

# PSP PROJECTS

Rating: ◀▶ | Target price: ◀▶ | EPS: ◀▶

CMP  
Rs. 770

Target Price  
Rs. 900

Rating  
**BUY**



## ONE YEAR OUTLOOK

### Business & Earnings

- 2QFY24 results surpassed estimates, reflecting robust execution and growth.
- We maintain our positive view on PSP Projects as we expect the company's standalone revenue to grow at 25% CAGR over FY23-25E, leading to a PAT CAGR of 28% over the same period.
- Revenue & PAT growth is the result of the historically high order inflow witnessed in FY23 (Rs. 34.2 bn). Further, with a bid pipeline of Rs. 65bn, the company expects to win an additional Rs. 20bn orders in 2HFY24. (Rs. 9bn won in 1HFY24)
- With the renewed ability to contest for large contracts (Rs. 25bn) and the industry brimming with orders (infrastructure in healthcare, education, residential real estate, railway stations, industrial, etc.), near-term prospects for the company are bright.
- Key Monitorable: We are closely watching payments from UP project which has caused a surge in unbilled receivables and consequently in short term borrowings.

### Valuation Multiples

- We value the company by assigning 15x on our FY25E EPS and arrive at a TP of Rs. 900/share. We maintain BUY rating.

## FINANCIAL SUMMARY

	Net Sales (Rs mn)	EBITDA (%)	PAT (Rs mn)	EPS (Rs)	P/E (x)	EV/EBITDA (x)	ROE (%)
FY21	12,409	10.9	834	23.2	34	19	17
FY22	17,481	14.8	1,663	46.2	17	11	27
FY23	19,378	11.9	1,346	37.4	21	12	18
FY24E	25,099	12.3	1,727	48.0	16	9	20
FY25E	30,802	12.4	2,152	59.8	13	7	20

## THREE YEAR OUTLOOK

### Business & Earnings

- We are positive on the company from a long-term perspective as well since the Gujarat government, in its budget, had announced an infra capex of Rs 5,000bn which includes Railways, Roads, Urban infra, Hospitals & Education. PSP's order book, which is concentrated (80%) in Gujarat, is well placed to benefit.
- PSP's bid pipeline of Rs 65,000mn, with a book-to-bill of 3x, and continuous strong inflow prospects are positives. The company's expansion is evident through its increasing fund limits and qualification for bigger projects.
- Also, the residential real estate segment is witnessing a cyclical revival due to supply correction (reducing inventory pressure), improving demand – given heightened affordability for end-users/ rising rental yields for investors – favourable demographics & a better IT sector outlook. This is resulting in strong launches by established players, which is positive for building contractors, including PSP Projects, in the medium-term.
- We expect PSP projects to deliver an EPS CAGR of 23% for FY23-FY27E.

### Valuation Multiples

- We expect PSP projects to deliver 75% returns over a 3-year period. We have assumed an exit multiple of 15x on our FY27E EPS to arrive at a TP of Rs. 1,284/share and cumulative dividends of Rs. 7.5/ share.

## KEY ESTIMATES REVISION

	FY24E			FY25E		
	Old	New	Change	Old	New	Change
Sales	24,982	25,099	0%	30,284	30,802	2%
EBITDA (%)	12.1	12.3	20 bps	12.0	12.4	40 bps
PAT	1,744	1,727	-1%	2,130	2,152	1%
EPS	48.4	48.0	-1%	59.2	59.8	1%
Target P/E	Before Results: 15x			After Results: 15x		

All figures in Rs.Mn

## OUTLOOK REVIEW 2QFY24 06 November 2023

Industry	INFRASTRUCTURE
<b>Key Stock Data</b>	
Bloomberg	PSPPL IN
Shares o/s	36mn
Market Cap	Rs. 28bn (\$338mn)
52-wk High-Low	Rs. 846-591
3m ADV	Rs. 74mn (\$1mn)
F&O	No

