

# PSP Projects

## BUY

Momentum to pick up in FY24

### Summary

**PSP Projects (PSP) Q4FY23 PAT came 42%/29% lower than our/consensus estimate. Miss in the numbers is due to lower than expected execution (revenue) in Q4FY23. And thus for FY23 revenue is 8-9% lower than guidance. This has led us to cut FY24E/25E EPS by ~10% and TP is revised lowered to Rs825 (Earlier Rs905). Historically, PSP's execution has been lumpy in nature. After strong YoY revenue increase in FY22 by 41%, FY23 revenue increased by 10%. This, PSP is guiding to improve in FY24E with revenue guidance of Rs27bn (implying 40% uptick) and then an increase of 20% in FY25E. Order inflow in FY23 was around 10% lower than guidance but company did close the year with highest ever order inflow of Rs34bn. Maintain BUY, as execution is expected to pick up, and order momentum remain strong with bid pipeline of Rs60bn.**

### Key Highlights and Investment Rationale

- **Q4FY23 snapshot:** PSP's revenue increased by 31% YoY at Rs7.2bn with EBITDA margin contracting to 10.7% (down 520bps YoY). PAT at Rs463mn declined by 12% YoY, due to lower EBITDA margin. Company received order inflow of Rs34bn in FY23 (including L1 order in Q4FY23).
- **Guidance:** Company FY24E revenue is guided at Rs27bn. EBITDA margin is expected in the range of 11-13%. Order inflow guidance for FY24E is Rs30bn. Bid Pipeline is strong at Rs60bn of which 67% is expected from the Private Players & State wise 70% is from Gujarat.
- **Slow moving order removed from OB:** Bhiwandi and Pandharpur projects, 14% of total OB as on Q3FY23, which are slow moving orders has been removed from the order book. Rest order book is fully mobilized and is in execution.

| TP                        | Rs825        |
|---------------------------|--------------|
| <b>CMP</b>                | <b>Rs703</b> |
| Potential upside/downside | 17%          |
| Previous Rating           | BUY          |

| Price Performance (%) |     |     |      |
|-----------------------|-----|-----|------|
|                       | -1m | -3m | -12m |
| Absolute              | 5.1 | 2.9 | 44.3 |
| Rel to Sensex         | 2.2 | 2.2 | 30.9 |

| V/s Consensus |       |       |
|---------------|-------|-------|
| EPS (Rs)      | FY24E | FY25E |
| IDBI Capital  | 57    | 69    |
| Consensus     | 57    | 71    |
| % difference  | -     | (2.6) |

| Key Stock Data                  |                    |
|---------------------------------|--------------------|
| Bloomberg/Reuters               | PSPPL IN / PSPP.BO |
| Sector                          | Infrastructure     |
| Shares o/s (mn)                 | 36                 |
| Market cap. (Rs mn)             | 25,295             |
| 3-m daily avg Trd value (Rs mn) | 4.6                |
| 52-week high / low              | Rs776 / 459        |
| Sensex / Nifty                  | 58,961 / 17,487    |

| Shareholding Pattern (%) |      |
|--------------------------|------|
| Promoters                | 67.6 |
| FII                      | 2.5  |
| DII                      | 2.6  |
| Public                   | 27.3 |

### 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  | 3,889  |
| Change (yoy, %)    | -29     | 90     | -12    | 46     | 18     |
| EBITDA Margin(%)   | 10.9    | 14.7   | 11.7   | 12.6   | 12.6   |
| Adj.PAT            | 835     | 1,620  | 1,330  | 2,057  | 2,474  |
| EPS (Rs)           | 23      | 45     | 37     | 57     | 69     |
| Change (yoy, %)    | (35)    | 94     | (18)   | 55     | 20     |
| PE(x)              | 30      | 16     | 19     | 12     | 10     |
| Dividend Yield (%) | 1       | 1      | 1      | 1      | 1      |
| EV/EBITDA (x)      | 4.7     | 3.7    | 3.2    | 2.6    | 2.1    |
| RoE (%)            | 17      | 26     | 18     | 23     | 22     |
| RoCE (%)           | 22      | 36     | 24     | 30     | 29     |

Source: IDBI Capital Research

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**Conference call takeaways:**

