rs5.0 bn, whereas EBITDA/ APAT were down by 16.8%/ 24.8% YoY to Rs616 mn/ Rs353 mn in Q3FY23. EBITDA margin down 286 bps YoY to 12.4% primarily due to higher construction expenses and other expenses, which was partially offset by lower raw material cost and employee cost.
- We decrease our revenue/ EBITDA/ APAT estimates by 7.9%/ 6.6%/ 11.1% for FY23E factoring 9MFY23 numbers. However, we maintain our estimates for FY24E, whereas we increase our revenue/ EBITDA/ APAT estimates by 9.6%/ 9.6%/ 8.4% for FY25E factoring higher order inflow in FY23E/ FY24E. We maintain EBITDA margin for FY23E/ FY24E/ FY25E. We expect 21.2%/ 15.9% revenue/ APAT CAGR over FY22-25E, with EBITDA margins of 12.4%/ 12.5%/ 12.6% for FY23E/ FY24E/ FY25E. Our revenue estimate of Rs19.8 bn/ Rs25 bn for FY23E/ FY24E is lower than company's guidance of Rs21 bn/ Rs26-27 bn.

Outlook and Valuation

Given its conservative strategy towards leverage and an efficient capital allocation, PSPPL will continue to remain a net cash company, with negative Net D:E of 0.1x over FY22-25E. PSPPL will continue to witness superior return ratios (average RoE/ RoCE of 21.3%/ 21.1% over FY22-25E), led by healthy NPM (7.7%), well-managed lean balance sheet and efficient working capital management. We maintain BUY, with a revised TP of Rs844 (12x Mar'25E EPS).

Order book provides 3.7x revenue visibility

PSPPL won orders worth Rs18 bn/ Rs36.4 bn (incl. L1 of Rs3.5 bn) in FY22/ YTD FY23. The current order book of Rs64.2 bn (Rs50.8 bn as on Dec'22) provides revenue visibility for 3.7x TTM revenue. PSPPL has bid pipeline of Rs45 bn of which 60%/ 25% is from private projects/ Gujarat. We factor our order inflow estimates of Rs37.9 bn (vs. earlier Rs25 bn)/ Rs35 bn (vs. earlier Rs30 bn)/ Rs40 bn (vs. earlier Rs30 bn) for FY23E/ FY24E/ FY25E.

Q3FY23 Result (Rs Mn)

Particulars	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
Revenue	4,974	4,856	2.4	3,566	39.5
Total Expense	4,357	4,116	5.9	3,180	37.0
EBITDA	616	741	(16.8)	386	59.7
Depreciation	98	94	4.9	91	8.7
EBIT	518	647	(19.9)	295	75.3
Other Income	65	76	(14.8)	83	(22.2)
Interest	101	98	3.8	70	43.7
EBT	482	625	(23.0)	308	56.2
Tax	129	156	(17.7)	79	62.6
RPAT	353	469	(24.8)	229	54.0
APAT	353	469	(24.8)	229	54.0
			(bps)		(bps)
Gross Margin (%)	17.8	20.2	(239)	18.6	(75)
EBITDA Margin (%)	12.4	15.3	(286)	10.8	157
NPM (%)	7.1	9.7	(256)	6.4	67
Tax Rate (%)	26.7	25.0	173	25.6	105
EBIT Margin (%)	10.4	13.3	(291)	8.3	213

CMP	Rs 698
Target / Upside	Rs 844 / 21%
NIFTY	18,165

Scrip Details

Equity / FV	Rs 360mn / Rs 10
Market Cap	Rs 25bn
	USD 309.3mn
52-week High/Low	Rs 776/ 459
Avg. Volume (no)	2,64,897
Bloom Code	PSPPL IN

Price Performance	1M	3M	12M
Absolute (%)	3	22	40
Rel to NIFTY (%)	4	19	39

Shareholding Pattern

	Mar'21	Jun'22	Sep'22
Promoters	70.2	70.4	70.5
MF/Banks/FIs	2.9	2.9	2.5
FIs	1.8	1.9	2.0
Public / Others	25.1	24.8	25.1

Valuation (x)

	FY23E	FY24E	FY25E
P/E	17.2	12.9	9.9
EV/EBITDA	10.1	7.9	6.2
ROE (%)	19.5	21.7	22.8
RoACE (%)	20.2	20.8	22.3

Estimates (Rs bn)

