

PSP Projects | BUY

Strong quarter; Order intake to pick-up

PSP Projects' (PSP) 2QFY24 PAT at INR 394mn (+72% YoY) was in-line with estimate of INR 383mn (consensus: INR 349mn). While revenue was ahead of expectations, EBITDA beat was relatively modest due to variance in revenue mix. Revenue grew by 70% YoY to INR 6.1bn (JMFe: INR 5.5bn) on low base. EBITDA grew by 91% YoY to INR 737mn (JMFe: INR 687mn). EBITDA margin expanded by 130bps YoY on a low base to 12.1% but was below our estimate of 12.5%. Gross debt rose sharply from INR 2.8bn in June-23 to INR 4bn in Sept-23 due to rise in working capital. Debt levels are expected to reduce by c.INR 500mn by the year end with normalization of working capital. PSP received order inflows of INR 9.6bn in YTD and is also L1 in two orders worth c.INR 4.6bn. Given the strong bid pipeline of c.INR 61bn, PSP is confident of achieving its order inflow guidance of INR 30bn for FY24. We like PSP given its strong execution track record and superior return ratios. We value PSP at 15x average FY25-26E EPS to arrive at a revised price target of INR 900. Maintain BUY.

- Execution beat estimates; earnings in line:** Revenue grew by 70% YoY to INR 6.1bn and was above estimate of INR 5.5bn due to strong execution in the UP hospital project. EBITDA grew by 91% YoY to INR 737mn (JMFe: INR 687mn). EBITDA margin at 12.1% (up 130bps YoY on low base) was below estimate of 12.5% due to adverse revenue mix. Interest costs grew sharply by 77% YoY to INR 125mn (JMFe: INR 110mn) due to higher debt levels. PAT grew sharply by 72% YoY to INR 394mn (JMFe: INR 383mn).
- Weak inflows in 1H moderates order backlog; bid pipeline strong at c.INR 61bn:** PSP's YTD inflows have been weak at INR 9.6bn. It is L1 in two projects worth c.INR 4.6bn. Order backlog has moderated to INR 49bn (2.1x TTM revenues) as PSP lost few prominent big ticket orders (Ahmedabad railway station redevelopment (INR 24bn) and Gems and Jewellery park project (INR 25bn) in Mumbai) to competition. However, bid pipeline stays strong at INR c.61bn comprising of AIIMS Rewari (INR 10bn), museum in MP (INR 10bn) and Ahmedabad (INR 4bn), university in Baroda (INR 7.8bn) and Lucknow (INR 5.8bn) among others. PSP is also evaluating Delhi station redevelopment project of INR 47bn.
- Maintains FY24 guidance; debt to moderate by year end:** PSP maintained its revenue guidance of INR 26bn (+35% YoY) with EBITDA margins in the range of 11-13% for FY24 (12.4% in 1HFY24). PSP expects order inflows of INR 30bn (YTD inflows: INR 9.6bn). PSP's gross debt rose sharply from INR 2.8bn in June-23 to INR 4bn in Sept-23 due to rise in working capital intensity. PSP expects debt levels to moderate by year end with normalization of working capital.
- Expect 21% EPS CAGR over FY23-26; Maintain BUY:** We like PSP for its track record of delivering robust growth while preserving its balance sheet health. Over 10 years the company has grown at an impressive Revenue/EPS CAGR of 22%/27% with operating cashflows funding commitments in capex and investments. We expect EPS CAGR of 21% over FY23-26E. Valuations are reasonable at 14.2x FY25E earnings. We value PSP at 15x average FY25-26E earnings and arrive at a revised price target of INR 900. Maintain BUY.



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	900
Upside/(Downside)	15%
Previous Price Target	860
Change	4.7%

Key Data – PSPPL IN

Current Market Price	INR784
Market cap (bn)	INR28.2/US\$0.3
Free Float	34%
Shares in issue (mn)	36.0
Diluted share (mn)	36.0
3-mon avg daily val (mn)	INR74.4/US\$0.9
52-week range	846/598
Sensex/Nifty	64,364/19,231
INR/US\$	83.3

