

Robust Order Book To Drive Growth.

Est. Vs. Actual for Q3FY23: Revenue – **MISS**; EBITDA Margin – **INLINE**; PAT – **MISS**

Change in Estimates post Q3FY23

FY23E/FY24E – Revenue 4%/4%; **EBITDA** (2%)/(1%); **PAT** (4%)/(1%)

Recommendation Rationale

- As on 31st Dec'22, the order book stood at Rs 5,075 Cr with the highest-ever inflow of Rs 1,950 Cr, a 100% growth YoY. Healthy order book and order inflow give revenue visibility for the next 2-3 years.
- Most projects are streamlined and better execution is expected in the coming quarters plus recently awarded Surat Municipal Corporation project worth Rs 1344 Cr will also be under execution.
- The company has a strong bidding pipeline of Rs 4,500 Cr, which includes 60% of the project from private parties and 25% of the total projects from the State of Gujarat.

Sector Outlook: **Positive**

Company Outlook & Guidance: The company has guided for revenue growth of 20%-25% with an EBITDA margin in the range of 12%-13%. It has also hiked its order inflow guidance to Rs 4,000 Cr in FY23.

Current Valuation: 11x FY25 EPS (Earlier Valuation: 11x FY24E EPS)

Current TP: Rs 800/Share (Earlier TP: Rs 680/share)

Recommendation: We maintain our **BUY** recommendation on the stock and roll over our estimate to FY25.

Financial Performance:

PSP Projects Ltd (PSPPL) Q3FY23 numbers were below our expectations due to lower sales, an increase in construction expenses and a delay in getting approvals for UP projects. The company reported revenue of Rs 500 Cr (up 3% YoY), EBITDA of Rs 62 Cr (down 19% YoY), and APAT of Rs 35 Cr (down 30% YoY). It registered EBITDA Margins of 12.4% in Q3FY23 (Our Estimate: 12.5%) as against 15.6% in Q3FY22. The company reported APAT margins of 7.1% in Q3FY23 against 10.4% in Q3FY22. The decrease in other income is due to the reversal of impairment charges worth Rs 2 Cr to the company's subsidiary.

The order book break up is as follows: 34% from the government (Rs 1,704 Cr), 18% from the Government Residential (Rs 936 Cr), 11% from Industrial (Rs 572 Cr), 26% from Institutional (Rs 1,299 Cr), and 11% from Residential (Rs 563 Cr). Geography-wise, out of the current executable projects, Gujarat constitutes 53%, UP 32%, Maharashtra 14%, and Rajasthan 0.5%.

Outlook:

PSPPL has a strong order book comprising both public and private sector projects, which implies revenue visibility for the next 2-3 years. Going forward, with a robust bidding pipeline, strong execution, the government thrust on building infrastructure and revival of private Capex, we believe PSPPL is well-placed to capture growth opportunities in the sector.

Valuation & Recommendation:

The stock is currently trading on 11x and 10x FY24E/FY25E EPS which is attractive. We maintain our **BUY** rating on the stock with a TP of Rs 800/share, implying an upside potential of 15% from the CMP.

Key Financials (Consolidated)

(Rs Cr)	Q3FY23	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	500	39%	3%	607	-18%
EBITDA	62	57%	-19%	76	-19%
EBITDA Margin	12.4%	140 bps	(320 bps)	12.5%	(10 bps)
Net Profit	35	64%	30%	48	-27%
EPS (Rs)	9.8	64%	30%	13	-27%

Source: Company, Axis Research

(CMP as of 18th Jan 2023)

CMP (Rs)	698
Upside /Downside (%)	15
High/Low (Rs)	776/459
Market cap (Cr)	2514
Avg. daily vol. (6m)Shrs.	274635
No. of shares (Cr)	3.6

Shareholding (%)

	Jun-22	Sep-22	Dec-22
Promoter	70.4	70.4	70.5
FII's	1.9	1.9	2.00
MFs / UTI	2.9	2.9	2.5
Banks / FI's	0	0.9	0.8
Others	24.8	24	24

Financial & Valuations

Y/E Mar (Rs Cr)	FY23E	FY24E	FY25E
Net Sales	2,096	2,620	3,013
EBITDA	259	338	392
Net Profit	159	221	262
EPS (Rs)	44	61	73
PER (x)	16	11	10
P/BV (x)	10	7	6
EV/EBITDA (x)	3.0	2.4	2.0
ROE (%)	21%	24%	23%

Change in Estimates (%)

Y/E Mar	FY23E	FY24E	FY25E
Sales	4	4	0
EBITDA	-2	1	0
PAT	-4	-1	0

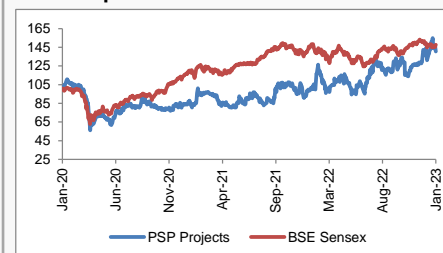
ESG disclosure Score**

Environmental Disclosure	NA
Social Disclosure Score	NA
Governance Disclosure	NA
Total ESG Disclosure Score	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 Highlights

