

Execution Continues To Improve; Retain BUY

Est. Vs. Actual for Q2FY24: Revenue – **BEAT**; EBITDA Margin – **MISS**; PAT– **INLINE**

Change in Estimates post Q2FY24 (Abs.)

FY24E/FY25E – Revenue 3%/3%; EBITDA 0%/-1%; PAT -5%/-5%

Recommendation Rationale

- **Total order book now stands at Rs4,898 Cr:** As of 30th Sep'23, the company's order book stood at Rs 4,898 Cr with an order inflow of Rs 960 Cr, in H1FY24. A healthy and robust order book gives revenue visibility for the next 2 years.
- **Strong bidding pipeline:** The company has a strong bidding pipeline of Rs 6,500 Cr plus Delhi railway project worth Rs 4,800 Cr, making the total pipeline over Rs 11,000 Cr. The company aims to win projects worth Rs 3,000 Cr in FY24. Some important projects under bidding pipeline are AIIMS in Rewari (Rs 1,000 Cr), Museums in MP (Rs 1,000 Cr), University in Surat (Rs 775 Cr) and a project worth Rs 575 Cr in UP.
- **Better execution expected in FY24:** The company reported robust growth in H1FY24 and execution is expected to improve further as many projects get streamlined and UP projects are under the last stage of completion. The company also believes that the pre-cast facility will aid in better revenue growth moving forward.
- **Increase in debt levels and finance cost:** As of 30th Sep'23, the current borrowing has increased to Rs 377 Cr from Rs 107 Cr as of 31st Mar'23. This resulted in an increase in finance charges and the same will remain elevated. The management expects a reduction in short-term borrowing in the range of Rs 50-Rs 100 Cr by the end of FY24.

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: 13x FY25 EPS (Earlier Valuation: 13x FY25E EPS)

Current TP: Rs 850/share (Earlier TP: Rs 885/share)

Recommendation: We maintain our BUY recommendation on the stock

Financial Performance:

PSP Projects Ltd. (PSPPL) Q2FY24 numbers stood above our expectations, thanks to robust project execution by the company. It reported revenue of Rs 620 Cr (up 72% YoY), EBITDA of Rs 73 Cr (up 84% YoY), and APAT of Rs 38 Cr (up 79% YoY). The company registered EBITDA Margins of 11.7% in Q2FY24 (vs. our estimate of 12.8%) as against 11% in Q2FY23. The margin improvement was largely supported by the advanced stage of work at the UP site. The company reported APAT margins of 6.2% in Q2FY24 against 6% in Q2FY23. The increase in finance cost of 77% on YoY basis, is mainly due to increase in ST borrowings.

The order book break up is as follows: 48% of the total order book is from the Government (Rs 2350 Cr), 4% from the Government Residential (Rs 189 Cr), 10% from Industrial (Rs 491 Cr), 29% from Institutional (Rs 1406 Cr), and 9% from Private Residential (Rs 462 Cr). Geography-wise, Gujarat constitutes 83% and UP 17%, out of the current executable projects.

Outlook

PSPPL has a strong orderbook comprising both public and private sector projects, which implies revenue visibility for the next 2 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 18%/20%/20% over FY23-FY25E.

Valuation & Recommendation

The stock is currently trading on 15x/12x FY24E/FY25E EPS which is attractive. **We maintain our BUY rating on the stock with a TP of Rs/850share, implying an upside potential of 10% from the CMP.**

Key Financials (Consolidated)

(Rs Cr)	Q2FY24	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	620	21%	72%	540	15%
EBITDA	73	10%	84%	69	5%
EBITDA Margin	11.7%	(120 bps)	70 bps	12.8%	(110 bps)
Net Profit	38	2%	79%	38	1%
EPS (Rs)	10.7	2%	79%	10.6	1%

Source: Company, Axis Research

(CMP as of 2nd Nov, 2023)

CMP (Rs)	771
Upside /Downside (%)	10
High/Low (Rs)	846/591
Market cap (Cr)	2769
Avg. daily vol. (6m) Shrs.	181000
No. of shares (Cr)	3.6

Shareholding (%)

