

Rating: NR

Share Price: Rs.737

28 July 2023

PSP Projects

Sound execution, bright prospects

PSP's Q1 FY24 was soothing with sound revenue on continuing healthy execution at its earlier orders, and the gradually rising share of newer orders. Growth wasn't without healthy margins. Leverage rose, but it seems more a function of seasonality in the business; management sees it to moderate progressively in the year. Ample assurance, continuing healthy additions, sturdy execution and strong prospects suggest even better scale of operations ahead. Resultantly, the bright longer-term outlook persists.

Order additions continue, assurance healthy. After ending FY23 on a strong note with single-year-best orders added (~Rs34.2bn), the start to FY24, with Q1 orders of ~Rs7.6bn, has been inspiring. Since the orders added were comfortably ahead of Q1 orders executed, the OB rose ~Rs2.7bn q/q to ~Rs53.2bn and imply a comforting ~2.5x TTM revenue assurance. Looking to keep growing, management intends to add orders of over Rs30bn in FY24; for this, it has its eyes set on an immediate prospects pipeline of over Rs60bn. The prospects pipeline excludes the Delhi railway station redevelopment project on its radar.

Guidance held. On the healthy start to the year and sanguine of an even better pace of execution ahead, management retained its Rs26bn FY24 revenue guidance (implying ~35% y/y growth). Margin guidance was held at 11-13%, though quarterly fluctuations were not ruled out. Orders of over Rs30bn are targeted, citing 1.25x order execution as ideal to keep growing. Recurring capex was envisaged at 3-4% of revenue (~Rs0.18bn incurred in Q1 FY24).

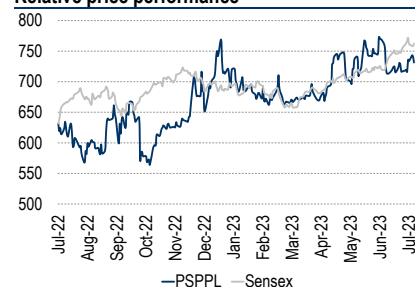
Leverage rose on seasonality. Seasonality/timing mismatch involved with the business took debt up from ~Rs1.4bn at end-FY23 to ~Rs2.8bn (~Rs1.85bn of working-capital limits and ~Rs0.97bn of term loans). The rise was attributed to inventory build-up at Uttar Pradesh healthcare orders. Management expects the gross debt to drop to Rs1bn-1.5bn by FY24-end.

Valuation. At the CMP, the stock trades at 19x TTM EPS of Rs39. We do not have a rating for the company. **Risk:** Failure to ramp-up execution.

Key data	PSPPL IN / PSPP.BO
52-week high / low	Rs799 / 560
Sensex / Nifty	66160 / 19646
3-m average volume	\$1.1m
Market cap	Rs.27bn / \$322.9m
Shares outstanding	36m

Shareholding pattern (%)	Jun'23	Mar'23	Dec'22
Promoters	66.2	67.6	67.5
- of which, Pledged	-	-	-
Free float	33.8	32.4	32.5
- Foreign institutions	4.2	2.5	2.3
- Domestic institutions	5.4	4.6	4.2
- Public	24.2	25.4	26.0

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY19	FY20	FY21	FY22	FY23
Sales (Rs m)	10,440	14,993	12,409	17,488	19,266
Adj. Net profit (Rs m)	902	1,293	835	1,624	1,330
Adj. EPS (Rs)	25.1	35.9	23.2	45.1	36.9
Growth (%)	40.2	43.2	-35.4	94.4	-18.1
P/E (x)	18.3	9.0	20.0	12.0	18.2
EV / EBITDA (x)	9.8	5.4	11.3	7.2	10.3
P/BV (x)	4.5	2.5	3.1	2.8	3.0
RoE (%)	26.8	31.2	16.8	26.6	17.9
RoCE (%)	41.3	41.1	22.2	35.5	24.8
Net debt / equity (x)	-0.5	-0.3	-0.3	-0.1	-0.1

