

PSP Projects

BUY

Eyes in the sky with feet on the ground

Summary

PSP Projects (PSP) a civil contractor, executing a modest Rs100-150mn ticket size order a decade back, now undertakes complete EPC (with civil, MEP, design) of an order size of Rs15-20bn. Company specializes in building segment (factories, hospital, offices, residential) and has expanded its operations from Gujarat, to west and north regions of India. PSP, a beneficiary of industrial capex in India, now boast an order book of Rs42bn (3x FY21 revenue). Initiative coverage with a BUY rating, base case TP of Rs596 (valued at its historical average PER of 10x FY24E EPS) offers an upside of 23%. At 8x FY24E EPS, PSP trades at lower PER range of its past valuation. Key positives in PSP: execution ability with stable cash flow, lean balance sheet for growth and high double digit ROE at 20%+.

Key Highlights and Investment Rationale

- **Consistent order inflow:** Timely delivery of the project has been PSP's hall mark, and this has enabled it to get repeat order from clients (in pharma, chemical, auto etc). Order Inflow in the last 4 years has averaged at Rs15-25bn/year and given opportunities, we model it at Rs20-30bn/year over FY22-24E. Company's revenue has doubled in the last 3 years and with orders in hand we expect revenue CAGR of 25% over FY21-24E. Given stable EBITDA margin of 13%, its EPS is expected to increase at CAGR of 38% over FY21-24E.
- **Growing without straining BS:** PSP's norm of taking 10% advance mobilization has supported it to consistently deliver positive OCF in the last 10 years. With low working capital req. (NWC of 10-20 days over FY17-21), its balance sheet (BS) is lean with net cash at ~Rs2bn (FY21). PSP's ROE driven by net margin is expected to be steady at 23% over FY22-24E. Stock catalysts are new order wins, clarity on slow moving order which is 17% of its order book.

TP	Rs596
CMP	Rs485
Potential upside/downside	23%
Previous Rating	

Price Performance (%)			
	-1m	-3m	-12m
Absolute	2.9	(5.4)	17.0
Rel to Sensex	1.9	(4.6)	(5.0)

V/s Consensus			
EPS (Rs)	FY22E	FY23E	FY24E
IDBI Capital	39	48	60
Consensus	41	50	56
% difference	(6)	(3)	7

Key Stock Data	
Bloomberg/Reuters	PSPPL IN / PSPP.BO
Sector	Infrastructure
Shares o/s (mn)	36
Market cap. (Rs mn)	17,476
3-m daily avg Trd value(Rs mn)	20.0
52-week high / low	Rs552 / 394
Sensex / Nifty	58,254 / 17,354

Shareholding Pattern (%)	
Promoters	69.9
FII	1.3
DII	3.1
Public	25.7

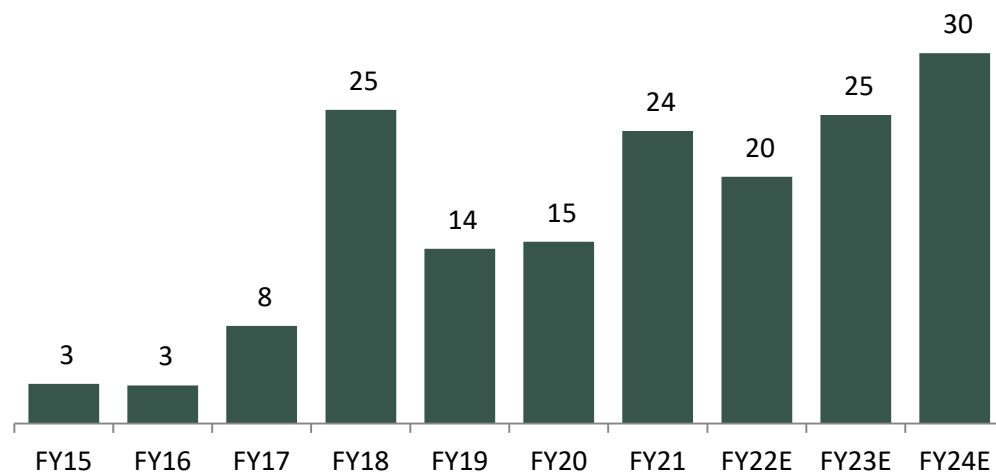
Financial snapshot

Year	FY20	FY21	FY22E	FY23E	FY24E
Revenue	14,993	12,409	16,443	19,884	23,965
Change (yoy, %)	44	(17)	33	21	21
EBITDA	1,910	1,348	2,133	2,608	3,178
Change (yoy, %)	28	(29)	58	22	22
EBITDA Margin(%)	12.7	10.9	13.0	13.1	13.3
Adj.PAT	1,292	835	1,390	1,712	2,144
EPS (Rs)	36	23	39	48	60
Change (yoy, %)	43	(35)	66	23	25
PE(x)	14	21	13	10	8
Dividend Yield (%)	2	-	1	1	1
PBV (x)	3.8	3.2	2.6	2.1	1.7
RoE (%)	31	17	23	23	23
RoCE (%)	39	22	30	29	29

