ANANDRATHI

India I Equities

Construction

Company Update

19 May 2023

PSP Projects

Rating: **NR**

Share Price: Rs.703

Strong orders added, gradual execution ramp-up

Strong order accretion is the key from FY23 operations. Though Q4 FY23 revenue fell short of guidance and made it miss FY23 revenue growth guidance, signs of a gradual uptick in the pace of execution are evident. On the rising pace of execution, a healthy order backlog and sturdy prospects pipeline, we see a better scale of operations ahead. The balance sheet too is in shape for a better scale. Resultantly, a bright longer-term outlook persists.

Single year best additions, assurance healthy. With orders of ~Rs14.7bn in Q4 FY23, and healthy orders added earlier in the year, FY23 additions, ~Rs34.2bn, were sturdy. However, the removal of the two long stuck/delayed Maharashtra orders (Bhiwandi, Pandharpur) meant net accretion was restrained, and the year-end OB was largely flat q/q at ~Rs50.5bn (and y/y up only ~Rs7bn). Nevertheless, the assurance, at ~2.6x TTM revenue is healthy, and turns sturdier were one to include orders of ~Rs7.6bn already added in FY24. The appetite for more stays, and the FY24 inflow guidance is pegged at >Rs30bn. For this, its eyes are already set on an immediate prospects pipeline of ~Rs60bn.

Guidance. On the healthy assurance and gradually rising pace of execution, FY24 revenues are targeted at ~Rs26bn (implying ~35% y/y growth). Citing that ~1.25x of orders executed would suffice to keep the assurance intact and growth going, it looks to add >Rs30bn in FY24. The margin guidance was held at 11-13%, but quarterly variation isn't ruled out. On capex, it looks at more ~Rs0.3bn to complete its pre-cast facility expansion (~Rs0.2bn incurred already), and the recurring capex is envisaged at 3-4% of revenue from operations.

Balance sheet, well placed. At end-Q4 FY23, it had utilised ~Rs1.1bn of its working-capital limits; the term loan availed of was ~Rs0.4bn. This ~Rs1.4bn of gross debt compares to ~Rs1.9bn at end-Q3. The lower gross debt even with a greater scale of operation was mostly on more mobilisation advances (received for the new orders).

Valuation. At the CMP, the stock trades at 19x FY23 EPS of Rs37. We do not have a rating for the company. **Risk:** Failure to ramp-up execution.

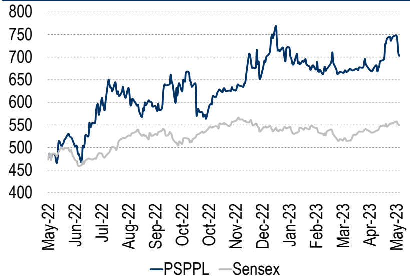
Key financials (YE Mar)	FY19	FY20	FY21	FY22	FY23
Sales (Rs m)	10,440	14,993	12,409	17,488	19,266
Adj. Net profit (Rs m)	902	1,293	835	1,624	1,330
Adj. EPS (Rs)	25.1	35.9	23.2	45.1	36.9
Growth (%)	40.2	43.2	-35.4	94.4	-18.1
P/E (x)	18.3	9.0	20.0	12.0	18.2
EV / EBITDA (x)	9.8	5.4	11.3	7.2	10.3
P/BV (x)	4.5	2.5	3.1	2.8	3.0
RoE (%)	26.8	31.2	16.8	26.6	17.9
RoCE (%)	41.3	41.1	22.2	35.5	24.8
Net debt / equity (x)	-0.5	-0.3	-0.3	-0.1	-0.1

Source: Company

Key data	PSPPL IN / PSPP.BO
52-week high / low	Rs.776 / 459
Sensex / Nifty	61432 / 18130
3-m average volume	$0.8m
Market cap	Rs.25bn / $306.3m
Shares outstanding	36m

Shareholding pattern (%)	Mar'23	Dec'22	Sep'22
Promoters	67.6	67.5	70.5
- of which, Pledged	-	-	-
Free float	32.4	32.5	29.6
- Foreign institutions	2.5	2.3	2.0
- Domestic institutions	4.6	4.2	4.5
- Public	25.4	26.0	23.1

