

## PSP Projects Ltd.

28<sup>th</sup> May 2024

### Weak execution along with margin pressure

In Q4 FY24, PSP Projects Ltd. (PSPPL) recorded a revenue degrowth of ~8%, driven by weak execution on a YoY basis. EBITDA margin continued to witness a significant moderation of 321 bps on a YoY basis due to increases in employee and other operational costs. In addition to this, depreciation and finance costs continue to rise on account of significant CAPEX and increased borrowings, resulting in a 535 bps decrease in PBT margins on a YoY basis. Total order inflow for FY24 stood at ~Rs. 35 Bn, taking the total order book to ~Rs. 60 Bn. In FY25, the Company targets to clock a 15% revenue growth along with 10-11% EBITDA margins.

### Weak execution along with significant margin pressure

In Q4 FY24, PSPPL registered a revenue degrowth of ~8% on a YoY basis, driven by weak execution. Additionally, the Company also witnessed a significant EBITDA margin compression of 321 bps on a YoY basis owing to lower than anticipated margins from the UP Medical College and Hospital project. PSPPL disclosed that this project is expected to be over by the end of June 2024 and the impact margin from the same will be limited only to Q1 FY25.

### Settlement with Surat Diamond Bourse (SDB)

During the quarter, PSPPL arrived at a settlement with the SDB with it agreeing to pay Rs. 1.7 Bn against PSPPL's total demand of ~Rs. 5.3 Bn (including receivables worth Rs. 1.4 Bn and disputed claims worth Rs 3.9 Bn). Out of the total receivables worth Rs. 1.7 Bn, 50% amount is expected to be received within the next month with the rest expected to come in FY25 itself. The Company is awaiting acceptance certificate from SDB which is expected to come in a week's time.

### Revised Guidance

Once again in FY24, PSPPL fell short of its revenue guidance by Rs. 1 Bn. The Company initially guided to clock a revenue of ~Rs. 26 Bn which came out to be ~Rs. 25 Bn. Owing to back-to-back misses, the Company has decided to adopt a conservative approach and is now guiding to achieve a 15% topline growth in FY25. Along with this, PSPPL has also mellowed down its EBITDA margin guidance from 11-13% to 10-11% for FY25.

### View & Valuation

We believe that PSPPL delivered a significantly weak quarter both in terms of growth and margins. In addition, the Company has also materially revised its revenue growth and EBITDA margin guidance downward. Despite changing our estimates in light of the downward guidance, current valuations continue to be favourable. Therefore, based on our revised estimates, we maintain our BUY rating on PSP Projects Ltd. with a target price of Rs. 788 (17x FY25E EPS).

## BUY

CMP Rs. 640

TARGET Rs. 788 (+23.1%)

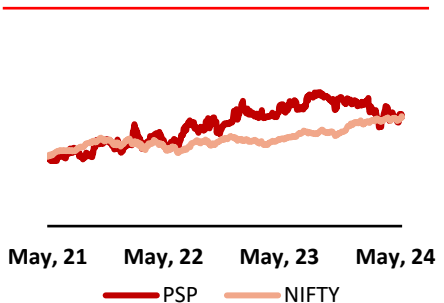
### Company Data

Bloomberg Code	PSPPL IN
MCAP (Rs. Mn)	25,371
O/S Shares (Mn)	40
52w High/Low	846 / 598
Face Value (in Rs.)	10
Liquidity (3M) (Rs. Mn)	102

### Shareholding Pattern %

	Mar 24	Dec 23	Sep 23
Promoters	66.22	66.22	66.22
FIIIs	2.31	3.30	4.23
DIIIs	4.53	5.01	5.35
Non-Institutional	26.94	25.47	24.19

### PSP vs Nifty



Source: Keynote Capitals Ltd.

### Key Financial Data

(Rs. Bn)	FY23	FY24	FY25E
Revenue	19,378	25,058	28,817
EBITDA	2,301	2,610	3,256
Net Profit	1,319	1,230	1,838
Total Assets	17,525	20,367	23,123
ROCE (%)	18%	15%	15%
ROE (%)	18%	14%	16%

Source: Company, Keynote Capitals Ltd.