Source: Company

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Quick Glance – Financials and Valuations (standalone)

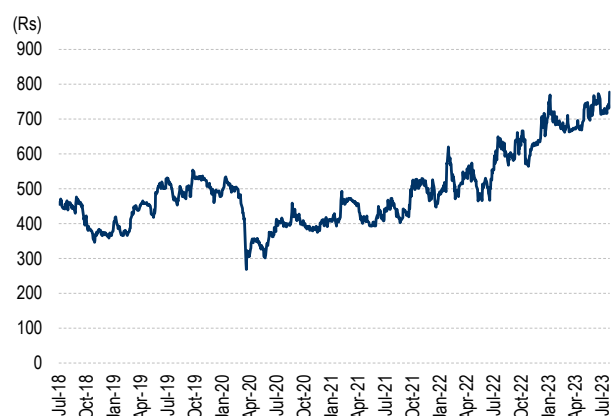
Fig 1 – Income statement (Rs m)

Year-end: Mar	FY19	FY20	FY21	FY22	FY23
Order backlog	29,780	30,736	41,210	43,240	50,520
Order inflows	14,150	15,780	22,815	19,399	34,210
Net revenues	10,440	14,993	12,409	17,488	19,266
Growth (%)	43.0	43.6	-17.2	40.9	10.2
Direct costs	8,851	12,949	10,911	14,636	16,755
SG&A	99	134	150	286	261
EBITDA	1,489	1,910	1,348	2,565	2,250
EBITDA margins (%)	14.3	12.7	10.9	14.7	11.7
Depreciation	242	267	256	321	400
Other income	230	248	169	213	271
Interest expenses	92	146	147	264	320
PBT	1,385	1,744	1,114	2,193	1,801
Effective tax rate (%)	34.9	25.9	25.0	25.9	26.2
+ Associates / (Minorities)	-	-	-	-	-
Net income	902	1,293	808	1,624	1,330
Adjusted income	902	1,293	835	1,624	1,330
WANS	36.0	36.0	36.0	36.0	36.0
FDEPS (Rs / sh)	25.1	35.9	23.2	45.1	36.9

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY19	FY20	FY21	FY22	FY23
PBT + Net interest expense	1,247	1,643	1,092	2,245	1,850
+ Non-cash items	242	267	256	321	400
Oper. profit before WC chg.	1,489	1,910	1,348	2,565	2,250
- Incr. / (decr.) in WC	626	1,536	53	1,493	608
Others including taxes	483	452	279	569	471
Operating cash-flow	381	-78	1,017	503	1,171
- Capex (tang. + intangibles)	486	314	756	816	900
Free cash-flow	-105	-392	261	-313	271
Acquisitions	-	-	-	-	-
- Dividend (incl. buyback & taxes)	217	434	-	144	180
+ Equity raised	-	-	-	-	-
+ Debt raised	16	477	27	185	425
- Fin. investments	-151	-0	-36	-1	-
-Net interest expense + Misc.	(140)	(100)	4	64	48
Net cash-flow	-15	-250	320	-336	469