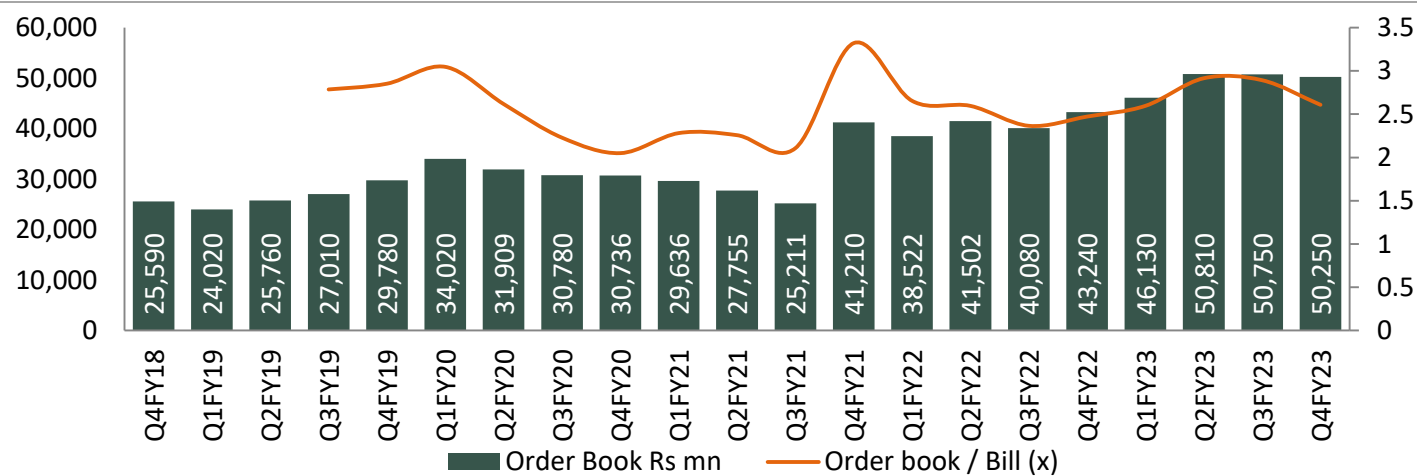
- Order book stood at Rs51bn (2.5x FY23 revenue) with Government/ Institutional/ Industrial/ Residential at 52%/ 26%/ 11%/ 11%.
- Order Inflow for FY23 stood at Rs34bn against the guidance of Rs38-40bn taking the outstanding order book to Rs51Bn. Execution of all outstanding projects has started.
- Company is expecting Order Inflow of Rs30Bn for upcoming FY24E.
- Revenue increased by 10% YoY against the guidance of 20-25%, lower than expected, Company expects to complete revenue backlog in FY24 and match the revenue projection of 20%.
- Working Capital days stood at 41 days, Inventory Days/ Debtor Days/ Creditor Days stood at 29/82/70 respectively for FY23.
- Removed two slow moving projects of Pandharpur & Bhiwandi, Company refused the work as client caused the delays, company will retain the outstanding dues.
- Bid Pipeline stood at Rs60Bn of which 67% is expected from the Private Players & State wise 70% is from Gujarat. Major Projects include, Navi Mumbai Jems & Jewellery Park Rs25Bn, Central Vistas, Delhi Rs12Bn, It Park Chennai Rs4Bn.
- Long Term debt for the company stood at Rs700Mn & Short term Debt for the company stood at Rs750Mn.
- Unbilled Revenue stood at Rs2.5Bn, Retention Non-Current stood at Rs1Bn & Current stood at Rs0.3Bn, Advance Billing Stood at Rs2.7Bn, Mobilisation of advance stood at Rs2.4Bn for FY23.
- Total Fund & Non Fund Limit Stood at Rs10.4Bn, out of which company has utilized Rs8.9Bn; Rs8.2Bn non-Fund based & Rs0.7Bn Fund Based.
- Decrease in Cash flow from operations is attributable to Increase in receivable, Increase in Assets , Retention Money & also rise in Inventories, expected to improve in upcoming year.
- On capex front, company expects only maintenance capex of 3-4% of revenue.

