

January 18, 2023

**RESULT UPDATE Q3FY23** | Sector: Infrastructure

# PSP Projects Ltd

## Strong order book with robust bid pipeline

### Our view

PSP Projects Ltd (PSPPL) Q3 performance was subdued with marginal revenue growth of 2.4% YoY (on account of higher base) to Rs5bn however margins were in line with the consensus. Company has bagged highest ever order inflow of Rs32.9bn till date surpassing FY23E guidance. The entire orderbook of Rs50.8bn as on 3Q (excl. Bhiwandi and Pandharpur forming 16% of OB) is under execution. Current bid pipeline stands at Rs45bn, of which 70% orders are from Gujarat and 60% are private. FY24E revenue guidance stands at Rs26-27bn, with margin of 12-12.5% and an order inflow of Rs30bn. Key positives in PSP are its execution ability with stable cash flow, consistent order win in the building construction segment and lean balance sheet for growth.

We had put the stock under review post recent run up in the stock and disappointing execution in 1H. However, with the recent interaction it has been coming across that the execution is now streamlined thereby providing revenue visibility and hence we have revised our revenue and EBITDA estimates by 4% each and PAT by 6% for FY25E. With strong order book, timely project execution and prudent management pedigree, we expect PSPPL to post a revenue / EBITDA CAGR of 12%/15% over FY22/FY25E. We have revised our rating to "NEUTRAL" with a revised TP of Rs764 valuing the EPC business at 12x FY25E EPS, implying an upside potential of 9% from the current levels.

### Result Highlights

- For Q3FY23, PSPPL's net revenues grew by 2.4% YoY to Rs5bn (our estimate of Rs5.4bn and below consensus estimate of Rs6.2bn) with pickup in execution.
- EBITDA came in at Rs616mn, down 16.8% YoY (below our and street estimate of Rs709mn / Rs768mn) and EBITDA margins contracted by 286bps to 12.4% (below Ysec estimate of 13.1%). The margins were impacted mainly due to higher raw material cost.
- On bottom-line front, Adj PAT came in at Rs353mn (below our estimate of Rs451mn) mainly attributed to lower operating margins.
- In Q3, the company bagged robust order worth Rs4.4bn from institutional, industrial and residential segments
- At the CMP, the stock trades at a P/BV of 3.1x FY23E and 2.6x FY24E, and at an EV of 9.9x FY23E EBITDA.

### Exhibit 1: Actual vs Estimate

Rsmn	Actual	Estimate		% variation		Comments
		YSec	Consensus	YSec	Consensus	
Sales	4,974	5,422	6,216	(8.3)	(20.0)	Muted revenue on account of lower base; margins affected by higher RM cost
EBITDA	616	709	768	(13.0)	(19.7)	
EBITDA margin %	12.4	13.1	12.4	(68 bps)	4 bps	
Adj.Pat	353	451	479	(21.8)	(26.3)	

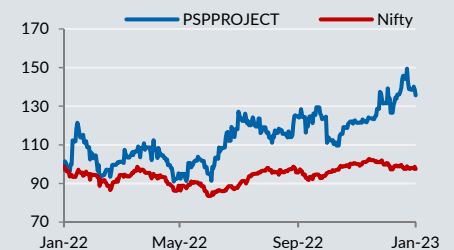
Source: Company, YES Sec

Reco	: <b>NEUTRAL</b>
CMP	: Rs 698
Target Price	: Rs 764
Potential Return	: +9%

### Stock data (as on Jan 18, 2023)

Nifty	17,858
52 Week h/l (Rs)	776 / 459
Market cap (Rs/USD mn)	25706 / 315
Outstanding Shares (mn)	36
6m Avg t/o (Rs mn):	141
Div yield (%)	0.7
Bloomberg code:	PSPPL IN
NSE code:	PSPPROJECT

### Stock performance



	1M	3M	1Y
Absolute return	3.1%	22.2%	39.6%

### Shareholding pattern (As of Sept'22 end)

Promoter	70.5%
FII+DII	6.4%
Others	23.1%

### Financial Summary

(Rs mn)	FY23E	FY24E	FY25E
Revenues	20,082	23,335	26,766
Yoy growth (%)	14.8	16.2	14.7
OPM (%)	12.4	12.9	13.4
EPS (Rs)	42.6	52.6	63.6
EPS growth	-5.7	23.7	20.9
P/E (x)	16.4	13.3	11.0
EV/EBITDA (x)	9.9	8.0	6.5
Debt/Equity (x)	0.1	0.1	0.1
RoE (%)	18.9	19.5	19.7
RoCE (%)	16.8	17.5	17.8

