

PSP Projects

Signs SPA with Adani Group

PSP Projects Limited (PSP) has entered into a SPA with Adani Infra (India) Limited wherein the promoter of PSP Mr. Prahaladbhai S. Patel, will be selling 30.07% equity share capital of PSP, triggering an open offer for public shareholders. As informed by the management, the shareholding of the promoters PSP and Adani will continue to remain the same for the next 5 years, post the closure of transaction, and the management will be continued to be led by Mr. Patel. The acquisition by Adani group and the partnership between the promoter groups is expected to complement each other's capabilities, with PSP lending its expertise in the buildings construction segment and Adani group providing it with group orders in the building segment only. We believe PSP is well-poised to benefit from this partnership with captive related-party near-term order pipeline of INR 35bn (PSP expects these to be on cost + basis with 10-11% EBITDA margins in line with current guidance). Adani benefits from captive execution capabilities and timely project completion from this strategic investment. We await further clarity (post completion of transaction) on how orders will be split between ITD and PSP and strategic direction for both these companies. To this effect, we continue with our ADD rating and TP at INR 665/sh (13x 1-year forward EPS).

- **Mr. Prahaladbhai S. Patel divests partial stake to Adani Group:** With Adani group acquiring 30.07% stake from the promoters (Ex-Open offer), management will be able to bring in strategic partner on the board of PSP. Existing promoters will continue to hold the balance shareholding in PSP for next 5 years ensuring partnership between the two promoter groups. The management will be continued to be led by Mr. Patel, with Adani Group contributing its expertise in the sector as well order inflows to the company.
- **Acquisition highlights strategic intent:** The partnership is expected to compliment both the parties considering PSP's experience in the buildings construction segment, which can extensively contribute to Adani group's real estate construction projects, airport EPC projects, data center buildings and Dharavi redevelopment timely execution. PSP over the last 3 years has faced challenges on SDB and UP medical projects with time and cost overruns leading to stuck receivables and weak profitability. Further, raw material volatility and labour shortages has impacted margins. PSP finds Adani Group a strategic partner as it looks forward to cutting these costs through technological development like precast facility and reducing labour reliance. PSP will also look forward to realign groups HR and talent pool to manage projects better.
- **New opportunities complementing existing OB:** PSP has an existing OB of as of Sep'24 at INR 65.5bn (~2.7x FY24 revenue); further its expansion of the pre-cast facility will increase its capability to meet demand from civil and infrastructure projects. PSP highlighted a near-term bid pipeline of INR 70bn, while having bandwidth to reach OI worth INR 40bn for FY25. PSP expects its order book to increase over the medium term as it is evaluating INR 35bn of Adani group projects, which is currently less than INR 5bn in order book. The EBITDA margins are expected to be at 10-11% levels even with new projects from Adani Group.

Financial Summary (INR mn)

Particulars	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	14,993	12,409	17,488	19,266	24,625	26,472	31,369	37,329
EBITDA	1,910	1,348	2,565	2,250	2,616	2,685	3,674	4,284
APAT	1,293	835	1,624	1,330	1,239	1,243	1,925	2,337
Diluted EPS (INR)	32.6	21.1	41.0	33.6	31.3	31.4	48.6	59.0
P/E (x)	20.6	31.9	16.4	20.0	21.5	21.4	13.8	11.4
EV / EBITDA (x)	14.2	19.9	10.7	12.1	11.5	10.0	7.3	6.3
RoE (%)	31.2	16.8	26.6	17.9	14.5	11.4	14.4	15.5

Source: Company, HSIE Research

ADD

CMP (as on 19 Nov 2024)	INR 672
Target Price	INR 665
NIFTY	23,519

KEY CHANGES	OLD	NEW	
Rating	ADD	ADD	
Price Target	INR 665	INR 665	
EPS Change %	FY25E	FY26E	FY27E
	-	-	-