### Latest Shareholding (%)

	Dec-23	Mar-23	Jun-23
Promoters	67.5	67.6	66.2
Institutions	6.5	7.0	9.6
Public	26.0	25.4	24.2
Pledge	0.0	0.0	0.0

### Stock Performance (%)

	1m	3m	12m
PSPPL	-1.0	-2.1	31.4
Sensex	-2.5	-2.1	5.6

## RESEARCH ANALYSTS

**Bharanidhar Vijayakumar**  
bharanidhar.v@avendusspark.com  
+91 44 4344 0038  
**Ketan Jain**  
ketan.j@avendusspark.com  
+91-44 4344 0038

## Quarterly Financial Statement

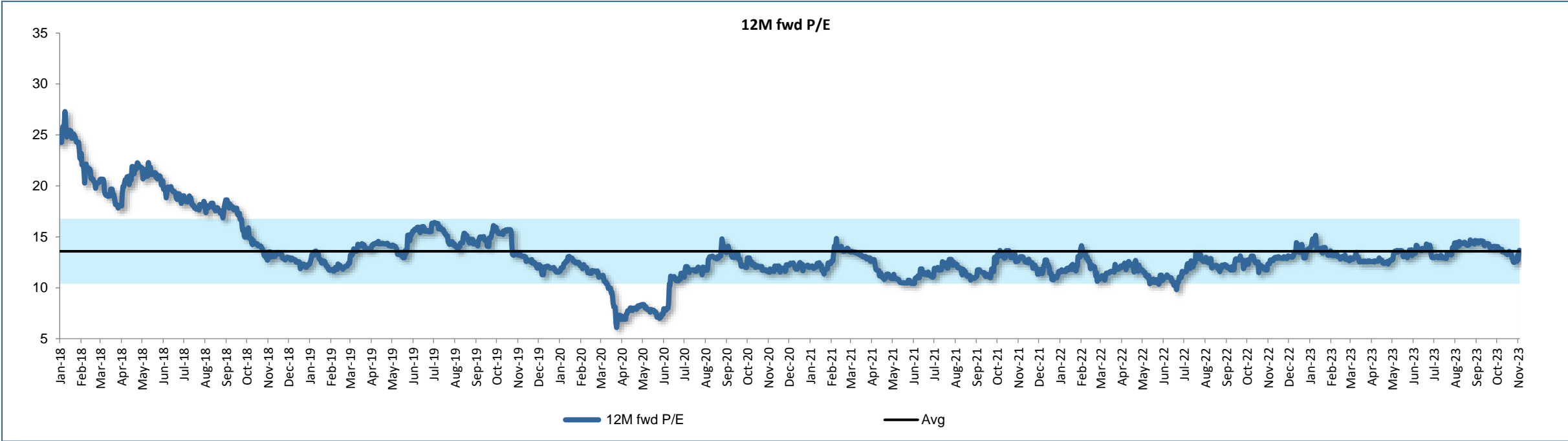
### Standalone Financial Results

Rs. mn \ Period	2QFY24	2QFY23	YoY Growth	1QFY24	QoQ Growth	1HFY24	1HFY23	YoY Growth
Revenue from Operations	6,071	3,566	70%	5,096	19%	11,167	7,018	59%
Cost of raw materials	2,648	1,150	130%	2,024	31%	4,671	2,188	113%
Construction & Contracting expenses	2,338	1,754	33%	2,061	13%	4,399	3,426	28%
Employee benefit expenses	296	225	31%	282	5%	577	443	30%
Other Expenses	52	51	2%	83	-37%	135	105	29%
Total Expenses	5,334	3,180	68%	4,449	20%	9,783	6,161	59%
<b>EBITDA</b>	<b>737</b>	<b>386</b>	<b>91%</b>	<b>646</b>	<b>14%</b>	<b>1,384</b>	<b>857</b>	<b>61%</b>
<b>EBITDA margin (%)</b>	<b>12.1%</b>	<b>10.8%</b>		<b>12.7%</b>		<b>12.4%</b>	<b>12.2%</b>	
Other income	60	83	-28%	57	6%	117	140	-16%
Depreciation	144	91	58%	118	21%	262	178	47%
Finance expenses	125	70	77%	91	37%	215	126	70%
<b>PBT</b>	<b>530</b>	<b>308</b>	<b>72%</b>	<b>494</b>	<b>7%</b>	<b>1,024</b>	<b>692</b>	<b>48%</b>
Taxes	136	79	71%	127	7%	263	178	47%
<b>PAT</b>	<b>394</b>	<b>229</b>	<b>72%</b>	<b>367</b>	<b>7%</b>	<b>761</b>	<b>514</b>	<b>48%</b>
EPS (in Rs./Share)	10.9	6.4	72%	10.2	7%	21.1	14.3	48%