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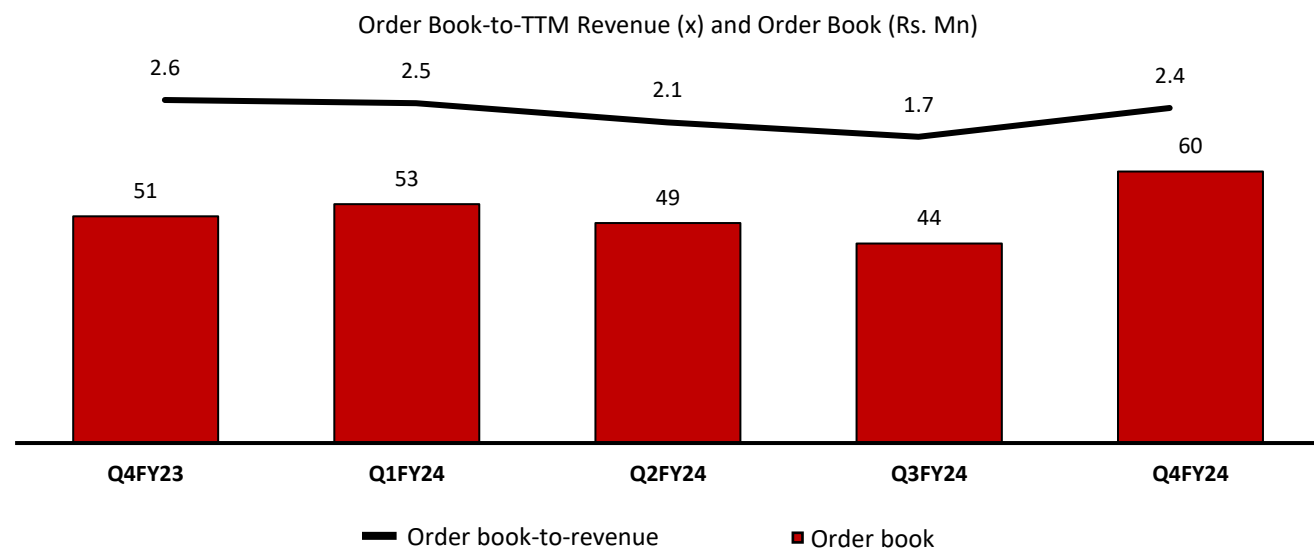
Q4 FY24 Result Update

Result Highlights (Rs. Mn)

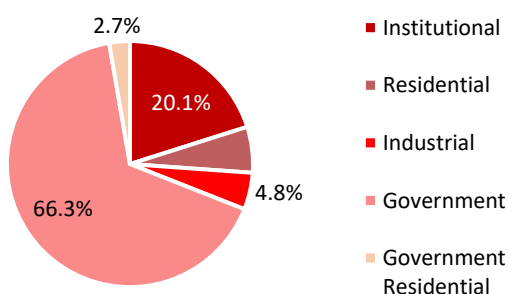
Particulars	Q4 FY24	Q4 FY23	Change % (Y-o-Y)	Q3 FY24	Change % (Q-o-Q)	FY24	FY23	Change % (Y-o-Y)
Revenue	6,678	7,296	-8%	7,048	-5%	25,058	19,378	29%
Construction Costs	5,616	6,133	-8%	5,929	-5%	20,776	15,907	31%
Employee Cost	336	257	31%	338	-1%	1,251	935	34%
Other Operating Expense	199	96	107%	85	134%	422	236	78%
EBITDA	527	809	-35%	696	-24%	2,609	2,301	13%
<b>EBITDA %</b>	<b>7.9%</b>	<b>11.1%</b>	<b>-321 Bps</b>	<b>9.9%</b>	<b>-199 Bps</b>	<b>10.4%</b>	<b>11.9%</b>	<b>-146 Bps</b>
Depreciation	199	124	61%	187	6%	649	400	62%
EBIT	327	685	-52%	509	-36%	1,961	1,901	3%
<b>EBIT %</b>	<b>5%</b>	<b>9%</b>	<b>-450 Bps</b>	<b>7%</b>	<b>-232 Bps</b>	<b>8%</b>	<b>10%</b>	<b>-198 Bps</b>
Finance Cost	140	92	53%	153	-8%	508	320	59%
Other Income	61	67	-9%	64	-6%	242	250	-3%
PBT	248	661	-63%	420	-41%	1,695	1,831	-7%
<b>PBT %</b>	<b>4%</b>	<b>9%</b>	<b>-535 Bps</b>	<b>6%</b>	<b>-225 Bps</b>	<b>7%</b>	<b>9%</b>	<b>-269 Bps</b>
Tax	87	173	-50%	110	-21%	460	485	-5%
<b>Profit for the period</b>	<b>161</b>	<b>488</b>	<b>-67%</b>	<b>311</b>	<b>-48%</b>	<b>1,235</b>	<b>1,346</b>	<b>-8%</b>
<b>EPS</b>	<b>4.31</b>	<b>12.78</b>	<b>-</b>	<b>8.63</b>	<b>-</b>	<b>34.16</b>	<b>36.65</b>	<b>-</b>