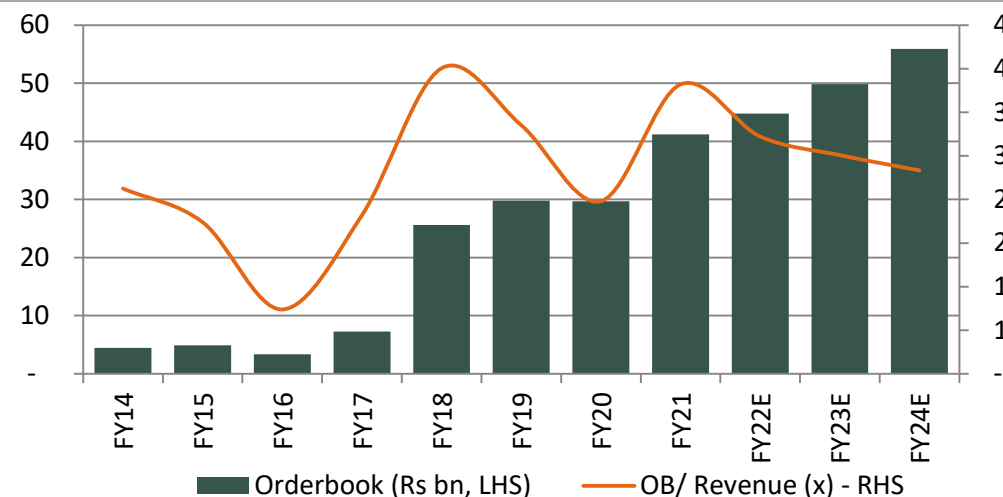
Source: IDBI Capital Research, Company

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Exhibit 1: PSP order inflow consistently increasing ... (Rs bn)

Source : Company, IDBI Capital Research

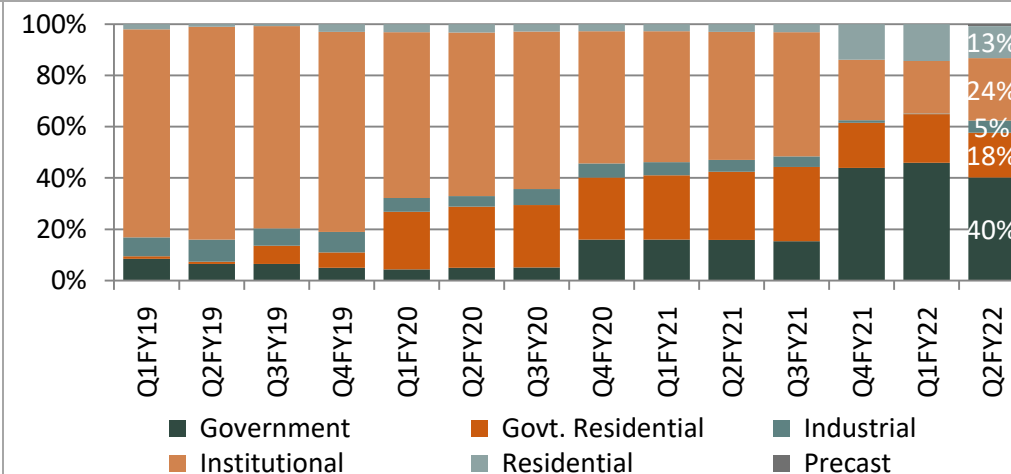
Exhibit 2: ... so is its order book (OB)

