

PSP Projects

BUY

Strong beat

Summary

PSP Projects Q2FY24 PAT came 20% higher than our estimate and is led by better execution. Company has achieved 41% of its FY24E revenue guidance till 1HFY24. This we understand is encouraging, as historically PSP has achieved ~40% of its full year target in 1H. On its unchanged revenue guidance of Rs26bn, PSP 2HFY24 revenue to increase by 22% YoY and EBITDA margin to be maintained at 11-13%. Bid pipeline has increased by 10% to Rs65bn after receiving inflow of Rs10bn, we maintain incremental inflow of Rs20bn in 2HFY24. Re-iterate BUY rating on the company & value it at 14x PER multiple vs 12x earlier and revised TP to Rs907 (earlier Rs849). We have marginally revised interest cost higher. Stock catalyst is order win from the bided pipeline.

Key Highlights and Investment Rationale

- **Q2FY24 snapshot:** PSP Revenue of Rs6bn is up +70%YoY backed by strong execution, EBITDA margins at 12.1% increasing 132bps on YoY basis. PAT reported at Rs394mn +72% YoY, PAT growth could have been higher but higher interest expenses impacted the growth.
- **Uptick in working Capital, a short term:** Company's execution was strong but cash flow was weak, OCF was -Rs2.2bn vs -Rs0.3bn in 1HFY23. And to fund, PSP has taken short term debt. 1HFY24 increase in working capital is expected to come down once UP project is concluded. Over mid-term, we expect working capital days to be maintained at ~40 days.
- **Bank limit enhanced, positive for new bidding:** Banks have increased PSP fund base limit by 55% to Rs2.25bn (in this Rs2.1bn is utilized) and non-fund limit increased by 40% to Rs12.7bn (utilized is Rs7.2bn). This we understand is positive and enable PSP to further increase its bid pipeline and order win.

TP	Rs907
CMP	Rs771
Potential upside/downside	18%
Previous Rating	BUY

Price Performance (%)			
	-1m	-3m	-12m
Absolute	(3.4)	0.9	29.1
Rel to Sensex	(0.7)	3.5	23.9

V/s Consensus		
EPS (Rs)	FY24E	FY25E
IDBI Capital	53	65
Consensus	48	62
% difference	9.5	4.8

Key Stock Data	
Bloomberg/Reuters	PSPPL IN / PSPP.BO
Sector	Infrastructure
Shares o/s (mn)	36
Market cap. (Rs mn)	27,743
3-m daily avg Trd value (Rs mn)	7.2
52-week high / low	Rs846 / 592
Sensex / Nifty	64,081 / 19,133

Shareholding Pattern (%)	
Promoters	66.2
FII	4.2
DII	2.4
Public	27.2

Financial snapshot

	(Rs mn)				
Year	FY21	FY22	FY23	FY24E	FY25E
Revenue	12,409	17,488	19,266	26,169	30,826
Change (yoy, %)	-17	41	10	36	18
EBITDA	1,348	2,565	2,250	3,293	3,982
Change (yoy, %)	-29	90	-12	46	21
EBITDA Margin(%)	10.9	14.7	11.7	12.6	12.9
Adj.PAT	835	1,620	1,330	1,894	2,333
EPS (Rs)	23	45	37	53	65
Change (yoy, %)	(35)	94	(18)	42	23
PE(x)	33	17	21	15	12
Dividend Yield (%)	1	1	1	1	1
EV/EBITDA (x)	5.2	4.1	3.5	2.9	2.3
RoE (%)	17	26	18	21	22
RoCE (%)	19	32	21	24	23