Price Performance

%	1M	6M	12M
Absolute	-2.3	3.5	24.9
Relative*	0.2	-1.9	18.3

* To the BSE Sensex

Financial Summary

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	3,050	3,559	4,093
EBITDA Margin (%)	14.7	11.7	12.2	12.0	12.0
Adjusted Net Profit	1,624	1,330	1,725	1,992	2,328
Diluted EPS (INR)	45.1	36.9	47.9	55.3	64.7
Diluted EPS Growth (%)	94.4	-18.1	29.7	15.5	16.9
ROIC (%)	30.1	16.5	17.1	16.7	17.2
ROE (%)	26.6	17.9	19.7	19.1	18.9
P/E (x)	10.5	16.7	16.4	14.2	12.1
P/B (x)	2.5	2.8	3.0	2.5	2.1
EV/EBITDA (x)	6.3	9.4	9.4	7.8	6.6
Dividend Yield (%)	1.1	0.4	0.6	0.7	1.2

Source: Company data, JM Financial. Note: Valuations as of 04/Nov/2023

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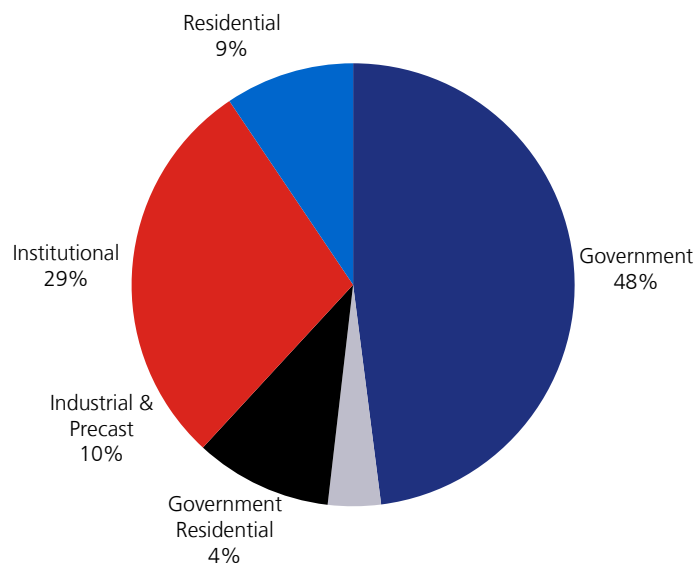
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Exhibit 1. Standalone Quarterly results

INR mn	2QFY23	3QFY23	4QFY23	FY23	1QFY24	2QFY24	2QFY24E	Variance (%)	FY24E	FY25E	FY26E
Revenue	3,566	4,974	7,274	19,266	5,096	6,071	5,500	10.4%	25,046	29,555	33,988
Raw Materials	2,904	4,088	6,119	15,820	4,085	4,986	4,433	12.5%	20,430	24,102	27,717
Staff Cost	225	235	257	935	282	296	290	1.9%	1,234	1,480	1,702
Other Expenses	51	35	122	261	83	52	90	-42.0%	333	414	476
EBITDA	386	616	777	2,250	646	737	687	7.3%	3,050	3,559	4,093
EBITDA margin (%)	10.8%	12.4%	10.7%	11.7%	12.7%	12.1%	12.5%		12.2%	12.0%	12.0%
Other Income	83	65	67	271	57	60	60	0.5%	299	349	396
Depreciation	91	98	124	400	118	144	125	14.9%	557	646	753
Interest	70	101	92	320	91	125	110	13.2%	481	599	625
PBT	308	482	628	1,801	494	530	512	3.4%	2,311	2,662	3,111
Tax	79	129	164	471	127	136	129	5.2%	586	670	783
Effective Tax Rate (%)	25.6%	26.7%	26.2%	26.2%	25.7%	25.6%	25.2%		25.4%	25.2%	25.2%
Adjusted PAT	229	353	463	1,330	367	394	383	2.9%	1,725	1,992	2,328
Exceptional Items	-	-	-	-	-	-	-		-	-	-
Reported PAT	229	353	463	1,330	367	394	383	2.9%	1,725	1,992	2,328
YoY growth											
Revenue	-8.7%	2.4%	31.0%	10.2%	47.6%	70.3%	54.2%		30.0%	18.0%	15.0%
EBITDA	-29.5%	-16.8%	-11.9%	-12.3%	37.2%	91.0%	78.0%		35.5%	16.7%	15.0%
Other Income	80.5%	-14.8%	23.0%	27.5%	1.6%	-27.6%	-28.0%		10.4%	16.5%	13.7%
Depreciation	28.9%	4.9%	21.1%	24.8%	35.8%	58.5%	38.0%		39.2%	16.0%	16.5%
Interest	87.2%	3.8%	-2.9%	21.1%	62.4%	76.6%	56.0%		50.5%	24.6%	4.3%
PBT	-36.5%	-23.0%	-15.1%	-17.9%	28.7%	71.8%	66.1%		28.3%	15.2%	16.9%
Adjusted PAT	-37.4%	-24.8%	-13.9%	-18.1%	28.9%	71.9%	67.1%		29.7%	15.5%	16.9%
Reported PAT	-37.4%	-24.8%	-13.9%	-18.1%	28.9%	71.9%	67.1%		29.7%	15.5%	16.9%