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations (standalone)

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY19	FY20	FY21	FY22	FY23
Order backlog	29,780	30,736	41,210	43,240	50,520
Order inflows	14,150	15,780	22,815	19,399	34,210
Net revenues	**10,440**	**14,993**	**12,409**	**17,488**	**19,266**
Growth (%)	*43.0*	*43.6*	*-17.2*	*40.9*	*10.2*
Direct costs	8,851	12,949	10,911	14,636	16,755
SG&A	99	134	150	286	261
EBITDA	**1,489**	**1,910**	**1,348**	**2,565**	**2,250**
EBITDA margins (%)	*14.3*	*12.7*	*10.9*	*14.7*	*11.7*
Depreciation	242	267	256	321	400
Other income	230	248	169	213	271
Interest expenses	92	146	147	264	320
PBT	1,385	1,744	1,114	2,193	1,801
Effective tax rate (%)	*34.9*	*25.9*	*25.0*	*25.9*	*26.2*
+ Associates / (Minorities)	-	-	-	-	-
Net income	902	1,293	808	1,624	1,330
Adjusted income	902	1,293	835	1,624	1,330
WANS	36	36	36	36	36
FDEPS (Rs / sh)	25.1	35.9	23.2	45.1	36.9

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY19	FY20	FY21	FY22	FY23
Share capital	360	360	360	360	360
Net worth	3,714	4,571	5,380	6,847	7,998
Debt	263	748	810	997	1,450
Minority interest	-	-	-	-	-
DTL / (Assets)	-49	-58	-92	-94	-122
Capital employed	**3,928**	**5,262**	**6,098**	**7,750**	**9,326**
Net tangible assets	1,021	1,065	1,149	2,060	2,384
Net intangible assets	10	14	12	14	12
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	-	-	416	-	177
Investments (strategic)	44	44	8	7	7
Investments (financial)	-	-	-	-	-
Current assets (excl. cash)	3,964	6,444	5,938	8,540	12,439
Cash	2,217	1,967	2,288	1,952	2,421
Current liabilities	3,329	4,273	3,714	4,822	8,114
Working capital	635	2,171	2,224	3,717	4,325
Capital deployed	**3,928**	**5,262**	**6,098**	**7,750**	**9,326**
Contingent liabilities	3,401	4,045	3,674	4,877	-

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY19	FY20	FY21	FY22	FY23
PBT + Net interest expense	1,247	1,643	1,092	2,245	1,850
+ Non-cash items	242	267	256	321	400
Oper. profit before WC chg.	1,489	1,910	1,348	2,565	2,250
- Incr. / (decr.) in WC	626	1,536	53	1,493	608
Others including taxes	483	452	279	569	471
Operating cash-flow	381	-78	1,017	503	1,171
- Capex (tang. + intangibles)	486	314	756	816	900
Free cash-flow	-105	-392	261	-313	271
Acquisitions	-	-	-	-	-
- Dividend (incl. buyback & taxes)	217	434	-	144	180
+ Equity raised	-	-	-	-	-
+ Debt raised	16	477	27	185	425
- Fin. investments	-151	-0	-36	-1	-
-Net interest expense + Misc.	(140)	(100)	4	64	48
Net cash-flow	-15	-250	320	-336	469