## Earnings Call Notes

- ~Rs. 30.00bn inflow expected in FY24E, won ~Rs. 9bn so far
- Company is qualified to bid for a maximum of Rs. 25bn in a single project
- Gujarat has planned ~Rs. 5tn projects in Infrastructure
- Bid pipeline: Rs. 65bn. Confident of winning ~Rs. 20bn in 2HFY24
- Delhi station redevelopment project ~Rs. 48bn which is outside this bid pipeline; Company will bid along with a JV partner
- Most projects apart from the UP project have escalation for inputs like cement, steel, finishing materials
- ~Rs. 26bn revenue expected in FY24E
- EBITDA Margin - 11-13%
- Short-term borrowing increased to Rs. 3.77bn due to an increase in Current Financial Assets
- Current Financial Assets increased due to rise in unbilled revenues; with collection of these unbilled revenues, the company expects to see Rs. 0.5bn to 1bn reduction in debt by the end of the year
- Margins in 2QFY24 better due to projects in UP getting completed
- Rs. 970mn capex in 1HFY24 includes Rs. 510mn for precast
- Rs. 1.10bn invested in Phase 1 precast facility, after CAPEX in 1HY24 totally Rs. 1.65bn invested in precast totally
- Precast revenues for FY24 expected – Rs. 2.25bn
- Rs. 1.45bn fund based limit increased to Rs. 2.25bn; Rs. 2.10bn utilisation
- Rs. 9.02bn non-fund based limit increased to Rs. 12.72bn; Rs. 7.25bn utilisation
- Of the Rs. 2.81bn FD, Rs. 0.45bn is lien free, remaining under lien for credit facilities
- Retention money – non-current portion Rs. 1.23bn, current portion Rs. 0.48bn
- UP project – Rs. 0.60bn receivables and Rs. 1.00bn unbilled revenues which are yet to be certified

**Valuation** – Assigning 15x multiple to FY25E EPS, we arrive at a target price of Rs. 900



**PSP Projects Valuation at end of FY24**

Rs. mn	Method	Value for PSP	per Share
Construction Business	15x FY25E Earnings	32,445	901