Source: Company, JM Financial

Exhibit 2. Segment mix of order backlog (INR 49bn as of Sept'23)



Source: Company, JM Financial

Exhibit 3. Geographical mix of order backlog as of Sept'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	40,000
EBITDA margin	14.7%	11.7%	12.2%	12.0%	12.0%
NWC* days	110	111	130	120	120
Capex	938	885	900	900	1,000

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

Exhibit 5. Price target of INR 900

Particulars	Rationale	Adjusted PAT	Multiple (x)	Value (INR mn)	Value per share (INR)
PSP Projects standalone	PEx average FY25-26E PAT	2,160	15.0	32,401	900
Target Price					900

Source: Company, JM Financial

Key conference call takeaways

- **FY24 Guidance:** Revenue: INR 26bn (FY23: INR 19.3bn), EBITDA margin: 11-13% (FY23: 11.7%, 1HFY24: 12.4%), Order inflow: INR 30bn (FY23: INR 34bn; YTD: INR 9.6bn)
- **Debt rises sharply:** Gross debt rose sharply from INR 2.8bn in June-23 to INR 4bn in Sept-23. Debt likely to reduce by INR 500mn - INR 1bn by year end
- **Pre-cast revenue** stood at INR 750mn in FY23. PSP targets revenue of INR 2.25bn in FY24E.
- **Key projects update:** Strong execution in UP project, expects completion by Mar-24 (o/s backlog: INR 3bn). Execution has started in SMC project, current quarterly run-rate of INR 300mn to continue in next 2 quarters.
- **Enhanced total limits to support business growth:** PSP has increased total limits to INR 15bn (Fund based: INR 2.25bn; non-fund based: INR 12.7bn). Currently, utilised limits stands at INR 9.35bn (Fund based: INR 2.1bn, non-Fund based: INR 7.25bn).