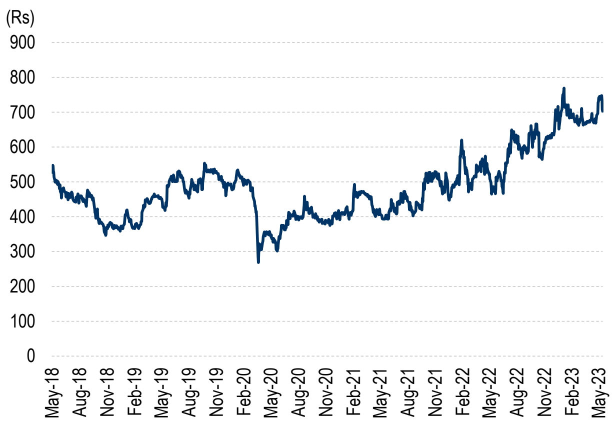
Source: Company

Fig 4 – Ratio analysis

Year-end: Mar	FY19	FY20	FY21	FY22	FY23
P/E (x)	18.3	9.0	20.0	12.0	18.2
EV / EBITDA (x)	9.8	5.4	11.3	7.2	10.3
EV / Sales (x)	1.4	0.7	1.2	1.1	1.2
P/B (x)	4.5	2.5	3.1	2.8	3.0
RoE (%)	26.8	31.2	16.8	26.6	17.9
RoCE (%)	41.3	41.1	22.2	35.5	24.8
Sales / FA (x)	10.1	13.9	7.9	8.4	7.5
DPS (Rs / sh)	5.0	10.0	-	4.0	5.0
Dividend yield (%)	1.1	3.1	-	0.7	0.7
Dividend payout (%) - incl. DDT	24.0	33.6	-	8.9	13.5
Net debt / equity (x)	-0.5	-0.3	-0.3	-0.1	-0.1
Receivables (days)	50	55	65	65	82
Inventory (days)	26	24	26	17	29
Payables (days)	55	53	75	54	70
CFO : PAT %	42.2	-6.1	121.7	31.0	88.0

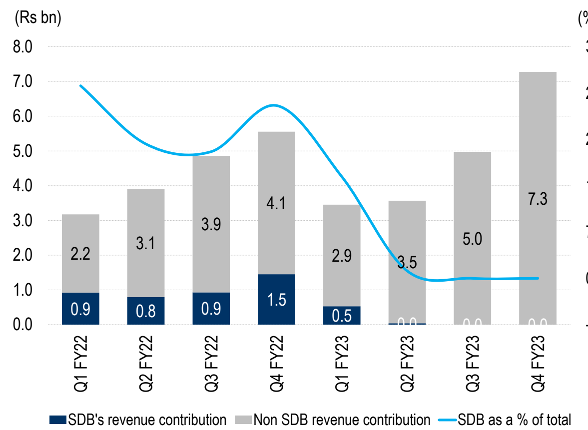
Source: Company

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Quarterly revenue trend



Source: Company

Result / concall highlights

Income statement

- **Gradually rising pace of execution.** PSP's Q4 FY23 revenue from operations increasing ~31% y/y, ~46% q/q, implies that the pace of execution at the appointed orders is rising. However, Q4 FY23 was still a miss as the early stage of construction at some of its recent orders and delayed work fronts for a couple of UP healthcare orders (earlier in the year) meant Q4 revenue (and FY23's resultantly) missed the guidance. With most sites mobilised and initial stages crossed, management sees this to change, expecting significantly better contribution ahead from the newer orders.
  - Like the last two quarters, the Uttar Pradesh healthcare order (medical and hospitals at seven locations) was the single largest contributor (~Rs3bn, up from ~Rs1.65bn in Q3 and ~Rs0.75bn in Q2). The ~Rs13.4bn Surat Municipal Corporation office followed with ~Rs0.7bn in its very first quarter.
  - Q4 FY23 was a miss as reported revenue was well short of the targeted ~Rs9bn. With this, the company missed its ~Rs21bn FY23 revenue guidance (and ~20% growth guidance). Management intends to cover this in FY24 and held to its ~Rs26bn FY24 revenue guidance. This would imply strong, ~35%, revenue growth in FY24.

Fig 7 – Financial highlights – Uttar Pradesh Healthcare orders, the key contributor

(Rs m)	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	% Y/Y	% Q/Q
Sales	3,174	3,904	4,856	5,553	3,452	3,566	4,974	7,274	31.0	46.2
EBITDA	394	547	741	881	471	386	616	777	(11.9)	26.0
EBITDA margins (%)	*12.4*	*14.0*	*15.3*	*15.9*	*13.6*	*10.8*	*12.4*	*10.7*	*-520bps*	*-172bps*
Finance costs	34	38	98	95	56	70	101	92	(2.9)	(9.3)
Depreciation	54	70	94	102	87	91	98	124	21.1	25.7
Other income	38	46	76	54	56	83	65	67	23.0	2.8
PBT	344	485	625	739	384	308	482	628	(15.1)	30.3
Tax	93	120	156	201	99	79	129	164	(18.0)	27.9
PAT	251	366	469	538	285	229	353	463	(13.9)	31.2
EPS (Rs)	7.0	10.2	13.0	14.9	7.9	6.4	9.8	12.9	(13.9)	31.2