Source : Company, IDBI Capital Research

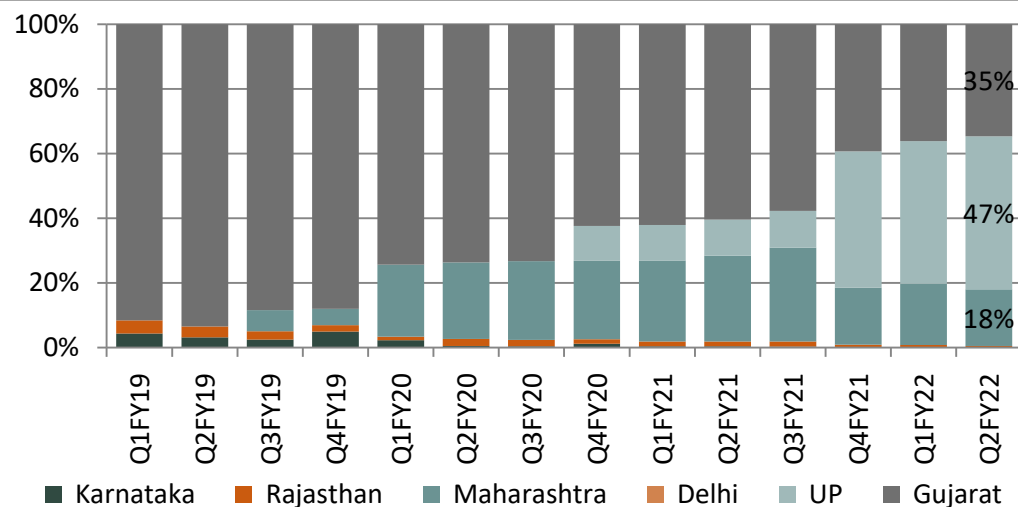
Exhibit 3: ... satisfied clients have resulted in repeat orders...

Key Clients	No. of Projects executed till date
Zydus Cadila Group	29
Torrent Group	15
UP – Public Works Department	8
Sabarmati Riverfront	8
Adani Group	7
Clarix Group	6
Road & Building, Gujarat	4
Reliance	2
Intas Group	2