Source: IDBI Capital Research

Vishal Periwal

vishal.periwal@idbicapital.com
+91-22-2217 1814

Shubham Shelar

Shubham.shelar@idbicapital.com
+91-22-2217 1859

Conference call takeaways

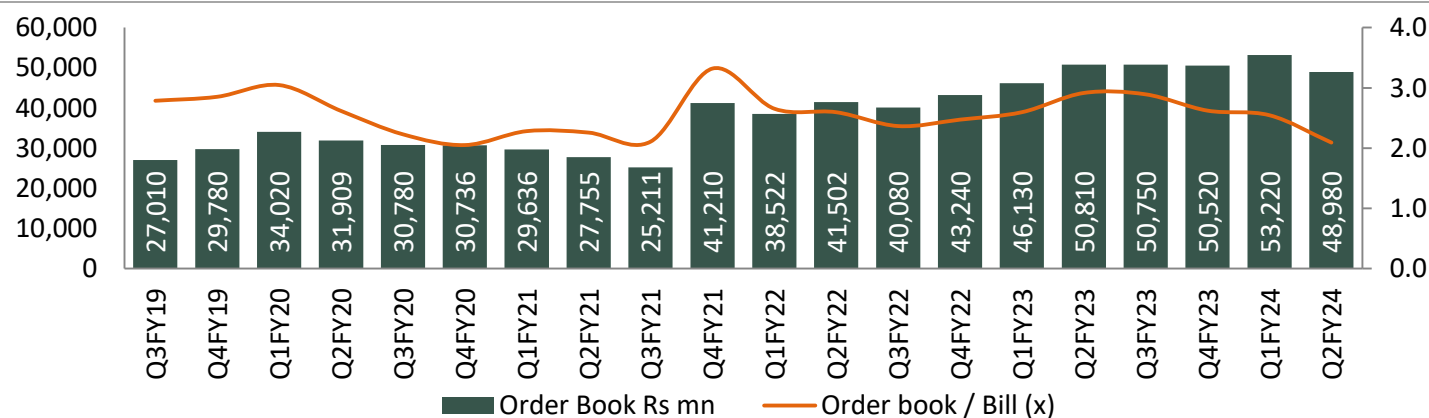
- During Q2FY24 and H1FY24, the company was awarded 9 projects and 14 projects and in this order inflow is to the tune of Rs1.7bn and Rs9.3bn excluding GST respectively. Order Inflow of Rs3bn is expected, Order bid pipeline by the company is Rs65bn (In this Rs25bn worth of project is already bided) additionally company will also bid for Delhi Station development project worth Rs48bn.
- Major Orders in Rs65bn bid pipeline are AIMS, Rewari, Haryana worth Rs10bn, Madhya Pradesh Development projects worth Rs10bn, Vadodara projects worth Rs7.75bn & Lucknow Tractor factory order worth Rs5.25bn & other orders totaling to Rs65bn pipeline.
- Though Revenue growth has been better but PSP has retained guidance to achieve Rs26bn in FY24E and going ahead it to increase by 15-20% and same is with the margin and has been better but PSP has retained EBITDA margin guidance of 11-13%.
- For Pandarpur project, arbitrator is formed and hearing is expected to start on the same. Timeline on its conclusion is still not clear.
- Capex incurred is ~Rs900mn in 1HFY24 and additional capex could be Rs100-120mn in 2HFY24. Going ahead target is to do capex of 3-4% of revenue. Rs570mn Capex is attributable to Pre-Cast Material facility.
- Over mid-term, expect working capital days to be maintained at ~40 days. 1HFY24 increase in working capital is expected to come down once UP project is concluded.
- Banks have increased Fund base limit from Rs1.45bn to Rs2.25bn (and Rs2.1bn is utilised) and non-fund limit increased from Rs9bn to Rs12.7bn (and utilised is Rs7.2bn) and margin requirement is reduce from 25% to 20%
- Total Net unbilled revenue stood at Rs3.6bn, Retention Non current, stood at Rs1.2bn & Retention Current stood at Rs480bn, Mobilisation advance stood at Rs2.4bn & Net working capital stood at 41 days.
- Borrowing has increased from Rs1.07bn to Rs3.77bn and is due to increase in the working capital requirement (inventory , unbilled revenue). Expect recovery on working capital and debt to reduce by Rs0.5bn-Rs1bn by FY24E.

Exhibit 1: Financial snapshot

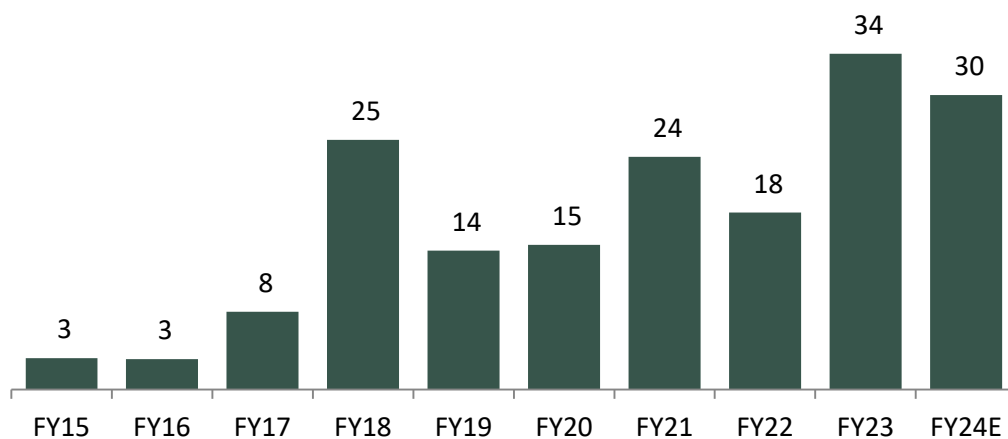
(Rs mn)