Source: Company

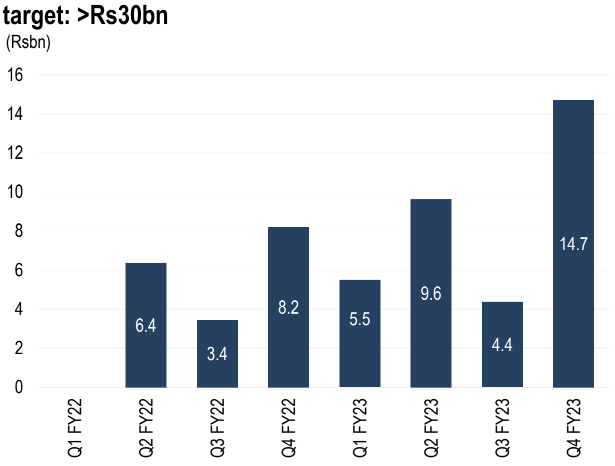
- **Soft operating profitability.** The early stage of the key contributing orders and the nature of the activity were identified as the reasons for the ~650bps y/y, ~193bps q/q, compressed gross margin. The miss in revenue, too, was responsible for the softer margin, as the scale couldn't do justice to site establishment expenses for the newer orders. These hold the key to a ~520bp y/y, 172bp q/q, contracted EBITDA margin (to ~10.7%). Were it not for the operating leverage, the EBITDA margin compression could have been sharper.
  - The Q4 FY23 margin slipped a fraction against the 11-13% margin guidance. However, stronger margins in earlier quarters meant the FY23 ~11.7% EBITDA margin was within the guided-to range.
  - Management expects the margin to recover from the Q4 low (as the nature of work changes), and retained its 11-13% secular margin guidance.

- **Earnings, track operations.** Largely tracking movement in absolute operating profitability, net income was down ~14% y/y, but q/q rose ~31%, to ~Rs0.46bn. Restrained finance costs (of ~Rs92m, down ~3% y/y, ~9% q/q) and the lower effective tax rate (~26.2%, down from ~27.2% a year ago, ~26.7% the quarter prior) were of help.
  - Further capex required for newer orders led to more depreciation costs.
  - Finance costs was down on lower utilisation of fund-based limits (on more mobilisation receipts).

Order backlog / inflows / scope

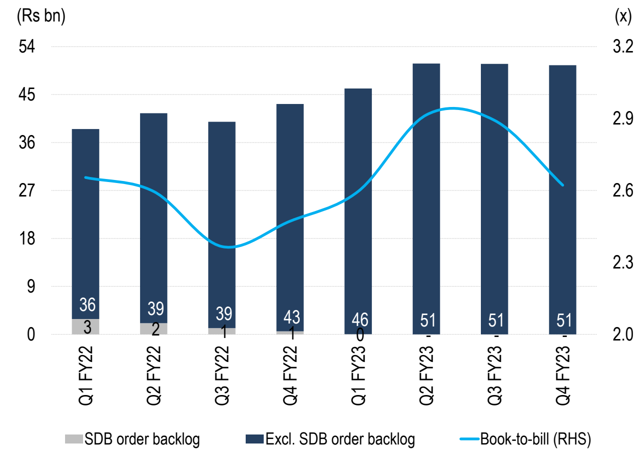
- The softer-than-envisaged pace of execution did not deter management from adding more to augment the assurance. With fresh orders of ~Rs14.7bn in Q4 FY23, the full year additions scaled to a new single year best of ~Rs34.2bn. With ~Rs7.6bn more added post-Q4, the momentum continues.
  - The Q4 additions were largely driven by ~Rs13.4bn of a single order from the Surat Municipal Corporation, to construct a state-of-the-art high-rise office building.
- While Q4 FY23 additions were considerably ahead of the quarter's revenue, management, as a matter of prudence, removed long stuck and slow-moving Maharashtra orders (Bhiwandi and Pandharpur) from its order backlog. Consequently, the Q4 net addition was ~Rs7bn. This was slightly short of orders executed; resultantly, the end-FY23 OB was a marginal drop of ~Rs0.2bn q/q to ~Rs50.5bn
  - With a minor q/q dip in the OB, and higher TTM revenues q/q, the book-to-bill compressed to ~2.6x.
  - Including the post-Q4 orders, the OB rises to ~Rs58.1bn, and the assurance turns sturdier (~3x TTM revenues).