**Exhibit 1: Financial snapshot**

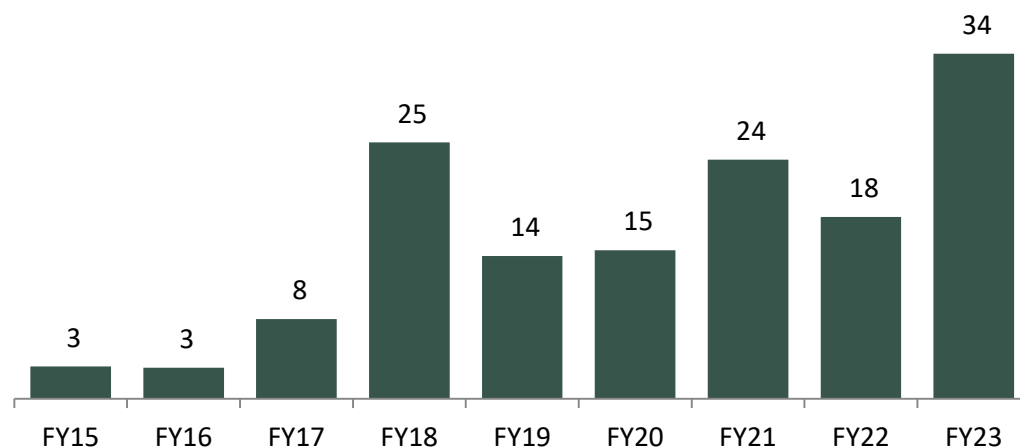
(Rs mn)

| Particulars                   | Q4FY23       | Q4FY22       | YoY Chg (%)    | Q3FY23       | QoQ Chg (%)   |
|-------------------------------|--------------|--------------|----------------|--------------|---------------|
| <b>Revenue</b>                | <b>4,974</b> | <b>4,856</b> | <b>2</b>       | <b>3,566</b> | <b>39</b>     |
| Cost of Sales ex Depreciation | 4,357        | 4,116        | 6              | 3,180        | 37            |
| <b>EBITDA</b>                 | <b>616</b>   | <b>741</b>   | <b>-17</b>     | <b>386</b>   | <b>60</b>     |
| <b>Margin %</b>               | <b>12.4</b>  | <b>15.3</b>  | <b>-286bps</b> | <b>10.8</b>  | <b>157bps</b> |
| Depreciation                  | 98           | 94           | 5              | 91           | 9             |
| Other Income                  | 65           | 76           | -15            | 83           | -22           |
| Interest Expensed             | 101          | 98           | 4              | 70           | 44            |
| <b>Pre-tax profit</b>         | <b>482</b>   | <b>625</b>   | <b>-23</b>     | <b>308</b>   | <b>56</b>     |
| Tax                           | 129          | 156          | -18            | 79           | 63            |
| <b>Adjusted net profit</b>    | <b>353</b>   | <b>469</b>   | <b>-25</b>     | <b>229</b>   | <b>54</b>     |