Particulars	Q2FY24	Q2FY23	YoY Chg (%)	Q1FY24	QoQ Chg (%)
Revenue	6,071	3,566	70	5,096	19
Cost of Sales ex Depreciation	5,334	3,180	68	4,449	20
EBITDA	737	386	91	646	14
Margin %	12.1	10.8	132bps	12.7	-54bps
Depreciation	144	91	59	118	21
Other Income	60	83	-28	57	6
Interest Expensed	125	70	77	91	37
Pre-tax profit	530	308	72	494	7
Tax	136	79	71	127	7
Adjusted net profit	394	229	72	367	7

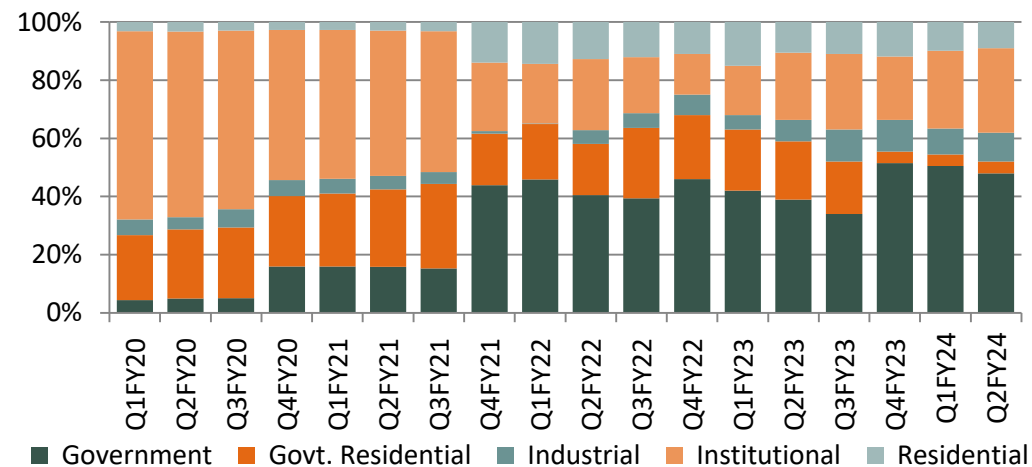
Source: Company

Exhibit 2: Order-book trajectory

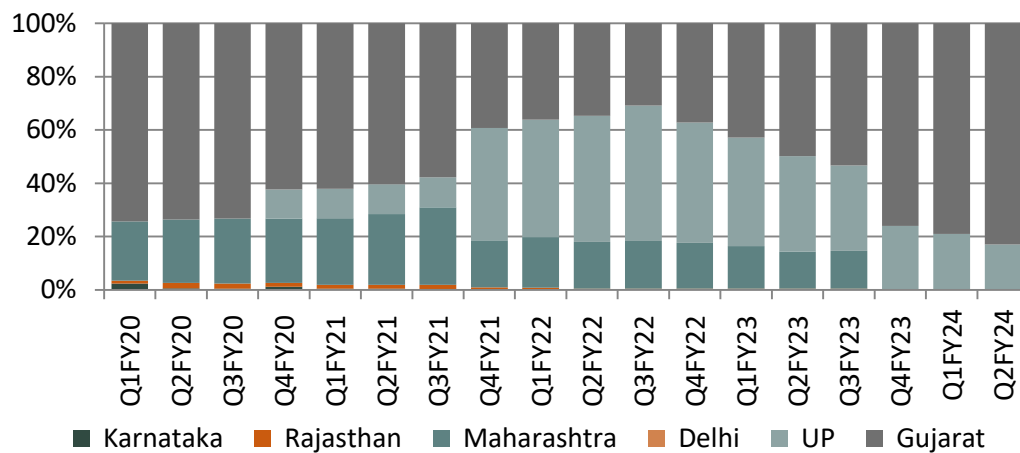
Source: Company

Exhibit 3: Order inflow FY23 at Rs34bn, FY24E expected at Rs30bn

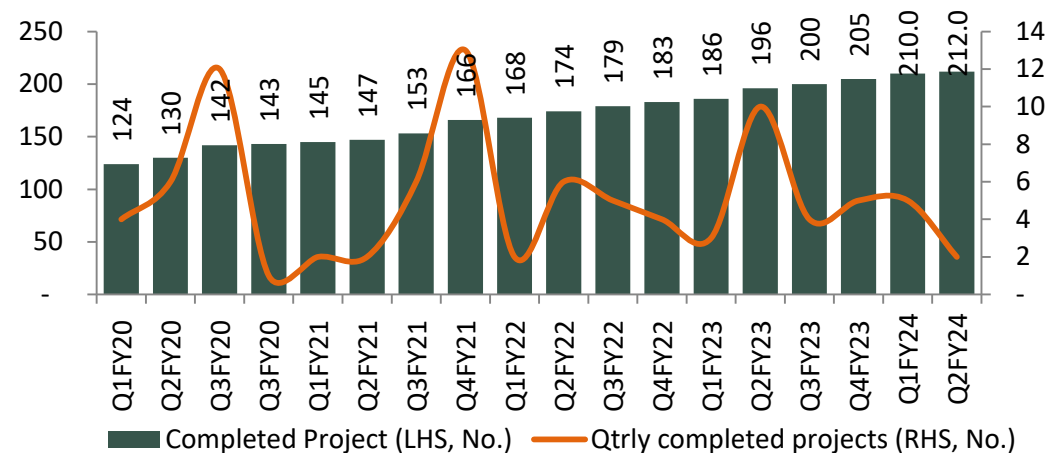
Source : Company

Exhibit 4: Order book break up segment wise

Source : Company

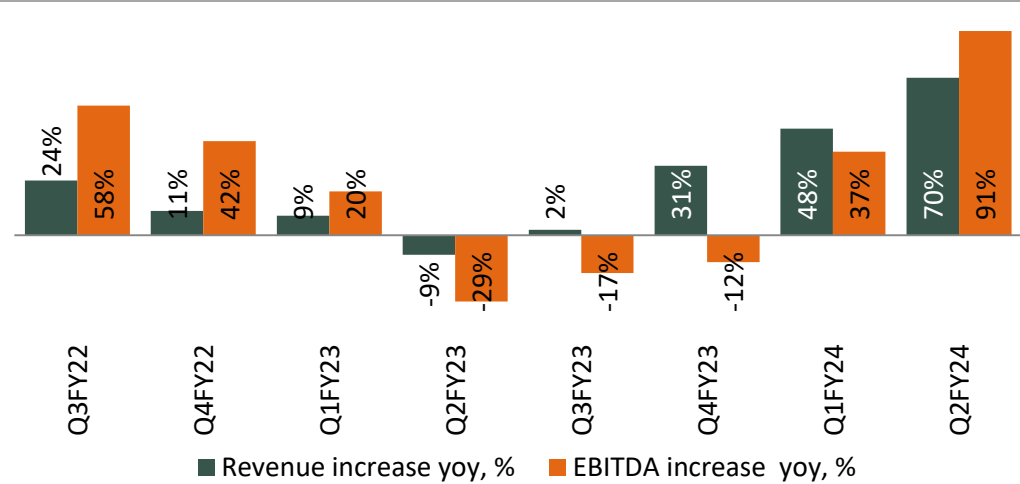
Exhibit 5: State wise order book profile

