

Execution To Improve; Robust Order Book To Drive Growth.

Est. Vs. Actual for Q4FY23: Revenue – **MISS** ; EBITDA Margin – **MISS**; PAT – **MISS**

Change in Estimates post Q4FY23 (Abs)

FY24E/FY25E – Revenue-3%/1%; **EBITDA**-3%/1%; **PAT**-9%/-2%

Recommendation Rationale

- **Total order book now stands at Rs 5,810 Cr:** As of 31st Mar'23, the company's order book stood at Rs 5,052 Cr with the highest-ever inflow of Rs 3,421 Cr, a 90% growth YoY. With new orders worth Rs 758 Cr already received in FY24, the total order book now stands at Rs 5,810 Cr. A healthy and robust order book gives revenue visibility for the next 2-3 years.
- **Strong bidding pipeline of Rs 6,000 Cr:** The company has a strong bidding pipeline of Rs 6,000 Cr, across all segments, which includes 57% of the project from private parties and 30% of the total projects from the State of Gujarat. This will keep order inflow intake healthy moving ahead.
- **Better execution expected in FY24:** New orders received in FY23 had delayed execution as they were at the initial stage of planning and construction which led to a contraction in EBITDA margin and slower-than-expected revenue growth. Better execution is expected in all these orders in FY24.

Sector Outlook: **Positive**

Company Outlook & Guidance: The company has guided revenue growth of 25-30% with an EBITDA margin in the range of 11-13%. It has also hiked its order inflow guidance to Rs 3,000 Cr in FY24.

Current Valuation: 11x FY25 EPS (Earlier Valuation: 11x FY25E EPS)

Current TP: Rs 785/share (Earlier TP: Rs 800/share)

Recommendation: We maintain our **BUY** recommendation on the stock.

Financial Performance:

PSP Projects Ltd (PSPPL) Q4FY23 numbers were below our expectations due to majority of the orders being in their initial stages of construction and non completion of EPC projects which lead to lower revenue and margin contraction. The company reported revenue of Rs 730 Cr (up 32% YoY), EBITDA of Rs 81 Cr (down 8% YoY), and APAT of Rs 49 Cr (down 11% YoY). It registered EBITDA Margins of 11.1% in Q4FY23 (Our Estimate: 12.4%) against 15.9% in Q4FY22. The company reported APAT margins of 6.7% in Q4FY23 against 9.9% in Q4FY22.

The order book break up is as follows: 52% from the Government (Rs 2,621 Cr), 4% from the Government Residential (Rs 197 Cr), 11% from Industrial (Rs 542 Cr), 22% from Institutional (Rs 1,092 Cr), and 12% from Residential (Rs 600 Cr). Geography-wise, Gujarat constitutes 74% and UP 26%, out of the current executable projects.

Outlook:

PSPPL has a strong orderbook 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. We expect the company to report Revenue/EBITDA/APAT CAGR of 16%/20%/24% over FY23-FY25E.

Valuation & Recommendation:

The stock is currently trading on 12.5x and 10x FY24E/FY25E EPS which is attractive. We maintain our **BUY** rating on the stock with a TP of Rs 785/share, implying an upside potential of 12% from the CMP.

Key Financials (Consolidated)

(Rs Cr)	Q4FY23	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	730	46%	32%	804	-9%
EBITDA	81	31%	-8%	100	-19%
EBITDA Margin	11.1%	(130 bps)	(480 bps)	12.4%	(130 bps)
Net Profit	49	38%	-11%	65	-25%
EPS (Rs)	12.8	30%	-17%	18	-29%

Source: Company, Axis Research

(CMP as of 18th May 2023)

CMP (Rs)	703
Upside /Downside (%)	12
High/Low (Rs)	776/459
Market cap (Cr)	2529
Avg. daily vol. (6m) Shrs.	181193
No. of shares (Cr)	3.6

Shareholding (%)

	Sep-22	Dec-22	Mar-23
Promoter	70.4	67.54	67.59
FII's	1.9	2.27	2.47
MFs / UTI	2.9	2.25	2.55
Banks / FI's	0	0	0
Others	24.8	27.94	27.39