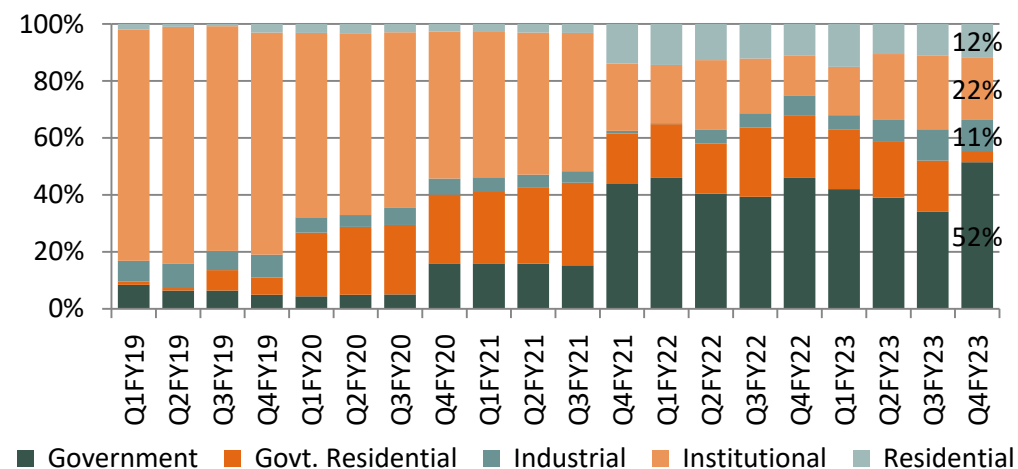
Source: Company

**Exhibit 2: Order-book trajectory**

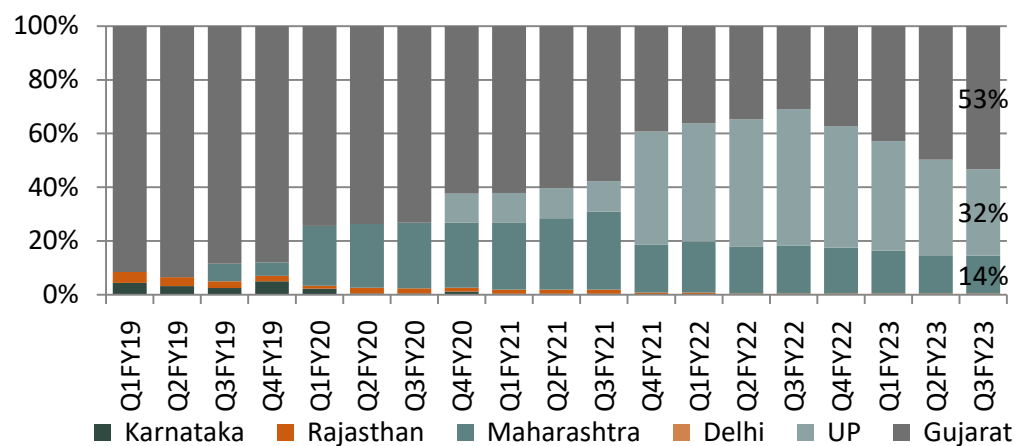
Source: Company

**Exhibit 3: Order inflow FY23 at Rs34bn**

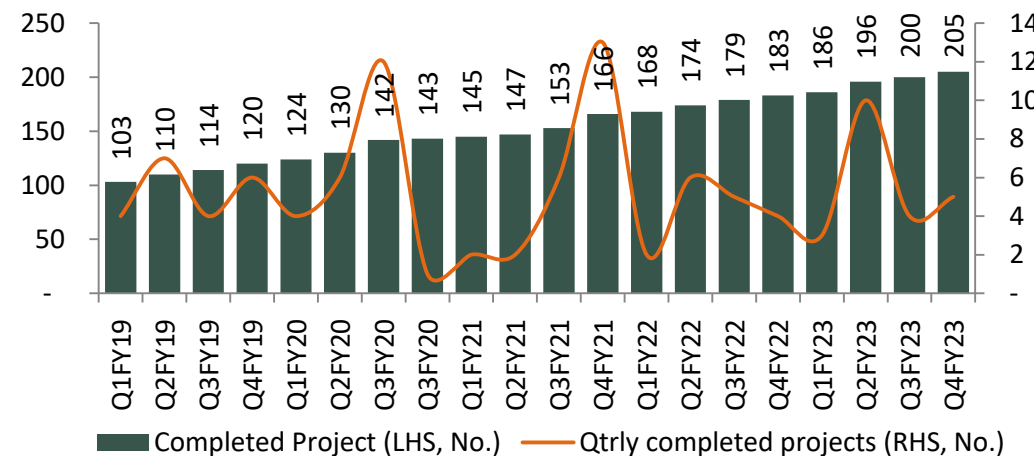
Source : Company

**Exhibit 4: Order book break up segment wise**

Source : Company

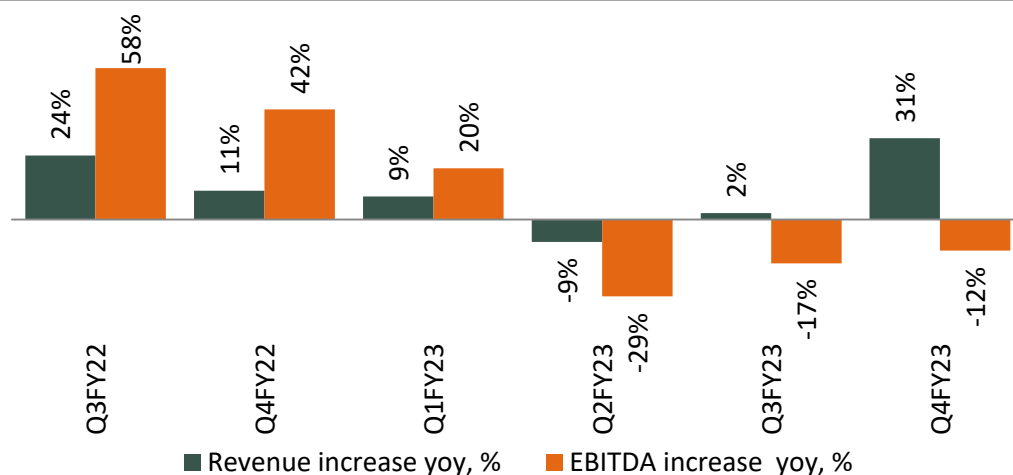
**Exhibit 5: State wise order book profile**