Source: Company, Keynote Capitals Ltd.

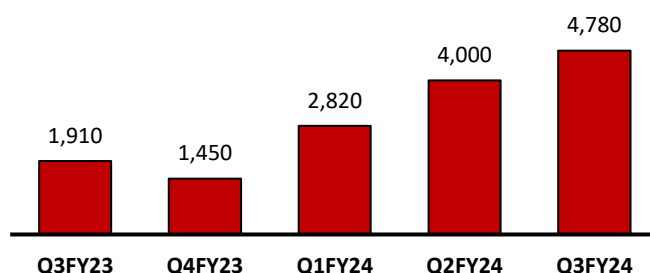
Quarterly business progression



Project Composition



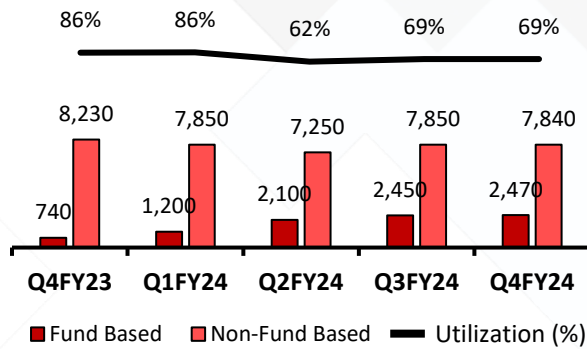
Total Debt (Rs. Mn)



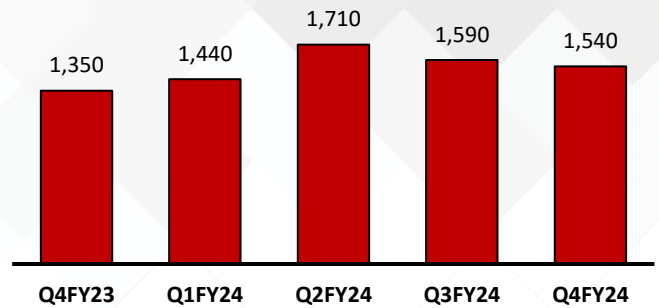
Source: Company, Keynote Capitals Ltd.