Financial & Valuations

Y/E Mar (Rs Cr)	FY23	FY24E	FY25E
Net Sales	1,938	2,529	3,035
EBITDA	230	326	395
Net Profit	135	202	257
EPS (Rs)	37	56	71
PER (x)	19	12	10
P/BV (x)	11	8	6
EV/EBITDA (x)	3.1	2.6	2.1
ROE (%)	18%	22%	23%

Change in Estimates (%)

Y/E Mar	FY24E	FY25E
Sales	-3%	1%
EBITDA	-3%	1%
PAT	-9%	-2%

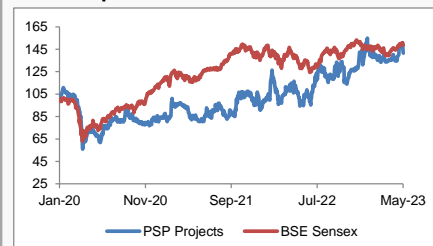
ESG disclosure Score**

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 Mar'23 the order book stood at Rs 5,052 Cr, comprising projects of 56% from Government and 44% from Private players. The company has discontinued 2 of their slow moving projects (Bhiwandi & Pandarpur) worth Rs 731 Cr. As on date the orderbook stands at Rs 5,800 Cr including new project of Rs 758 Cr.
- **Order Inflow:** The company received the highest-ever inflow of Rs 3,421Cr (excluding GST). Also, post completion of their first ever project of Kashi Vishwanath Dham in UP, they have received projects worth more than Rs 1,500 Cr in UP, comprising nearly 60% of all their government projects in all.
- **Bidding Pipeline:** The current bidding pipeline is Rs 6,000 Cr. The bidding pipeline includes 57% of the project from private parties and 30% of the total projects from the State of Gujarat.
- **Revenue Guidance:** FY24 revenue is expected to be Rs 2,600 Cr, with ramp up of UP projects' backlog by H1FY24. Going forward the management expects 25-30% revenue growth and EBITDA margins to be in the range of 11-13% in FY24 and FY25.
- **Capex:** In FY23 the company made additions worth Rs 74 Cr out of which Rs 45 Cr was capex for their Precast facility. Going forward the management has guided for a Capex of 3%-4% of revenue.
- **Networking capital days** stood at 41 days in Q4FY23, same as Q3FY23. As of 31st Mar'23 Unbilled Revenue stood at Rs 257 Cr, Retention Money stood at Rs 135 Cr, Mobilization Advance stood at Rs 245Cr,
- **OCF:** During the year the company generated OCF of Rs 45 Cr against Rs 147 Cr in FY22 largely impacted by increase in working capital and lower profit. The company indicated that OCF generation will improve in FY24.
- **Leverage:** Total debt (Long & Short term) as on 31st March stood at Rs 144 Cr an increase of Rs 44 Cr over FY22 largely on account of extension of Precast capacity. Total cash & bank including FDs as on 31st March 2023 stood at Rs 340 Cr. The company is net debt free

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	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	2,529	3,035	2,620	3,013	-3%	1%
EBITDA	326	395	337	392	-3%	1%
PAT	202	257	221	262	-9%	-2%

Source: Company, Axis Securities

Result Review Q4FY23

(Rs Cr)	Quarterly Performance				
	Q4FY23	Q4FY22	Q3FY23	% Change (YoY)	% Change (QoQ)
Sales	730	555	500	32%	46%
Other Op. Inc	0	0	0		
Total Revenue	730	555	500	32%	46%
Expenditure					
Cost of material consumed	227	137	154	67%	48%
Changes in Inventories of Work-In-Progress	-1	7	15	-121%	-109%
Construction expenses	387	287	242	35%	60%
Employee Cost	26	25	23	2%	9%
Other Expenses	10	11	3	-10%	182%
Total Expenditure	649	466	438	39%	48%
EBITDA	81	88	62	-8%	31%
EBIDTA margin	11.1%	15.9%	12.4%	(480 bps)	(130 bps)
Oth. Inc.	7	5	6	42%	4%
Interest	9	9	10	-3%	-9%
Depreciation	12	10	10	21%	26%
Exceptional Items	0	0	0		
PBT	66	73	48	-10%	37%
Tax	17	19	13	-7%	34%
PAT	49	55	35	-11%	38%
EPS (Rs)	12.8	15.3	9.8	-17%	30%