Source: Company

**Exhibit 6: Execution trajectory in terms of projects**

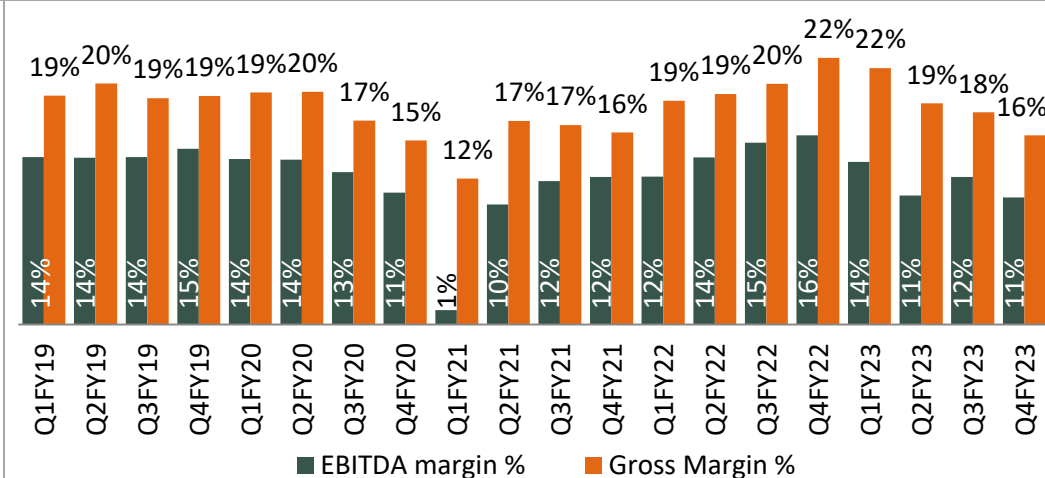
Source: Company

Exhibit 7: Execution in Q4FY23



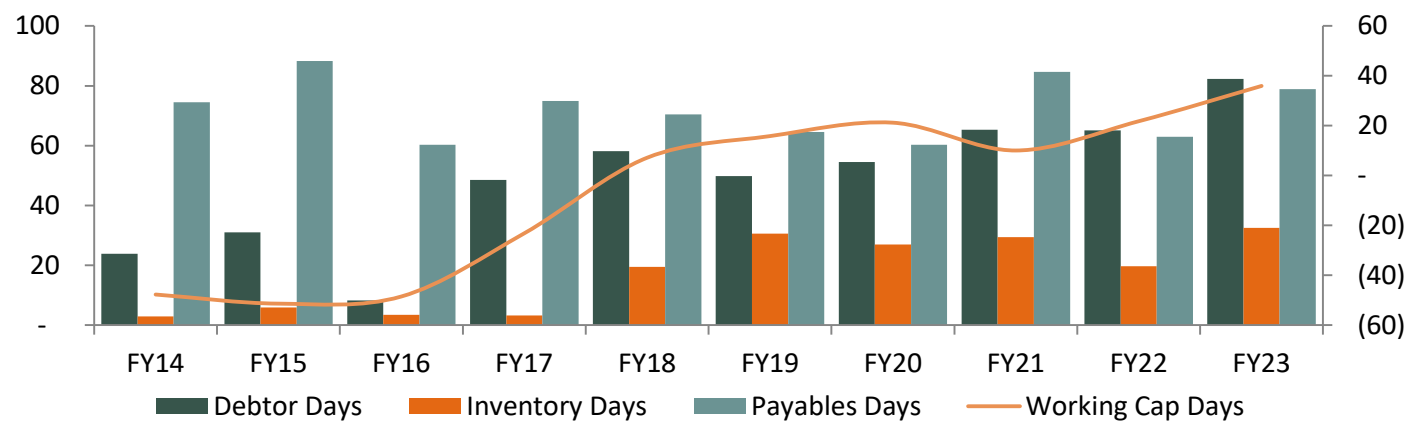
Source : Company

Exhibit 8: Margin declined YoY (%)