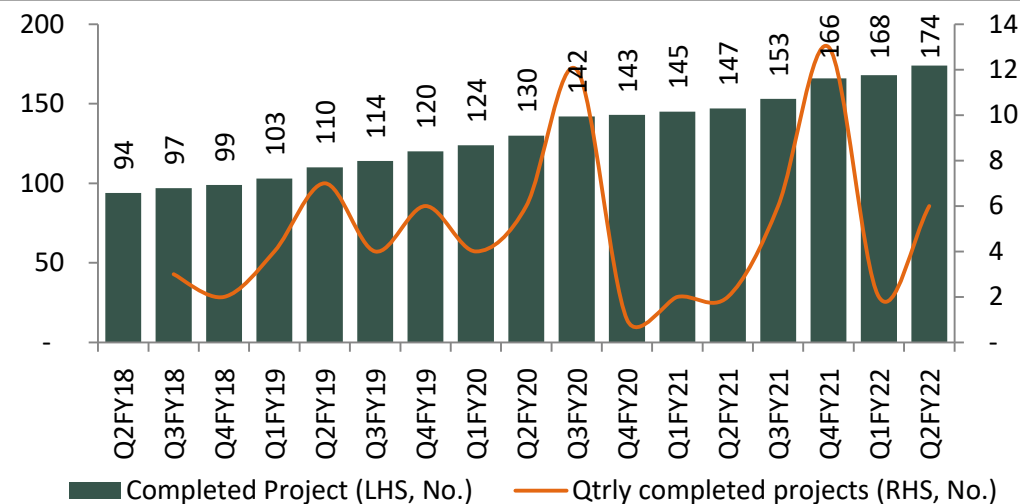
Source : Company

Exhibit 4: ... government order (generally fixed price) contribute 58% to its OB

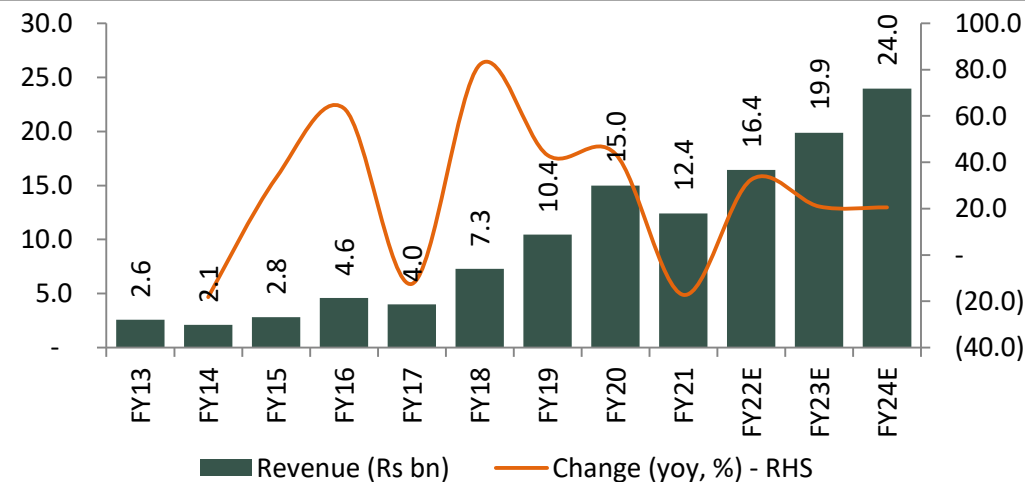
Source : Company

Exhibit 5: ... Orders scattered across 6 states , with maximum from UP at 47%

Source : Company

Exhibit 6: ... projects completion in past is steady which entailed good revenue

Source : Company

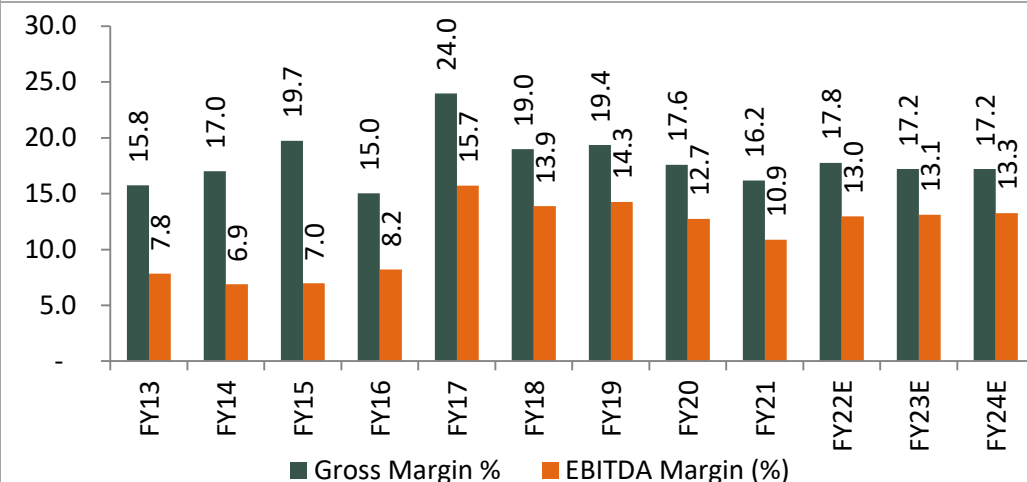
Exhibit 7: ... we expect continuation of strong revenue increase

Source : Company, IDBI Capital Research

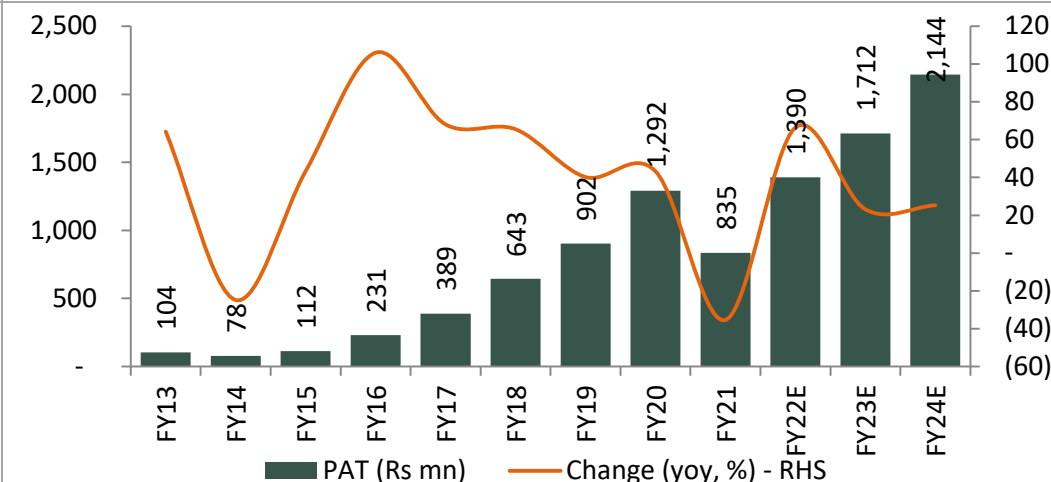
Exhibit 8: ... led by following projects

Project	State	Client	Order book Rs mn
Surat Diamond Bourse	Gujarat	SDB	2,100
Medical college	UP	PWD	14,650
EWS Houses Bhiwandi	Maharashtra	PMAY	6,010
Residential Project	Gujarat	Pvt	4,680
Kashi Dham	UP	PWD	1,490
IIM AHMEDABAD	Gujarat		1,830
Housing at Pandharpur	Maharashtra	PMAY	1,260
Residential Complex at Dahej	Gujarat	Pharma Pvt	530
Residential P. (S.G. Highway)	Gujarat	Pvt Developer	810