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## RESULT HIGHLIGHTS

**Exhibit 2: Result Table (Standalone)**

Rs mn	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	YoY (%)	QoQ (%)	FY22	FY21	YoY (%)
Revenue	4,856	5,553	3,452	3,566	4,974	2.4	39.5	17,488	12,409	40.9
<b>Total Revenues</b>	<b>4,856</b>	<b>5,553</b>	<b>3,452</b>	<b>3,566</b>	<b>4,974</b>	<b>2.4</b>	<b>39.5</b>	<b>17,488</b>	<b>12,409</b>	<b>40.9</b>
Expenditure	4,116	4,672	2,981	3,180	4,357	5.9	37.0	14,923	11,060	34.9
as % of sales	84.7	84.1	86.4	89.2	87.6			85.3	89.1	
Consumption of RM	1,274	1,441	1,021	805	1,688	32.5	109.8	5,000	3,958	26.3
as % of sales	26.2	25.9	29.6	22.6	33.9			28.6	31.9	
Employee Cost	164	252	218	225	235	43.2	4.4	723	509	42.1
as % of sales	3.4	4.5	6.3	6.3	4.7			4.1	4.1	
Other expenditure	2,678	2,979	1,743	2,150	2,435	-9.1	13.2	9,200	6,594	39.5
as % of sales	55.1	53.6	50.5	60.3	48.9			52.6	53.1	
<b>EBITDA</b>	<b>741</b>	<b>881</b>	<b>471</b>	<b>386</b>	<b>616</b>	<b>-16.8</b>	<b>59.7</b>	<b>2,565</b>	<b>1,348</b>	<b>90.3</b>
Depreciation	93.8	102.2	87.2	90.6	98.5	4.9	8.7	320.5	256.4	25.0
EBIT	647	779	384	295	518	-19.9	75.3	2,245	1,092	105.6
Other Income	76	54	56	83	65	-14.8	-22.2	213	169	25.6
Interest	98	95	56	70	101	3.8	43.7	264	147	79.7
PBT	625	739	384	308	482	-23.0	56.2	2,193	1,114	96.9
Total Tax	156	201	99	79	129	-17.7	62.6	569	279	104.2
<b>Adjusted PAT</b>	<b>469</b>	<b>538</b>	<b>285</b>	<b>229</b>	<b>353</b>	<b>-24.8</b>	<b>54.0</b>	<b>1,624</b>	<b>835</b>	<b>94.4</b>
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	NA	NA	-	-	0.0
PAT after MI	469	538	285	229	353	-24.8	54.0	1,624	835	94.4
Extra ordinary items	-	-	-	-	-	NA	NA	-	-	0.0
Reported PAT	469	538	285	229	353	-24.8	54.0	1,624	835	94.4
Adjusted EPS	13	15	8	6	10	-24.8	54.0	45	23	94.4
<b>Margins (%)</b>										
EBIDTA	15.3	15.9	13.6	10.8	12.4	(285.8)	156.9	14.7	10.9	380
EBIT	13.3	14.0	11.1	8.3	10.4	(290.6)	212.9	12.8	8.8	404
EBT	12.9	13.3	11.1	8.6	9.7	(319.5)	103.6	12.5	9.0	356
PAT	9.7	9.7	8.3	6.4	7.1	(256.5)	66.8	9.3	6.7	256
Effective Tax rate	25.0	27.2	25.8	25.6	26.7	172.9	105.4	25.9	25.0	93

Source: Company, YES Sec

**Exhibit 3: Key Assumptions**

Rs mn	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Order inflow	14,630	15,948	22,883	19,518	23,421	28,340	34,291
Revenues	10,440	14,993	12,409	17,488	19,998	23,251	26,673
Order book	29,780	30,736	41,210	43,240	46,663	51,752	59,370
Execution cycle (%)	26%	33%	23%	29%	30%	31%	31%
Ob to sales (x)	2.9	2.1	3.3	2.5	2.3	2.2	2.2