# Financials

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## Financial Summary

### Financial Statements

Rs mn	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Profit &amp; Loss</b>										
Revenue	4,448	7,516	10,504	14,993	12,409	17,481	19,378	25,099	30,802	34,816
EBITDA	671	1,045	1,486	1,907	1,349	2,584	2,301	3,097	3,823	4,178
Depreciation	79	115	243	267	256	321	400	530	603	683
EBIT	592	930	1,243	1,640	1,093	2,264	1,901	2,567	3,221	3,495
Other Income	134	187	228	242	167	217	250	238	292	242
Interest expense	79	93	97	151	150	265	320	472	605	614
Exceptional items	0	0	0	0	0	0	0	0	0	0
PBT	647	1,024	1,374	1,731	1,109	2,216	1,831	2,333	2,907	3,123
Reported PAT (after minority interest)	416	660	892	1,280	834	1,663	1,346	1,727	2,152	2,312
<b>Adj PAT</b>	<b>416</b>	<b>660</b>	<b>892</b>	<b>1,280</b>	<b>834</b>	<b>1,663</b>	<b>1,346</b>	<b>1,727</b>	<b>2,152</b>	<b>2,312</b>
<b>EPS (Rs.)</b>	<b>14.5</b>	<b>18.3</b>	<b>24.8</b>	<b>35.6</b>	<b>23.2</b>	<b>46.2</b>	<b>37.4</b>	<b>48.0</b>	<b>59.8</b>	<b>64.2</b>
<b>Balance Sheet</b>										
Net Worth	1,053	3,025	3,702	4,549	5,359	6,870	8,010	9,647	11,710	13,932
Total debt	750	302	311	798	737	997	1,450	2,950	2,950	2,950
Other liabilities and provisions	707	1,387	1,686	2,045	1,121	2,141	4,382	1,573	2,194	1,894
<b>Total Networth and liabilities</b>	<b>2,509</b>	<b>4,714</b>	<b>5,699</b>	<b>7,392</b>	<b>7,217</b>	<b>10,007</b>	<b>13,842</b>	<b>14,170</b>	<b>16,854</b>	<b>18,776</b>
Gross Fixed assets	856	1,213	1,686	2,000	2,339	3,571	4,294	5,306	6,036	6,840
Net fixed assets	521	781	1,032	1,079	1,162	2,074	2,396	2,879	3,006	3,127
Capital work-in-progress	0	18	0	0	416	0	177	0	0	0
<b>Intangible Assets</b>										
Investments	179	190	5	7	7	7	7	-31	-31	-31
Cash and bank balances	1,066	2,280	2,222	1,968	2,290	1,963	2,424	2,594	3,322	3,837
Loans & advances and other assets	867	1,144	1,802	3,186	2,783	4,617	6,651	5,556	6,687	7,483
Net working capital	-125	302	637	1,152	559	1,347	2,187	3,173	3,870	4,360
<b>Total assets</b>	<b>2,509</b>	<b>4,714</b>	<b>5,699</b>	<b>7,391</b>	<b>7,217</b>	<b>10,007</b>	<b>13,842</b>	<b>14,170</b>	<b>16,854</b>	<b>18,776</b>
Capital Employed	1,774	3,299	3,953	5,277	5,999	7,751	9,330	12,464	14,526	16,748
Invested Capital (CE - cash - CWIP)	567	851	1,731	3,309	3,292	5,788	6,730	9,870	11,204	12,911
Net debt	-317	-1,977	-1,911	-1,170	-1,553	-967	-974	356	-373	-887
<b>Cash Flow</b>										
Cash flows from Operations (Pre-tax)	70	1,098	690	710	968	2,109	1,020	636	2,908	2,834
Cash flows from Operations (post-tax)	-75	681	211	155	735	1,473	453	30	2,153	2,023
Capex	-64	-657	-394	-330	-792	-753	-788	-835	-730	-804
Free cashflows	-138	24	-184	-175	-57	720	-335	-805	1,423	1,219
Free cashflows (post interest costs)	-201	-28	-233	-247	-141	599	-493	-1,277	819	604
Cash flows from Investing	-35	-1,207	-226	-80	52	-1,641	-507	-798	-730	-804
Cash flows from Financing	220	813	-258	-18	-44	-107	115	938	-695	-704
Total cash & liquid investments	1,207	2,431	2,222	1,968	2,290	1,963	2,424	2,594	3,322	3,837