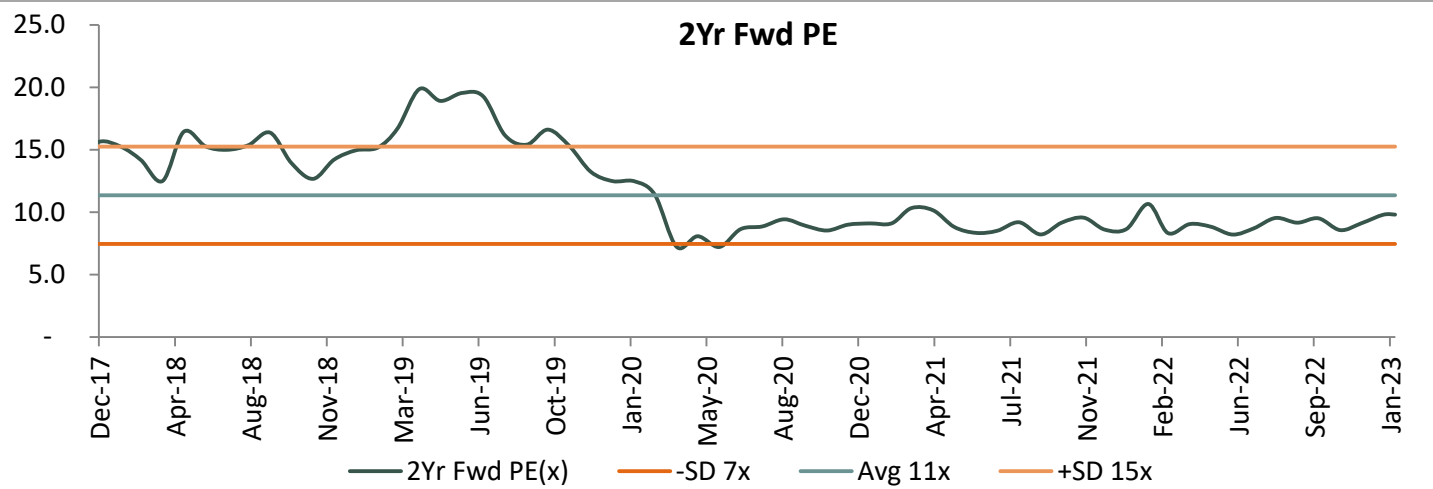
Source Company

Exhibit 9: Working Capital trend



Source: Company

Exhibit 10: Valuation band (PE ratio)



Source: Bloomberg

## Financial Summary

### Profit & Loss Account

(Rs mn)