Source: Company, YES Sec

## KEY CONCALL HIGHLIGHTS

- Management indicated that the tender pipeline continues to remain healthy with projects worth Rs45bn bided for, of which 60% constitutes of private clients (70% from Gujarat) spread across the segments.
  - Further, company mentioned that bid pipeline of Rs45bn includes a) gems and jewelry building – Rs12bn, b) IT park in Chennai – Rs4bn, c) industrial project at Hazira – Rs3bn, d) recreational area near Dharoi Dam- Rs4bn, e) Hospital in Chennai – Rs2bn f) hospital in Gift city – Rs1bn g) Gujarat tourism project – Rs3.5bn and further few small projects in the range of Rs2-3bn.
  - With receipt of order worth Rs13.4bn from Surat Municipal Corporation in Jan'23, the company has surpassed its guidance of Rs25bn of FY23E.
  - For FY24E, management expects order inflow of Rs30bn.
- PSPPL reported revenue of Rs5bn in 3QFY23 (growth of 2.4% YoY) on account of higher base as higher proportion of projects were on completion stage.
  - Revenue booked from the UP projects which includes 7 medical colleges and hospitals in Q3FY23 is Rs1.7bn and total revenue booked in 9M is Rs2.7bn.
  - Two projects i.e Pandharur and Bhiwandi project are on standstill which accounts for 14% of the order book.
- Order book stands healthy at Rs50.8bn as on 3QFY23 translating into order book-to-sales of 2.9x TTM revenues.
  - In 9MFY23, the company has bagged highest ever order inflow of Rs19.5bn (vs Rs18bn in FY22).
  - The company has completed 200 projects so far since its inception in 2008 with 85% being private projects and balance Government projects.
  - Of the total order book, government constitutes 34%, government residential – 18%, industrial – 11%, institutional – 26%, residential – 11%
- Gross debt as on 3QFY23 has increased to Rs1.9bn (vs Rs1.6bn in 2QFY23) mainly on account of execution of new projects.
  - Of the Rs10.5bn of limit, the company has utilized ~82% limit (fund based -Rs1.4bn, non-fund based – Rs7.2bn) as on 3QFY23. Increase in utilization of funds was attributed to execution of newer sites.
- As of date, Unbilled Revenue stood at Rs 1.5bn Cr, Retention Money stood at Rs1.3bn, and Mobilization Advance stood at Rs 1.7bn.
- Guidance for FY24E: Management expects revenue of ~Rs26-27bn and EBIDTA margins of 12-12.5%.
- Going forward the company expects capex to be in the range of 3-4% of the gross block.

## FINANCIALS

### Exhibit 4: Balance Sheet (Standalone)

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
<b>Sources of Funds</b>					
Equity capital	360	360	360	360	360
Reserves	5,020	6,487	7,713	9,228	11,061
Non Minority Controlling Int.					
<b>Net worth</b>	<b>5,380</b>	<b>6,847</b>	<b>8,073</b>	<b>9,588</b>	<b>11,421</b>
Debt	810	997	1,097	1,197	1,297
Deferred tax liab (net)	(92)	(94)	(94)	(94)	(94)
<b>Total liabilities</b>	<b>6,098</b>	<b>7,750</b>	<b>9,076</b>	<b>10,691</b>	<b>12,624</b>
<b>Application of Funds</b>					
Gross Block	2,295	3,452	3,952	4,452	5,202
Depreciation	1,133	1,379	1,833	2,345	2,928
<b>Fixed Asset</b>	<b>1,162</b>	<b>2,074</b>	<b>2,119</b>	<b>2,107</b>	<b>2,274</b>
CWIP	416	0	0	0	0
Investments	8	7	7	7	7
<b>Net Working Capital</b>	<b>4,511</b>	<b>5,669</b>	<b>6,949</b>	<b>8,577</b>	<b>10,342</b>
Inventories	892	806	935	1,087	1,247
Sundry debtors	2,220	3,118	3,576	4,156	4,767
Cash & equivalents	2,288	1,952	1,633	2,208	3,008
Loans & Advances	343	59	763	887	1,017
Other Current Asset	2,483	4,556	5,444	6,559	7,658
Sundry creditors	2,566	2,576	2,751	3,197	3,667
Provisions	87	17	20	23	27
Other current liabilities	1,061	2,229	2,632	3,100	3,661
<b>Total Assets</b>	<b>6,098</b>	<b>7,750</b>	<b>9,076</b>	<b>10,691</b>	<b>12,624</b>