Source: Company

Fig 5 – Price movement


Source: Bloomberg

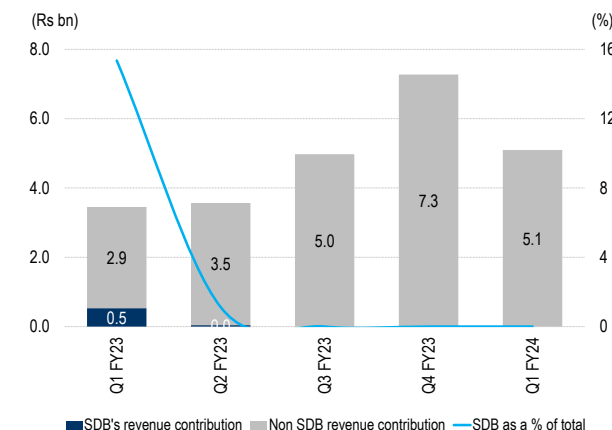
Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY19	FY20	FY21	FY22	FY23
Share capital	360	360	360	360	360
Net worth	3,714	4,571	5,380	6,847	7,998
Debt	263	748	810	997	1,450
Minority interest	-	-	-	-	-
DTL / (Assets)	-49	-58	-92	-94	-122
Capital employed	3,928	5,262	6,098	7,750	9,326
Net tangible assets	1,021	1,065	1,149	2,060	2,384
Net intangible assets	10	14	12	14	12
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	-	-	416	-	177
Investments (strategic)	44	44	8	7	7
Investments (financial)	-	-	-	-	-
Current assets (excl. cash)	3,964	6,444	5,938	8,540	12,439
Cash	2,217	1,967	2,288	1,952	2,421
Current liabilities	3,329	4,273	3,714	4,822	8,114
Working capital	635	2,171	2,224	3,717	4,325
Capital deployed	3,928	5,262	6,098	7,750	9,326
Contingent liabilities	3,401	4,045	3,674	4,877	-

Fig 4 – Ratio analysis

Year-end: Mar	FY19	FY20	FY21	FY22	FY23
P/E (x)	18.3	9.0	20.0	12.0	18.2
EV / EBITDA (x)	9.8	5.4	11.3	7.2	10.3
EV / Sales (x)	1.4	0.7	1.2	1.1	1.2
P/B (x)	4.5	2.5	3.1	2.8	3.0
RoE (%)	26.8	31.2	16.8	26.6	17.9
RoCE (%)	41.3	41.1	22.2	35.5	24.8
Sales / FA (x)	10.1	13.9	7.9	8.4	7.5
DPS (Rs / sh)	5.0	10.0	-	4.0	5.0
Dividend yield (%)	1.1	3.1	-	0.7	0.7
Dividend payout (%) - incl. DDT	24.0	33.6	-	8.9	13.5
Net debt / equity (x)	-0.5	-0.3	-0.3	-0.1	-0.1
Receivables (days)	50	55	65	65	82
Inventory (days)	26	24	26	17	29
Payables (days)	55	53	75	54	70
CFO : PAT %	42.2	-6.1	121.7	31.0	88.0

Source: Company

Fig 6 – Quarterly revenue trend


Source: Company

Result / concall highlights

Income statement

- **Comforting revenue.** PSP's Q1 FY24 revenue from operations rose ~47.6% y/y, largely powered by the healthy pace of execution at its earlier orders and the gradually rising contribution from the recently added orders. Sequentially, it declined ~30% on account of seasonality involved in the business (Q1 generally tends to be softer). Ahead, management expects revenue booking to be healthy, driven by the rising pace of execution at the healthy order backlog.
 - As in the last three quarters, the Uttar Pradesh healthcare order (medical and hospitals at seven locations) was the single largest contributor to revenue (~Rs1.96bn; ~38% of Q1 FY24 revenue). The noodle factory job and the Surat Municipal Corporation office project followed with ~Rs0.30bn and ~Rs0.26bn revenues.
 - With the gradually rising pace of execution, management held to its Rs26bn FY24 revenue guidance. This would imply strong, ~35%, revenue growth in FY24.

Fig 7 – Financial highlights – Uttar Pradesh Healthcare orders, the key contributor

(Rs m)	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	% Y/Y	% Q/Q
Sales	3,452	3,566	4,974	7,274	5,096	47.6	(29.9)
EBITDA	471	386	616	777	646	37.2	(16.7)
EBITDA margins (%)	13.6	10.8	12.4	10.7	12.7	-96bps	201bps
Finance costs	56	70	101	92	91	62.4	(1.1)
Depreciation	87	91	98	124	118	35.8	(4.3)
Other income	56	83	65	67	57	1.6	(14.4)
PBT	384	308	482	628	494	28.7	(21.2)
Tax	99	79	129	164	127	28.0	(22.8)
PAT	285	229	353	463	367	28.9	(20.7)
EPS (Rs)	7.9	6.4	9.8	12.9	10.2	28.9	(20.7)