	FY23E	FY24E	FY25E
Revenue	19.8	25.0	31.2
EBITDA	2.5	3.1	3.9
PAT	1.5	2.0	2.5
EPS (Rs.)	40.6	54.2	70.3

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Exhibit 1: Actual V/s DART estimates (Rs mn)

Particulars (Rs mn)	Actual	DART Est	% Variance	Comments
Revenue	4,974	6,126	(18.8)	Lower than expected execution
EBITDA	616	748	(17.6)	-
EBITDA (%)	12.4	12.2	18 bps	In line
PAT	353	473	(25.3)	Poor operating performance

Source: Company, DART

Exhibit 2: Change in estimates – Reduce FY23E, however maintain FY24E whereas increase FY25E estimates

Particulars (Rs mn)	FY23E			FY24E			FY25E		
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Net revenues	19,793	21,496	(7.9)	25,045	24,712	1.3	31,159	28,424	9.6
EBITDA	2,451	2,623	(6.6)	3,128	3,088	1.3	3,940	3,594	9.6
EBITDA margin (%)	12.4	12.2	18 bps	12.5	12.5	(0 bps)	12.6	12.6	0 bps
Adj. Net Profit	1,462	1,645	(11.1)	1,952	1,986	(1.7)	2,531	2,335	8.4
EPS (Rs)	40.6	45.7	(11.1)	54.2	55.2	(1.7)	70.3	64.9	8.4

Source: DART, Company

Earnings Call KTAs

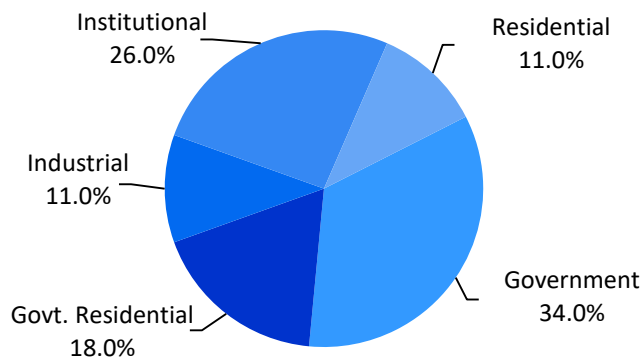
- Execution in Q3FY23 was impacted primarily due to lower execution in UP projects; EBITDA margin was in line with guidance. Going forward, company expects execution to improve from Q4FY23.
- Order book & Inflow** – PSPPL's Q3FY23 order book stood at Rs50.8 bn (2.9x TTM revenue) excl. GST. Government projects holds a major chunk of the order book comprising of 52%/ 56%/ 63% in Q3FY23/ Q2FY23/ Q1FY23. Order inflow for Q3FY23/ YTD FY23 stood at Rs19.5 bn (highest order inflow)/ Rs32.9 bn (excl. L1 of Rs3.5 bn). Company has completed 200 projects so far since its inception in FY08 with 85%/ 15% being Private/ Government projects. During the quarter company has completed 4 projects. As on date, company has 46 on-going projects of which 53%/ 32%/ 14%/ 0.5% in Gujarat/ UP/ Maharashtra/ Rajasthan. Key on-going projects outside Gujarat are 1) EPC projects for Medical Colleges and Hospitals in UP (Rs14.91 bn), 2) EWS Housing Projects in Bhiwandi and Pandharpur (Rs7.59 bn), 3) Affordable Housing project in UP (Rs2.38 bn) and 4) Colleges and Hospitals in Rajasthan (Rs270 mn).
- Guidance** – PSPPL has reduced its revenue guidance from Rs22 bn (~25% YoY) to Rs21 bn (~20% YoY) for FY23 whereas it maintained its EBITDA margin guidance at 11-13% for FY23. Management is targeting revenue of Rs9 bn in Q4FY24; Rs3 bn from UP projects. For FY24, management is targeting revenue of Rs26-27 bn (24-29% YoY) vs. earlier guidance of 20-25% YoY. Company has over achieved its order inflow guidance of Rs25 bn for FY23; YTD FY23 order inflow at Rs36.4 bn (incl. L1 of Rs3.5 bn). Company expects to reach an order inflow of Rs38-40 bn for FY23 and is targeting an order inflow of Rs30-40 bn for FY24.
- Bid Pipeline** – PSPPL has a bid pipeline of ~Rs45 bn of which 60% is from private and 25% from Gujarat. Major projects under its pipeline are 1) Gems and Jewellery Park, Maharashtra worth Rs12 bn, 2) Central Vista project in Delhi worth Rs12.1 bn, 3) Private residential township in NCR worth Rs5 bn, 4) Development of Dharoi dam worth Rs3.34 bn, 5) IT park, Chennai worth Rs3.7 bn, 6) Delhi metro MEP project worth Rs2 bn, 7) Industrial project, Hazria worth Rs3 bn and 8) Tallest residential project in Ahmedabad worth Rs1.2 bn. Company informed that the L1 project in Gujarat (Rs3.5 bn) is at approval stage which likely to be received very soon. Going forward, company is confident in improving its business segments.
- UP projects** – Revenue from all UP projects stood at Rs1.65 bn/ Rs2.68 bn in Q3FY23/ 9MFY23 and Rs4.17 bn till date. Company expects the projects to be completed by Q2FY24.