## PSP Projects Ltd | Quarterly Update

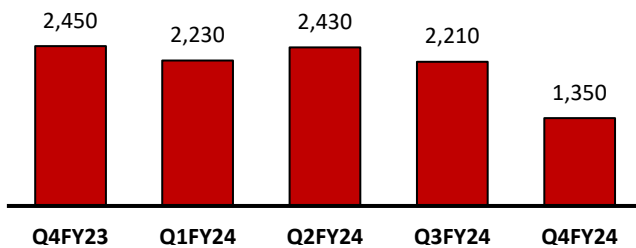
Utilized Limits (%) and its Breakup (Rs. Mn)



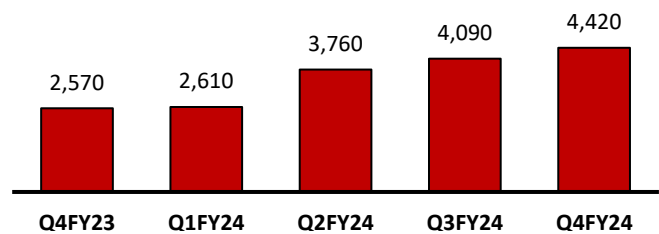
Retention Money (Rs. Mn)



Mobilization Advances (Rs. Mn)



Unbilled Revenue



Source: Company, Keynote Capitals Ltd.

### Major ongoing projects as of Q4 FY24

Project	Name of the Client	Outstanding Contract Value (Rs. Bn)
SMC High Rise Building	Municipal Corporation	~11.1
Dharoi Dam	State Government	6.2
Gati Shakti Vishwavidhyalaya	RVNL	~6.3
Sports Complex	Municipal Corporation	~2.4
Sabarmati River Front Development Phase II	Government	~4.0
Noodle Factory Phase I & II	Industrial	1.2
Corporate Office Building	Institutional	2.2
Fintech Office Building	Government	3.3
National High-Speed Project (Precast)	L&T	2.1
Human and Biological Science Gallery at Science City	Government	~2.7
Residential Project	Private Company	~1.2
Street Beautification Project	Municipal Corporation	~1.6
Commercial Building in Surat	Institutional	~1.4

Source: Company, Keynote Capitals Ltd.

## Q4 FY24 Conference Call Takeaways

- In FY24, PSPPL completed 17 projects and closed the year with a total new order inflow of ~Rs. 35 Bn, surpassing its guidance of Rs. 30 Bn. In FY25, the Company aims to bag new orders worth Rs. 35 Bn with a higher contribution of high-ticket projects.
- Increase in depreciation during FY24 was on account of higher CAPEX during the year. Going forward, the Company anticipates CAPEX to be in the range of 3-4% of its revenue.
- In April 2024, PSPPL successfully raised ~Rs. 2.4 Bn via QIP, resulting in a ~10% equity dilution. This was primarily done to combat the anticipated capital crunch in case the SDB litigation could not have gotten concluded. Now that both parties have reached an out of court settlement, the Company has already utilized ~Rs. 1.9 Bn out of the total QIP receipts to repay debt. This is expected to result in a lower finance cost in FY25.
- The total size of the UP Medical College and Hospital project was ~Rs. 14.8 Bn. Out of this, the Company has recorded revenue worth ~Rs. 14.6 Bn till date. The actual margin impact owing to cost overruns will be known once the project gets completed in June 2024.
- In FY24, PSPPL clocked a negative CFO on account of increase in inventory and other assets, primarily, unbilled revenue and a decrease in mobilization advances compared to FY23.
- The total cash inflow in FY25 is expected to be strong because of the receipt of settlement money from SDB and the recently completed QIP. This is expected to make PSPPL a net cash company again.
- PSPPL continues to maintain its strategic view of not working with developers. This is because of a weak payment behaviour that has usually been observed with developers.
- The Company believes that it has now developed a significant understanding of the pre-cast technology and has enough capacity at its disposal. At peak utilization of the current capacity PSPPL can clock a revenue of Rs. 3.5-4.0 Bn.
- Currently, PSPPL is witnessing a strong inflow of precast segment inquiries both from the residential as well as commercial segment. In line with the same, the Company is bidding for multiple projects and believes that it is now in a strong position to clock strong growth in this business along with earning a 14-15% EBITDA margin.
- There is no plan to adopt an aggressive bidding strategy in response to competitive behaviour. Bidding for new projects is still being done keeping an 11-13% EBITDA in mind. The focus for FY25 is to win new projects worth Rs. 35 Bn.
- Regarding the slow-moving project of Pandharpur and Bhiwandi, currently, the cross examination is going on for the Bhiwandi project and the progress has been slow at Pandharpur. It may take up to six months more to progress from here.
- The bid pipeline currently stands at Rs. 50 Bn spread across 10-12 projects. This includes a large Rs. 20 Bn commercial project based in Delhi.

