

PSP Projects | BUY



Lower margins impact earnings; SDB resolution key monitorable

PSP Projects' (PSP) 3QFY24 PAT at INR 325mn (down 8% YoY) missed JMFe of INR 420mn (consensus: INR 419mn) due to lower margins. While revenue was ahead of expectations, EBITDA missed JMFe due to lower margin which was impacted by ECL provisions and UP project closure costs. As of Dec-23, PSP has o/s assets of INR 1.4bn pertaining to SDB project against which PSP has filed for claims of INR 5.4bn. PSP would prefer to settle it outside court with client (probably at a lower amount) or else will go for arbitration which may take more than a year to realize the claims. Board has approved equity fund raise of up to INR 3bn which could be exercised in case resolution in SDB takes time. Funds would be used to normalize NWC and fund growth. Meanwhile, gross debt has further increased from INR 4bn in Sept-23 to INR 4.8bn in Dec-23 due to rise in NWC. PSP has lowered its margin guidance from 11-13% to 11-12%. Accordingly, we have tweaked margin and debt assumptions which led to 10-11% earnings cut in FY25/26E. The coverage stands transferred to Vaibhav shah. We value PSP at 15x FY26E EPS to arrive at price target of INR 870. Maintain BUY.

- Execution beat estimates; earnings missed due to lower margins:** Revenue grew by 40% YoY to INR 7bn (JMFe: INR 6.3bn) led by strong execution in the UP hospital project. EBITDA growth was lower at 16% YoY to INR 714mn and missed JMFe of INR 757mn due to lower margins. EBITDA margins declined by 210bps YoY to 10.3% (JMFe: 12%) due to ECL provisions of INR 30mn (adjusted margins: 10.7%) and UP project closure costs. Interest costs grew sharply by 51% YoY to INR 153mn (JMFe: INR 130mn) due to higher debt levels. PAT declined by 8% YoY and missed JMFe of INR 420mn.
- Order backlog moderates to INR 44bn; to improve with conversion of L1 orders:** PSP's order backlog has moderated to INR 44bn as on Dec-23 (1.7x TTM revenues) due to weak inflows in 9MFY24 (INR 10.6bn). YTD inflows have improved to INR 20bn and PSP is also L1 in two orders of INR 9.3bn which on conversion should boost order backlog. Bid pipeline remains strong at c.INR 60bn which includes prominent orders like residential building in Delhi of INR 10bn, commercial building in Delhi of INR 10bn, GIFT city building of INR 4bn and airport at Varanasi of INR 10bn among others.
- Lowers FY24 guidance; debt to moderate or remain at current levels by year end:** PSP has moderated its revenue guidance from INR 26bn to INR 25bn for FY24E while maintaining INR 30bn revenue guidance for FY25E. EBITDA margin guidance was also trimmed by 100bps to 11-12% range. PSP's gross debt increased further from INR 4bn in Sept-23 to INR 4.8bn in Dec-23 due to rise in NWC intensity. Accordingly, we have tweaked our margin and debt assumptions which led to 10-11% earnings cut in FY25/26E.
- Timely resolution of SDB matter key monitorable; Maintain BUY:** We like PSP for its track record of delivering robust growth while preserving its balance sheet. We have cut EPS by 10-11% in FY25/26E factoring lower margins and higher debt levels. Resolution of the SDB matter would be key as it could normalize NWC leading to moderation in debt levels. We expect EPS CAGR of 16% over FY23-26E. Valuations remain reasonable at 12x FY26E EPS. We value PSP at 15x FY26E EPS and arrive at price target of INR 870. Maintain BUY.

