

# PSP Projects

BUY

CMP Rs409

Target Rs528

Upside 29.1%

## Execution momentum to continue

### Q3 FY21 Conference Call Highlights

- ✓ The labor availability is back to normal levels which supported execution during the quarter. All projects are under execution except for Bhiwandi project and Sabha Hall project. The company will receive the clearances on both projects by February end. The Bhiwandi projects is expected to start from March.
- ✓ Surat Diamond project - The revenue per month run-rate slowed during the quarter (Rs.400 mn per month average) versus the run-rate of Rs.600-700 mn as guided in Q2. This was primarily due to delay in arrival of raw material as steel prices saw a sharp price hike.
- ✓ Going forward the Management expects to close the year with a total standalone topline of Rs.12-13 bn during FY21. EBITDA margins are likely to be at ~13% in coming quarters.
- ✓ The margins for the quarter stood at 12% which could have been higher by ~1% on account of impairment cost (Rs.28 mn), CSR (Rs.20 mn) and some other expenses
- ✓ The other expenses during the quarter includes Rs.20 mn towards CSR activities (to comply with new notification on CSR).
- ✓ Work on Hand as on Q3 FY21 stood at Rs.25.2 bn of which Rs.3.7 bn is towards Surat Diamond Bourse (SDB) and balance Rs.21.49 bn for other projects.
- ✓ The company lost 2 projects worth ~Rs.7 bn which did not materialize due to aggressive bidding from the large players like Shapoorji (Central Vista) and L&T (Parliament). The company may not bid aggressively as it will compromise the margins and the company has sufficient projects in hand for the next few quarters.
- ✓ The current Order book stands at Rs.25.2 bn. The bid pipeline remains strong with projects worth Rs.40-50 bn under tendering (Residential project In Ahmedabad - Rs.5 bn, Township in Gujarat by MNC - Rs.20 bn, Hospitals in UP - Rs.14 bn, 1 mall in Ahmedabad - Rs.2 bn, Stadium in Baroda - Rs.2 bn, Corporate house of Pharma -Rs.1bn and one IT project in Hyderabad - Rs.1bn).
- ✓ The company is eyeing positive momentum in residential sector in Ahmedabad and Gujarat
- ✓ The slowdown in execution in some projects were due to external factors. The Bhiwandi project slowed due to approval issues and change in DCPR, Dahej project (Torrent pharma housing) slowed as they had to follow the COVID-19 guidelines strictly and Pandharpur project slowed due to some political issues. All projects will gather pace soon.
- ✓ Construction of Precast facility is progressing well and the Company is already discussing with certain prospective customers. The margins are likely to be at ~13% levels in those projects.

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- ✓ The steel and cement prices have shot up by ~35-40% during the quarter. The company was able to pass the cost in private projects while it was not able to pass 100% in the 2 ongoing government projects namely Varanasi and Pandharpur. The company had some old stock which benefited to some extent. Overall minimal impact of the sharp price hikes. The government projects have been affected by cement and steel price hikes and expects the government to take corrective actions soon. The January prices have remained stable in comparison to December prices. The private players who wanted to start the project immediately may postpone by 1-2 months.
- ✓ Company reported exceptional item related to impairment of Investment in PSP projects and Proactive Constructions Pvt Ltd to the tune of Rs.27.4 mn. This was a JV where the company owned 74%. The balance 26% was acquired during the quarter. No new projects to come.
- ✓ The debtors days stood at 62 days, creditor days at 63 days and inventory days at 21 days. There has been a delayed payment from one of the customers by 2.5 months. The total receivables for the quarter stood at Rs.2.23bn.
- ✓ The Company will incur Capex of Rs.400-500 mn in coming 4-5 months which would be majorly towards precast facility set up. Overall capex for FY21 for precast was set at Rs.750 mn and Rs.350 mn spent till date.
- ✓ Other Details: (1) Unbilled revenues as of December end stood at Rs.980 mn. (2) Gross Debt as of December end stood at Rs.1 bn. (3) Retention money and Mobilization Advance stood at Rs.1bn-1.15bn range. (4) The company completed 6 orders during the quarter and 10 in FY21. (5) The interest rate for the quarter declined to 7.25% vs 8.3% earlier. (6) Company has FD of Rs.1.95bn. (7) The investment in US subsidiary stood at Rs.250 mn. No further investments required from PSP except Rs.40-50 mn as fees and approval. Land has been acquired and projects are under approval.

## Our view

While the execution has picked up well on expected lines, order inflows have been below par. However the bid pipeline is strong and orders are expected to flow through in coming months. Going forward, the execution momentum is expected to continue with SDB execution moving up and new projects like Bhiwandi and Sabha Hall start their contribution to revenues. Operating margin is expected to remain healthy at ~13% levels. We roll forward our estimates to FY23 and maintain our BUY rating on the stock for target price of Rs.528.

## PSP Projects Q3 FY21 results Summary:

- ✓ PSP Projects reported topline de-growth of 8% yoy (to Rs.3.90 bn) on standalone basis which was largely in line with our estimate of Rs.3.98 bn. The execution improved drastically over Q2 with better labor availability and impact of monsoon largely behind.
- ✓ Operating margin stood at 12.0% during Q3 FY21 (10.1% in Q2 FY21). The margins were in line with our estimates and improved over qoq basis with execution picking up. During the quarter, the Company reported exceptional item related to impairment of Investment in PSP projects and Proactive Constructions Pvt Ltd to the tune of Rs.27.4 mn.
- ✓ Adjusted PAT declined 17% yoy to Rs.307 mn (Our estimate Rs 268 mn).

## Exhibit 1: Result table (Standalone)

Y/e 31 Mar (Rs m)	Q3 FY21	Q3 FY20	yoy (%)	Q2 FY21	qoq (%)
Revenue	3,902	4,231	(7.8)	2,431	60.5
Operating Profit	469	541	(13.3)	245	91.4
OPM(%)	12.0	12.8	(77 bps)	10.1	194 bps
Other Income	38	58	(34.2)	45	(15.8)
Depreciation	(64)	(70)	(7.8)	(63)	2.7
Interest	(30)	(40)	(25.6)	(42)	(28.8)
Exceptional item	(27)	-	NA	-	NA
PBT	385	489	(21.2)	185	108.0
Tax	(106)	(121)	(12.1)	(41)	156.9
Reported PAT	279	368	(24.2)	144	94.0
Adjusted PAT	307	368	(17)	144	113

## Exhibit 2: Financial Summary (Standalone)

Y/e 31 Mar (Rs m)	FY20	FY21E	FY22E	FY23E
Revenues	14,993	12,545	16,476	19,379
yoy growth (%)	43.6	(16.3)	31.3	17.6
Operating profit	1,910	1,237	2,152	2,568
OPM (%)	12.7	9.9	13.1	13.3
Adjusted PAT	1,293	668	1,236	1,463
yoy growth (%)	43.2	(48.3)	85.2	18.3
EPS (Rs)	35.9	18.5	34.3	40.6
P/E (x)	11.4	22.0	11.9	10.1
EV/EBITDA (x)	7.1	10.6	6.4	5.0
Debt/Equity (x)	0.2	0.4	0.4	0.4
RoE (%)	31.2	13.9	22.2	21.8

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