

Q1FY24 Result Update

PSP Projects

Ramping up execution

- PSP Projects (PSPPL) posted a healthy operating performance in Q1FY24, driven by better project execution in Uttar Pradesh. Execution was broadly in line with our expectation.
- Revenue grew 48% YoY, but fell 30% QoQ, to INR514cr (est. INR539cr) led by better project execution in Uttar Pradesh and commencement of the SMC high-rise project.
- EBITDA increased by 38% YoY, but decreased by 18% QoQ, to INR66cr (est. INR65cr).
- EBITDA margin contracted by 87bp YoY, but expanded 179bp QoQ, to 12.9% (est. 12.1%).
- Order book stood at INR5,321cr as of March, which translates into a revenue visibility of 2.1x FY24E revenue. Bid pipeline stands at over INR6,000cr in FY24.
- Execution is set to improve given the progress of projects in Uttar Pradesh and commencement of the SMC high-rise. We expect PSPPL to broadly achieve its FY24 revenue guidance, aided by a healthy order book and a ramp up in execution. The company is planning to submit bids for renovation of railway projects in Gujarat and Uttar Pradesh. Reiterate 'BUY'.

Execution set to improve

Revenue grew 48% YoY, but fell 30% QoQ, to INR514cr. Better project execution in Uttar Pradesh and commencement of the SMC high-rise project drove the YoY growth. Execution is set to improve on healthy progress in ongoing projects and commencement of the SMC high-rise project (23% of the order book). We expect the management to achieve its FY24 revenue guidance of INR2,600cr.

Order book healthy; to foray into the infrastructure segment

Order book stood at INR5,321cr, which translates in an order book-to-revenue ratio of 2.1x FY24E revenue. In FY24 till date, it bagged INR748cr in orders. It is targeting order inflows of more than INR3,000cr in FY24. PSPPL has a healthy bidding pipeline of over INR6,000cr. It is planning to bid for railway redevelopment projects in Ahmedabad/Delhi (project size: INR2,000–3,000cr/~INR5,000cr) by entering into JVs as it does not have the requisite pre-qualification for infrastructure projects.

We expect high-ticket size orders to be a challenge in near term as company is L2 in an INR2,500cr G&J project in Navi Mumbai and given the uncertainty pertaining to the acceptance of bids for new Central Vista projects. Geographical concentration prevails as 79% of its orders are from Gujarat and the rest from Uttar Pradesh. In terms of client concentration, 55% orders are from government counterparties.

Valuation and view — maintain 'BUY'

We expect execution to improve as projects in Uttar Pradesh are nearing completion and with the commencement of construction in SMC high-rise and the sports complex. We expect margin to marginally improve and stay in the 11.5–12.5% range as projects near completion in FY24. We expect the management to achieve its FY24 revenue guidance, aided by a healthy order book and a ramp up in execution. We derive comfort from its healthy order book of INR5,321cr, which is executable over the next two-to-three years.

PSPPL will benefit from: a) i) strong order book, ii) healthy bidding pipeline, iii) lean Balance Sheet, iv) comfortable working capital cycle, and v) favourable outlook for the construction sector. We retain our FY24/FY25 estimate and expect a revenue/EBITDA/PAT CAGR of 26%/29%/32% over FY23–25. At the CMP of INR737, the stock is trading at 14x/11x FY24E/FY25E EPS. We revise our P/E multiple to 13x from 12x due to a ramp up in execution. We reiterate 'BUY', but revise our TP to INR844 (from INR778).

Key financials

Year to March (INR cr)	Q1FY24	Q1FY23	YoY	Q4FY23	QoQ	FY23	FY24E	FY24E
Net revenue	514	348	48%	730	-30%	1,938	2,568	3,080
EBITDA	66	48	38%	81	-18%	230	310	381
PAT	38	29	30%	46	-18%	135	191	234
EBITDA margin	12.9%	13.8%		11.1%		12%	12%	12%
PAT margin	7.4%	8.3%		6.3%		7%	7%	8%
EPS basic (INR)	10.5	8.1	30%	12.8	-18%	37	53	65
Diluted P/E ratio (x)						18	14	11
EV/EBITDA ratio (x)						10	8	6
RoCE (%)						20%	22%	23%