	Mar-23	Jun-23	Sep-23
Promoter	67.59	66.2	66.2
FII's	2.47	4.2	4.2
MFs / UTI	2.55	2.7	2.4
Banks / FI's	0	0.0	0.0
Others	27.39	26.9	27.2

Financial & Valuations

Y/E Mar (Rs Cr)	FY23	FY24E	FY25E
Net Sales	1,938	2,597	3,169
EBITDA	230	326	396
Net Profit	135	183	233
EPS (Rs)	37	51	65
PER (x)	21	15	12
P/BV (x)	3.5	2.9	2.3
EV/EBITDA (x)	13	9	8
ROE (%)	18%	20%	22%

Change in Estimates (%)

Y/E Mar	FY24E	FY25E
Sales	3%	3%
EBITDA	0%	-1%
PAT	-5%	-5%

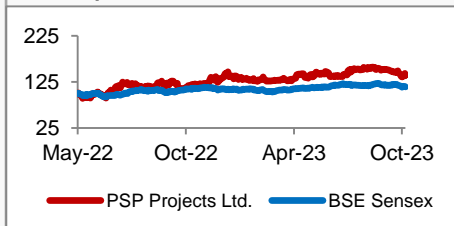
ESG disclosure Score**

Environmental Disclosure	NA
Social Disclosure Score	NA
Governance Disclosure Score	NA
Total ESG Disclosure Score	NA
Sector Average	47

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: Ace Equity, Axis Securities

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Key Concall Highlights

- **Order Book:** As of 30th Sep'23, the company's order book stands at Rs 4,898 Cr. Out of this, 52% of projects are from Government and 48% are from Private players. During the quarter, the company completed 5 projects,
 - Construction
 - **Order Inflow:** During the quarter and half year, the company received an order inflow to the tune of Rs.175 Cr and Rs.934 Cr excluding GST. In addition, considering the recent orders received by the company, the order inflow as of date stands at Rs.959 Cr. During Q2FY24 and H1FY24, the company was awarded 9 projects and 14 projects respectively. During the quarter, key projects awarded are:
 - Commercial building in Gift City
 - Astral Corporate House Phase III
 - Additional scope of work for Construction of Chocolate Plant (Phase III) for a Multi-National Company in Sanand, Ahmedabad
- **Bidding Pipeline:** The current bidding pipeline is over Rs 6500 Cr plus Delhi railway project worth Rs 4,800 Cr. The bidding pipeline includes major projects like Rewadi project worth Rs 1000 Cr, MP museum project of Rs 1000 Cr, University project at Baroda of Rs 775 Cr, Lucknow project of Rs 595 Cr, Commercial building in Delhi worth Rs 350 Cr, Commercial building in Delhi for a developer worth Rs 300 Cr, University project in Hyderabad Rs 350 Cr and Museum project in Ahmedabad Rs 400 Cr.
- **Revenue Guidance:** During Q2FY24, the revenue booked from the 7 UP projects is Rs 268 Cr and as of date, the cumulative revenue booked is Rs 1183 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 Q2FY24, the company made additions worth Rs 79 Cr to the gross block of assets. Going forward, the management has guided for a Capex of 3%-4% of revenue.
- **Networking capital days** stood at 41 days in Q2FY24 as against 43 days in Q1FY24. As of 30th Sep'23, Unbilled Revenue stood at Rs 336 Cr, Retention Money stood at Rs 168 Cr, and Mobilization Advance stood at Rs 243 Cr.
- **Leverage:** As of 30th Sep'23 Long term borrowing at Rs 81 Cr & Short term borrowing at Rs 319 Cr and cash & bank including FDs Rs 281 Cr. The credit facility available stood at Rs 1,497 Cr, out of which utilisation availability is Rs 935 Cr (Fund-based: Rs 210 Cr and Non-Fund based: Rs 725 Cr).
- **Increase in debt levels and finance cost:** As of 30th Sep'23, the current borrowing has increased to Rs 377 Cr from Rs 107 Cr on 31st Mar'23. This increase comprises ST borrowing of Rs 58 Cr, fund-based utilization of Rs 210 Cr, Non-Fund based utilization of Rs 59 Cr and unsecured borrowing of Rs 50 Cr. This increase is to support a high inventory level, higher Capex and an increase in other financial assets.
- **Precast:** Industrial and institutional precast orders worth Rs 42 Cr were secured during the quarter. Capex of Rs 51 Cr is made on the precast facility as of H1FY24. Revenue of Rs 225 Cr is expected for FY24.
- **OCF:** The company reported negative OCF of Rs 221 Cr against negative Rs 28 Cr in H1FY24 owing to higher working capital requirements accentuated by higher unbilled revenue and a decrease in liabilities.

