

## Robust Execution to Continue; Maintain BUY

Est. Vs. Actual for Q1FY24: Revenue – **BEAT**; EBITDA Margin – **BEAT** ; PAT – **BEAT**

Change in Estimates post Q1FY24 (Abs)

FY24E/FY25E – Revenue-0%/1%; EBITDA-0%/1%; PAT-0%/1%

### Recommendation Rationale

- **Total order book now stands at Rs 5,321 Cr:** As of 30<sup>th</sup> Jun'23, the company's order book stood at Rs 5,321 Cr with an order inflow of Rs 758 Cr, a 15% growth YoY. A healthy and robust order book gives revenue visibility for the next 2-3 years.
- **Strong bidding pipeline :** The company has a strong bidding pipeline of Rs 6,000 Cr. The bidding pipeline includes construction projects of Ahmedabad Railway Station and Delhi Railway Station which will be through a JV. The Gujarat Government has announced a 5 Lc Cr investment for the development of infrastructure which will create opportunities for the company.
- **Better execution expected in FY24:** The company reported robust growth in Q1FY24 and execution is expected to improve further as many projects get streamlined. The company also believes that the pre-cast facility will aid in better revenue growth moving forward.

**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: 11.5x FY25 EPS (Earlier Valuation: 11x FY25E EPS)**

**Current TP: Rs 825/share (Earlier TP: Rs 785/share)**

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

### Financial Performance:

PSP Projects Ltd (PSPPL) Q1FY24 numbers stood above our expectations, thanks to robust project execution by the company. It reported revenue of Rs 514 Cr (up 48% YoY), EBITDA of Rs 66 Cr (up 38% YoY), and APAT of Rs 38 Cr (up 30% YoY). The company registered EBITDA Margins of 12.9% in Q1FY23 (vs. Our Estimate of 12.5%) as against 13.8% in Q4FY23. The margin improvement was largely supported by the advanced stage of work at the UP site. The company reported APAT margins of 17% in Q1FY24 against 21% in Q1FY23.

**The order book break up is as follows:** 51% of the total order book is from the Government (Rs 2,708 Cr), 4% from the Government Residential (Rs 193 Cr), 9% from Industrial (Rs 482 Cr), 27% from Institutional (Rs 1,421 Cr), and 10% from Private Residential (Rs 518 Cr). Geography-wise, Gujarat constitutes 79% and UP 21%, out of the current executable projects.

### Outlook:

PSPPL has a strong order book comprising both public and private sector projects, which implies revenue visibility for the next 2-3 years. We believe PSPPL is well-placed to capture growth opportunities in the sector going forward on account of a) Robust bidding pipeline, b) Strong execution capabilities, c) The government's thrust on building infrastructure, d) Revival of private Capex, and e) Encouraging return ratios from the projects. We expect the company to report Revenue/EBITDA/APAT CAGR of 17%/20%/24%/ over FY23-FY25E.

### Valuation & Recommendation

The stock is currently trading on 13x and 10x FY24E/FY25E EPS which is attractive. We maintain our **BUY** rating on the stock with a TP of Rs 825/share, implying an upside potential of 12% from the CMP.

### Key Financials (Consolidated)

(Rs Cr)	Q1FY24	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	514	-30%	48%	453	14%
EBITDA	66	-18%	38%	56	17%
EBITDA Margin	12.9%	180 bps	-90bps	12.5%	40 bps
Net Profit	38	-22%	30%	32	20%
EPS (Rs)	10.5	-18%	30%	453	14%

Source: Company, Axis Research

(CMP as of 27<sup>th</sup> July 2023)

CMP (Rs)	737
Upside /Downside (%)	12
High/Low (Rs)	799/560
Market cap (Cr)	2651
Avg. daily vol. (6m)Shrs.	181193
No. of shares (Cr)	3.6

### Shareholding (%)

	Dec-22	Mar-23	Jun-23
Promoter	67.54	67.59	66.2
FIIIs	2.27	2.47	4.2
MFs / UTI	2.25	2.55	2.7
Banks / FIIs	0	0	0.0
Others	27.94	27.39	26.9

### Financial & Valuations

Y/E Mar (Rs Cr)	FY23	FY24E	FY25E
Net Sales	1,938	2,518	3,072
EBITDA	230	327	399
Net Profit	135	202	258
EPS (Rs)	37	56	72
PER (x)	19	13	10
P/BV (x)	11	8	6
EV/EBITDA (x)	3.1	2.7	2.2
ROE (%)	18%	22%	23%