Source: Company

Exhibit 6: Execution trajectory in terms of projects

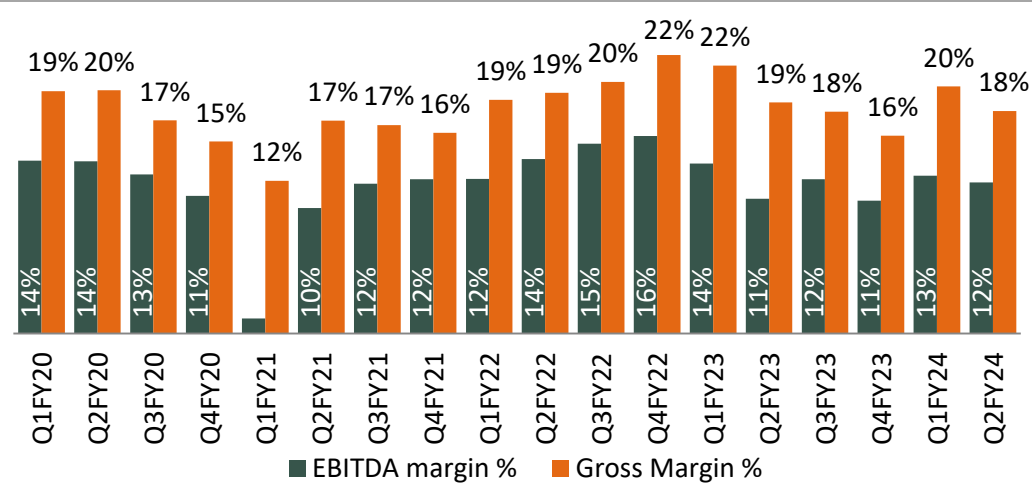
Source: Company

Exhibit 7: Execution in Q2FY24



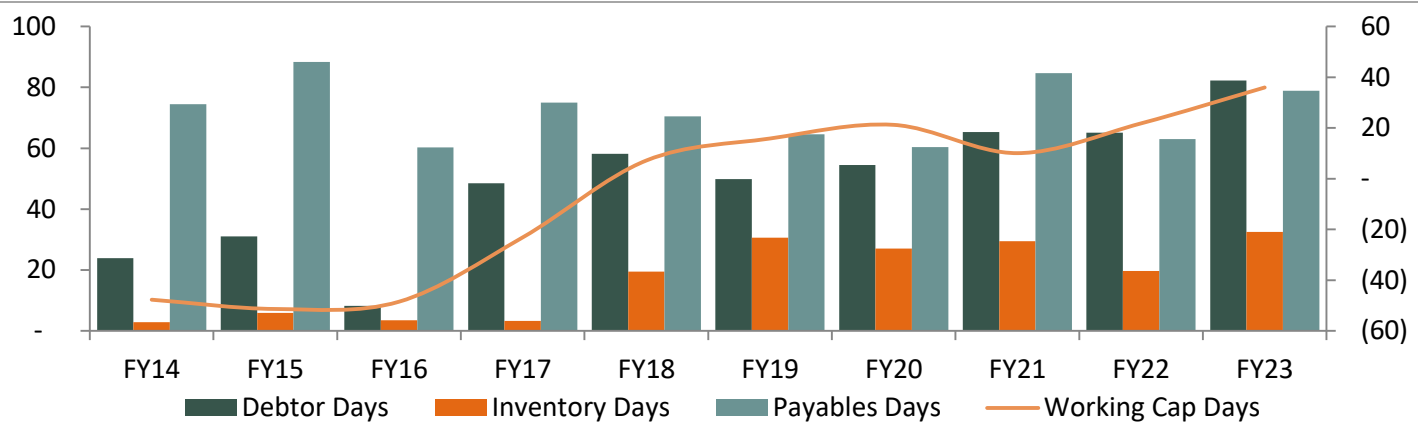
Source : Company

Exhibit 8: Margin declined YoY (%)



Source Company

Exhibit 9: Working Capital trend



Source: Company

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Net sales	14,993	12,409	17,488	19,266	26,169	30,826
<i>Change (yoy, %)</i>	44	(17)	41	10	36	18
Operating expenses	(13,083)	(11,060)	(14,923)	(17,016)	(22,876)	(26,845)
EBITDA	1,910	1,348	2,565	2,250	3,293	3,982
<i>Change (yoy, %)</i>	28	-29	90	-12	46	21
<i>Margin (%)</i>	12.7	10.9	14.7	11.7	12.6	12.9
Depreciation	(267)	(256)	(321)	(400)	(503)	(621)
EBIT	1,643	1,092	2,245	1,850	2,789	3,360
Interest paid	(146)	(147)	(264)	(320)	(494)	(474)
Other income	247	169	212	271	235	232
Pre-tax profit	1,744	1,087	2,193	1,802	2,531	3,118
Tax	(452)	(279)	(573)	(471)	(637)	(785)
<i>Effective tax rate (%)</i>	25.9	25.7	26.1	26.2	25.2	25.2
Minority Interest	-	-	-	-	-	-
Net profit	1,292	808	1,620	1,330	1,894	2,333
Exceptional items	-	(27)	-	-	-	-
Adjusted net profit	1,292	835	1,620	1,330	1,894	2,333
<i>Change (yoy, %)</i>	43	(35)	94	(18)	42	23
EPS	36	23	45	37	53	65
<i>Dividend per sh</i>	10	4	5	4	4	4
<i>Dividend Payout %</i>	28	17	11	11	8	6