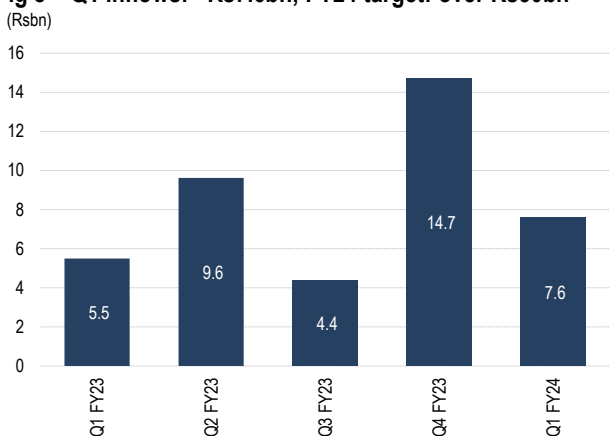
Source: Company

- **Healthy operating profitability.** Changes in the job- and project-mixes compressed the gross margin ~167bps y/y to ~19.8%. Sequentially, it expanded ~396bps. The movement in the gross margin holds the key to a ~96bp y/y crimped EBITDA margin. Nevertheless, at ~12.7%, the reported EBITDA margin was well ahead of the median of the 11-13% guided-to range. Sequentially, the margin expanded ~201bps.
 - Besides the gross margin, employee expenses too had a role to play in the margin movement (contributing positively y/y, but a drag q/q).
 - Taking comfort from the margin available with the order backlog, management retained its margin guidance at 11-13%. A quarterly variation is not ruled out.
- **Earnings performance healthy.** Largely led by growth in absolute operating profitability, net income rose ~28.9% y/y to ~Rs0.37bn. Sequentially, though, it was down ~20.7%.
 - A lower effective tax rate (~25.7%, down from ~25.8% a year ago, ~26.2% the quarter prior) was of help.

Order backlog / inflows / scope

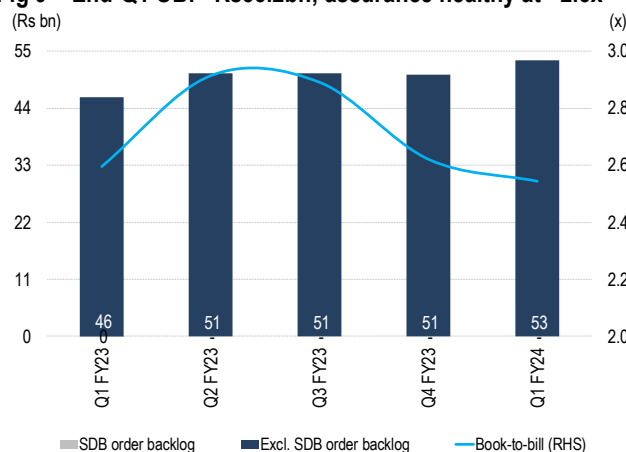
- After ending FY23 on a strong note with single-year-best orders added of ~Rs34.2bn, the start to FY24 is inspiring. In the quarter, PSP had successes with three orders of ~Rs7.6bn aggregate EPC potential.
 - The Q1 additions comprised an order to develop a tourist/pilgrimage destination at the Dharoi Dam project (~Rs3.2bn), construction orders for Sabha Halls at Vadodara and Surat from the BAP's Swaminaryan Sanstha (~Rs2.6bn) and construction of a private city and Vishram place for a private client at Surat (~Rs1.4bn).
- With Q1 FY24 orders added comfortably ahead of orders executed, the OB rose ~Rs2.7bn q/q to ~Rs53.2bn.
 - Though the order backlog rose q/q, more TTM revenues meant revenue assurance shrank slightly to ~2.5x (from ~2.6x a quarter ago). Nevertheless, the OB suffices for the short to medium term.