Source: Company, YES Sec

## Exhibit 5: Income statement (Standalone)

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	12,409	17,488	20,082	23,335	26,766
% Change YoY	-17%	41%	15%	16%	15%
Operating profit	1,348	2,565	2,490	3,010	3,587
<b>EBITDA margins</b>	<b>10.9</b>	<b>14.7</b>	<b>12.4</b>	<b>12.9</b>	<b>13.4</b>
% Change YoY	-29%	90%	-3%	21%	19%
Depreciation	256	321	455	512	583
EBIT	1,092	2,245	2,036	2,498	3,004
<b>EBIT margins</b>	<b>8.8</b>	<b>12.8</b>	<b>10.1</b>	<b>10.7</b>	<b>11.2</b>
Interest expense	147	264	274	299	324
Other income	169	213	281	327	375
Profit before tax	1,114	2,193	2,043	2,526	3,055
Taxes	279	569	511	631	764
Effective tax rate (%)	25.0	25.9	25.0	25.0	25.0
<b>Net profit</b>	<b>835</b>	<b>1,624</b>	<b>1,532</b>	<b>1,894</b>	<b>2,291</b>
Minorities and other	0	0	0	0	0
Net profit after minorities	835	1,624	1,532	1,894	2,291
Exceptional items	(27)	0	0	0	0
<b>Net profit</b>	<b>808</b>	<b>1,624</b>	<b>1,532</b>	<b>1,894</b>	<b>2,291</b>
% Change YoY	(0.4)	1.0	(0.1)	0.2	0.2
EPS (Rs)	23.2	45.1	42.6	52.6	63.6

Source: Company, YES Sec

## Exhibit 6: Cash Flow Statement (Standalone)

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Profit before Tax	1,087	2,193	2,043	2,526	3,055
Interest	82	91	274	299	324
Depreciation	256	321	455	512	583
Other Items	(113)	(144)	(281)	(327)	(375)
(Inc)/Dec in WC	(362)	(620)	(1,599)	(1,052)	(966)
Direct Taxes Paid	243	636	511	631	764
<b>CF from Oper. Activity</b>	<b>708</b>	<b>1,205</b>	<b>381</b>	<b>1,326</b>	<b>1,857</b>
(Inc)/Dec in FA	(793)	(766)	(500)	(500)	(750)
Free Cash Flow	(84)	439	(119)	826	1,107
(Pur)/Sale of Invest.	847	(639)	281	327	375
<b>CF from Inv. Activity</b>	<b>54</b>	<b>(1,405)</b>	<b>(219)</b>	<b>(173)</b>	<b>(375)</b>
Change in Networkth	-	-	-	-	-
Inc/(Dec) in Debt	61	187	100	100	100
Interest Paid	(82)	(120)	(274)	(299)	(324)
Dividends Paid	-	(144)	(306)	(379)	(458)
Others	-	-	-	-	-
<b>CF from Fin. Activity</b>	<b>(21)</b>	<b>(77)</b>	<b>(481)</b>	<b>(578)</b>	<b>(682)</b>
<b>Inc/(Dec) in Cash</b>	<b>741</b>	<b>(277)</b>	<b>(318)</b>	<b>575</b>	<b>800</b>
Opening cash Balance	412	1,153	1,952	1,633	2,208
Others					
<b>Closing cash Balance</b>	<b>1,153</b>	<b>876</b>	<b>1,633</b>	<b>2,208</b>	<b>3,008</b>

Source: Company, YES Sec

## Exhibit 7: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Tax burden (x)	2.9	2.9	3.0	3.0	3.0
Interest burden (x)	0.3	0.3	0.3	0.3	0.3
EBIT margin (x)	0.1	0.1	0.1	0.1	0.1
Asset turnover (x)	2.0	2.3	2.2	2.2	2.1
Financial leverage (x)	1.1	1.1	1.1	1.1	1.1
RoE (%)	15.2%	24.3%	18.9%	19.5%	19.7%