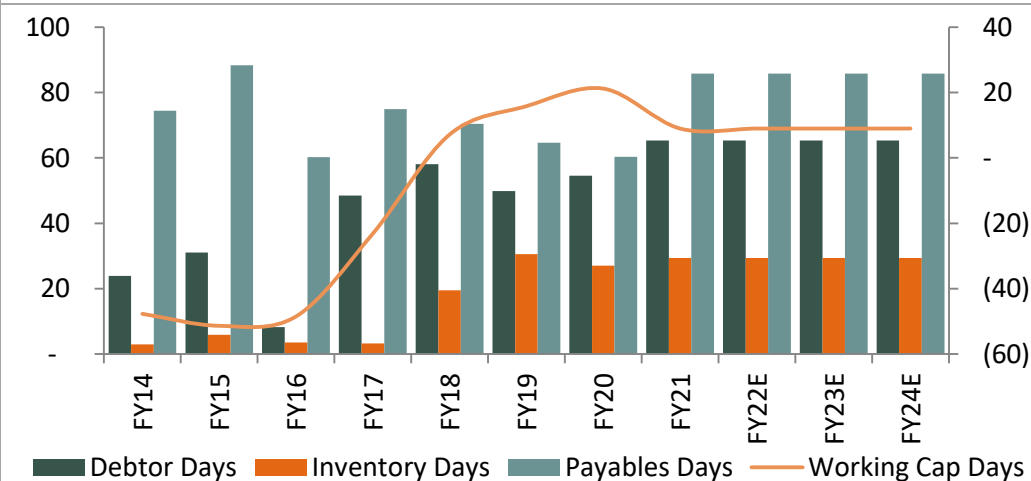
Source : Company

Exhibit 9: ... average gross / EBITDA margin in the last 5 years at 19% / 13%

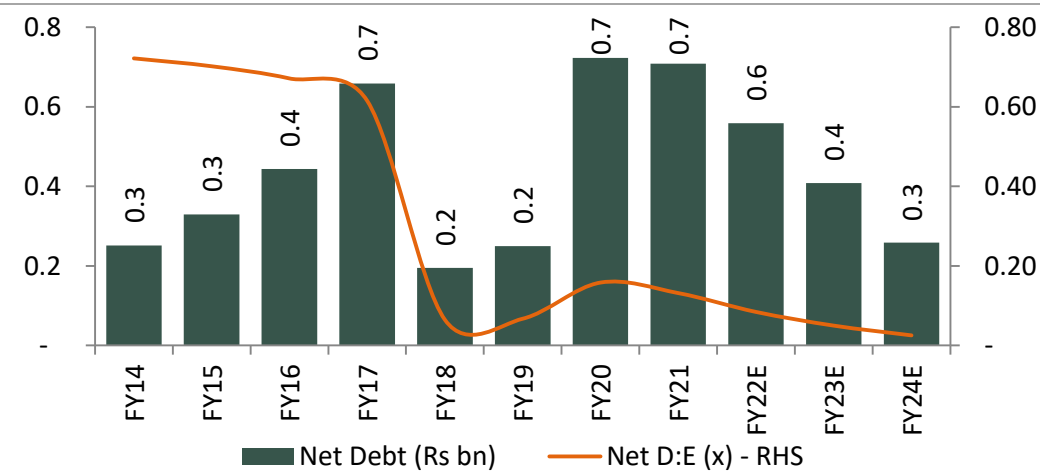
Source : Company, IDBI Capital Research

Exhibit 10: ... we expect PAT to increase at 38% CAGR over FY21-24E

Source : Company, IDBI Capital Research

Exhibit 11: ... led by advance at 10% of order cost, working capital req. is low

Source : Company, IDBI Capital Research

Exhibit 12: ... leading to low usage of debt / external financing

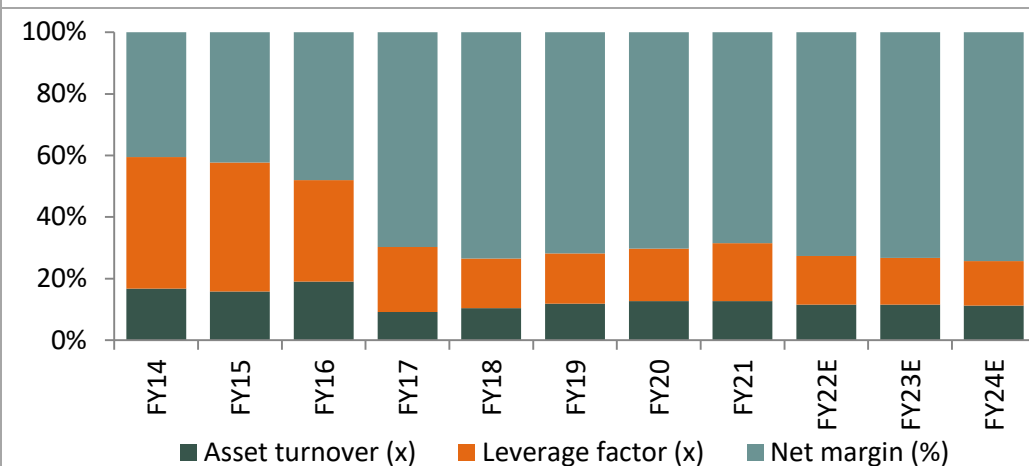
Source : Company, IDBI Capital Research

Exhibit 13: ... ROE profiling

	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Asset turnover (x)	1.3	1.4	1.6	1.3	1.4	1.4	1.4
Leverage factor (x)	1.9	2.0	2.1	1.8	1.8	1.8	1.7
Net margin (%)	8.8	8.6	8.6	6.7	8.5	8.6	8.9
ROE %	21	24	28	16	21	21	21