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	2,597	3,169	2,518	3,072	3%	3%
EBITDA	326	396	327	399	0%	-1%
PAT	183	233	202	258	-5%	-5%

Source: Company, Axis Securities

Result Review Q2FY24

(Rs Cr)	Quarterly Performance				
	Q2FY24	Q1FY24	Q2FY23	% Change (QoQ)	% Change (YoY)
Sales	620	514	360	21%	72%
Other Op. Inc	0	0	0		
Total Revenue	620	514	360	21%	72%
Expenditure					
Cost of material consumed	270	209	117	29%	131%
Changes in Inventories of Work-In-Progress	-47	-16	-35	199%	37%
Construction expenses	290	217	211	33%	38%
Employee Cost	30	28	22	5%	31%
Other Expenses	5	8	5	-37%	3%
Total Expenditure	547	447	321	22%	71%
EBITDA	73	66	39	10%	84%
EBIDTA margin	11.7%	12.9%	11.0%	(120 bps)	70 bps
Oth. Inc.	6	6	6	7%	-4%
Interest	12	9	7	37%	77%
Depreciation	14	12	9	21%	58%
Exceptional Items	0	0	0		
PBT	52	51	30	2%	74%
Tax	13	13	8	1%	63%
PAT	38	38	22	2%	79%
EPS (Rs)	10.7	10.5	6.0	2%	79%

Source: Company, Axis Securities

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY22	FY23	FY24E	FY25E
Net sales	1,748	1,938	2,597	3,169
Other operating income	0	0	0	0
Total income	1,748	1,938	2,597	3,169
Cost of materials consumed	495	603	921	982
Changes in Inventories of Work-In-Progress	4	-21	-63	0
Sub construction cost	0	0	0	0
Civil construction cost	892	1,009	1,271	1,616
Contribution (%)	20.4%	17.9%	18.1%	18.0%
Other Expenses	99	117	144	174
Operating Profit	258	230	326	396
Other income	22	25	26	38
PBIDT	280	255	352	434
Depreciation	32	40	61	80
Interest & Fin Chg.	26	32	45	38
Pre-tax profit	222	183	246	316
Tax provision	55	48	64	82
PAT	166	135	183	233

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY22	FY23	FY24E	FY25E
Total assets	1,270	1,765	2,306	2,650
Net Block	207	240	279	298
CWIP	0	18	18	18
Investments	1	1	1	1
Wkg. cap. (excl cash)	135	219	247	302
Cash / Bank balance	196	242	364	316
Other assets	731	1046	1397	1715
Capital employed	1,270	1,765	2,306	2,650
Equity capital	36	36	36	36
Reserves	651	765	930	1145
Minority Interests	0	0	0	0
Borrowings	100	145	338	288
Other Liabilities	484	819	1002	1180

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY22	FY23	FY24E	FY25E
PBT	222	180	246	316
Depreciation	32	40	61	80
Interest Expense	9	16	45	38
Changes in Working Capital	-35	-112	-115	-122
Others	-17	-22	-26	-38
Tax Paid	-64	-57	-64	-82
Net Cash from Operations	147	45	147	193
Capex	-77	-80	-100	-100
Investment	0	0	0	0
Others	-88	29	-56	-34
Net Cash from Investing	(164)	(51)	(156)	(134)
Borrowings	16	45	193	-50
Interest Expense	-12	-16	-45	-38
Others	-14	-18	-18	-18
Net Cash from Financing	(11)	12	130	(106)
Net Change in Cash	(28)	6	122	(48)
Opening cash	116	88	94	216
Closing cash	88	94	216	168