## Financial Summary

### Financial Statements

	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Growth ratios (%)</b>										
Revenue	-6.6	69.0	39.7	42.7	-17.2	40.9	10.9	29.5	22.7	13.0
EBITDA	92.4	55.8	42.2	28.3	-29.2	91.5	-11.0	34.6	23.5	9.3
Adj PAT	88.4	58.6	35.2	43.5	-34.9	99.5	-19.0	28.3	24.6	7.4
<b>Margin ratios (%)</b>										
EBITDA	15.1	13.9	14.1	12.7	10.9	14.8	11.9	12.3	12.4	12.0
Adj PAT	9.4	8.8	8.5	8.5	6.7	9.5	6.9	6.9	7.0	6.6
<b>Performance ratios</b>										
Pre-tax OCF/EBITDA (%)	10	105	46	37	72	82	44	21	76	68
OCF/IC (%)	-13	80	12	5	22	25	7	0	19	16
RoE (%)	49	32	27	31	17	27	18	20	20	18
RoCE (%)	35	30	27	31	17	28	20	20	20	19
RoCE (Pre-tax) (%)	51	44	41	41	22	36	25	26	26	24
Fixed asset turnover (x)	5.4	7.3	7.2	8.1	5.7	5.9	4.9	5.2	5.4	5.4
Total asset turnover (x)	2.1	2.1	2.0	2.3	1.7	2.0	1.6	1.8	2.0	2.0
<b>Financial stability ratios</b>										
Net Debt to Equity (x)	-0.3	-0.7	-0.5	-0.3	-0.3	-0.1	-0.1	0.0	-0.0	-0.1
Net Debt to EBITDA (x)	-0.5	-1.9	-1.3	-0.6	-1.2	-0.4	-0.4	0.1	-0.1	-0.2
Interest cover (x)	-1	7	2	1	5	6	1	0	4	3
Cash conversion days	-10	15	22	28	16	28	41	46	46	46
Total Working capital days	-38	-34	-5	18	24	30	42	79	75	81
<b>Valuation metrics</b>										
Fully Diluted Shares (mn)	29	36	36	36	36	36	36	36	36	36
Market cap (Rs.mn)							28,183			
P/E (x)	68	43	32	22	34	17	21	16	13	12
P/Sales (x)	6.3	3.7	2.7	1.9	2.3	1.6	1.5	1.1	0.9	0.8
EV (Rs.mn) (ex-CWIP)	27,866	26,188	26,271	27,013	26,213	27,216	27,032	28,539	27,810	27,296
EV/ EBITDA (x)	42	25	18	14	19	11	12	9	7	7
EV/ OCF(x)	-372	38	125	174	36	18	60	956	13	13
FCF Yield (%)	-0.5	0.1	-0.7	-0.6	-0.2	2.6	-1.2	-2.9	5.1	4.3
Price to BV (x)	26.8	9.3	7.6	6.2	5.3	4.1	3.5	2.9	2.4	2.0
Dividend yield (%)	0.3%	0.6%	0.6%	0.6%	0.0%	0.6%	0.3%	0.3%	0.3%	0.3%
Dividend pay-out (%)	17	27	20	14	0	11	7	5	4	4

Crystal Ball Gazing

We forecast the revenue to grow at a CAGR of 23% over FY23-27E with a strong execution visibility across projects. We expect EBITDA margins to sustain ~12%. Cash flow generation to remain healthy with likely pre-Tax OCF/EBITDA conversion of ~61% over FY23-FY27E.

Revenue to grow at a CAGR of ~30% over FY22-25E

Standalone	FY16-FY18	FY18-FY23	FY23-FY27E
Revenues CAGR	26%	21%	23%
Gross Margin			
EBITDA CAGR	61%	17%	24%
EBITDA margin	13%	13%	12%
EPS CAGR	67.2%	15.4%	24.7%
Total Asset Turnover (x)	2.4	2.0	2.0
Total WC days	(42)	24	101
Pre-tax OCF/EBITDA (%)	96%	65%	61%
OCF as a % of IC	-71%	37%	14%
Net Debt/EBITDA	(1.6)	(1.2)	(0.4)