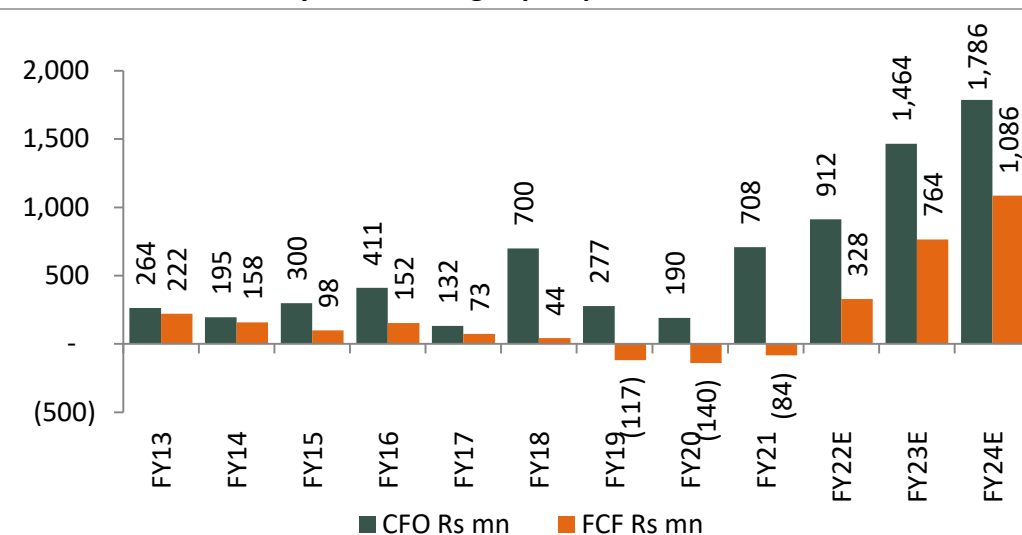
Source : Company, IDBI Capital Research

Exhibit 14: ... large part of ROE driven by high net margin



Source : Company, IDBI Capital Research

Exhibit 15: ... driven by low working cap requirement, CFO is consistent



Source : Company, IDBI Capital Research

Exhibit 16: PSP's future bid pipeline

Key Projects	Rs bn
Central Vista - Delhi	11
Sports Complex at Ahmedabad	6
Torrent Corporate House	~3
Torrent Industrial plant	2
A Temple Project	1
Residential Project for Adani Mumbai	3
Commercial Mall in Ahmedabad	2
Total	28

Source : Company, IDBI Capital Research

Valuation and View

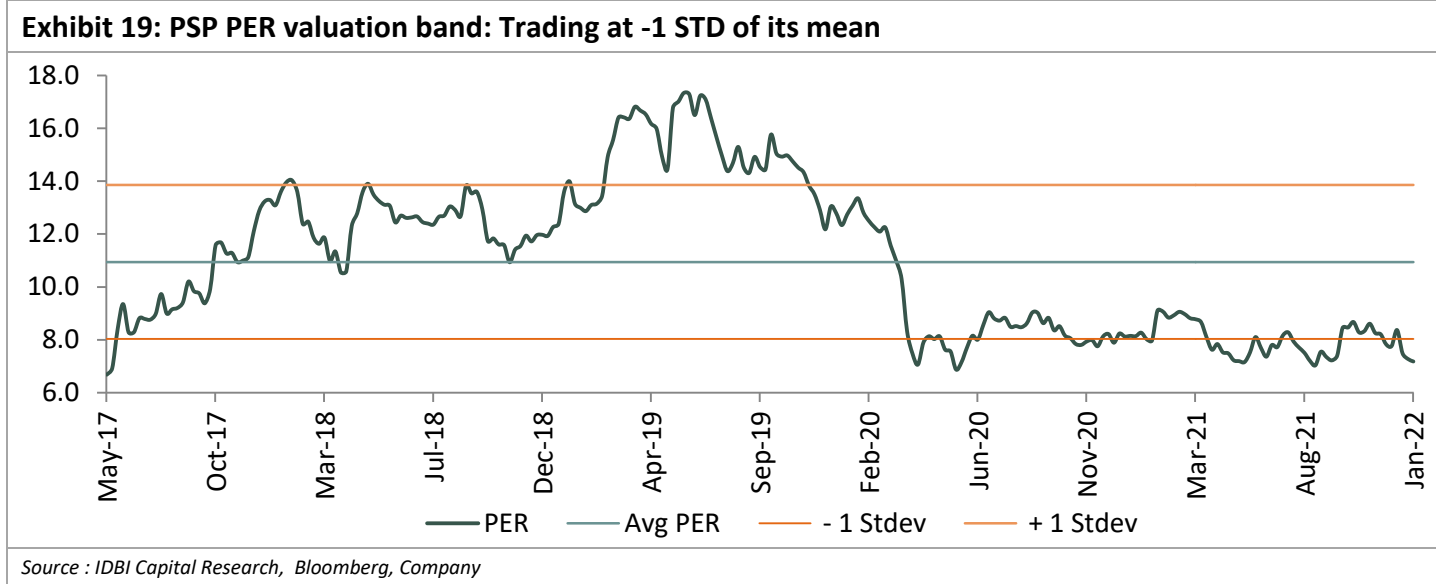
In bull case we expect an upside of ~72%

