

# Q4FY23 Result Update

## PSP Projects

### Executions set to improve

- PSP Projects (PSPPL) posted a healthy operating performance in Q4FY23 that was lower than our estimate on lower-than-expected revenue from seven projects in Uttar Pradesh.
- Revenue grew 32% YoY and 46% QoQ to INR730cr (est. INR803cr) led by better execution of projects from Uttar Pradesh.
- EBITDA contracted by 8% YoY, but expanded 31% QoQ, to INR81cr (est. INR103cr).
- EBITDA margin contracted by 484bp YoY and 126bp QoQ to 11.1% (est. 12.8%) due to higher material and construction cost as most projects were in the early stages of construction.
- Order book stood at INR5,052cr as of March, which translates into a revenue visibility of 2.6x FY23 revenue. The management expects to bid for projects of over INR6,000cr in FY24.
- Revenue grew 10% YoY to INR1,927cr in FY23, whereas EBITDA/PAT fell 12%/17% to INR225cr/INR133cr.
- Though execution was subdued as most orders were in the early stages of construction in FY23, we expect revenue growth to recover in FY24 aided by an expected ramp in execution of existing projects, new projects, and a healthy order book position. Reiterate 'Buy'.

### Expect growth momentum to recover in FY24

Revenue grew 32% YoY and 46% QoQ owing to a ramp in the execution of seven hospitals and medical projects in Uttar Pradesh. The management expects a significant ramp up in the execution of these projects as satisfactory construction progress has been achieved, as evident from the revenue recognition of INR301cr in Q4FY24. We expect revenue growth to recover in FY24 aided by a ramp in execution of projects from Uttar Pradesh, the Surat Municipal project, and other ongoing projects.

### Strong bidding pipeline to ensure a healthy order book position

PSPPL's order book stood at INR5,052cr, which translates in an order book-to-revenue ratio of 2.6x FY23 revenue. It received order inflows of INR748cr till YTD. We forecast a healthy order book as it aims to bid for projects worth INR6,000cr in FY24. These include: 1) an INR2,500cr gems and jewellery park in Navi Mumbai, ii) the INR1,200cr Central Vista redevelopment project, iii) an INR450cr private residential township in Ahmedabad, iv) an INR400cr IT park in Chennai, and v) an INR300cr government office project in Odisha. Of this, 60% projects are from private parties. If a significant portion of these orders materialises, its geographical diversity will improve. At present, 74% of its orders are from Gujarat and the balance from Uttar Pradesh. It has received a completion certificate for a gems and jewellery park, which will enable it to bid for projects of more than INR2,500cr.

### Valuation and view — maintain 'BUY'

Despite a weak operating performance in FY23 on subdued execution of projects, we see a recovery in revenue growth due to a ramp in project execution. We expect margin to improve marginally from current levels as projects near completion in FY24. We expect margin to stay in the 11.5–12.5% range. We are of the view that PSPPL has not yet demonstrated its execution capabilities due to several consecutive soft quarters. We derive comfort from its healthy order book of over INR5,052cr, which is executable over the next two-to-three years. It will benefit from a strong order book, healthy bidding pipeline, lean Balance Sheet, comfortable working capital cycle, and favourable outlook for the construction sector. We expect revenue/EBITDA/PAT to clock 26%/29%/32% CAGR, over FY23–25. At the CMP of INR702, the stock is trading at 13x/11x FY24E/FY25E EPS. We reiterate 'BUY' and revise our TP to INR778, valuing it at 12x FY25E EPS.