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Shareholders' funds	4,571	5,380	6,847	7,998	9,748	11,937
Share capital	360	360	360	360	360	360
Reserves & surplus	4,211	5,020	6,487	7,638	9,388	11,577
Total Debt	723	810	997	1,450	3,950	3,950
Other liabilities	4	8	15	21	21	21
Curr Liab & prov	4,295	3,706	4,807	8,093	10,332	11,585
Current liabilities	4,288	3,696	4,805	8,080	10,319	11,572
Provisions	7	10	2	13	13	13
Total liabilities	5,022	4,524	5,819	9,564	14,303	15,556
Total equity & liabilities	9,593	9,904	12,666	17,562	24,051	27,494
Net fixed assets	1,079	1,578	2,074	2,573	3,320	3,698
Investments	-	-	-	-	-	-
Other non-curr assets	1,594	1,414	2,399	2,252	2,986	3,492
Current assets	6,920	6,911	8,194	12,737	17,746	20,304
Inventories	968	892	806	1,516	3,664	4,316
Sundry Debtors	2,240	2,220	3,118	4,342	6,281	7,398
Cash and Bank	1,967	2,288	1,952	2,421	2,284	2,354
Loans and advances	119	85	59	112	151	177
Total assets	9,593	9,904	12,666	17,562	24,051	27,494

Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Pre-tax profit	1,744	1,087	2,193	1,802	2,531	3,118
Depreciation	267	256	321	158	503	621
Tax paid	(556)	(243)	(636)	(568)	(665)	(813)
Chg in working capital	(1,116)	(362)	(620)	(1,118)	(3,613)	(1,713)
Other operating activities	(149)	(30)	(52)	(85)	258	242
Cash flow from operations (a)	190	708	1,205	431	(985)	1,456
Capital expenditure	(331)	(792)	(766)	(788)	(1,250)	(1,000)
Chg in investments	(2)	678	(814)	344	-	-
Other investing activities	220	168	175	240	235	232
Cash flow from investing (b)	(112)	54	(1,405)	(484)	(1,015)	(768)
Equity raised/(repaid)	-	-	-	-	-	-
Debt raised/(repaid)	418	(21)	67	295	2,006	(474)
Dividend (incl. tax)	(434)	-	(144)	(180)	(144)	(144)
Chg in minorities	-	-	-	-	-	-
Other financing activities	-	-	-	-	-	-
Cash flow from financing (c)	(16)	(21)	(77)	115	1,862	(618)
Net chg in cash (a+b+c)	62	741	(277)	63	(137)	70

Financial Ratios

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Book Value (Rs)	127	149	190	222	271	332
Adj EPS (Rs)	35.9	23.2	45.0	37.0	52.6	64.8
Adj EPS growth (%)	43	-35	94	-18	42	23
EBITDA margin (%)	12.7	10.9	14.7	11.7	12.6	12.9
Pre-tax margin (%)	12	9	13	9	10	10
Net Debt/Equity (x)	-0.3	-0.3	-0.1	-0.1	0.2	0.1
ROCE (%)	35	19	32	21	24	23
ROE (%)	31	17	26	18	21	22

DuPont Analysis

Asset turnover (x)	1.8	1.3	1.5	1.3	1.3	1.2
Leverage factor (x)	2.0	2.0	1.8	2.0	2.3	2.4
Net margin (%)	8.6	6.7	9.3	6.9	7.2	7.6

Working Capital & Liquidity ratio

Inventory days	24	26	17	29	51	51
Receivable days	55	65	65	82	88	88
Payable days	60	85	63	79	79	79

Valuations

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
PER (x)	22	33	17	21	15	12
Price/Book value (x)	6.1	5.2	4.1	3.5	2.9	2.3
EV/Net sales (x)	2	2	2	1	1	1
EV/EBITDA (x)	14	20	10	12	9	7
Dividend Yield (%)	1	1	1	1	1	1

Source: Company; IDBI Capital Research



Notes

Dealing

(91-22) 6836 1111

dealing@idbicapital.com

Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 2217 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

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