

PSP Projects Ltd.

25th November 2024

Adani Infra to acquire up to 30% stake from the Company's Promoter

On 19th November 2024, PSP Projects Ltd. (PSPPL) announced that Adani Infra (India) Ltd. (AIL), Adani Group's Project Management Consultancy (PMC) arm has signed a definitive agreement to acquire up to 30.07% stake in the Company from Mr PS Patel, founder and promoter of PSPPL for a consideration of ~Rs. 6.9 Bn translating in a share price of ~Rs. 575. Going forward, the Company will be jointly controlled by the existing promoter as well as AIL. Additionally, both parties will have an equal representation on the board.

Projects from Adani could result in significant orderbook growth

Under this partnership, the Company foresees a much larger visibility for business. PSPPL anticipates a substantial increase in its orderbook going forward as Adani group is present across multiple infrastructure areas including airports, roads, ports, data centers, etc. This partnership marks an opportunity for PSPPL to take on commercial, residential and industrial building projects that come under the onus of AIL and execute the same using its expertise in these types of projects. Currently, PSPPL is already in the process of bidding for a few projects that come under the purview of the Adani group.

Operational status quo will be maintained

Though the Company will be jointly owned by AIL and the existing promoter group, the day-to-day business operations will be looked after by Mr. PS Patel. Additionally, PSPPL will also be free to bid for non-Adani group projects and continue doing its current business. Effectively, all the operational decision making remains with Mr. PS Patel and the business will continue to operate as usual.

Open Offer

As per the statutory laws, AIL has made an open offer to the public shareholders to acquire up to 26% stake in the Company amounting to ~10.3 Mn equity shares. AIL has extended this offer to acquire share of PSPPL at Rs. 642 per share amounting to ~Rs. 6.6 Bn.

Key terms of the Shareholder Agreement (SHA)

a) As long as both promoters continue to hold a >20% stake in the Company, both will have the right to nominate two directors each. In case the holding falls to <20% but > 10%, both promoters will have the right to nominate one director each, b) Both promoters are not permitted to dispose any securities of the Company for a period of 5 years post the completion of this transaction.

View & Valuation

We believe that AIL's entry as a co-promoter into the business of PSPPL will bolster growth and revenue visibility. However, building capabilities in response to additionally work that the Company may receive from AIL will remain a challenge that it will have to address. Additionally, PSPPL's ability to maintain EBITDA margin in the range of 10-11% will also remain a key monitorable. Therefore, based on our revised estimates, we maintain our BUY rating on PSP Projects Ltd. with a target price of Rs. 712 (~17x FY26E EPS).

BUY

CMP Rs. 618

TARGET Rs. 712 (+15.2%)

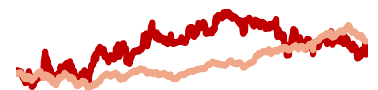
Company Data

Bloomberg Code	PSPPL IN
MCAP (Rs. Mn)	24,498
O/S Shares (Mn)	40
52w High/Low	815 / 567
Face Value (in Rs.)	10
Liquidity (3M) (Rs. Mn)	116

Shareholding Pattern %

	Sep 24	Jun 24	Mar 24
Promoters	60.14	60.14	66.22
FIIIs	8.58	7.02	2.31
DIIIs	10.94	10.45	4.53
Non-Institutional	20.35	22.39	26.94

PSP vs Nifty



Nov, 21	Nov, 22	Nov, 23	Nov, 24
<div style="display: flex; justify-content: center; gap: 10px;"> — PSP — NIFTY </div>			

Source: Keynote Capitals Ltd.

Key Financial Data

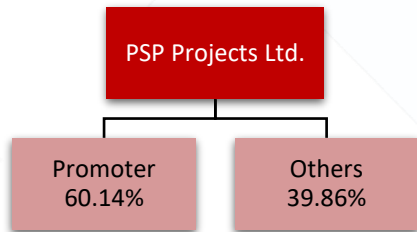
(Rs. Bn)	FY24	FY25E	FY26E
Revenue	25,058	26,060	29,969
EBITDA	2,610	2,554	3,147
Net Profit	1,230	1,223	1,680
Total Assets	20,367	22,177	23,958
ROCE (%)	15%	11%	13%
ROE (%)	14%	11%	12%

Source: Company, Keynote Capitals Ltd.