### Key financials

Year to March (INR cr)	Q4FY23	Q4FY22	YoY(%)	Q3FY23	QoQ(%)	FY22	FY23E	FY24E	FY25E
Net Revenue	730	555	32%	500	46%	1,748	1,938	2,568	3,080
EBITDA	81	88	-8%	62	31%	259	230	310	381
PAT	46	55	-16%	35	30%	167	135	191	234
EBITDA Margin	11%	16%		12%		15%	12%	12%	12%
PAT Margin	6%	10%		7%		10%	7%	7%	8%
EPS basic(INR)	13	15	-16%	10	30%	46	37	53	65
Diluted P/E (x)						12	18	13	11
EV/EBITDA (x)						7	10	8	6
RoCE (%)						29%	20%	22%	23%

CMP INR 705

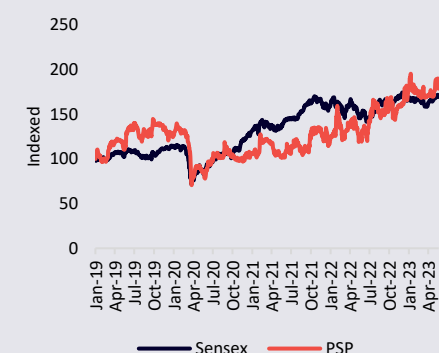
Rating: Buy

Target Price: INR778

Upside:10%

Date: May 20, 2023

Bloomberg:	PSPPL:IN
52-week range (INR):	459 / 776
Shares in issue (cr):	3.6
M-cap (INR crore):	2,531
Promoter holding (%)	67.59



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### Key takeaways from the management commentary

#### Operating performance

- Revenue growth driven by healthy execution in seven projects in Uttar Pradesh.
- It recognised a revenue of INR301cr from a UP project in Q4 against INR738cr recognised during FY23.
- Execution is expected to ramp up in FY24 as most projects have achieved significant construction progress.
- The moderation in EBITDA margin was due to an increase in construction expenditure as more than 50% projects were in the early stages of construction.
- PAT and PAT margin narrowed due to lower operating margin and increase in finance cost.
- The company is likely to benefit from the government's focus on infra and a pick-up in private capex.
- Employee expense rose on account of an increase in employee strength.

#### Order book

- PSPPL has bid for projects of over INR6,000cr. These include: 1) an INR2,500cr gems and jewellery project in Mumbai, ii) the INR1,200cr Central Vista redevelopment project, iii) an INR450cr private residential township, and iv) an INR400cr IT park in Chennai.
- Its project in Bhiwandi is still under arbitration and a judgement is soon likely.
- The counterparty in its Pandharpur project has agreed to delays attributable to its part. The management said it will commence work once the outstanding due is received.

#### Capex

- PSPPL is expected to incur a capex of 3–4% of revenue.
- It is incurring a capex of ~INR45cr for expansion of its precast facility. Of this, INR17cr has been incurred in FY23. The expanded capacity will have a revenue potential of INR200–250cr.

#### Guidance

- The management expects revenue of over INR3,000cr in FY24.
- It expects order inflows of INR3,000–4,000cr in FY24.
- EBITDA margin is expected to remain in the 11–13% range.

#### Debt structure and liquidity

- The company recorded long/short -term borrowing of INR70cr/INR75cr.
- Out of the total credit facility of INR1,047cr, fund/non-fund-based utilisation is INR74cr/INR823cr.
- Total FDs stood at INR331cr, of which free FDs are INR76cr and the balance is in under lien.
- Gross block is INR413cr. The net amount due from customers is INR78cr. Unbilled revenue is INR257cr. Retention money non-current is INR101cr. Retention money stands at INR34cr. Mobilisation advances are INR245cr.

### Q4FY23 Result Highlights:

(INR Cr)	Q4FY23	Q4FY22	YoY(%)	Q3FY23	QoQ(%)
Net Revenues	730	555	32%	500	46%
Cost of Goods Sold	613	430	43%	411	49%
Gross Profit	116	124	-6%	89	31%
Employee Expenses	26	25	2%	23	9%
Other expenses	10	11	-10%	3	182%
Operating Expenses	649	466	39%	438	48%
EBITDA	81	88	-8%	62	31%
Depreciation	12	10	21%	10	26%
EBIT	69	78	-12%	52	32%
Interest expenses	9	9	-3%	10	-9%
Other income	7	5	42%	6	4%
PBT	66	73	-10%	48	37%
Tax	17	19	-7%	13	34%
Profit/Loss from Associates	-3	0	-8752%	0	-8752%
Reported PAT	46	55	-16%	35	30%
Extraordinary Items	0	0	-	0	-
Adj PAT after Eol	46	55	-16%	35	30%
Equity Capital	36	36	-	36	-
No of Shares	3.6	3.6	-	3.6	-
EPS	13	15	-	10	-
EBITDA Margin	11.1%	15.9%	-	12.4%	-
PAT Margin	6.3%	9.9%	-	7.1%	-