Return metrics to remain stable and attractive for industry

Standalone	FY16-FY18	FY18-FY23	FY23-FY27E
RoE (%)	41.3%	25.0%	19.9%
RoCE (%)	31.0%	25.4%	20.6%
RoIC (%)	192.0%	92.4%	32.7%

With project execution reviving in full swing, the stock can rerate to a higher multiple in the future

P/E multiple	FY27E EPS	Price target (Rs./ Share)
9x	93	770
12x	93	1,027
15x	93	1,284

Entry = Rs. 770 @ 12.8x FY25E P/E

Cumulative Dividends of Rs. 7.5/ share

Strong EPS CAGR of 25% with Exit Multiple of 15x P/E

Total Return of 75%



## Glossary

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**PLI** Production-linked incentive scheme

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**OEM** Original equipment manufacturer

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**2W** Two wheeler

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**4W** Four wheeler

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**JV** Joint venture

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**EV** Electric vehicle

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**Govt.** Government

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**Bbl** Barrel

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**Bn** Billion

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**Yoy** Year on year

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**1H** First half

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**FY** Fiscal year

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**m/m** Month on month

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**CAD** Current account deficit

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**FY** Financial year

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**SDB** Surat Diamond bourse

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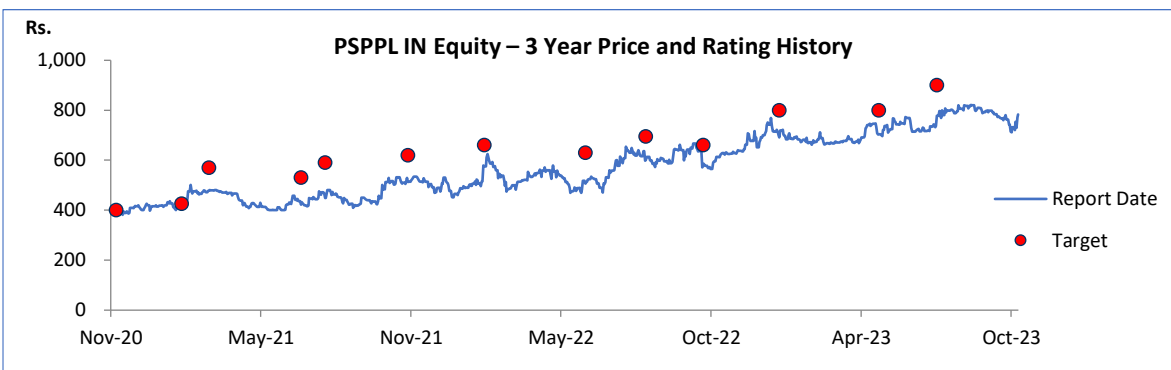
**MEP** Mechanical, Electrical & Plumbing

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**L1** Lowest Bidder

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## Aventus Spark Recommendation History



### Absolute Rating Interpretation

<b>BUY</b>	Stock expected to provide positive returns of >15% over a 1-year horizon
<b>ADD</b>	Stock expected to provide positive returns of >5% – <15% over a 1-year horizon
<b>REDUCE</b>	Stock expected to provide returns of <5% – -10% over a 1-year horizon
<b>SELL</b>	Stock expected to fall >10% over a 1-year horizon

### Symbol Interpretation

◀▶ No Change | ▼ Downgrade | ▲ Upgrade

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Report Date	CMP (Rs.)	TP (Rs.)	Reco.
28-Jul-23	740	900	BUY
19-May-23	700	800	BUY
19-Jan-23	695	800	BUY
19-Oct-22	570	660	BUY
11-Aug-22	595	695	BUY
30-May-22	518	630	BUY
28-Jan-22	520	660	BUY
28-Oct-21	530	620	BUY
20-Jul-21	460	590	Buy
21-Jun-21	440	530	BUY
02-Mar-21	470	570	BUY
28-Jan-21	416	425	ADD
10-Nov-20	390	400	ADD
06-Aug-20	400	405	ADD
11-Jun-20	375	380	ADD

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