## Financial Statement Analysis

### Income Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24	FY25E	FY26E
<b>Net Sales</b>	<b>17,481</b>	<b>19,378</b>	<b>25,058</b>	<b>28,817</b>	<b>33,715</b>
Growth %		11%	29%	15%	17%
Raw Material Expenses	13,204	15,014	20,776	22,189	25,961
Employee Expenses	555	731	1,251	1,354	1,517
Other Expenses	1,137	1,333	422	2,017	2,360
<b>EBITDA</b>	<b>2,584</b>	<b>2,301</b>	<b>2,610</b>	<b>3,256</b>	<b>3,877</b>
Growth %		-11%	13%	25%	19%
Margin%	15%	12%	10%	11%	12%
Depreciation	321	400	649	724	808
<b>EBIT</b>	<b>2,264</b>	<b>1,901</b>	<b>1,961</b>	<b>2,532</b>	<b>3,069</b>
Growth %		-16%	3%	29%	21%
Margin%	13%	10%	8%	9%	9%
Interest Paid	265	320	508	317	225
Other Income & exceptional	217	250	242	242	242
<b>PBT</b>	<b>2,216</b>	<b>1,831</b>	<b>1,695</b>	<b>2,457</b>	<b>3,086</b>
Tax	553	485	460	614	772
Others (Minorities, Associates)	4	-27	-5	-5	-2
<b>Net Profit</b>	<b>1,667</b>	<b>1,319</b>	<b>1,230</b>	<b>1,838</b>	<b>2,313</b>
Growth %		-21%	-7%	49%	26%
Shares (Mn)	36.0	36.0	36.0	39.6	39.6
<b>EPS</b>	<b>46.29</b>	<b>36.65</b>	<b>34.17</b>	<b>46.35</b>	<b>58.34</b>

### Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24	FY25E	FY26E
<b>Cash, Cash equivalents &amp; Bank</b>	<b>1,963</b>	<b>2,424</b>	<b>2,271</b>	<b>2,573</b>	<b>1,950</b>
Current Investments	0	0	0	0	0
Debtors	3,110	4,339	3,421	4,899	6,743
Inventory	818	1,531	3,178	3,550	4,154
Short Term Loans & Advances	2,256	4,310	35	35	35
Other Current Assets	63	219	6,391	6,391	6,391
<b>Total Current Assets</b>	<b>8,211</b>	<b>12,822</b>	<b>15,297</b>	<b>17,449</b>	<b>19,273</b>
Net Block & CWIP	2,074	2,573	3,247	3,856	4,507
Long Term Investments	7	7	7	2	0
Other Non-current Assets	2,298	2,123	1,817	1,817	1,817
<b>Total Assets</b>	<b>12,589</b>	<b>17,525</b>	<b>20,367</b>	<b>23,123</b>	<b>25,597</b>
<b>Creditors</b>	<b>2,582</b>	<b>3,683</b>	<b>4,200</b>	<b>4,738</b>	<b>5,579</b>
Provision	2	13	31	31	31
Short Term Borrowings	659	746	4,134	2,254	1,754
Other Current Liabilities	2,404	4,800	2,410	2,410	2,410
<b>Total Current Liabilities</b>	<b>5,647</b>	<b>9,242</b>	<b>10,775</b>	<b>9,433</b>	<b>9,773</b>
Long Term Debt	172	381	417	417	417
Deferred Tax Liabilities	-115	-129	0	0	0
Other Long Term Liabilities	15	21	27	27	27
<b>Total Non Current Liabilities</b>	<b>72</b>	<b>273</b>	<b>444</b>	<b>444</b>	<b>444</b>
Paid-up Capital	360	360	360	396	396
Reserves & Surplus	6,510	7,650	8,789	12,850	14,983
Shareholders' Equity	6,870	8,010	9,149	13,247	15,379
Non Controlling Interest	0	0	0	0	0
<b>Total Equity &amp; Liabilities</b>	<b>12,589</b>	<b>17,525</b>	<b>20,367</b>	<b>23,123</b>	<b>25,597</b>