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	870
Upside/(Downside)	22.9%
Previous Price Target	900
Change	-3.3%

Key Data – PSPPL IN

Current Market Price	INR708
Market cap (bn)	INR25.5/US\$0.3
Free Float	34%
Shares in issue (mn)	36.0
Diluted share (mn)	36.0
3-mon avg daily val (mn)	INR94.1/US\$1.1
52-week range	846/652
Sensex/Nifty	71,555/21,743
INR/US\$	83.0

Price Performance

%	1M	6M	12M
Absolute	-5.7	-11.4	4.2
Relative*	-4.3	-19.1	-12.0

* To the BSE Sensex

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Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Financial Summary

	(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	17,488	19,266	25,046	29,555	33,988
Sales Growth (%)	40.9	10.2	30.0	18.0	15.0
EBITDA	2,565	2,250	2,876	3,451	3,979
EBITDA Margin (%)	14.7	11.7	11.5	11.7	11.7
Adjusted Net Profit	1,624	1,330	1,496	1,771	2,088
Diluted EPS (INR)	45.1	36.9	41.6	49.2	58.0
Diluted EPS Growth (%)	94.4	-18.1	12.5	18.4	17.9
ROIC (%)	30.1	16.5	14.9	14.8	15.6
ROE (%)	26.6	17.9	17.3	17.5	17.7
P/E (x)	10.5	16.7	17.0	14.4	12.2
P/B (x)	2.5	2.8	2.7	2.3	2.0
EV/EBITDA (x)	6.3	9.4	9.3	7.4	6.3
Dividend Yield (%)	1.1	0.4	0.6	0.7	1.2

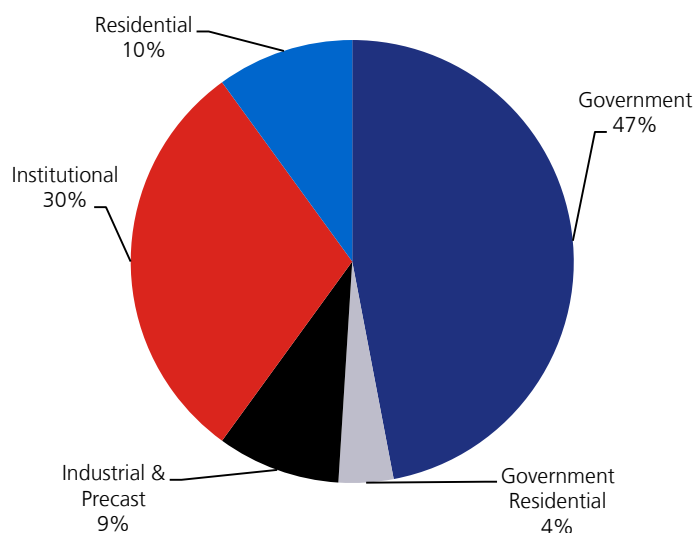
Source: Company data, JM Financial. Note: Valuations as of 13/Feb/2024

Exhibit 1. Quarterly Standalone results

INR mn	3QFY23	4QFY23	FY23	1QFY24	2QFY24	3QFY24	3QFY24E	Variance (%)	FY24E	FY25E	FY26E
Revenue	4,974	7,274	19,266	5,096	6,071	6,966	6,300	10.6%	25,046	29,555	33,988
Raw Materials	4,088	6,119	15,820	4,085	4,986	5,829	5,153	13.1%	20,583	24,176	27,792
Staff Cost	235	257	935	282	296	338	320	5.5%	1,262	1,514	1,741
Other Expenses	35	122	261	83	52	85	70	21.6%	326	414	476
EBITDA	616	777	2,250	646	737	714	757	-5.6%	2,876	3,451	3,979
EBITDA margin (%)	12.4%	10.7%	11.7%	12.7%	12.1%	10.3%	12.0%		11.5%	11.7%	11.7%
Other Income	65	67	271	57	60	65	80	-18.2%	299	375	399
Depreciation	98	124	400	118	144	187	145	29.1%	639	787	898
Interest	101	92	320	91	125	153	130	17.4%	531	673	690
PBT	482	628	1,801	494	530	440	562	-21.7%	2,005	2,367	2,790
Tax	129	164	471	127	136	115	141	-18.9%	509	596	702
Effective Tax Rate (%)	26.7%	26.2%	26.2%	25.7%	25.6%	26.1%	25.2%		25.4%	25.2%	25.2%
Adjusted PAT	353	463	1,330	367	394	325	420	-22.6%	1,496	1,771	2,088
Exceptional Items	-	-	-	-	-	-	-		-	-	-
Reported PAT	353	463	1,330	367	394	325	420	-22.6%	1,496	1,771	2,088
YoY growth											
Revenue	2.4%	31.0%	10.2%	47.6%	70.3%	40.1%			30.0%	18.0%	15.0%
EBITDA	-16.8%	-11.9%	-12.3%	37.2%	91.0%	15.9%			27.8%	20.0%	15.3%
Other Income	-14.8%	23.0%	27.5%	1.6%	-27.6%	1.0%			10.4%	25.4%	6.3%
Depreciation	4.9%	21.1%	24.8%	35.8%	58.5%	90.2%			59.7%	23.1%	14.1%
Interest	3.8%	-2.9%	21.1%	62.4%	76.6%	50.7%			66.2%	26.7%	2.5%
PBT	-23.0%	-15.1%	-17.9%	28.7%	71.8%	-8.7%			11.3%	18.0%	17.9%
Adjusted PAT	-24.8%	-13.9%	-18.1%	28.9%	71.9%	-7.9%			12.5%	18.4%	17.9%
Reported PAT	-24.8%	-13.9%	-18.1%	28.9%	71.9%	-7.9%			12.5%	18.4%	17.9%