Fig 8 – Q4 inflows: ~Rs14.7bn*; FY23: ~Rs34.2bn*; FY24 target: >Rs30bn



Source: Company * *Not adjusted the Q4 removal of two Maharashtra orders*

Fig 9 – End-FY23 OB: ~Rs51bn; Incl. post-Q4, ~Rs58bn, and assurance of ~3x

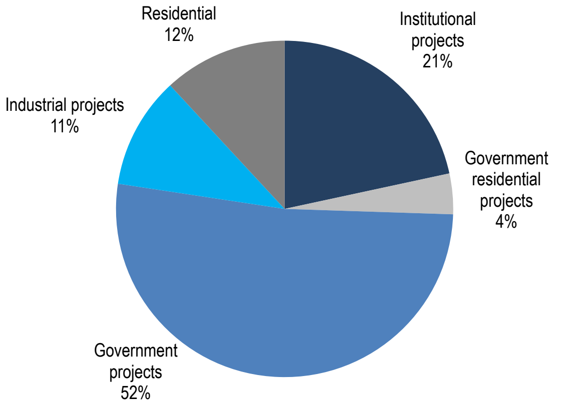


Source: Company *Note: The chart denotes quarter-end or year-end figures*

  - Both its public-sector housing projects in Maharashtra were faced with execution challenges and, thus, were not moving or moving slow. The Bhiwandi project was stuck for a delayed work-front (and, consequently, turning unviable against the quoted price); progress at the Pandharpur order suffered from delayed payments.

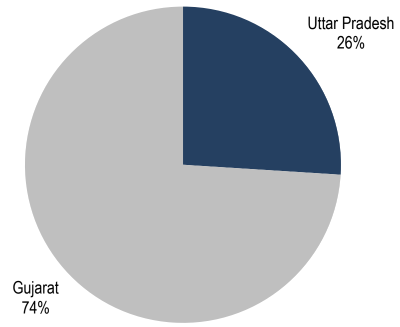
An arbitration panel has been put in place to settle the Bhiwandi order (~Rs95m written off), and management is not keen to commit further monies (~Rs0.16bn due) to fund the Pandharpur project execution.

Fig 10 – Government OB, ~56% of the total



Source: Company Note: Break-up of the end-FY23 OB of ~Rs50.5bn

Fig 11 – Gujarat dominant, followed by Uttar Pradesh



Source: Company Note: Break-up of the end-FY23 OB of ~Rs50.5bn

- Buoyed by strong orders added in FY23, the continuing healthy momentum in FY24 and enhanced bid capacity (on the completion of the Surat Diamond Bourse), the company looks to add orders of >Rs30bn in FY24. It has already secured orders of ~Rs7.6bn and hopes to find success with a large prospects pipeline.
  - For this, it has its eyes on an immediate prospects pipeline of ~Rs60bn.
  - These are ~Rs25bn for a gems & jewellery park in Mumbai, ~Rs12bn for the Central Vista project, ~Rs4.5bn for a private residential project in Gujarat, ~Rs4bn for an IT park in Chennai, ~Rs4bn for a government office in Orissa, ~Rs4bn for a private club in Chennai, ~Rs3bn from commercial development in Ahmedabad, ~Rs3bn for the Dharoi Dam development (Pkg -2), and a ~Rs1bn residential project in GIFT city.
  - The prospects pipeline is aptly diversified, with Gujarat accounting for ~33%; the balance is from regions other than Gujarat. Besides, private orders make up ~67% of the total; public orders, the balance.