KEY STOCK DATA

Bloomberg code	PSPPL IN
No. of Shares (mn)	40
MCap (INR bn) / (\$ mn)	27/315
6m avg traded value (INR mn)	79
52 Week high / low	INR 810/565

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(1.0)	(1.9)	(13.7)
Relative (%)	2.5	(6.9)	(31.6)

SHAREHOLDING PATTERN (%)

	Jun-24	Sep-24
Promoters	60.14	60.14
FIs & Local MFs	10.45	10.94
FPIs	7.02	8.85
Public & Others	22.39	20.35
Pledged Shares	-	-

Source: BSE

Pledged shares as % of total shares

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Detailed Financial Statement: Income Statement (INR mn)

Year ending March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net Revenues	14,993	12,409	17,488	19,266	24,625	26,472	31,369	37,329
<i>Growth (%)</i>	43.6	(17.2)	40.9	10.2	27.8	7.5	18.5	19.0
Material Expenses	12,355	10,402	13,913	15,820	20,332	22,037	25,908	31,328
Employee Expenses	594	509	723	935	1,251	1,327	1,380	1,307
Other Operating Expenses	134	150	286	261	426	424	408	411
EBITDA	1,910	1,348	2,565	2,250	2,616	2,685	3,674	4,284
<i>EBITDA Margin (%)</i>	12.7	10.9	14.7	11.7	10.6	10.1	11.7	11.5
<i>EBITDA Growth (%)</i>	28.2	(29.4)	90.3	(12.3)	16.3	2.6	36.8	16.6
Depreciation	267	256	321	400	649	704	760	821
EBIT	1,643	1,092	2,245	1,850	1,968	1,982	2,914	3,463
Other Income (Including EO Items)	248	142	213	271	243	251	259	266
Interest	146	147	264	320	508	571	600	606
PBT	1,744	1,087	2,193	1,801	1,702	1,661	2,573	3,124
Tax (Incl Deferred)	452	279	569	471	463	418	648	786
RPAT	1,293	808	1,624	1,330	1,239	1,243	1,925	2,337
EO Items (incl. MAT savings)	-	27	-	-	-	-	-	-
APAT	1,293	835	1,624	1,330	1,239	1,243	1,925	2,337
<i>APAT Growth (%)</i>	43.2	(35.4)	94.4	(18.1)	(6.9)	0.3	54.8	21.4
Adjusted EPS (Rs)	32.6	21.1	41.0	33.6	31.3	31.4	48.6	59.0
<i>EPS Growth (%)</i>	43.2	(35.4)	94.4	(18.1)	(6.9)	0.3	54.8	21.4

Source: Company, HSIE Research

Balance Sheet (INR mn)

