

PSP Projects Ltd

BUY

CMP Rs390

Target Rs519

Upside 33%

Execution Picking up: Q2 FY21 Call Highlights

- ✓ The labor availability at project sites improved to 95% by the end of August which supported execution during the quarter. All projects are under execution except for Bhiwandi project and Sabha Hall project (Rs.7 bn worth of projects in Order book). While there have been meetings related to Bhiwandi project and work is expected to start after festive season in November, there is no clarity as of now on Sabha Hall project.
- ✓ Surat Diamond project (SDB) revenues were soft in Q2 FY21 due to low labor availability (which improved only in August). SDB revenues are expected to pick up from Q3 FY 21 onwards. The Q2 FY21 monthly execution rate of Rs.220 mn is expected to rise to 500-600 mn on monthly basis in Q3 for SDB. The Company expects to complete the SDB project by May 2021.
- ✓ Going forward the Management expects to close the year with topline of Rs.12 bn during FY21. EBITDA margins are likely to be in 11-13% range in coming quarters.
- ✓ The Company has received Rs.2 bn worth of projects till date in FY21 and current Order book stands at Rs.28 bn (including Rs.5 bn of SDB Order book). The bid pipeline remains strong with projects worth Rs.30 bn under tendering (Bangalore plaza for Rs 4.63 bn, Rs 3.5 bn for logistics park, 1 Commercial building for Rs 2.5 bn, 1 institutional construction for Rs 1.3 bn and other small projects for Rs 1.5 bn, 1 project amounting Rs 8 bn).
- ✓ The Working Capital has increased as large part of execution during Q2 FY21 was in September and hence the receivables are yet to be cleared.
- ✓ The Company has incurred capex of ~Rs 300 mn during H1 FY21 which has been largely towards buying Land for Pre-cast plant. Capex of Rs.500 mn expected during H2 FY21 which would be majorly towards precast facility set up. Revenues from precast unit expected to start by May-June of 2021.
- ✓ Unbilled revenues as of September end stood at Rs.950 mn.
- ✓ Gross Debt as of September end stood at Rs1.14 bn.
- ✓ Retention money and Mobilization Advance stood at Rs. 700 mn each.

Our view

The Company witnessed sharp pickup in execution during Q2 (as against Q1) with better labor availability. We expect the execution momentum to continue during H2 FY21. Operating margin is expected to remain healthy at ~11-13% levels. The bid pipeline is strong which would help achieve the targeted order inflows during H2 FY21. We largely retain our estimates for FY21/22 and maintain our BUY rating for target of Rs519.

PSP Projects Q2 FY21 results summary

- ✓ PSP Projects reported topline de-growth of 22% yoy (to Rs.2.4 bn) on standalone basis which was marginally below with our estimates of Rs.2.6 bn. The execution improved drastically over Q1 with better labor availability and easing of lockdown.
- ✓ Operating margin stood at 10.1% during Q2 FY21 (13.9% in Q2 FY20). The margins were in line with our estimates and improved over qoq basis with execution picking up. PAT declined 56% yoy to Rs.144 mn.
- ✓ Order book at the end of Q2 FY21 stood at ~Rs.28 bn

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- ✓ During October 2020, the project for EPC Design and Build Construction of proposed GIDC Tech-Hub at GIFT City, Gandhinagar, Gujarat was cancelled by Awarding authority (Project value at Rs.3.08 bn). PSP was declared L1 in that project in December 2019.

Exhibit 1: Result table (Standalone)

Y/e 31 Mar (Rs m)	Q2 FY21	Q2 FY20	yoy(%)	Q1 FY21	qoq (%)
Revenue	2,431	3,125	(22.2)	1,068	127.5
Operating Profit	245	433	(43.4)	12	1,886.8
OPM(%)	10.1	13.9	(377 bps)	1.2	893 bps
Other Income	45	69	(34.2)	48	(5.9)
Depreciation	(63)	(62)	1.0	(62)	1.7
Interest	(42)	(37)	15.4	(29)	46.3
PBT	185	403	(54.0)	(30)	NA
Tax	(41)	(75)	(45.0)	8	NA
Adjusted PAT	144	328	(56.1)	(23)	NA

Exhibit 2: Financial Summary (Standalone)

Y/e 31 Mar (Rs m)	FY19	FY20	FY21E	FY22E
Revenues	10,440	14,993	12,545	17,534
yoy growth (%)	43.0	43.6	(16.3)	39.8
Operating profit	1,489	1,910	1,237	2,420
OPM (%)	14.3	12.7	9.9	13.8
Adjusted PAT	902	1,293	668	1,437
yoy growth (%)	40.2	43.2	(48.3)	115.2
EPS (Rs)	25.1	35.9	18.5	39.9
P/E (x)	15.6	10.9	21.0	9.8
EV/EBITDA (x)	8.1	6.7	10.1	5.4
Debt/Equity (x)	0.1	0.2	0.4	0.4
RoE (%)	26.8	31.2	13.9	25.4

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