Source: Company, Keynote Capitals Ltd. estimates

### Cash Flow Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24	FY25E	FY26E
Pre-tax profit	2,216	1,831	1,695	2,457	3,086
Adjustments	240	336	809	800	791
Change in Working Capital	-351	-1,119	5	-1,312	-1,607
Total Tax Paid	-636	-568	-469	-614	-772
<b>Cash flow from operating Activities</b>	<b>1,469</b>	<b>480</b>	<b>2,040</b>	<b>1,330</b>	<b>1,499</b>
Net Capital Expenditure	-753	-788	-1,412	-1,333	-1,459
Change in investments	-1,095	41	915	0	0
Other investing activities	206	239	234	242	242
<b>Cash flow from investing activities</b>	<b>-1,641</b>	<b>-507</b>	<b>-262</b>	<b>-1,091</b>	<b>-1,217</b>
Equity raised / (repaid)	0	0	0	2,440	0
Debt raised / (repaid)	158	453	3,101	-1,880	-500
Dividend (incl. tax)	-144	-180	-90	-180	-180
Other financing activities	-121	-158	-319	-317	-225
<b>Cash flow from financing activities</b>	<b>-107</b>	<b>115</b>	<b>2,692</b>	<b>63</b>	<b>-905</b>
<b>Net Change in cash</b>	<b>-280</b>	<b>88</b>	<b>4,470</b>	<b>301</b>	<b>-623</b>

### Valuation Ratios

Particulars	FY22	FY23	FY24	FY25E	FY26E
<b>Per Share Data</b>					
EPS	46	37	34	46	58
Growth %		-21%	-7%	36%	26%
Book Value Per Share	191	222	254	332	385
<b>Return Ratios</b>					
Return on Assets (%)	15%	9%	6%	8%	9%
Return on Equity (%)	27%	18%	14%	16%	16%
Return on Capital Employed (%)	26%	18%	15%	15%	15%
<b>Turnover Ratios</b>					
Asset Turnover (x)	1.6	1.3	1.3	1.3	1.4
Sales / Gross Block (x)	6.1	5.1	5.1	4.6	4.4
Working Capital / Sales (x)	14%	16%	16%	22%	26%
Receivable Days	56	70	57	53	63
Inventory Days	24	29	41	55	54
Payable Days	72	73	64	72	71
Working Capital Days	8	26	34	36	46
<b>Liquidity Ratios</b>					
Current Ratio (x)	1.5	1.4	1.4	1.8	2.0
Interest Coverage Ratio (x)	9.4	6.7	4.3	8.7	14.7
Total Debt to Equity	0.1	0.2	0.5	0.2	0.1
Net Debt to Equity	-0.1	-0.1	0.2	0.0	0.0
<b>Valuation</b>					
PE (x)	11.6	14.7	18.9	13.9	11.1
Earnings Yield (%)	9%	7%	5%	7%	9%
Price to Sales (x)	1.1	1.0	1.0	0.9	0.8
Price to Book (x)	2.8	3.0	2.8	1.9	1.7
EV/EBITDA (x)	7.1	10.1	9.4	7.6	6.4
EV/Sales (x)	1.1	1.2	1.0	0.9	0.7

## KEYNOTE Rating History

Date	Rating	Market Price at recommendation	Upside/Downside
4 <sup>th</sup> December 2023	BUY	780	+26.7%
12 <sup>th</sup> February 2023	BUY	737	+22.5%
28 <sup>th</sup> May 2024	BUY	640	+23.1%

Source: Company, Keynote Capitals Ltd. estimates

## Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd/Rating & Fair value under Review/Keynote Capitals Ltd has suspended coverage

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