Balance sheet

- At end-Q4 FY23, the company had utilised ~Rs1.1bn of its working-capital limits; the term loan availed of was ~Rs0.4bn. This ~Rs1.4bn of gross debt compares to ~Rs1.9bn at end-Q3.
  - The q/q lower gross debt even with the greater scale of operation was mostly due to more mobilisation advances (received towards new orders).
- At 31st Mar'23, the company had access to fixed deposits of ~Rs3.3bn (up from ~Rs3.16bn at end-Q3). These comprised ~Rs0.8bn of unencumbered FDs (q/q up from ~Rs0.6bn), ~Rs2.6bn of FDs with liens or given to clients as security deposits (against ~Rs2.6bn at end-Q3).
- Management pegs the Q4 FY23 cash-conversion cycle at 41 days, the same as at end-Q3 FY23. However, internals have had some movement. Debtor days rose by three q/q (to 82) and the inventory cycle stretched

by seven days (to 29). The rise though was made good by the 10-day lengthened trade payables cycle (to 70 days).

  - Management highlights that, subsequent to the quarter, it has pruned its receivables by ~Rs1bn (from ~Rs4.3bn at end-Q4). This is likely to have shortened the cash-conversion cycle.

- Unbilled revenue and mobilisation advances rose q/q on the greater scale of operations; but retention receivables were largely flat q/q.

  - Retention receivables were pegged at ~Rs1.35bn (against ~Rs1.34bn at end-Q3), unbilled revenues were ~Rs2.6bn (~Rs0.97bn higher q/q), and mobilisation advances were ~Rs2.45bn (from ~Rs1.69bn the quarter prior).

  - The drawdown of mobilisation advances from the recent strong orders added is responsible for the sharp q/q rise. The q/q rise in unbilled revenue could be attributed to the sharply improved pace of execution during Q4 but bills have yet to be raised for some of the work carried out.

- At end-Q4, fund-based and non-fund-based limits were pegged at ~Rs10.47bn. Of the total limits, the company had utilised ~Rs0.74bn of the fund-based limit at end-Q4 (down from ~Rs1.4bn the quarter prior) while non-fund-based utilisation was ~Rs8.23bn (up from ~Rs7.18bn at end-Q3). With this, it had unutilised limits of ~Rs1.5bn at end-Q3, and efforts are already underway to raise the limits.

  - The request for higher limits has already been raised with the consortium of lenders, and the assessment note has been received.

  - Furthermore, the lead bank has approved an additional limit of ~Rs4.5bn, and management looks to have the raised limits in place in a month or two.

  - Unutilised limits and any increase would augur well for the targeted order additions and scale-up.

- During the year, the company incurred ~Rs0.72bn capex, which includes ~Rs0.18bn spent to expand the pre-cast facility (to take care of rising orders from infrastructure). Management looks to spend another ~Rs0.3bn to complete the pre-cast expansion; the other capex needs are envisaged at 3-4% of the revenue from operations in FY24.

Guidance

- Management is targeting overall order additions of >Rs30bn in FY24 (against orders of ~Rs34.2bn secured in FY23). This is based on its intent to add 1.25x targeted revenue in FY24. This, it believes, would help keep assurance healthy, and growth going.

  - The start to the year has been encouraging with ~Rs7.6bn added already. For the rest, it is banking on a strong, ~Rs60bn, prospects pipeline.

  - The government's intent to increase the number of IITs, AIIMS, and medical colleges, and rising private capex keep HIL sanguine of healthy prospects ahead. To add more orders, it is open to consider newer regions provided the nature of work and order sizes justify the investments (bandwidth and capital) it would need to make.