- **Order Book:** As on 31st Dec'22 the order book stood at Rs 5,075 Cr. The company received the highest-ever inflow of Rs1,950Cr (excluding GST) as compared to Rs 978 Cr during 9MFY22, a 100% growth on a YoY basis.
- **Revenue Guidance:** FY23 revenue is expected to be in the range of Rs 2,000-2100 Cr. Going forward the management expects 25% revenue growth and EBITDA margins to be in the range of 12-13% in FY24 and FY25.
- **Bidding Pipeline:** The current bidding pipeline is Rs4,500 Cr. The bidding pipeline includes 60% of the project from private parties and 25% of the total projects from the State of Gujarat. The company recently won a project by Surat Municipal Corporation worth Rs1,344 Cr in Jan'23, thereby taking their outstanding order book to Rs6,418 Cr and order inflow as of FY23 to Rs 3,294 Cr, surpassing their order inflow guidance of Rs 2,500Cr.
- **Capex:** The company has guided for a Capex of 3%-4% of revenue.
- **Net working capital days** stood at 41 days in Q3FY23, as compared to 30 days in Q2FY23. As of 31st Dec'22 Unbilled Revenue stood at Rs 150 Cr, Retention Money stood at Rs 101 Cr, Mobilization Advance stood at Rs 169 Cr, Debtors stood at Rs 400 Cr, Creditors stood at Rs 300 Cr, Inventory stood at Rs 114 Cr, Long term debt stood at Rs 51 Cr and Short term debt stood at Rs 140 Cr.

Key Risks to our Estimates and TP

- Lower execution than expected may derail the revenue growth guidance.
- Higher input costs may impact the company's EBITDA margins.

Change in Estimates

	New			Old			% Change		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Sales	2,096	2,620	3,013	2,008	2,510	0	4%	4%	0
EBITDA	259	338	392	264	336	0	-2%	1%	0
PAT	159	221	262	165	223	0	-4%	-1%	0

Source: Company, Axis Securities

Result Review

(Rs Cr)	Quarterly Performance				
	Q3FY23	Q3FY22	Q2FY23	% Change (YoY)	% Change (QoQ)
Sales	500	360	39%	486	3%
Other Op. Inc	0	0		0	
Total Revenue	500	360	39%	486	3%
Expenditure					
Cost of material consumed	154	117	32%	130	18%
Changes in Inventories of Work-In-Progress	15	-35	-144%	-3	-635%
Construction expenses	242	211	15%	260	-7%
Employee Cost	23	22	4%	16	43%
Other Expenses	3	5	-34%	6	-40%
Total Expenditure	438	321	37%	410	7%
EBITDA	62	39	57%	76	-19%
EBIDTA margin	12.4%	11.0%	140 bps	15.6%	(320bps)
Oth. Inc.	6	6	2%	9	-29%
Interest	10	7	44%	10	4%
Depreciation	10	9	9%	9	5%
Exceptional Items	0	0		0	
PBT	48	30	63%	66	-27%
Tax	13	8	59%	16	-17%
PAT	35	22	64%	50	-30%
EPS (Rs)	9.8	6.0	64%	13.9	-29%

Source: Company, Axis Securities

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY22A	FY23E	FY24E	FY25E
Net sales	1,748	2,096	2,620	3,013
Other operating income	0	0	0	0
Total income	1,748	2,096	2,620	3,013
Cost of materials consumed	495	619	747	859
Changes in Inventories of Work-In-Progress	4	-20	0	0
Sub construction cost	0	0	0	0
Civil construction cost	892	1,107	1,388	1,597
Contribution (%)	20.4%	18.6%	18.5%	18.5%
Other Expenses	99	130	147	166
Operating Profit	258	259	338	392
Other income	22	27	31	36
PBIDT	280	286	369	428
Depreciation	32	38	44	49
Interest & Fin Chg.	26	33	31	30
Pre-tax profit	222	214	295	349
Tax provision	55	55	74	87
PAT	166	159	221	262

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY22A	FY23E	FY24E	FY25E
Total assets	1,270	1,513	1,820	2,162
Net Block	207	204	216	222
CWIP	0	10	10	10
Investments	1	1	1	1
Wkg. cap. (excl cash)	135	145	183	211
Cash / Bank balance	196	288	380	523
Other assets	731	865	1031	1195
Capital employed	1,270	1,513	1,820	2,162
Equity capital	36	36	36	36
Reserves	651	792	995	1239
Minority Interests	0	0	0	0
Borrowings	100	113	106	106
Other Liabilities	484	572	684	781