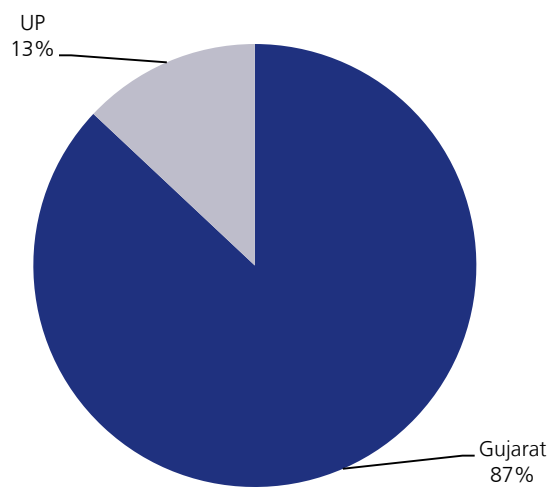
Source: Company, JM Financial

Exhibit 2. Segmental mix of order backlog (INR 44bn as of Dec'23)



Source: Company, JM Financial

Exhibit 3. Geographical mix of order backlog as of Dec'23



Source: Company, JM Financial

Exhibit 4. Key assumptions

INR mn	FY22	FY23	FY24E	FY25E	FY26E
Order inflows	18,020	34,020	30,000	40,000	45,000
EBITDA margin	14.7%	11.7%	11.5%	11.7%	11.7%
NWC* days	110	111	130	120	120
Capex	938	885	1,550	800	1,000

Source: Company, JM Financial; *: ex free cash and ex L&A to subs/JVs

Exhibit 5. Change in estimates

INR mn	FY24E	FY24E	% chg	FY25E	FY25E	% chg	FY26E	FY26E	% chg
	New	Old		New	Old		New	Old	
Net Sales	25,046	25,046	-	29,555	29,555	-	33,988	33,988	-
EBITDA	2,876	3,050	(5.7)	3,451	3,559	(3.0)	3,979	4,093	(2.8)
EBITDA margin %	11.5	12.2		11.7	12.0		11.7	12.0	
Adj. PAT	1,496	1,725	(13.2)	1,771	1,992	(11.1)	2,088	2,328	(10.3)
Diluted EPS	41.6	47.9	(13.2)	49.2	55.3	(11.1)	58.0	64.7	(10.3)

Source: Company, JM Financial

Exhibit 6. Price target of INR 870

Particulars	Rationale	Adjusted PAT	Multiple (x)	Value (INR mn)	Value per share (INR)
PSP Projects standalone	PEX FY26E PAT	2,088	15.0	31,322	870
Target Price					870