### Change in Estimates (%)

Y/E Mar	FY24E	FY25E
Sales	0%	1%
EBITDA	0%	1%
PAT	0%	1%

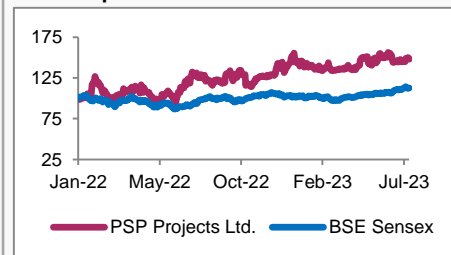
### ESG disclosure Score\*\*

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

### Uttam K Srimal

Research Analyst  
email: Uttamkumar.srimal@axissecurities.in

### ShikhaDoshi

Research Analyst  
email: shikha.doshi@axissecurities.in

## Key Concall Highlights

- Order Book:** As of 30<sup>th</sup> Jun'23, the company's order book stands at Rs 5,321 Cr. Out of this, 55% of projects are from Government and 45% are from Private players. During the quarter, the company completed 5 projects, namely:
  - Construction of Money Plant high street in Ahmedabad
  - Reliance Corporate House in Ahmedabad
  - Construction of the Adani International School at Adani Shantigram
  - Construction of Precast Factory Shed
  - Precast Corporate House in Gandhinagar
- Order Inflow:** The company received an order inflow of Rs 758 Cr (excluding GST). The major new projects are:
  - Development of Tourist/ Pilgrimage destination at Dharoi Dam
  - Design Build project for BAPS Sabha Hall at Vadodara and Surat
  - Two commercial complexes in Surat
- Bidding Pipeline:** The current bidding pipeline is Rs 6,000 Cr. The bidding pipeline includes construction projects of Ahmedabad Railway Station and Delhi Railway Station, which will be through a JV. The Gujarat Government has announced a 5 Lc Cr investment for the development of infrastructure which will create opportunities for the company.
- Revenue Guidance:** During Q1FY24, the revenue booked from the UP projects is to the tune of Rs 196 Cr and as of date, the cumulative revenue booked is Rs 915 Cr. 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 Q1FY24, the company made additions worth Rs 18 Cr to the gross block of assets. Going forward, the management has guided for a Capex of 3%-4% of revenue.
- Net working capital days** stood at 43 days in Q1FY24 as against 41 days in Q4FY23. As of 30<sup>th</sup> Jun'23, Unbilled Revenue stood at Rs 223 Cr, Retention Money stood at Rs 110 Cr, and Mobilization Advance stood at Rs 261 Cr.
- Leverage:** Total debt (Long & Short term) as of 30<sup>th</sup> Jun'23 stood at Rs 282 Cr and cash & bank including FDs Rs 232 Cr. The credit facility available stood at Rs 1,047 Cr, out of which utilisation availability is Rs 905 Cr (Fund-based: Rs 120 Cr and Non-Fund based: Rs 785 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	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	2,518	3,072	2,529	3,035	0%	1%
EBITDA	327	399	326	395	0%	1%
PAT	202	258	202	257	0%	1%

Source: Company, Axis Securities

**Result Review Q1FY24**

(Rs Cr)	Quarterly Performance				
	Q1FY24	Q1FY23	Q4FY23	% Change (YoY)	% Change (QoQ)
<b>Sales</b>	<b>514</b>	<b>730</b>	<b>348</b>	-30%	48%
Other Op. Inc	0	0	0		
<b>Total Revenue</b>	<b>514</b>	<b>730</b>	<b>348</b>	-30%	48%
<b>Expenditure</b>					
Cost of material consumed	209	227	104	-8%	100%
Changes in Inventories of Work-In-Progress	-16	-1	-1	1083%	2038%
Construction expenses	217	387	169	-44%	28%
Employee Cost	28	26	22	10%	29%
Other Expenses	8	10	5	-13%	55%
<b>Total Expenditure</b>	<b>447</b>	<b>649</b>	<b>300</b>	-31%	49%
<b>EBITDA</b>	<b>66</b>	<b>81</b>	<b>48</b>	-18%	38%
EBIDTA margin	12.9%	11.1%	13.8%	180 bps	(90 bps)
Oth. Inc.	6	7	6	-16%	1%
Interest	9	9	6	-1%	62%
Depreciation	12	12	9	-4%	36%
Exceptional Items	0	0	0		
<b>PBT</b>	<b>51</b>	<b>66</b>	<b>39</b>	-23%	30%
Tax	13	17	10	-24%	29%
<b>PAT</b>	<b>38</b>	<b>49</b>	<b>29</b>	-22%	30%
EPS (Rs)	10.5	12.8	8.1	-18%	30%

Source: Company, Axis Securities

## Financials (consolidated)

### Profit & Loss

(Rs Cr)