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY22A	FY23E	FY24E	FY25E
PBT	222	214	295	349
Depreciation	32	38	44	49
Interest Expense	9	33	31	30
Changes in Working Capital	-35	-33	-68	-67
Others	-17	-27	-31	-36
Tax Paid	-64	-55	-74	-87
Net Cash from Operations	147	171	197	237
Capex	-77	-45	-55	-55
Investment	0	0	0	0
Others	-88	4	6	9
Net Cash from Investing	(164)	(41)	(49)	(46)
Borrowings	16	13	-7	0
Interest Expense	-12	-33	-31	-30
Others	-14	-18	-18	-18
Net Cash from Financing	(11)	(38)	(56)	(48)
Net Change in Cash	(28)	92	92	143
Opening cash	116	88	180	272
Closing cash	88	180	272	415

Source: Company, Axis Securities

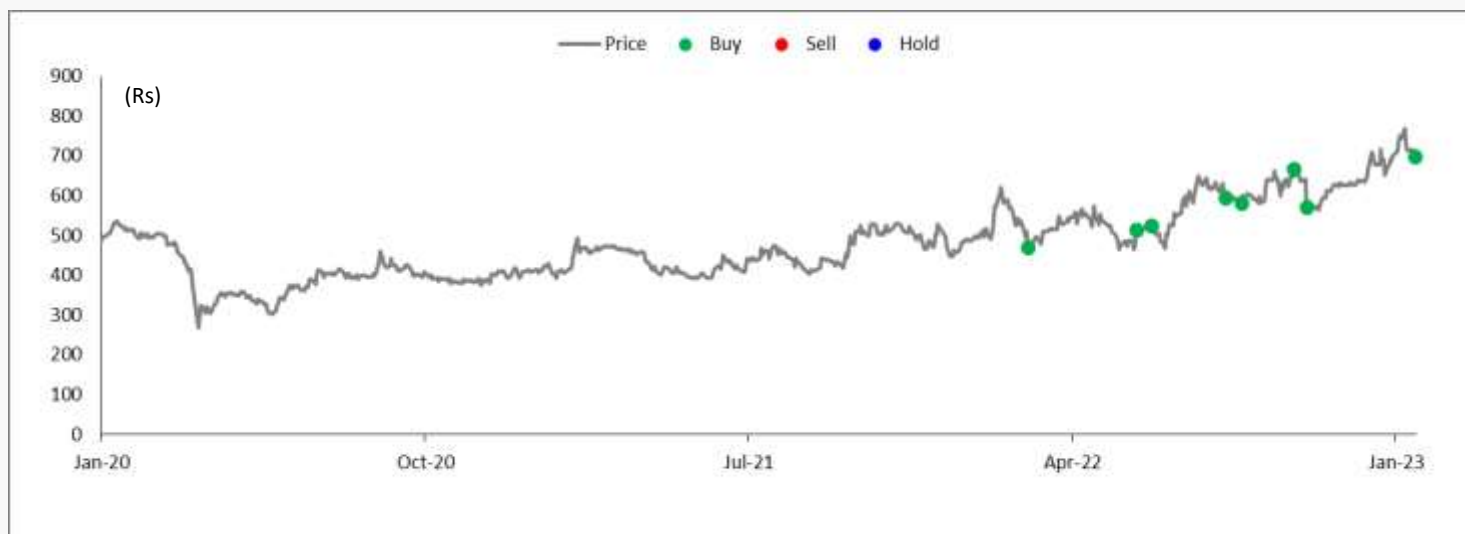
Ratio Analysis

(%)

Y/E March	FY22A	FY23E	FY24E	FY25E
Growth Indicator				
Sales Growth	41%	20%	25%	15%
Ebitda Growth	92%	0%	30%	16%
PAT Growth	99%	-4%	39%	18%
Profitability Ratio				
EBITDA Margin	14.8%	12.4%	12.9%	13.0%
Adjusted net margin	9.5%	7.6%	8.5%	8.7%
Efficiency Ratio				
Capital Turnover	2.5	2.5	2.5	2.4
Total Asset Turnover	2.5	2.5	2.5	2.4
Fixed Asset Turnover	8.4	9.8	11.6	13.0
Debtor days	65	63	63	63
Inventory days	20	20	20	20
Payable days	63	63	63	63
Cash Conversion Cycle (days)	22	20	20	20
Leverage Ratios				
Debt to equity	0.16	0.13	0.10	0.08
Net debt to equity	-0.1	-0.2	-0.3	-0.3
Interest coverage	10	8	11	13
Per Share Data				
Diluted EPS (Rs)	46	44	61	73
Book value per share (Rs)	191	230	286	354
DPS (Rs)	-4.0	5.0	5.0	5.0

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
19-Jan-23	BUY	800	Result Update

Source: Axis Securities

About the analyst



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