Source: Company, Axis Securities

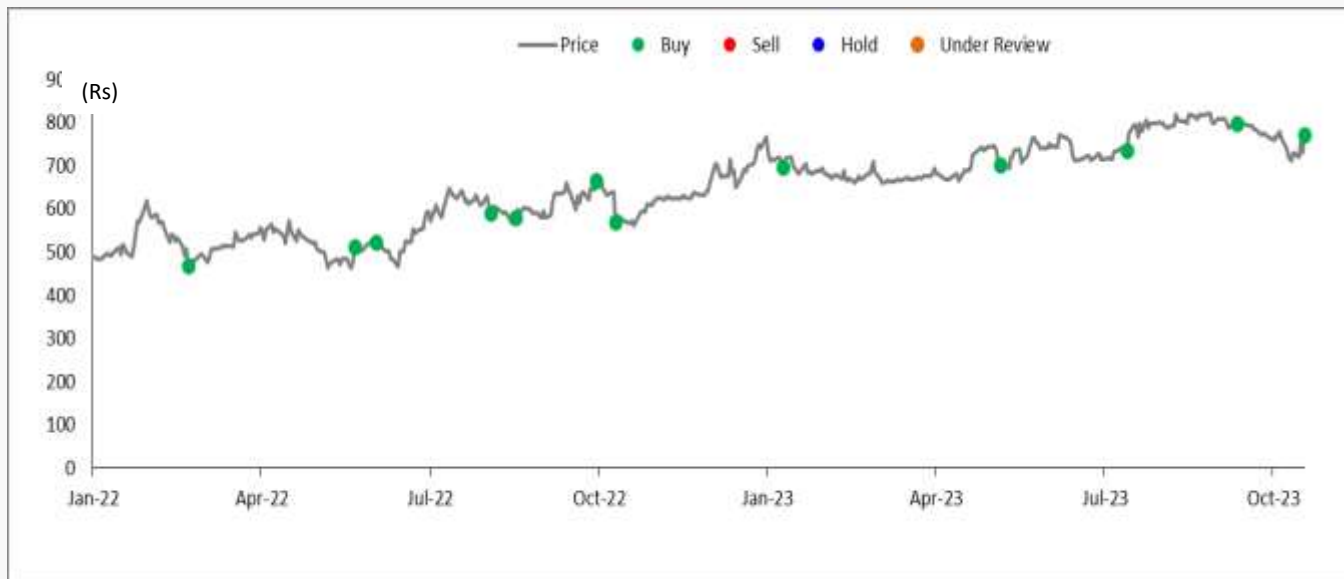
Ratio Analysis

(%)

Y/E March	FY22A	FY23	FY24E	FY25E
Growth Indicator				
Sales Growth	41%	11%	34%	22%
EBITDA Growth	92%	-11%	42%	22%
PAT Growth	99%	-19%	36%	28%
Profitability Ratio				
EBITDA Margin	14.8%	11.9%	12.5%	12.5%
Adjusted net margin	9.5%	6.9%	7.0%	7.4%
Efficiency Ratio				
Capital Turnover	2.5	2.4	2.7	2.7
Total Asset Turnover	2.5	2.3	2.6	2.6
Fixed Asset Turnover	8.4	7.5	8.8	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
Leverage Ratios				
Debt to equity	0.16	0.43	0.36	0.25
Net debt to equity	-0.1	-0.1	0.0	0.0
Interest coverage	10	7	7	10
Return Ratios				
Return on equity	28%	18%	20%	22%
Return on capital employed	40%	28%	32%	32%
Valuation Ratio				
P/E	15	21	15	12
P/BV	3.7	3.5	2.9	2.3
EV/EBITDA	9.8	12.2	8.6	7.1
Per Share Data				
Diluted EPS (Rs)	46	37	51	65
Book value per share (Rs)	191	222	268	328
DPS (Rs)	0.00	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
27-Sep-23	BUY	885	AAA
03-Nov-23	BUY	850	Result Update

Source: Axis Securities

About the analyst



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