Source: Company, JM Financial

Key conference call takeaways

- **SDB claims:** As of Dec-23, PSP has o/s assets of INR 1.4bn pertaining to SDB project - Receivables: INR 460mn, unbilled revenue: INR 530mn and retention money: INR 420mn. Against this, PSP has filed for claims of INR 5.4bn. PSP would prefer to settle outside court with client (probably at a lower amount) or else will go for arbitration which may take more than a year to realize the claims.
- **FY24 Guidance:** Revenue: INR 25bn (earlier: INR 26bn; FY23: INR 19.3bn), EBITDA margin: 11-12% (earlier: 11-13%, 9MFY24: 11.6%), Order inflow: INR 30bn (FY23: INR 34bn; YTD: INR 20bn + L1 of INR 9.3bn)
- **3Q margins at 10.3% were impacted** due to ECL provisions of INR 30mn (adjusted margin: 10.7%) and lower margins in UP project (3Q execution at INR 2.5bn).
- **Debt rises sharply:** Gross debt rose further from INR 4bn in Sept-23 to INR 4.8bn in Dec-23 due to rise in working capital.
- **Board has approved raising of equity up to INR 3bn.** PSP would raise capital for normalizing NWC and for growth in case SDB claims are not realized in coming quarters.

Financial Tables (Standalone)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Sales	17,488	19,266	25,046	29,555	33,988	
Sales Growth	40.9%	10.2%	30.0%	18.0%	15.0%	
Other Operating Income	0	0	0	0	0	
Total Revenue	17,488	19,266	25,046	29,555	33,988	
Cost of Goods Sold/Op. Exp	13,913	15,820	20,583	24,176	27,792	
Personnel Cost	723	935	1,262	1,514	1,741	
Other Expenses	286	261	326	414	476	
EBITDA	2,565	2,250	2,876	3,451	3,979	
EBITDA Margin	14.7%	11.7%	11.5%	11.7%	11.7%	
EBITDA Growth	90.3%	-12.3%	27.8%	20.0%	15.3%	
Depn. & Amort.	321	400	639	787	898	
EBIT	2,245	1,850	2,237	2,665	3,081	
Other Income	213	271	299	375	399	
Finance Cost	264	320	531	673	690	
PBT before Excep. & Forex	2,193	1,801	2,005	2,367	2,790	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	2,193	1,801	2,005	2,367	2,790	
Taxes	569	471	509	596	702	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	1,624	1,330	1,496	1,771	2,088	
Adjusted Net Profit	1,624	1,330	1,496	1,771	2,088	
Net Margin	9.3%	6.9%	6.0%	6.0%	6.1%	
Diluted Share Cap. (mn)	36.0	36.0	36.0	36.0	36.0	
Diluted EPS (INR)	45.1	36.9	41.6	49.2	58.0	
Diluted EPS Growth	94.4%	-18.1%	12.5%	18.4%	17.9%	
Total Dividend + Tax	180	90	150	177	313	
Dividend Per Share (INR)	5.0	2.5	4.2	4.9	8.7	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Profit before Tax	2,193	1,801	2,005	2,367	2,790	
Depn. & Amort.	321	400	639	787	898	
Net Interest Exp. / Inc. (-)	264	320	531	673	690	
Inc (-) / Dec in WCap.	-1,372	-623	-2,700	-440	-1,099	
Others	0	0	0	0	0	
Taxes Paid	-571	-499	-509	-596	-702	
Operating Cash Flow	835	1,399	-34	2,791	2,576	
Capex	-938	-885	-1,550	-800	-1,000	
Free Cash Flow	-103	515	-1,584	1,991	1,576	
Inc (-) / Dec in Investments	1	0	0	0	0	
Others	23	-89	0	0	0	
Investing Cash Flow	-914	-974	-1,550	-800	-1,000	
Inc / Dec (-) in Capital	0	0	0	0	0	
Dividend + Tax thereon	-180	-90	-150	-177	-313	
Inc / Dec (-) in Loans	187	453	3,300	-1,000	0	
Others	-264	-320	-531	-673	-690	
Financing Cash Flow	-257	44	2,619	-1,850	-1,003	
Inc / Dec (-) in Cash	-336	469	1,036	141	573	
Opening Cash Balance	2,288	1,952	2,421	3,457	3,598	
Closing Cash Balance	1,952	2,421	3,457	3,598	4,171	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Shareholders' Fund	6,847	7,998	9,345	10,939	12,714	
Share Capital	360	360	360	360	360	
Reserves & Surplus	6,487	7,638	8,985	10,579	12,354	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	997	1,450	4,750	3,750	3,750	
Def. Tax Liab. / Assets (-)	-94	-122	-122	-122	-122	
Total - Equity & Liab.	7,750	9,326	13,973	14,567	16,342	
Net Fixed Assets	2,195	2,680	3,591	3,605	3,707	
Gross Fixed Assets	3,691	4,419	5,969	6,769	7,769	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	1,495	1,916	2,555	3,342	4,240	
Capital WIP	0	177	177	177	177	
Investments	7	7	7	7	7	
Current Assets	10,370	14,753	19,892	22,161	25,511	
Inventories	806	1,516	2,256	2,649	3,046	
Sundry Debtors	3,118	4,342	6,244	6,802	7,822	
Cash & Bank Balances	1,952	2,421	3,457	3,598	4,171	
Loans & Advances	59	44	44	44	44	
Other Current Assets	4,434	6,430	7,891	9,069	10,429	
Current Liab. & Prov.	4,822	8,114	9,517	11,206	12,883	
Current Liabilities	2,576	3,676	4,583	5,389	6,196	
Provisions & Others	2,246	4,438	4,934	5,816	6,687	
Net Current Assets	5,547	6,639	10,375	10,955	12,628	
Total - Assets	7,750	9,326	13,973	14,567	16,342	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Margin	9.3%	6.9%	6.0%	6.0%	6.1%	
Asset Turnover (x)	2.5	2.3	2.1	2.1	2.2	
Leverage Factor (x)	1.1	1.2	1.3	1.4	1.3	
RoE	26.6%	17.9%	17.3%	17.5%	17.7%	