- We, initiate coverage with a BUY rating and valuing PSP on PER of 10x FY24E EPS (at average of its mean since IPO) to arrive at a target price of R596.
- At 8x FY24E EPS, stock PER is at lower range of its historical valuation. Key positives in PSP are its execution ability with stable cash flows, lean balance sheet for growth and high double digit ROE at 20%+
- PSP is a proxy to play on the capex (industrial, private) theme in India.

Exhibit 17: TP		Exhibit 18: TP scenario			
	FY24E	Bear (-1 STD) Base (Avg.) Bull (+1 STD)			
EPS	60	60	60	60	60
PER x	10	8	10	14	14
TP Rs /sh	596	477	596	834	834

Source: IDBI Capital Research

PSP is trading at low end of its historical valuation range



Sourcing of quality manpower is long term risk

Key Risk

- Any review of already awarded state government order (College order) in UP state, given impending election.
- Slow pace of execution leading to lower revenue growth. Our expectation is 20%+ revenue increase in FY23E, 24E.
- If there is delay in order win versus our expectation of order inflow trajectory of Rs20-30bn pa over FY22-24E.
- Slow moving order that is Bhiwandi and Pandharpur and removal of these two orders (17% of order book) from the order book.

Exhibit 20: Shareholding pattern (1% + holders)

	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY22	Q4FY22	Q1FY22	Q2FY22
Promoter	73.7	73.8	74.0	74.2	74.2	74.2	74.2	69.9
IDFC MF	2.5	2.3	2.4	2.4	2.4	2.1	2.1	2.1
Abakkus EM	-	-	-	-	-	-	-	1.5
LIC	-	-	-	-	-	1.1	1.0	1.0
Ocean Dial	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Nippon MF	2.6	2.2	2.2	2.2	2.1	1.6	-	-

Source: BSE

In the last 3-4 years, players have expanded their geography and segment versus the tag of state, Marginal players earlier.

Composition of ROE differs across player like PSP has high margin, JMC has financial leverage, Ahluwalia has high asset turnover.

Stocks (peers) trading at PER valuation of 5-11x FY24E EPS.

Exhibit 21: Peers set: Operational aspects

	Order Book (OB)		OB by Clients (%)		Major Geography	Construction Segment
	Rs bn	Visibility (Yr)	Govt. / PSU	Private		
JMC Project	187	5	8	92	Across India	Buildings, Urban Infra, Water
ITD Ceme.	115	5	90	10	Across India	Metro, Port, Tunnel (Heavy Civil)
Capacite In.	88	8	60	40	West	Building (real estate)
Ahluwalia Co	73	3	85	15	North, East	Building (factory, offices etc.)
PSP Projects	42	3	58	42	West, North	Building (factory, offices etc.)

Source: Companies

Exhibit 22: Peers set: Financials

	Revenue gr. yoy, %		EBITDA Margin %		ROE %		Net DER
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	x
JMC Project	16	28	10.3	9.8	20	23	0.6
ITD Ceme.	19	15	9.6	9.9	12	14	0.4
Capacite Infra.	58	19	16.7	16.6	16	18	0.1
Ahluwalia Cont.	19	15	11.6	11.5	22	21	Net Cash
PSP Projects	21	21	13.1	13.3	23	23	Net Cash
Avg.	27	19	12.3	12.2			

Source: Bloomberg

Exhibit 23: Peers set : Valuation

	Mkt Cap Rs bn	EV Rs bn	Rating	P/E x		P/BV x		Div. yield %	
				FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
JMC Project	15	32	NR	7	6	1.3	1.1	1	1
ITD Ceme.	13	17	NR	8	7	1.0	0.9	1	1
Capacite Infra.	12	13	NR	6	5	1.0	0.8	1	1
Ahluwalia Cont.	27	24	NR	12	11	2.2	1.8	1	1
PSP Projects	17	15	BUY	10	8	2.1	1.7	1	1
Avg.				9	7	1.5	1.3	1	1

Source: Bloomberg

PSP revenue, EBITDA was better than consensus estimate in 1HFY22. Company has guided for revenue increase of 20-25% yoy with EBITDA margin of 12-13% for FY22E.