Fig 8 – Q1 inflows: ~Rs7.6bn; FY24 target: over Rs30bn



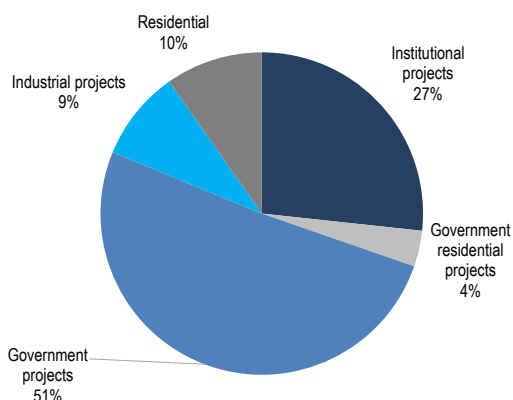
Source: Company Note: Q4 FY23 not adjusted for the two removed Maharashtra orders

Fig 9 – End-Q1 OB: ~Rs53.2bn; assurance healthy at ~2.5x



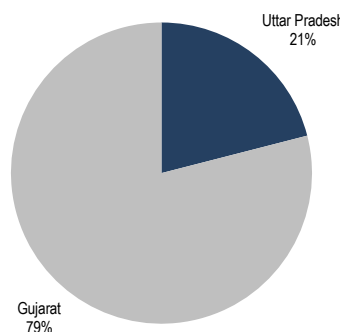
Source: Company Note: The chart denotes quarter-end or year-end figures

Fig 10 – Government OB, ~55% of the total



Source: Company Note: Break-up of the end-Q1 FY24 OB of ~Rs53.2bn

Fig 11 – Gujarat dominant, followed by Uttar Pradesh



Source: Company Note: Break-up of the end-Q1 FY24 OB of ~Rs53.2bn

- Buoyed by its enhanced bid capacity (on completing the Surat Diamond Bourse) and healthy prospects, management looks to add orders of over Rs30bn in FY24 (~Rs7.6bn added already in Q1). For this, it has set its eyes on an immediate prospects pipeline of ~Rs60bn.
 - These majorly consist of ~Rs26bn for the Ahmedabad railway station redevelopment project, ~Rs12bn for the Central Vista project, ~Rs4bn for an IT park in Chennai, and ~Rs3.5bn for the

Dharoi Dam development (Package-II). Apart from the above identified, over Rs45bn of the Delhi railway station redevelopment is also on the company's radar.

- For the railway station redevelopment projects, it looks to bid in a JV. Management highlights that it does not have the qualification for bridge- and concourse-related work; hence, a partner is required. The balance would be taken care of by PSP itself.
- Management notes that the Ahmedabad railway station redevelopment is due for bidding in Sep'23 and the Delhi one in Oct'23.
- Management does not see any dearth of opportunities and cites the recent Gujarat state budget (announced in Feb'23) as a case in point. It highlights that the Gujarat government in its recent budget identified investment needs of ~Rs5trn over the next five years to develop a host of infrastructure projects.
 - The envisaged projects include industrial corridors, Gujarat financial city, metro-rail systems, bullet trains, railway station redevelopments, urban transportation projects, hospitals, education institutes, multilevel parking and many more.
- Besides further opportunities in Gujarat, management is open to considering opportunities in other regions so long as the opportunities meet its selection criteria. Currently, it has live projects in Uttar Pradesh, but has had experience of working in Karnataka, Rajasthan, Maharashtra and Delhi.