## Previous Outlook

**Q2FY23:** Due to a weak operating performance in Q2FY23, we trimmed our revenue growth estimates by 7% for FY23. Furthermore, due to a decline in EBITDA margins, we lowered our expectation by 50bps in FY23E and 30bps in FY24E. Despite a weak operating performance in 1HFY23, we expect revenue and PAT to post a CAGR of 18% and 24%, respectively, during FY21–24E. We believe PSP would benefit from its strong orderbook position, healthy order inflow, lean balance sheet, comfortable working capital cycle and favourable outlook of the construction sector. PSP is currently trading at 10.9x of the FY24E EPS and we reiterate BUY on PSP and revise our target price to INR694, valuing it at 13x of the FY24E EPS.

**Q3FY23:** Despite the weak operating performance in 9MFY23, we expect the company’s revenue and PAT to rise at a CAGR of 17% and 8%, respectively, during FY22–25E. We believe that PSP has not yet demonstrated its execution capabilities due to several consecutive soft quarters. However, we derive comfort from the healthy order book position of over INR6,418 cr, which is executable over the next 2–3 years. We believe PSP would benefit from its strong order book, healthy bidding pipeline, lean balance sheet, comfortable working capital cycle and favourable outlook for the construction sector. At CMP of INR684, PSP is trading at 13x/12x of FY24E/FY25E EPS and we reiterate BUY on PSP and revise our target price to INR751, valuing it at 13x of the FY25E EPS.



### Financials

#### Income Statement (Consolidated)

(INR cr)

Year to March	FY21	FY22	FY23	FY24E	FY25E
Income from operations	1,241	1,748	1,938	2,568	3,080
Direct Expenses	396	499	582	794	952
Employee Cost	51	72	93	124	139
Other Expenses	659	918	1,033	1,341	1,609
Total operating expenses	1,106	1,490	1,708	2,258	2,699
EBITDA	135	259	230	310	381
Depreciation and amortisation	26	32	40	54	70
EBIT	109	227	190	255	312
Interest expenses	15	26	32	25	30
Other income	17	22	25	25	30
Profit before tax	111	222	183	255	312
Provision for tax	28	55	48	64	78
Core profit	83	167	135	191	234
Extraordinary items	-3	0	0	0	0
Profit after tax	81	167	135	191	234
Minority Interest	0	0	0	0	0
Share from associates	-2	0	0	0	0
Adjusted net profit	78	167	135	191	234
Equity shares outstanding (Crs)	3.6	3.6	3.6	3.6	3.6
EPS (INR) basic	21.7	46.3	37.4	53.2	64.9
Diluted shares (Crs)	3.6	3.6	3.6	3.6	3.6
EPS (INR) fully diluted	21.7	46.3	37.4	53.2	64.9
Dividend per share	0.0	0.0	0.0	0.0	0.0
Dividend payout (%)	0.0	0.0	0.0	0.0	0.0

#### Common size metrics- as % of net revenues

Year to March	FY21	FY22	FY23	FY24E	FY25E
Operating expenses	89.1	85.2	88.1	87.9	87.6
Depreciation	2.1	1.8	2.1	2.1	2.3
Interest expenditure	1.2	1.5	1.6	1.0	1.0
EBITDA margins	10.9	14.8	11.9	12.1	12.4
Net profit margins	6.3	9.5	6.9	7.5	7.6

#### Growth metrics (%)

Year to March	FY21	FY22	FY23	FY24E	FY25E
Revenues	(17.2)	40.9	10.8	32.5	20.0
EBITDA	(29.2)	91.9	(11.1)	34.6	23.2
PBT	(36.0)	100.2	(17.5)	39.4	22.1
Net profit after minority interest	(38.9)	113.0	(19.2)	42.2	22.1
EPS	(38.9)	113.0	(19.2)	42.2	22.1