| Year-end: March               | FY20          | FY21          | FY22          | FY23          | FY24E         | FY25E         |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| <b>Net sales</b>              | <b>14,993</b> | <b>12,409</b> | <b>17,488</b> | <b>19,266</b> | <b>26,169</b> | <b>30,826</b> |
| <i>Change (yoy, %)</i>        | 44            | (17)          | 41            | 10            | 36            | 18            |
| Operating expenses            | (13,083)      | (11,060)      | (14,923)      | (17,016)      | (22,876)      | (26,937)      |
| <b>EBITDA</b>                 | <b>1,910</b>  | <b>1,348</b>  | <b>2,565</b>  | <b>2,250</b>  | <b>3,293</b>  | <b>3,889</b>  |
| <i>Change (yoy, %)</i>        | 28            | -29           | 90            | -12           | 46            | 18            |
| <i>Margin (%)</i>             | 12.7          | 10.9          | 14.7          | 11.7          | 12.6          | 12.6          |
| Depreciation                  | (267)         | (256)         | (321)         | (400)         | (477)         | (556)         |
| <b>EBIT</b>                   | <b>1,643</b>  | <b>1,092</b>  | <b>2,245</b>  | <b>1,850</b>  | <b>2,815</b>  | <b>3,333</b>  |
| Interest paid                 | (146)         | (147)         | (264)         | (320)         | (286)         | (253)         |
| Other income                  | 247           | 169           | 212           | 271           | 220           | 227           |
| <b>Pre-tax profit</b>         | <b>1,744</b>  | <b>1,087</b>  | <b>2,193</b>  | <b>1,802</b>  | <b>2,749</b>  | <b>3,307</b>  |
| Tax                           | (452)         | (279)         | (573)         | (471)         | (692)         | (832)         |
| <i>Effective tax rate (%)</i> | 25.9          | 25.7          | 26.1          | 26.2          | 25.2          | 25.2          |
| Minority Interest             | -             | -             | -             | -             | -             | -             |
| <b>Net profit</b>             | <b>1,292</b>  | <b>808</b>    | <b>1,620</b>  | <b>1,330</b>  | <b>2,057</b>  | <b>2,474</b>  |
| Exceptional items             | -             | (27)          | -             | -             | -             | -             |
| <b>Adjusted net profit</b>    | <b>1,292</b>  | <b>835</b>    | <b>1,620</b>  | <b>1,330</b>  | <b>2,057</b>  | <b>2,474</b>  |
| <i>Change (yoy, %)</i>        | 43            | (35)          | 94            | (18)          | 55            | 20            |
| EPS                           | 36            | 23            | 45            | 37            | 57            | 69            |
| Dividend per sh               | 10            | 4             | 5             | 4             | 4             | 4             |
| <i>Dividend Payout %</i>      | 28            | 17            | 11            | 11            | 7             | 6             |

**Balance Sheet**

(Rs mn)

| Year-end: March                       | FY20         | FY21         | FY22          | FY23          | FY24E         | FY25E         |
|---------------------------------------|--------------|--------------|---------------|---------------|---------------|---------------|
| <b>Shareholders' funds</b>            | <b>4,571</b> | <b>5,380</b> | <b>6,847</b>  | <b>7,998</b>  | <b>9,912</b>  | <b>12,242</b> |
| Share capital                         | 360          | 360          | 360           | 360           | 360           | 360           |
| Reserves & surplus                    | 4,211        | 5,020        | 6,487         | 7,638         | 9,552         | 11,882        |
| <b>Total Debt</b>                     | <b>40</b>    | <b>28</b>    | <b>172</b>    | <b>381</b>    | <b>381</b>    | <b>381</b>    |
| Other liabilities                     | 4            | 8            | 15            | 21            | 21            | 21            |
| <b>Curr Liab &amp; prov</b>           | <b>4,977</b> | <b>4,488</b> | <b>5,632</b>  | <b>9,162</b>  | <b>11,251</b> | <b>12,394</b> |
| Current liabilities                   | 4,970        | 4,478        | 5,630         | 9,149         | 11,239        | 12,382        |
| Provisions                            | 7            | 10           | 2             | 13            | 13            | 13            |
| <b>Total liabilities</b>              | <b>5,022</b> | <b>4,524</b> | <b>5,819</b>  | <b>9,564</b>  | <b>11,653</b> | <b>12,796</b> |
| <b>Total equity &amp; liabilities</b> | <b>9,593</b> | <b>9,904</b> | <b>12,666</b> | <b>17,562</b> | <b>21,565</b> | <b>25,038</b> |
| Net fixed assets                      | 1,079        | 1,578        | 2,074         | 2,573         | 2,846         | 3,040         |
| Investments                           | -            | -            | -             | -             | -             | -             |
| Other non-curr assets                 | 1,594        | 1,414        | 2,399         | 2,252         | 2,986         | 3,503         |
| <b>Current assets</b>                 | <b>6,920</b> | <b>6,911</b> | <b>8,194</b>  | <b>12,737</b> | <b>15,733</b> | <b>18,495</b> |
| Inventories                           | 968          | 892          | 806           | 1,516         | 2,332         | 2,747         |
| Sundry Debtors                        | 2,240        | 2,220        | 3,118         | 4,342         | 5,898         | 6,947         |
| Cash and Bank                         | 1,967        | 2,288        | 1,952         | 2,421         | 1,986         | 2,549         |
| Loans and advances                    | 119          | 85           | 59            | 112           | 151           | 177           |
| <b>Total assets</b>                   | <b>9,593</b> | <b>9,904</b> | <b>12,666</b> | <b>17,562</b> | <b>21,565</b> | <b>25,038</b> |