- Management acknowledged its inability to deliver on FY23 revenue growth guidance (of ~20%, to ~Rs21bn), but it looks to make good for the ~10% miss in FY24. Consequently, it guides to ~35% y/y higher revenue (~Rs26bn) in FY24. The guidance is unchanged.
  - It expects the Uttar Pradesh healthcare orders to contribute better in FY24 and looks to most of the balance potential (~Rs7bn at end-FY23) barring some portion from one of the two packages with a delayed work-front.
  - Management hopes to finish the first five packages by Oct'23, and one of the two delayed orders (Sultanpur) by Dec'23 and the seventh package by Apr'24.
  - Pre-cast revenues are envisaged to rise from ~Rs0.8bn in FY23 to Rs2bn-2.5bn in FY24.
- On EBITDA margins, it retained its 11-13% guidance for FY24.
- It incurred ~Rs0.72bn capex in FY23 (incl. ~Rs0.18bn on the expansion of the pre-cast facility), and FY24 capex (excl. ~Rs0.3bn for pre-cast) is envisaged at 3-4% of the revenue from operations.
- Though it aims at a significant jump in scale of operations, it expects the net working capital to normalise to 30-35 days (against 41 days at end-FY23) with a decline in receivables backed by better receipts.

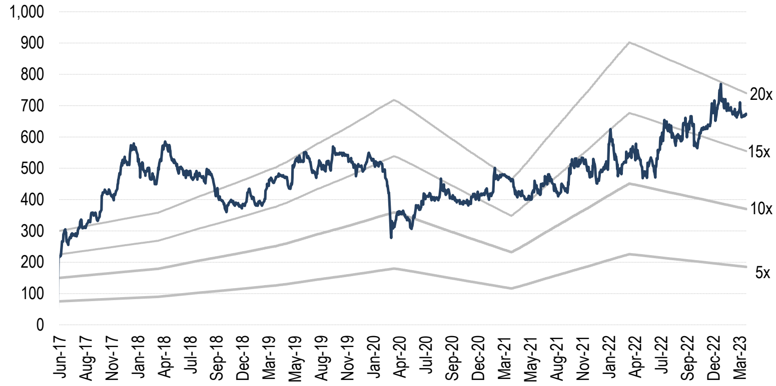
Other highlights

- **The pre-cast expansion.** Sensing more opportunities (infrastructure-led) and the gradually rising acceptability, the expansion at its pre-cast facility is already underway. During the year, the company incurred ~Rs0.18bn capex, and looks to spend another ~Rs0.3bn to take the capex for the additional capacity to ~Rs0.45bn.
  - Management highlights that the pre-cast facility was mainly created to manufacture major elements of building, industrials and warehousing industries like beams, columns, slabs, load-bearing walls, partition walls, staircases, and lift cores.
  - However, enquiries have started gathering pace for infrastructure projects mainly for required data ducts, electrical ducts, drainage systems (on roads). To address such demands, the company has already started working on expanding the pre-cast facility.
  - Pre-cast orders from L&T of ~Rs1.95bn are likely to be executed from this coming facility, for which required moulds are imported. Currently, this order has been pushed forwarded ~30-45 days due to some delay in delivery of moulds. However, management expects to fulfil the order in time by putting in extra hours.
  - By catering to the existing orders with the help of its existing and coming facilities, management expects revenue from the pre-cast facility to rise to ~Rs2bn-2.5bn in FY24 (from ~Rs0.8bn in FY23).

Valuation

At the ruling price, the stock trades at 19x FY23 EPS of Rs37. We do not have a rating on the company. Its well-managed balance sheet, proven execution abilities and healthy return ratios augur well. The recent soft growth, we believe, is temporary, and we see PSP to return to optimal growth sooner than later as the recent orders seem set to contribute better ahead. The healthy prospects pipeline suggests that growth beyond, too, is unlikely to be a challenge.

Fig 12 – PE band



Source: Bloomberg, Anand Rathi Research

Risks

- Failure to ramp-up the pace of execution.
- Failure to maintain prudence.

Appendix

Analyst Certification

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Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US$1bn) and Mid/Small Caps (<US$1bn) as described in the Ratings Table below:

Ratings Guide (12 months)

	Buy	Hold	Sell
Large Caps (Top 100 companies)	>15%	0-15%	<0%
Mid Caps (101st-250th company)	>20%	0-20%	<0%
Small Caps (251st company onwards)	>25%	0-25%	<0%

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