Balance Sheet (Consolidated)					(INR cr)
As on 31st March	FY21	FY22E	FY23	FY24E	FY25E
Equity share capital	36	36	36	36	36
Warrants	1	2	3	3	3
Reserves & surplus	500	651	765	956	1,190
Shareholders funds	538	689	804	995	1,229
Borrowings	75	100	145	145	145
Minority interest	2	3	4	4	4
<b>Sources of funds</b>	<b>616</b>	<b>794</b>	<b>956</b>	<b>1,147</b>	<b>1,381</b>
Gross block	229	345	417	543	697
Depreciation	113	138	178	232	302
Net block	116	207	240	311	395
Capital work in progress	42	0	18	18	18
Total fixed assets	158	207	257	329	413
Goodwill	0	0	0	0	0
Non Current Assets	141	242	226	236	246
Inventories	89	82	153	224	216
Sundry debtors	227	311	434	557	590
Cash and equivalents	229	196	246	253	413
Loans and advances	121	0	0	0	0
Other current assets	27	232	449	493	545
Total current assets	693	822	1,282	1,527	1,762
Sundry creditors and others	260	258	368	478	545
Other Current Liabilities	64	188	388	476	505
Provisions	1	2	3	0	0
Total CL & provisions	325	448	760	954	1,050
Net current assets	368	374	522	573	712
Net Deferred tax	0	0	0	0	0
Misc expenditure	0	0	0	0	0
<b>Uses of funds</b>	<b>616</b>	<b>794</b>	<b>956</b>	<b>1,147</b>	<b>1,381</b>
Book value per share (INR)	171	220	266	319	384

Cash flow statement					(INR cr)
Year to March	FY21	FY22E	FY23	FY24E	FY25E
Net profit	81	167	135	191	234
Add: Depreciation	26	32	40	54	70
Add: Interest net of tax	11	19	23	18	22
Add: Deferred tax	1	2	3	3	3
Add: Others	12	0	0	0	0
Gross cash flow	130	220	201	267	329
Less: Changes in W. C.	56	59	76	103	-20
Operating cash flow	71	161	126	165	349
Less: Capex	31	92	97	128	154
Less: Investment in subsidiaries	0	0	0	0	0
<b>Free cash flow</b>	<b>40</b>	<b>70</b>	<b>29</b>	<b>36</b>	<b>195</b>

### Profit & Efficiency Ratios

Year to March	FY21	FY22	FY23	FY24E	FY25E
ROAE (%)	15%	24%	17%	19%	19%
ROACE (%)	18%	29%	20%	22%	23%
Debtors (days)	67	65	82	79	70
Current ratio	1.8	1.7	1.6	1.6	1.7
Gross Debt/Equity	0.0	0.0	0.0	0.1	0.1
Inventory (days)	26	17	29	32	26
Payable (days)	76	54	69	68	65
Cash conversion cycle (days)	16	28	41	43	31
Gross Debt/EBITDA	0.0	0.0	0.0	0.5	0.4
Net debt/Equity	(0.4)	(0.3)	(0.3)	(0.1)	(0.2)

### Valuation Parameters

Year to March	FY21	FY22	FY23	FY24E	FY25E
Diluted EPS (INR)	22.4	46.3	37.4	53.2	64.9
Y-o-Y growth (%)	(37.1)	106.7	(19.2)	42.2	22.1
CEPS (INR)	29.6	55.2	48.5	68.3	84.3
Diluted P/E (x)	19.4	11.8	18.5	13.2	10.8
Price/BV(x)	2.9	2.9	3.1	2.5	2.1
EV/Sales (x)	1.1	1.0	1.2	0.9	0.7
EV/EBITDA (x)	9.9	6.9	9.7	7.8	5.9
Diluted shares O/S	3.6	3.6	3.6	3.6	3.6
Basic EPS	22.4	46.3	37.4	53.2	64.9
Basic PE (x)	19.4	11.8	18.5	13.2	10.8
Dividend yield (%)	0%	0%	0%	0%	0%

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