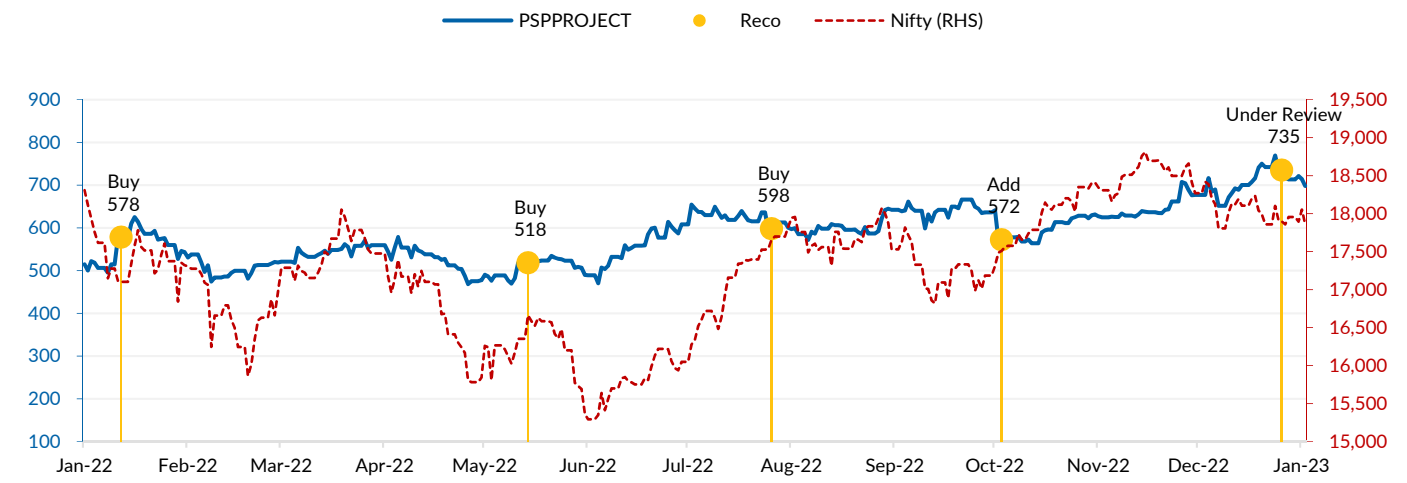
Source: Company, YES Sec

## Exhibit 8: Ratio Analysis

Y/e 31 Mar	FY21	FY22	FY23E	FY24E	FY25E
<b>Basic (Rs)</b>					
EPS	23.2	45.1	42.6	52.6	63.6
Dividend per share	4.0	5.0	8.5	10.5	12.7
Cash EPS	30.3	54.0	55.2	66.8	79.8
Book value per share	149	190	224	266	317
Div. payout (%)	18%	11%	20%	20%	20%
<b>Valuation ratios (x)</b>					
P/E	30.1	15.5	16.4	13.3	11.0
P/CEPS	23.0	12.9	12.7	10.4	8.7
P/B	4.7	3.7	3.1	2.6	2.2
EV/EBIDTA	17.6	9.4	9.9	8.0	6.5
Dividend yield (%)	0.6	0.7	1.2	1.5	1.8
<b>Profitability Ratios (%)</b>					
RoIC	13.4	23.3	20.2	21.1	21.5
RoE	15.2	24.3	18.9	19.5	19.7
RoCE	13.4	21.4	16.8	17.5	17.8
<b>Liquidity ratios</b>					
Debtor (days)	65	65	65	65	65
Inventory (days)	26	17	17	17	17
Creditor (days)	75	54	50	50	50
Net working Capital (days)	133	118	126	134	141
Asset Turnover (x)	2.0	2.3	2.2	2.2	2.1

Source: Company, YES Sec

## Recommendation Tracker



Source: Company, YES Sec - Research

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3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
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Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

**BUY:** Upside greater than 20% over 12 months

**ADD:** Upside between 10% to 20% over 12 months

**NEUTRAL:** Upside between 0% to 10% over 12 months

**REDUCE:** Downside between 0% to -10% over 12 months

**SELL:** Downside greater than -10% over 12 months

**NOT RATED / UNDER REVIEW**

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