Balance sheet

- At end-Q1 FY24, the company had ~Rs1.8bn of its working-capital limits outstanding; the term loan availed of was ~Rs1bn. This ~Rs2.8bn of gross debt compares to ~Rs1.4bn at end-Q4.
 - The q/q higher gross debt is attributed to seasonality and the need to fund the inventory build-up at the Uttar Pradesh healthcare sites.
 - With a large part of the balance works at Uttar Pradesh healthcare orders (~Rs4.5bn of ~Rs5.76bn, likely to be executed by end-FY24), management sees gross debt to come down to Rs1bn-1.5bn by this financial year-end.
- At 30th Jun'23, the company had access to fixed deposits of ~Rs3.2bn (down from ~Rs3.3bn at end-FY23). These comprised ~Rs0.67bn of unencumbered FDs (q/q down from ~Rs0.76bn), ~Rs2.56bn of FDs with liens or given to clients as security deposits (against ~Rs2.55bn at end-Q4).
- Management pegs the Q1 FY24 cash-conversion cycle at 43 days, up from 41 at end-FY23. However, internals have had some movement. Debtor days declined by one q/q (to 81) and inventories stretched by four days q/q (to 33). The rise was partly contained by a lengthened trade payables cycle (by a day, to 71).
 - Management highlights that the rise in inventory is chiefly due to higher raw material stocked at its Uttar Pradesh healthcare orders and is set to normalise shortly. Consequently, the cash-conversion cycle is guided to shorten to 30-35 days.
- Unbilled revenue and retention receivables rose q/q on the greater scale of operations, while mobilisation advances declined q/q.

- Retention receivables were pegged at ~Rs1.44bn (~Rs1.35bn at end-Q4), unbilled revenues were ~Rs2.61bn (~Rs40m higher q/q), and mobilisation advances were ~Rs2.23bn (down from ~Rs2.45bn the quarter prior).
- The q/q rise in unbilled revenue could be attributed to Q1's healthy pace of execution, but bills have yet to be raised for some works carried out. Mobilisation advances seem to be down on these having been settled against the bills raised.
- At end-Q1, fund-based and non-fund-based limits were pegged at ~Rs10.47bn. Of the total limits, the company had utilised ~Rs1.2bn of the fund-based limit by end-Q1 (up from ~Rs0.74bn the quarter prior); non-fund-based utilisation was ~Rs7.85bn (down from ~Rs8.23bn at end-Q4). With this, it had unutilised limits of ~Rs1.4bn by end-Q1, and efforts are underway to seek more limits.
 - It is seeking additional limits of ~Rs4.5bn, and looks to have the raised limits in place in a month or two. So, the total limit will be increased to ~Rs15bn wherein the fund-based limit would increase to ~Rs1.45bn.
- During Q1, the company incurred ~Rs0.18bn capex (to take care of the rising scale). The Board of directors has approved a capital budget of up to Rs0.2bn to expand its pre-cast manufacturing plant. This is mainly to purchase machinery and equipment for infrastructure-based facilities. For recurring capex, management continues to cite 3-4% of revenue from operations to suffice for its growth aspirations.

Guidance

- Management is targeting overall order additions of over Rs30bn in FY24 (against orders of ~Rs34.2bn secured in FY23). This is based on 1.25x guided-to FY24 revenue, as it sees this ratio as ideal to suffice to keep assurance intact and growth going.
 - The start to the year has been encouraging with orders of ~Rs7.6bn added in Q1. For the rest, it is banking on a strong, ~Rs60bn, prospects pipeline. Besides, it looks to participate in the Delhi railway station redevelopment of >Rs45bn.
 - “Rs5trn spend over the next five years”, announced by the Gujarat government in its latest budget speech, largely for infrastructure creation (incl. roads, rail, high-speed metro-rail, and hospitals, among others) is likely to provide sufficient opportunities for PSP in its home state.
 - Besides, growing opportunities in station redevelopment, the government's intent to increase the number of engineering and medical institutes, and rising private capex keep PSP sanguine of healthy prospects in other targeted states, too.
 - A 50:50 business contribution from Gujarat and other key targeted states is considered ideal over the medium term.
- With the promising start to FY24 registering ~Rs5.1bn revenues in Q1, management retained its Rs26bn revenue guidance (~35% y/y growth) for FY24.
 - It expects the Uttar Pradesh healthcare orders to contribute ~Rs4.5bn more in FY24 (in addition to Q1's ~Rs1.96bn).