As at March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
SOURCES OF FUNDS								
Share Capital	360	360	360	360	360	396	396	396
Reserves	4,211	5,020	6,487	7,638	8,786	12,182	13,761	15,677
Total Shareholders' Funds	4,571	5,380	6,847	7,998	9,146	12,578	14,157	16,074
Long Term Debt	40	28	172	381	417	172	172	172
Short Term Debt	886	782	825	1,069	4,134	2,559	2,559	2,559
Total Debt	926	810	997	1,450	4,551	2,731	2,731	2,731
Net Deferred Taxes	(58)	(92)	(94)	(122)	(183)	(94)	(94)	(94)
Long Term Provisions & Others	-	8	15	21	27	-	-	-
TOTAL SOURCES OF FUNDS	5,440	6,106	7,765	9,348	13,541	15,216	16,794	18,711
APPLICATION OF FUNDS								
Net Block	1,079	1,162	2,074	2,396	3,215	3,330	3,570	3,749
CWIP	-	416	-	177	29	-	-	-
Investments	930	1,322	2,305	2,130	1,630	2,173	2,575	3,064
Total Non-current Assets	2,008	2,901	4,379	4,703	4,874	5,503	6,145	6,814
Inventories	968	892	806	1,516	3,160	3,409	4,039	4,807
Unbilled Revenue	1,250	772	992	-	-	992	992	992
Retention	670	265	330	-	-	1,204	1,427	1,698
Debtors	2,240	2,220	3,118	4,342	3,351	4,714	5,586	6,648
Cash & Equivalents	468	638	203	938	1,111	2,431	2,431	2,431
Cash Margin/FDR	1,499	1,649	1,749	1,482	1,140	513	308	53
Other Current Assets	430	474	995	4,458	6,401	4,879	5,013	5,176
Total Current Assets	7,526	6,911	8,194	12,737	15,164	18,142	19,797	21,806
Creditors	2,163	2,566	2,576	3,676	4,158	6,817	7,735	8,693
Less: Acceptances	-	178	-	-	-	-	-	-
Advances from customers	1,791	724	1,676	-	-	1,076	876	676
Other Current Liabilities & Provns	319	416	555	4,417	2,323	558	559	561
Total Current Liabilities	4,095	3,706	4,807	8,093	6,482	8,451	9,170	9,930
Net Current Assets	3,431	3,205	3,387	4,644	8,682	9,691	10,628	11,876
Misc Expenses & Others	-	0	-	-	-15	21	21	21
TOTAL APPLICATION OF FUNDS	5,440	6,106	7,765	9,348	13,541	15,216	16,794	18,711

Source: Company, HSIE Research

Cash Flow (INR mn)

Year ending March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Reported PBT	1,744	1,087	2,193	1,801	1,702	1,661	2,573	3,124
Non-operating & EO items	(217)	(113)	(144)	(243)	(159)	(251)	(259)	(266)
Interest expenses	68	82	91	158	319	571	600	606
Depreciation	267	256	321	400	649	704	760	821
Working Capital Change	(1,116)	(362)	(620)	(1,118)	(4,309)	(3,187)	(1,006)	(1,339)
Tax Paid	(556)	(243)	(636)	(568)	(469)	(418)	(648)	(786)
OPERATING CASH FLOW (a)	190	708	1,205	431	(2,267)	(920)	2,020	2,158
Capex	(331)	(792)	(753)	(788)	(1,411)	(2,000)	(1,000)	(1,000)
Free cash flow (FCF)	(140)	(83)	452	(357)	(3,679)	(2,920)	1,020	1,158
Investments + Investments Income	218	846	(652)	304	1,159	49	(278)	(387)
INVESTING CASH FLOW (b)	(112)	54	(1,405)	(484)	(252)	(1,951)	(1,278)	(1,387)
Share capital Issuance	-	-	-	-	-	2,379	0	-
Debt Issuance/(Repaid)/	486	61	187	453	3,101	1,800	-	-
Interest Expenses	(68)	(82)	(120)	(158)	(319)	(571)	(600)	(606)
Dividend	(434)	-	(144)	(180)	(90)	(224)	(347)	(421)
FINANCING CASH FLOW (c)	(16)	(21)	(77)	115	2,692	3,384	(946)	(1,027)
NET CASH FLOW (a+b+c)	62	741	(278)	63	173	513	(204)	(255)
Balance not included in C&CE	(313)	(421)	(58)	407	(343)	180	-	-
Closing Cash & Equivalents	1,967	2,288	1,952	2,421	2,251	2,944	2,739	2,484