- **Surat Municipal Corporation (SMC)** – Company recently won an order for construction of state of the art 2 high-rise office buildings of 27 floors from SMC worth Rs13.44 bn to be completed in 3 years. The work to start in next 1-1.5 months and it expects to book revenue of Rs3-3.5 bn in FY24 and Rs5 bn each in FY25/ FY26.
- **Bhiwandi & Pandharpur project** – Outstanding order book for Bhiwandi/ Pandharpur project stands at Rs6.01 bn/ Rs1.26 bn. For Bhiwandi project, post the hearing on 21st Nov'22, the case has moved forward for arbitration and appointment of arbitrator is pending.
- **Precast Facility** – Revenue from precast stood at Rs600 mn in 9MFY23. First order received was from L&T worth Rs490 mn as part of National High Speed Rail project. Balance orders are from Residential and Industrial segments.
- **Capex** – Company expects to incur only maintenance capex of 3-4% of revenue; can increase by 1% given any sudden additional orders.
- **WC days** – Debtor days/ Inventory days/ Creditors days stood at 83 days/ 24 days/ 62 days in Q3FY23 vs. 59 days/ 24 days/ 59 days in Q2FY23. Net WC days at 45 days in Q3FY23 vs. 24 days/ 35 days in Q2FY23/ Q1FY23. Debtors increased from Rs2.8 bn (Q2FY23) to Rs4 bn (Q3FY23), however company has received Rs1.3 bn payments in Jan'23.
- **Debt** – LT borrowings increased from Rs460 mn in Q2FY23 to Rs510 mn in Q3FY23. ST borrowings stood at Rs1.4 bn in Q3FY23 vs. Rs1.11 bn/ Rs670 mn in Q1FY23/ Q1FY23. Increase in debt is due to the advance given to subcontractors for MEP work.
- Gross Block stood at Rs3.8 bn and Net Block at Rs2.17 bn in Q2FY23; addition of Rs290 mn in Q3FY23.
- Mobilization advance/ Unbilled revenue/ Retention money (current + noncurrent) stood at Rs1.69 bn/ Rs1.6 bn/ Rs1.34 bn in Q3FY23 vs. Rs1.41 bn/ Rs1.47 bn/ Rs1.21 bn in Q2FY23 vs. Rs1.4 bn/ Rs1.28 bn/ Rs1.16 bn in Q1FY23.
- As on Dec'22, PSPPL has total FD of Rs3.16 bn of which Free FD/ FD under lien/ FD given to the clients for security stands at Rs600 mn/ Rs2.53 bn/ Rs30 mn.
- Total Fund and Non-Fund based limits stands at Rs10.47 bn out of which Rs8.58 bn is the utilized limit (Rs1.4 bn/ Rs7.18 bn is Fund/ Non Fund limit).