- Management emphasised that execution at the Surat Municipal Corporation order is going well and excavation already complete. Further, with ground level work complete, the monsoon is unlikely to have much of an impact on the overall execution pace. The company booked ~Rs0.26bn revenue in Q1 and guided to ~Rs3bn revenue in FY24 and ~Rs5bn in FY25.
- Moulds have been secured from internationally and locally for the pre-cast order of L&T's National High-Speed project (~Rs2bn), and the supply of pre-cast elements to the client commenced from Jun'23. Management expects fulfilment of most of the scope in FY24.
- On EBITDA margins, it retained its 11-13% guidance for FY24.
- Gross debt rose to ~Rs2.8bn at end-Q1 (up ~Rs1.4bn q/q), mainly due to inventory build-up at the Uttar Pradesh healthcare sites. Management expects gross debt to normalize to Rs1bn-1.5bn by end-FY24.
- Though it aims at a significant jump in scale of operations, it expects net working capital to normalise to 30-35 days (against 43 at end-Q1) with a decline in receivables backed by better receipts and inventory management.

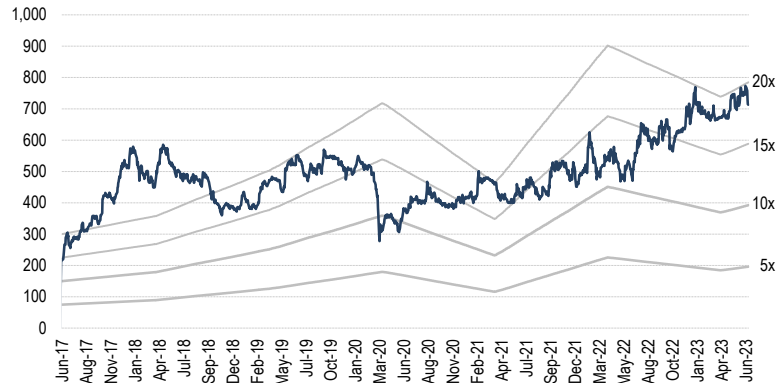
Other highlights

- **The Maharashtra projects.** Both its public-sector housing projects in Maharashtra were faced with execution challenges and, thus, were stuck or moving slow.
 - The Bhiwandi project was stuck due to a delayed work-front (and, consequently, turning unviable against the quoted price); progress at the Pandharpur order suffered from delayed payments. So, as a matter of prudence, the company removed these projects from its order backlog (in Q4 FY23). Claims for both projects have already been submitted.
 - An arbitration panel has been put in place and hearings on the Bhiwandi project are likely to begin (~Rs95m written off cumulatively in earlier quarters or years).
 - In the case of the Pandharpur project (~Rs0.16bn due), the company approached the High Court and awaits the appointment of an arbitrator.

Valuation

At the ruling price, the stock trades at 19x TTM EPS of Rs39. We do not have a rating on the company. Its ample revenue assurance on a healthy order backlog, proven execution abilities and strong return ratios augur well. The healthy prospects pipeline suggests that growth beyond, too, is unlikely to be a challenge. The rise in gross debt in Q1 FY24 seems more temporary than permanent and could return to normal by the year-end. The outlook, thus, is bright.

Fig 12 – PE band



Source: Bloomberg, Anand Rathi Research

Risks

- Failure to ramp up the pace of execution.
- Failure to maintain prudence.

Appendix

Analyst Certification

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	Buy	Hold	Sell
Large Caps (Top 100 companies)	>15%	0-15%	<0%
Mid Caps (101st-250th company)	>20%	0-20%	<0%
Small Caps (251st company onwards)	>25%	0-25%	<0%

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