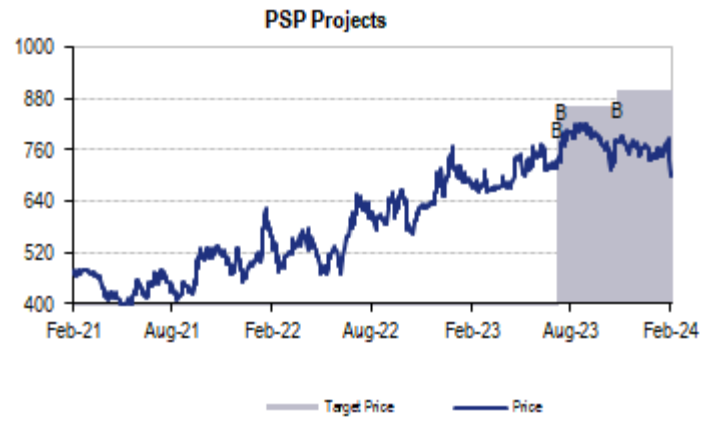
Key Ratios						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
BV/Share (INR)	190.2	222.2	259.6	303.9	353.2	
ROIC	30.1%	16.5%	14.9%	14.8%	15.6%	
ROE	26.6%	17.9%	17.3%	17.5%	17.7%	
Net Debt/Equity (x)	-0.1	-0.1	0.1	0.0	0.0	
P/E (x)	10.5	16.7	17.0	14.4	12.2	
P/B (x)	2.5	2.8	2.7	2.3	2.0	
EV/EBITDA (x)	6.3	9.4	9.3	7.4	6.3	
EV/Sales (x)	0.9	1.1	1.1	0.9	0.7	
Debtor days	65	82	91	84	84	
Inventory days	17	29	33	33	33	
Creditor days	63	79	75	75	75	

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
20-Jul-23	Buy	860	
28-Jul-23	Buy	860	0.0
6-Nov-23	Buy	900	4.7

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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* REITs refers to Real Estate Investment Trusts.

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