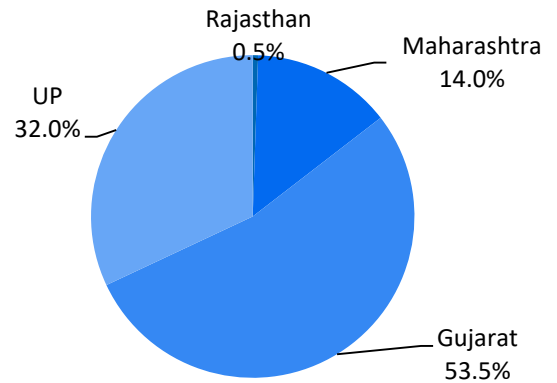
Exhibit 3: Income statement (Standalone)

Particulars (Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	9MFY23	9MFY22	YoY (%)
Revenue	4,974	4,856	2.4	3,566	39.5	11,992	11,934	0.5
(Inc)/dec in stocks & WIP	154	(29)	-	(345)	-	(209)	(29)	-
Material consumed	1,535	1,302	17.8	1,150	33.4	3,723	3,588	3.7
Construction exp	2,400	2,601	(7.7)	2,099	14.3	6,188	6,044	2.4
Employees cost	235	164	43.2	225	4.4	678	471	43.9
Other expenditure	35	77	(54.6)	51	(31.9)	140	179	(21.9)
Total expenditure	4,357	4,116	5.9	3,180	37.0	10,519	10,252	2.6
EBITDA	616	741	(16.8)	386	59.7	1,474	1,682	(12.4)
Depreciation	98	94	4.9	91	8.7	276	218	26.6
Operating profit	518	647	(19.9)	295	75.3	1,197	1,464	(18.2)
Other income	65	76	(14.8)	83	(22.2)	204	160	27.5
EBIT	583	723	(19.4)	379	53.9	1,402	1,624	(13.7)
Interest	101	98	3.8	70	43.7	228	169	34.4
Exceptional Items	-	-	-	-	-	-	-	-
EBT	482	625	(23.0)	308	56.2	1,174	1,454	(19.3)
Provision for Tax	129	156	(17.7)	79	62.6	307	368	(16.7)
Net income	353	469	(24.8)	229	54.0	867	1,086	(20.2)
Adjustments	-	-	-	-	-	-	-	-
APAT	353	469	(24.8)	229	54.0	867	1,086	(20.2)
EPS (Rs)	9.8	13.0	(24.8)	6.4	54.0	24.1	30.2	(20.2)
			<i>bps</i>		<i>bps</i>			<i>bps</i>
EBIDTA Margin (Excl. O.I.)	12.4	15.3	(286)	10.8	157	12.3	14.1	(181)
EBIDTA Margin (Incl. O.I.)	13.7	16.8	(312)	13.2	53	14.0	15.4	(144)
NPM (%)	7.0	9.5	(251)	6.3	72	7.1	9.0	(187)
Tax/PBT (%)	26.7	25.0	173	25.6	105	26.1	25.3	80
Material cons/Revenue (%)	82.2	79.8	239	81.4	75	80.9	80.5	44