**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        | 2,749        | 3,307        |
| Depreciation                         | 267          | 256         | 321            | 158          | 477          | 556          |
| Tax paid                             | (556)        | (243)       | (636)          | (568)        | (720)        | (860)        |
| Chg in working capital               | (1,116)      | (362)       | (620)          | (1,118)      | (1,898)      | (1,395)      |
| Other operating activities           | (149)        | (30)        | (52)           | (85)         | 66           | 27           |
| <b>Cash flow from operations (a)</b> | <b>190</b>   | <b>708</b>  | <b>1,205</b>   | <b>431</b>   | <b>675</b>   | <b>1,634</b> |
| Capital expenditure                  | (331)        | (792)       | (766)          | (788)        | (750)        | (750)        |
| Chg in investments                   | (2)          | 678         | (814)          | 344          | -            | -            |
| Other investing activities           | 220          | 168         | 175            | 240          | 220          | 227          |
| <b>Cash flow from investing (b)</b>  | <b>(112)</b> | <b>54</b>   | <b>(1,405)</b> | <b>(484)</b> | <b>(530)</b> | <b>(523)</b> |
| Equity raised/(repaid)               | -            | -           | -              | -            | -            | -            |
| Debt raised/(repaid)                 | 418          | (21)        | 67             | 295          | (436)        | (403)        |
| Dividend (incl. tax)                 | (434)        | -           | (144)          | (180)        | (144)        | (144)        |
| Chg in minorities                    | -            | -           | -              | -            | -            | -            |
| Other financing activities           | -            | -           | -              | -            | -            | -            |
| <b>Cash flow from financing (c)</b>  | <b>(16)</b>  | <b>(21)</b> | <b>(77)</b>    | <b>115</b>   | <b>(580)</b> | <b>(547)</b> |
| <b>Net chg in cash (a+b+c)</b>       | <b>62</b>    | <b>741</b>  | <b>(277)</b>   | <b>63</b>    | <b>(435)</b> | <b>563</b>   |

**Financial Ratios**

| Year-end: March     | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E |
|---------------------|------|------|------|------|-------|-------|
| Book Value (Rs)     | 127  | 149  | 190  | 222  | 275   | 340   |
| Adj EPS (Rs)        | 35.9 | 23.2 | 45.0 | 37.0 | 57.1  | 68.7  |
| Adj EPS growth (%)  | 43   | -35  | 94   | -18  | 55    | 20    |
| EBITDA margin (%)   | 12.7 | 10.9 | 14.7 | 11.7 | 12.6  | 12.6  |
| Pre-tax margin (%)  | 12   | 9    | 13   | 9    | 11    | 11    |
| Net Debt/Equity (x) | -0.4 | -0.4 | -0.3 | -0.3 | -0.2  | -0.2  |
| ROCE (%)            | 39   | 22   | 36   | 24   | 30    | 29    |
| ROE (%)             | 31   | 17   | 26   | 18   | 23    | 22    |

**DuPont Analysis**

|                     |     |     |     |     |     |     |
|---------------------|-----|-----|-----|-----|-----|-----|
| Asset turnover (x)  | 1.8 | 1.3 | 1.5 | 1.3 | 1.3 | 1.3 |
| Leverage factor (x) | 2.0 | 2.0 | 1.8 | 2.0 | 2.2 | 2.1 |
| Net margin (%)      | 8.6 | 6.7 | 9.3 | 6.9 | 7.9 | 8.0 |

**Working Capital & Liquidity ratio**

|                 |    |    |    |    |    |    |
|-----------------|----|----|----|----|----|----|
| Inventory days  | 24 | 26 | 17 | 29 | 33 | 33 |
| Receivable days | 55 | 65 | 65 | 82 | 82 | 82 |
| Payable days    | 60 | 85 | 63 | 79 | 79 | 79 |

**Valuations**

| Year-end: March      | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E |
|----------------------|------|------|------|------|-------|-------|
| PER (x)              | 20   | 30   | 16   | 19   | 12    | 10    |
| Price/Book value (x) | 5.5  | 4.7  | 3.7  | 3.2  | 2.6   | 2.1   |
| EV/Net sales (x)     | 2    | 2    | 1    | 1    | 1     | 1     |
| EV/EBITDA (x)        | 12   | 17   | 9    | 10   | 7     | 6     |
| 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.

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