CMP INR 737

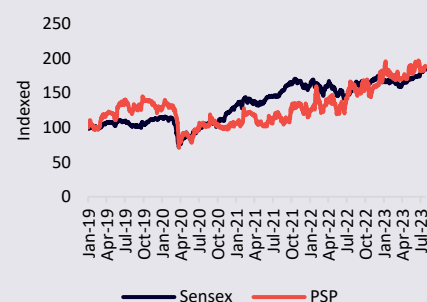
Rating: Buy

Target Price: INR844

Upside:15%

Date: July 27, 2023

Bloomberg:	PSPPL:IN
52-week range (INR):	560 / 799
Shares in issue (cr):	3.6
M-cap (INR crore):	2,633
Promoter holding (%)	66.22



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Key takeaways from the management commentary

Operating performance

- Revenue growth was driven by healthy execution in seven projects in Uttar Pradesh and commencement of the SMC high-rise and sports complex project.
- Revenue from the Uttar Pradesh project stood at INR196cr in Q1FY24. Since its commencement, it has recognised INR915cr.
- PSPPL is set to achieve its FY24 guidance of INR2,600cr as most projects have seen significant progress in construction.
- The company is likely to benefit from the government's infra focus and a pick-up in private capex.
- The management expects a revenue of INR450cr from projects in Uttar Pradesh and ~INR300cr from the SMC high-rise in FY24.

Order book

- PSPPL has bid for projects of more than INR6,000cr.
- It is planning to bid for railway redevelopment projects in Ahmedabad/Delhi (bid size: INR2,000–3,000cr/~INR5,000cr).
- Its project in Bhiwandi is still under arbitration, and a judgement is likely soon.
- The company is L2 in an INR2,500cr G&J project in Navi Mumbai.

Capex

- The company incurred a capex of INR18cr in Q1FY24.

Guidance

- The management expects a revenue of more than INR2,600cr in FY24.
- It expects order inflows of INR3,000–4,000cr in FY24.
- EBITDA margin is expected to remain in the 11–13% range.
- Precast facility has a revenue potential of ~INR1,000cr over the next three-to-four years.

Debt structure and liquidity

- The company recorded a long/short-term borrowing of INR97cr/INR185cr. Increase in short-term debt is due to higher working capital in its Uttar Pradesh projects.
- Out of a total credit facility of INR1,047cr, fund/non-fund-based utilisation stands at INR120cr/INR785cr.
- Total FDs stood at INR323cr, of which free FDs are INR67cr and the balance is in under lien.
- Gross/net block stood at INR431cr/INR245cr. Unbilled revenue stood at INR261cr. Retention money non-current/current stood at INR110cr/INR34cr. Mobilisation advances stood at INR223cr.
- Debtors/creditor/inventory days stood at 81/71/33 days.

Q1FY24 result highlights:

(INR cr)	Q1FY24	Q1FY23	YoY	Q4FY23	QoQ
Net revenue	514	348	48%	730	-30%
Cost of goods sold	411	273	50%	613	-33%
Gross profit	103	75	37%	116	-12%
Employee expenses	28	22	29%	26	10%
Other expenses	8	5	55%	10	-13%
Operating expenses	447	300	49%	649	-31%
EBITDA	66	48	38%	81	-18%
Depreciation	12	9	36%	12	-4%
EBIT	54	39	39%	69	-21%
Interest expenses	9	6	62%	9	-1%
Other income	6	6	1%	7	-16%
PBT	51	39	30%	66	-23%
Tax	13	10	29%	17	-24%
Profit/Loss from Associates	0	0	84%	-3	-101%
Reported PAT	38	29	30%	46	-18%
Extraordinary items	0	0		0	-
Adjusted PAT after EoI	38	29	30%	46	-18%
Equity capital	36	36	-	36	-
No. of shares	3.6	3.6	-	3.6	-
EPS	11	8	-	13	-
EBITDA margin	12.9%	13.8%	-	11.1%	-
PAT margin	7.4%	8.3%	-	6.3%	-

Previous Outlook

Q4FY23: 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.

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
Sources of funds	616	794	956	1,147	1,381
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
Uses of funds	616	794	956	1,147	1,381
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
Free cash flow	40	70	29	36	195

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	13.9	11.4
Price/BV(x)	2.9	2.9	3.1	2.7	2.2
EV/Sales (x)	1.1	1.0	1.2	1.0	0.8
EV/EBITDA (x)	9.9	6.9	9.7	8.2	6.3
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	13.9	11.4
Dividend yield (%)	0%	0%	0%	0%	0%

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