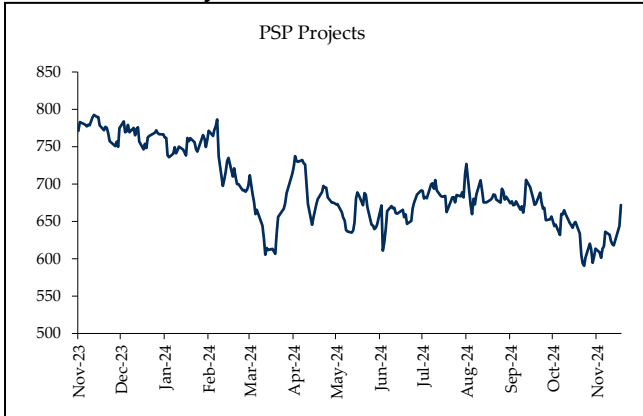
Source: Company, HSIE Research

Key Ratios

Year ending March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
PROFITABILITY (%)								
GPM	17.6	16.2	20.4	17.9	17.4	16.8	17.4	16.1
EBITDA Margin	12.7	10.9	14.7	11.7	10.6	10.1	11.7	11.5
EBIT Margin	11.0	8.8	12.8	9.6	8.0	7.5	9.3	9.3
APAT Margin	8.6	6.7	9.3	6.9	5.0	4.7	6.1	6.3
RoE	31.2	16.8	26.6	17.9	14.5	11.4	14.4	15.5
RoIC (or Core RoCE)	30.1	19.6	31.6	21.8	13.3	14.0	18.5	19.6
RoCE	25.8	15.5	23.4	16.8	11.9	11.0	14.1	14.9
EFFICIENCY								
Tax Rate (%)	25.9	25.7	25.9	26.2	27.2	25.2	25.2	25.2
Fixed Asset Turnover (x)	7.5	5.4	5.1	4.9	5.5	4.1	4.2	4.4
Inventory (days)	24	26	17	29	47	47	47	47
Unbilled revenue (Days)	30	23	21	0.0	0.0	14	12	10
Retention (Days)	16	8	7	0.0	0.0	17	17	17
Debtors (days)	55	65	65	82	50	65	65	65
Payables (days)	48	75	54	70	62	94	90	85
Cash Conversion Cycle (days)	30	16	28	41	35	18	22	27
Cash Margin/FDR	37	49	37	28	17	7	4	1
Advances from customers	44	22	35	0	0	15	10	7
Other Current Assets (days)	10	14	21	84	95	67	58	51
Other Current Liabilities & Provisions (days)	8	12	12	84	34	8	7	5
Net Working Capital Cycle (days)	72	75	66	70	112	100	95	92
Debt/EBITDA (x)	0.5	0.6	0.4	0.6	1.7	1.0	0.7	0.6
Net D/E (x)	0.1	0.0	0.1	0.1	0.4	0.0	0.0	0.0
Interest Coverage (x)	11.2	7.4	8.5	5.8	3.9	3.5	4.9	5.7
PER SHARE DATA (INR)								
EPS	32.6	21.1	41.0	33.6	31.3	31.4	48.6	59.0
CEPS	39.3	27.5	49.1	43.6	47.6	49.1	67.7	79.7
Dividend	10.9	0.0	3.6	4.5	2.3	5.6	8.7	10.6
Book Value	115	136	173	202	231	317	357	405
VALUATION								
P/E (x)	20.6	31.9	16.4	20.0	21.5	21.4	13.8	11.4
P/BV (x)	5.8	5.0	3.9	3.3	2.9	2.1	1.9	1.7
EV/EBITDA (x)	14.2	19.9	10.7	12.1	11.5	10.0	7.3	6.3
EV/Revenues (x)	1.8	2.2	1.6	1.4	1.2	1.0	0.9	0.7
OCF/EV (%)	0.0	0.0	0.0	0.0	(0.1)	(0.0)	0.1	0.1
FCF/EV (%)	(0.5)	(0.3)	1.6	(1.3)	(12.2)	(10.8)	3.8	4.3
FCFE/Mkt Cap (%)	1.0	(0.4)	1.9	(0.2)	(3.4)	(6.3)	1.6	2.1
Dividend Yield (%)	1.6	0.0	0.5	0.7	0.3	0.8	1.3	1.6

Source: Company, HSIE Research

1 Yr Price History



Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: >10% Downside return potential

Disclosure:

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