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	20,430	24,102	27,717	
Personnel Cost	723	935	1,234	1,480	1,702	
Other Expenses	286	261	333	414	476	
EBITDA	2,565	2,250	3,050	3,559	4,093	
EBITDA Margin	14.7%	11.7%	12.2%	12.0%	12.0%	
EBITDA Growth	90.3%	-12.3%	35.5%	16.7%	15.0%	
Depn. & Amort.	321	400	557	646	753	
EBIT	2,245	1,850	2,493	2,913	3,340	
Other Income	213	271	299	349	396	
Finance Cost	264	320	481	599	625	
PBT before Excep. & Forex	2,193	1,801	2,311	2,662	3,111	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	2,193	1,801	2,311	2,662	3,111	
Taxes	569	471	586	670	783	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	1,624	1,330	1,725	1,992	2,328	
Adjusted Net Profit	1,624	1,330	1,725	1,992	2,328	
Net Margin	9.3%	6.9%	6.9%	6.7%	6.8%	
Diluted Share Cap. (mn)	36.0	36.0	36.0	36.0	36.0	
Diluted EPS (INR)	45.1	36.9	47.9	55.3	64.7	
Diluted EPS Growth	94.4%	-18.1%	29.7%	15.5%	16.9%	
Total Dividend + Tax	180	90	172	199	349	
Dividend Per Share (INR)	5.0	2.5	4.8	5.5	9.7	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Profit before Tax	2,193	1,801	2,311	2,662	3,111	
Depn. & Amort.	321	400	557	646	753	
Net Interest Exp. / Inc. (-)	264	320	481	599	625	
Inc (-) / Dec in WCcap.	-1,372	-623	-2,666	-494	-1,100	
Others	0	0	0	0	0	
Taxes Paid	-571	-499	-586	-670	-783	
Operating Cash Flow	835	1,399	97	2,743	2,606	
Capex	-938	-885	-900	-900	-1,000	
Free Cash Flow	-103	515	-803	1,843	1,606	
Inc (-) / Dec in Investments	1	0	0	0	0	
Others	23	-89	0	0	0	
Investing Cash Flow	-914	-974	-900	-900	-1,000	
Inc / Dec (-) in Capital	0	0	0	0	0	
Dividend + Tax thereon	-180	-90	-172	-199	-349	
Inc / Dec (-) in Loans	187	453	2,050	-500	-250	
Others	-264	-320	-481	-599	-625	
Financing Cash Flow	-257	44	1,397	-1,298	-1,224	
Inc / Dec (-) in Cash	-336	469	594	545	381	
Opening Cash Balance	2,288	1,952	2,421	3,015	3,560	
Closing Cash Balance	1,952	2,421	3,015	3,560	3,941	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Shareholders' Fund	6,847	7,998	9,550	11,343	13,322	
Share Capital	360	360	360	360	360	
Reserves & Surplus	6,487	7,638	9,190	10,983	12,962	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	997	1,450	3,500	3,000	2,750	
Def. Tax Liab. / Assets (-)	-94	-122	-122	-122	-122	
Total - Equity & Liab.	7,750	9,326	12,929	14,222	15,951	
Net Fixed Assets	2,195	2,680	3,023	3,277	3,524	
Gross Fixed Assets	3,691	4,419	5,319	6,219	7,219	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	1,495	1,916	2,473	3,120	3,872	
Capital WIP	0	177	177	177	177	
Investments	7	7	7	7	7	
Current Assets	10,370	14,753	19,364	22,115	25,273	
Inventories	806	1,516	2,239	2,641	3,038	
Sundry Debtors	3,118	4,342	6,176	6,802	7,822	
Cash & Bank Balances	1,952	2,421	3,015	3,560	3,941	
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	9,466	11,178	12,854	
Current Liabilities	2,576	3,676	4,551	5,373	6,179	
Provisions & Others	2,246	4,438	4,915	5,804	6,675	
Net Current Assets	5,547	6,639	9,898	10,937	12,419	
Total - Assets	7,750	9,326	12,929	14,222	15,951	

Source: Company, JM Financial

Dupont Analysis		FY22A	FY23A	FY24E	FY25E	FY26E
Y/E March						
Net Margin		9.3%	6.9%	6.9%	6.7%	6.8%
Asset Turnover (x)		2.5	2.3	2.3	2.2	2.3
Leverage Factor (x)		1.1	1.2	1.3	1.3	1.2
RoE		26.6%	17.9%	19.7%	19.1%	18.9%

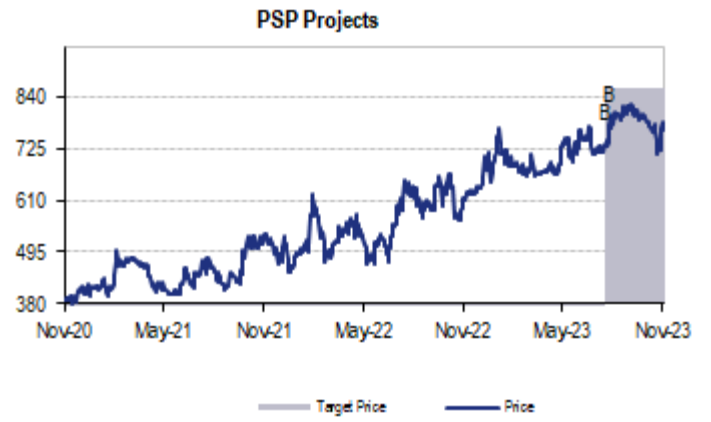
Key Ratios		FY22A	FY23A	FY24E	FY25E	FY26E
Y/E March						
BV/Share (INR)		190.2	222.2	265.3	315.1	370.1
ROIC		30.1%	16.5%	17.1%	16.7%	17.2%
ROE		26.6%	17.9%	19.7%	19.1%	18.9%
Net Debt/Equity (x)		-0.1	-0.1	0.1	0.0	-0.1
P/E (x)		10.5	16.7	16.4	14.2	12.1
P/B (x)		2.5	2.8	3.0	2.5	2.1
EV/EBITDA (x)		6.3	9.4	9.4	7.8	6.6
EV/Sales (x)		0.9	1.1	1.1	0.9	0.8
Debtor days		65	82	90	84	84
Inventory days		17	29	33	33	33
Creditor days		63	79	76	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

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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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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