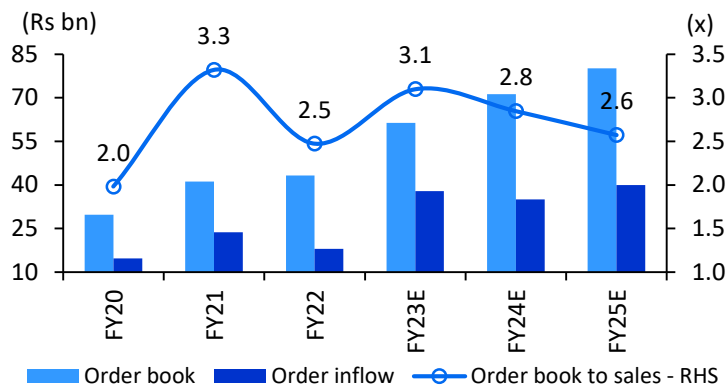
Source: DART, Company

Exhibit 4: Rs50.8 bn OB break up


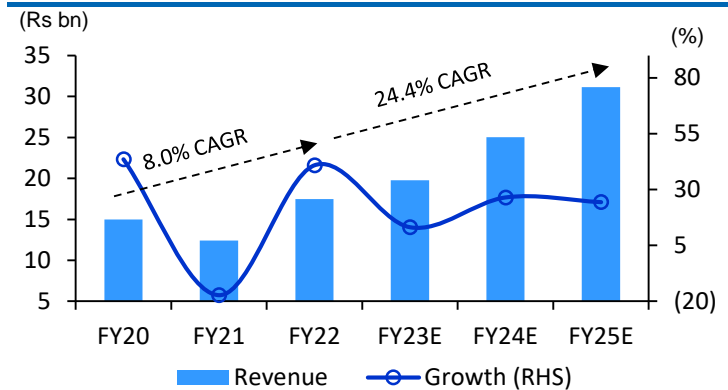
Source: Company, DART

Exhibit 5: Rs50.8 bn OB geographic break up


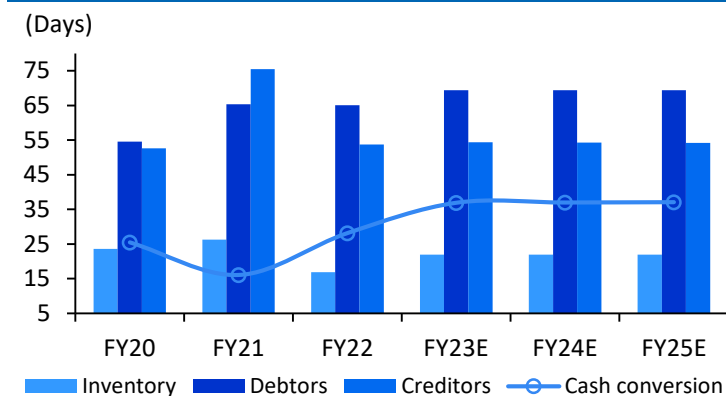
Source: Company, DART

Exhibit 6: Order book trend (Standalone)


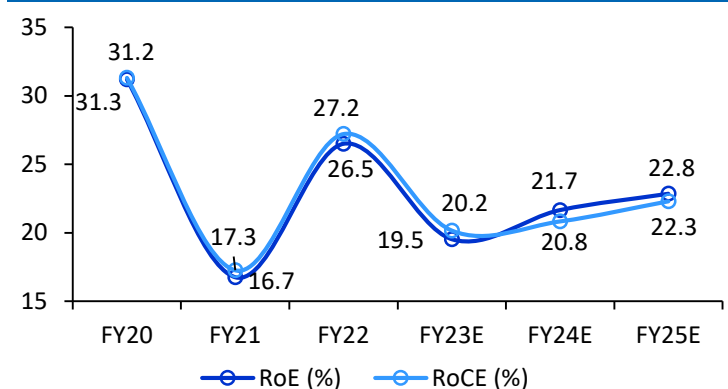
Source: Company, DART

Exhibit 7: 24.4% revenue CAGR over FY22-25E


Source: Company, DART

Exhibit 8: Efficient cash conversion


Source: Company, DART

Exhibit 9: Superior return ratios to continue


Source: Company, DART

Financial Performance

Profit and Loss Account

(Rs Mn)	FY22A	FY23E	FY24E	FY25E
Revenue	17,488	19,793	25,045	31,159
Total Expense	14,923	17,342	21,916	27,219
COGS	13,913	16,181	20,579	25,678
Employees Cost	723	933	1,064	1,213
Other expenses	286	228	273	328
EBIDTA	2,565	2,451	3,128	3,940
Depreciation	321	420	504	606
EBIT	2,245	2,031	2,624	3,334
Interest	264	320	280	240
Other Income	213	255	281	309
Exc. / E.O. items	0	0	0	0
EBT	2,193	1,966	2,625	3,403
Tax	569	504	673	872
RPAT	1,624	1,462	1,952	2,531
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	1,624	1,462	1,952	2,531

Balance Sheet

(Rs Mn)	FY22A	FY23E	FY24E	FY25E
Sources of Funds				
Equity Capital	360	360	360	360
Minority Interest	0	0	0	0
Reserves & Surplus	6,487	7,769	9,542	11,892
Net Worth	6,847	8,129	9,902	12,252
Total Debt	997	1,900	1,700	1,200
Net Deferred Tax Liability	(94)	(96)	(98)	(100)
Total Capital Employed	7,750	9,934	11,504	13,353

Applications of Funds

Net Block	2,074	2,253	2,550	2,944
CWIP	0	0	0	0
Investments	7	7	7	7
Current Assets, Loans & Advances	10,491	12,965	15,633	18,702
Inventories	806	1,188	1,503	1,870
Receivables	3,118	3,761	4,758	5,920
Cash and Bank Balances	1,952	2,190	2,272	2,107
Loans and Advances	59	364	460	572
Other Current Assets	4,556	5,463	6,639	8,234
Less: Current Liabilities & Provisions	4,822	5,293	6,686	8,301
Payables	2,576	2,948	3,726	4,627
Other Current Liabilities	2,246	2,344	2,960	3,674
<i>sub total</i>				
Net Current Assets	5,669	7,673	8,947	10,401
Total Assets	7,750	9,934	11,504	13,353