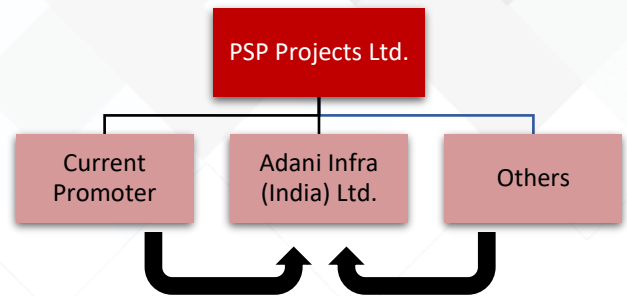
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Change in the Shareholding Structure

Current Shareholding Pattern



Resultant Shareholding Pattern



Depending on the % stake acquired from the Open Offer, the balance stake by AIL will be acquired from the **CURRENT PROMOTERS**

Eventually, **BOTH PARTIES** will maintain **EQUAL** stake in PSPPL

Acquisition of stake from **OTHERS** via. an **OPEN OFFER**

Conference Call Takeaways

- Key decisions on specific reserved matters will require affirmative approval from existing promoters, AIL, and affiliates. Mr. P.S. Patel will continue to lead PSPPL as Managing Director, Chief Executive Officer, and Chairman.
- PSPPL will continue to target niche opportunities with limited competition while gradually expanding its scope from AIL over time. This strategic and measured approach will ensure sustainable growth. This will require the Company to enrich its technology as well as management bandwidth.
- PSPPL will negotiate contracts with AIL at competitive rates while ensuring project execution within its guided EBITDA margin range of 10-11%. Execution will take place under a cost-plus model.
- AIL's investment in PSPPL is largely driven by the Company's strong track record of leveraging technology in construction. By incorporating pre-cast elements, PSPPL aims to minimize reliance on labor without impacting quality.
- AIL has also faced challenges with contractors in the past, making PSP's technology-driven focus on productivity and cost efficiency a valuable asset for their collaboration.
- In case additional funding is required to support growth, the Company will prioritize debt financing over equity as its strong balance sheet provides the ability to do so.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	19,378	25,058	26,060	29,969	34,465
Growth %		29%	4%	15%	15%
Raw Material Expenses	15,014	20,776	20,457	23,376	26,710
Employee Expenses	731	1,251	1,225	1,349	1,551
Other Expenses	1,333	422	1,824	2,098	2,413
EBITDA	2,301	2,610	2,554	3,147	3,791
Growth %		13%	-2%	23%	20%
Margin%	12%	10%	10%	11%	11%
Depreciation	400	649	718	706	792
EBIT	1,901	1,961	1,836	2,441	2,999
Growth %		3%	-6%	33%	23%
Margin%	10%	8%	7%	8%	9%
Interest Paid	320	508	441	440	432
Other Income & exceptional	250	242	242	242	242
PBT	1,831	1,695	1,637	2,243	2,809
Tax	485	460	409	561	702
Others (Minorities, Associates)	-27	-5	-5	-2	-2
Net Profit	1,319	1,230	1,223	1,680	2,105
Growth %		-7%	-1%	37%	25%
Shares (Mn)	36.0	36.0	39.6	39.6	39.6
EPS	36.65	34.17	30.85	42.38	53.09