Source: Company, Axis Securities

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY22A	FY23A	FY24E	FY25E
Net sales	1,748	1,938	2,529	3,035
Other operating income	0	0	0	0
Total income	1,748	1,938	2,529	3,035
Cost of materials consumed	495	603	723	865
Changes in Inventories of Work-In-Progress	4	(21)	0	0
Sub construction cost	0	0	0	0
Civil construction cost	892	1,009	1,339	1,609
Contribution (%)	20.4%	17.9%	18.5%	18.5%
Other Expenses	99	117	142	167
Operating Profit	258	230	326	395
Other income	22	25	30	36
PBIDT	280	255	356	431
Depreciation	32	40	49	54
Interest & Fin Chg.	26	32	34	30
Pre-tax profit	222	183	273	347
Tax provision	55	48	71	90
PAT	166	135	202	257

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY22A	FY23A	FY24E	FY25E
Total assets	1,270	1,765	2,110	2,513
Net Block	207	240	271	272
CWIP	0	18	18	18
Investments	1	1	1	1
Wkg. cap. (excl cash)	135	219	242	291
Cash / Bank balance	196	242	302	410
Other assets	731	1046	1277	1522
Capital employed	1,270	1,765	2,110	2,513
Equity capital	36	36	36	36
Reserves	651	765	949	1187
Minority Interests	0	0	0	0
Borrowings	100	145	138	138
Other Liabilities	484	819	987	1152

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY22A	FY23A	FY24E	FY25E
PBT	222	180	273	347
Depreciation	32	40	49	54
Interest Expense	9	16	34	30
Changes in Working Capital	-35	-112	-66	-107
Others	-17	-22	-30	-36
Tax Paid	-64	-57	-71	-90
Net Cash from Operations	147	45	189	198
Capex	-77	-80	-80	-55
Investment	0	0	0	0
Others	-88	29	9	14
Net Cash from Investing	(164)	(51)	(71)	(41)
Borrowings	16	45	-7	0
Interest Expense	-12	-16	-34	-30
Others	-14	-18	-18	-18
Net Cash from Financing	(11)	12	(59)	(48)
Net Change in Cash	(28)	6	60	108
Opening cash	116	88	94	154
Closing cash	88	94	154	262

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E March	FY22A	FY23A	FY24E	FY25E
Growth Indicator				
Sales Growth	41%	11%	31%	20%
EBITDA Growth	92%	-11%	42%	21%
PAT Growth	99%	-19%	50%	27%
Profitability Ratio				
EBITDA Margin	14.8%	11.9%	12.9%	13.0%
Adjusted net margin	9.5%	6.9%	8.0%	8.5%
Efficiency Ratio				
Capital Turnover	2.5	2.4	2.6	2.5
Total Asset Turnover	2.5	2.3	2.5	2.4
Fixed Asset Turnover	8.4	7.5	8.8	10.5
Debtor days	65	82	75	75
Inventory days	20	33	33	33
Payable days	63	79	79	79
Cash Conversion Cycle (days)	22	36	29	29
Leverage Ratios				
Debt to equity	0.16	0.18	0.15	0.12
Net debt to equity	-0.1	-0.1	-0.2	-0.2
Interest coverage	10	7	10	13
Return Ratios				
Return on equity	28%	18%	22%	23%
Return on capital employed	40%	28%	33%	33%
Valuation Ratio				
P/E	15	19	12	10
P/BV	3.7	3.1	2.6	2.1
EV/EBITDA	9.8	11.1	7.8	6.4
Per Share Data				
Diluted EPS (Rs)	46	37	56	71
Book value per share (Rs)	191	222	274	340
DPS (Rs)	-4.0	0.0	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
19-May-23	BUY	785	Result Update

Source: Axis Securities

About the analyst



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