E – Estimates

Important Ratios

Particulars	FY22A	FY23E	FY24E	FY25E
(A) Margins (%)				
Gross Profit Margin	20.4	18.3	17.8	17.6
EBIDTA Margin	14.7	12.4	12.5	12.6
EBIT Margin	12.8	10.3	10.5	10.7
Tax rate	25.9	25.6	25.6	25.6
Net Profit Margin	9.3	7.4	7.8	8.1
(B) As Percentage of Net Sales (%)				
COGS	79.6	81.8	82.2	82.4
Employee	4.1	4.7	4.2	3.9
Other	1.6	1.2	1.1	1.1
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.2	0.2	0.1
Interest Coverage	8.5	6.3	9.4	13.9
Inventory days	17	22	22	22
Debtors days	65	69	69	69
Average Cost of Debt	29.2	22.1	15.6	16.6
Payable days	54	54	54	54
Working Capital days	118	141	130	122
FA T/O	8.4	8.8	9.8	10.6
(D) Measures of Investment				
AEPS (Rs)	45.1	40.6	54.2	70.3
CEPS (Rs)	54.0	52.3	68.2	87.1
DPS (Rs)	4.0	5.0	5.0	5.0
Dividend Payout (%)	8.9	12.3	9.2	7.1
BVPS (Rs)	190.2	225.8	275.0	340.3
RoANW (%)	26.5	19.5	21.7	22.8
RoACE (%)	27.2	20.2	20.8	22.3
RoAIC (%)	39.2	26.3	26.3	27.1
(E) Valuation Ratios				
CMP (Rs)	698	698	698	698
P/E	15.5	17.2	12.9	9.9
Mcap (Rs Mn)	25,139	25,139	25,139	25,139
MCap/ Sales	1.4	1.3	1.0	0.8
EV	24,184	24,849	24,567	24,232
EV/Sales	1.4	1.3	1.0	0.8
EV/EBITDA	9.4	10.1	7.9	6.2
P/BV	3.7	3.1	2.5	2.1
Dividend Yield (%)	0.6	0.7	0.7	0.7
(F) Growth Rate (%)				
Revenue	40.9	13.2	26.5	24.4
EBITDA	90.3	(4.4)	27.6	25.9
EBIT	105.6	(9.5)	29.2	27.0
PBT	101.8	(10.4)	33.5	29.6
APAT	94.4	(10.0)	33.5	29.6
EPS	94.4	(10.0)	33.5	29.6

E – Estimates

Cash Flow

Particulars	FY22A	FY23E	FY24E	FY25E
Profit before tax	2,193	1,966	2,625	3,403
Depreciation & w.o.	321	420	504	606
Net Interest Exp	(84)	65	(1)	(69)
Direct taxes paid	(636)	(506)	(675)	(874)
Change in Working Capital	(620)	(1,766)	(1,192)	(1,619)
Non Cash	31	0	0	0
(A) CF from Operating Activities	1,205	179	1,262	1,446
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(753)	(600)	(800)	(1,000)
Free Cash Flow	452	(421)	462	446
(Inc.)/ Dec. in Investments	260	0	0	0
Other	(970)	255	281	309
(B) CF from Investing Activities	(1,463)	(345)	(519)	(691)
Issue of Equity/ Preference	0	0	0	0
Inc./(Dec.) in Debt	187	903	(200)	(500)
Interest exp net	(120)	(320)	(280)	(240)
Dividend Paid (Incl. Tax)	(144)	(180)	(180)	(180)
Other	0	0	0	0
(C) CF from Financing	(77)	403	(660)	(920)
Net Change in Cash	(336)	238	82	(165)
Opening Cash balances	2,288	1,952	2,190	2,272
Closing Cash balances	1,952	2,190	2,272	2,107

E – Estimates

Notes

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jan-22	Buy	696	578
May-22	BUY	709	518
Aug-22	Buy	733	598
Sep-22	Buy	733	586
Oct-22	Buy	693	571
Dec-22	Buy	778	677

*Price as on recommendation date

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