Balance Sheet

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Cash, Cash equivalents & Bank	2,424	2,271	3,005	2,669	3,410
Current Investments	0	0	0	0	0
Debtors	4,339	3,421	4,430	5,994	6,893
Inventory	1,531	3,178	3,273	3,740	4,274
Short Term Loans & Advances	4,310	35	35	35	35
Other Current Assets	219	6,391	6,391	6,391	6,391
Total Current Assets	12,822	15,297	17,135	18,829	21,003
Net Block & CWIP	2,573	3,247	3,223	3,312	3,369
Long Term Investments	7	7	2	0	-2
Other Non-current Assets	2,123	1,817	1,817	1,817	1,817
Total Assets	17,525	20,367	22,177	23,958	26,187
Creditors	3,683	4,200	4,316	5,007	5,721
Provision	13	31	31	31	31
Short Term Borrowings	746	4,134	2,254	1,754	1,254
Other Current Liabilities	4,800	2,410	2,410	2,410	2,410
Total Current Liabilities	9,242	10,775	9,011	9,202	9,416
Long Term Debt	381	417	417	417	417
Deferred Tax Liabilities	-129	0	0	0	0
Other Long Term Liabilities	21	27	27	27	27
Total Non Current Liabilities	273	444	444	444	444
Paid-up Capital	360	360	396	396	396
Reserves & Surplus	7,650	8,789	12,326	13,916	15,931
Shareholders' Equity	8,010	9,149	12,722	14,312	16,327
Non Controlling Interest	0	0	0	0	0
Total Equity & Liabilities	17,525	20,367	22,177	23,958	26,187

Cash Flow Statement

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Pre-tax profit	1,831	1,695	1,637	2,243	2,809
Adjustments	336	809	917	904	982
Change in Working Capital	-1,119	5	-988	-1,340	-718
Total Tax Paid	-568	-469	-409	-561	-702
Cash flow from operating Activities	480	2,040	1,156	1,247	2,370
Net Capital Expenditure	-788	-1,412	-694	-795	-850
Change in investments	41	915	0	0	0
Other investing activities	239	234	242	242	242
Cash flow from investing activities	-507	-262	-452	-552	-608
Equity raised / (repaid)	0	0	2,440	0	0
Debt raised / (repaid)	453	3,101	-1,880	-500	-500
Dividend (incl. tax)	-180	-90	-90	-90	-90
Other financing activities	-158	-319	-441	-440	-432
Cash flow from financing activities	115	2,692	29	-1,030	-1,022
Net Change in cash	88	4,470	733	-336	741

Valuation Ratios

Particulars	FY23E	FY24	FY25E	FY26E	FY27E
Per Share Data					
EPS	37	34	31	42	53
Growth %		-7%	-10%	37%	25%
Book Value Per Share	222	254	321	361	412
Return Ratios					
Return on Assets (%)	9%	6%	6%	7%	8%
Return on Equity (%)	18%	14%	11%	12%	14%
Return on Capital Employed (%)	18%	15%	11%	13%	15%
Turnover Ratios					
Asset Turnover (x)	1.3	1.3	1.2	1.3	1.4
Sales / Gross Block (x)	5.1	5.1	4.4	4.5	4.6
Working Capital / Sales (%)	16%	16%	24%	30%	31%
Receivable Days	70	57	55	63	68
Inventory Days	29	41	58	55	55
Payable Days	73	64	76	71	72
Working Capital Days	26	34	37	47	51
Liquidity Ratios					
Current Ratio (x)	1.4	1.4	1.9	2.0	2.2
Interest Coverage Ratio (x)	6.7	4.3	4.7	6.1	7.5
Total Debt to Equity	0.2	0.5	0.2	0.2	0.1
Net Debt to Equity	-0.1	0.2	0.0	0.0	-0.1
Valuation					
PE (x)	14.7	19.7	21.8	15.9	12.7
Earnings Yield (%)	7%	5%	5%	6%	8%
Price to Sales (x)	1.0	1.1	1.0	0.9	0.8
Price to Book (x)	3.0	2.9	2.1	1.9	1.6
EV/EBITDA (x)	10.1	9.8	10.1	8.2	6.8
EV/Sales (x)	1.2	1.0	1.0	0.9	0.7

Source: Company, Keynote Capitals Ltd. estimates

KEYNOTE Rating History

Date	Rating	Market Price at recommendation	Upside/Downside
4 th December 2023	BUY	780	+26.7%
12 th February 2023	BUY	737	+22.5%
28 th May 2024	BUY	640	+23.1%
5 th August 2024	BUY	673	+12.3%
29 th October 2024	BUY	620	+23.0%
25 th November 2024	BUY	618	+15.2%

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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