Y/E March	FY22	FY23	FY24E	FY25E
<b>Net sales</b>	<b>1,748</b>	<b>1,938</b>	<b>2,518</b>	<b>3,072</b>
Other operating income	0	0	0	0
<b>Total income</b>	<b>1,748</b>	<b>1,938</b>	<b>2,518</b>	<b>3,072</b>
Cost of materials consumed	495	603	845	875
Changes in Inventories of Work-In-Progress	4	(21)	-16	0
Sub construction cost	0	0	0	0
Civil construction cost	892	1,009	1,212	1,628
Contribution (%)	20.4%	17.9%	18.9%	18.5%
Other Expenses	99	117	150	169
<b>Operating Profit</b>	<b>258</b>	<b>230</b>	<b>327</b>	<b>399</b>
Other income	22	25	28	37
<b>PBIDT</b>	<b>280</b>	<b>255</b>	<b>355</b>	<b>436</b>
Depreciation	32	40	48	56
Interest & Fin Chg.	26	32	34	30
<b>Pre-tax profit</b>	<b>222</b>	<b>183</b>	<b>273</b>	<b>349</b>
Tax provision	55	48	71	91
<b>PAT</b>	<b>166</b>	<b>135</b>	<b>202</b>	<b>258</b>

Source: Company, Axis Securities

### Balance Sheet

(Rs Cr)

Y/E March	FY22	FY23	FY24E	FY25E
<b>Total assets</b>	<b>1,270</b>	<b>1,765</b>	<b>2,108</b>	<b>2,522</b>
Net Block	207	240	272	290
CWIP	0	18	18	18
Investments	1	1	1	1
Wkg. cap. (excl cash)	135	219	241	294
Cash / Bank balance	196	242	302	390
Other assets	731	1046	1275	1529
<b>Capital employed</b>	<b>1,270</b>	<b>1,765</b>	<b>2,108</b>	<b>2,522</b>
Equity capital	36	36	36	36
Reserves	651	765	949	1189
Minority Interests	0	0	0	0
Borrowings	100	145	138	138
Other Liabilities	484	819	985	1159

Source: Company, Axis Securities

**Cash Flow**

(Rs Cr)

Y/E March	FY22	FY23	FY24E	FY25E
PBT	222	180	273	349
Depreciation	32	40	48	56
Interest Expense	9	16	34	30
Changes in Working Capital	-35	-112	-65	-111
Others	-17	-22	-28	-37
Tax Paid	-64	-57	-71	-91
<b>Net Cash from Operations</b>	<b>147</b>	<b>45</b>	<b>191</b>	<b>198</b>
Capex	-77	-80	-80	-75
Investment	0	0	0	0
Others	-88	29	8	14
<b>Net Cash from Investing</b>	<b>(164)</b>	<b>(51)</b>	<b>(72)</b>	<b>(61)</b>
Borrowings	16	45	-7	0
Interest Expense	-12	-16	-34	-30
Others	-14	-18	-18	-18
<b>Net Cash from Financing</b>	<b>(11)</b>	<b>12</b>	<b>(59)</b>	<b>(48)</b>
<b>Net Change in Cash</b>	<b>(28)</b>	<b>6</b>	<b>60</b>	<b>89</b>
Opening cash	116	88	94	154
<b>Closing cash</b>	<b>88</b>	<b>94</b>	<b>154</b>	<b>242</b>

Source: Company, Axis Securities

**Ratio Analysis**

(%)

Y/E March	FY22A	FY23A	FY24E	FY25E
<b>Growth Indicator</b>				
Sales Growth	41%	11%	30%	22%
EBITDA Growth	92%	-11%	42%	22%
PAT Growth	99%	-19%	50%	28%
<b>Profitability Ratio</b>				
EBITDA Margin	14.8%	11.9%	13.0%	13.0%
Adjusted net margin	9.5%	6.9%	8.0%	8.4%
<b>Efficiency Ratio</b>				
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	8.7	10.0
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
<b>Leverage Ratios</b>				
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
<b>Return Ratios</b>				
Return on equity	28%	18%	22%	23%
Return on capital employed	40%	28%	33%	33%
<b>Valuation Ratio</b>				
P/E	15	19	13	10
P/BV	3.7	3.1	2.7	2.2
EV/EBITDA	9.8	11.1	8.2	6.7
<b>Per Share Data</b>				
Diluted EPS (Rs)	46	37	56	72
Book value per share (Rs)	191	222	274	340
DPS (Rs)		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
28-Jul-23	BUY	825	Result Update

Source: Axis Securities

**About the analyst**

Analyst: UttamKSimal

Email: [uttamkumar.simal@axissecurities.in](mailto:uttamkumar.simal@axissecurities.in)

Sector: Cement/Infra

Analyst Bio: Uttam K Simal is PGDBF from NMIMS with 20 years of experience in Equity Market/Research

**About the analyst**

Analyst: ShikhaDoshi

Email: [shikha.doshi@axissecurities.in](mailto:shikha.doshi@axissecurities.in)

Sector: Cement/Infra

Analyst Bio: Shikha Doshi is Master of Science in Finance from Illinois Institute of Technology, Chicago, currently handling Cement/infra sector.

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