Our FY22E implies, 2HFY22 EBITDA/PAT to increase by 9%/13% yoy.

Exhibit 24: PSP's 1HFY22 Execution better than pre covid

	Q2FY22	Q2FY21	YoY (%)	H1FY22	H1FY21	H1FY20
Revenue	3,904	2,431	61	7,078	3,500	4,447
Cost of Construction Material Consumed	1,255	747	68	2,286	1,106	1,921
Changes in Inventories of Work-In-Progress	39	(39)	-	(1)	(74)	(36)
Sub-Contracting Expenses	-	-	-	0	0	0
Construction Expenses	1,855	1,308	42	3,442	1,922	1,686
Employee benefits expense	155	133	17	307	230	208
Other Expenses	52	38	39	102	59	44
Expenditure	3,357	2,186		6,137	3,242	3,823
EBITDA	547	245	123	941	258	624
<i>EBITDA Margin %</i>	<i>14.0</i>	<i>10.1</i>		<i>13.3</i>	<i>7.4</i>	<i>14.0</i>
Other income	46	45	2	84	93	115
Interest	38	42	(11)	72	71	37
Depreciation	70	63	12	124	124	106
PBT	485	185	162	829	156	596
Provision for taxation	120	41	189	212	34	209
Net income	366	144	154	617	122	386

Source : Company

About the company

Highest order of project executed over 2008-10 was Rs150mn. Execution of Zydus wellness project (Rs1.25bn) in 2011 gave PSP recognition to undertake large project.

- PSP Projects, Incorporated in 2008, is led by Mr. Prahaladbhai Patel who is First Generation Civil engineer with an 36 years of experience.
- Company is engaged in construction value chain from Design, Construction, Mechanical, Electrical, Plumbing (MEP), Interior, O&M Services. Its headquartered is in Ahmedabad and it has gradually expanded its presence to six different states of India viz. Gujarat, Rajasthan, UP, Karnataka, New Delhi and Maharashtra. With-in span of 5 years, 65% of its order book is from market other than Gujarat.
- Recently commissioned Precast facility will manufactures Beams, Columns, Slabs, Load Bearing Walls, Partition Walls, Staircase, and Lift Cores. PSP targets to deliver revenue of Rs1bn on annul basis (~6% of FY21 revenue) with Gross margin of 20-25% and EBITDA margin will be similar to PSP standalone.
- May-17 IPO details: The company raised Rs2.1bn in May-17 for working capital requirement, capital expenditure and OFS. IPO's ~70% of proceed was fresh issue and remaining was OFS. It was priced at Rs205-210 and was over-subscribed by 8.6 times. Upper band of IPO price, valued the company at Rs7.6bn (19x trailing yr EPS FY17).

All processes - Material management, accounting is done through SAP by PSP Project. PSP has internal audit team, there is monthly management review meeting, CMD has defined SOP which is scrutinized by Deloitte so that organization is run on policies and not subjectively.

Exhibit 25: PSP Projects: Moving up the Construction value chain



Source: Company

Achievement and award received in the last 5 years:

- **2021:** A) Awarded as the Second Fastest Growing Construction Company (below Rs20bn Category), 3rd year in a row at 19th Construction World Global Awards 2021.
- **2020:** A) Emerged as the Second Fastest Growing Construction Company in Small Category in India for second consecutive year and has been felicitated as one of “India’s Top Challengers of 2019-20” for third time in a row at the 18th Construction World Global Awards.
- **2019:** A) Awarded as one of the Ace Achievers for making a difference at the TV9 Gujarati Ace Achievers Award 2019 held at Ahmedabad, Gujarat. B) Chairman , Managing Director & CEO, Mr. P.S. Patel felicitated as the ‘CXO of the Year’ at the 11th Realty+ Conclave & Excellence Awards, 2019.
- **2018:** Chairman, Managing Director & CEO, Mr. P.S Patel was awarded the Entrepreneur Award in Construction by HURUN REPORT INDIA for creating an innovative construction company that has delivered many land mark projects in India.
- **2017:** A) Chairman, Managing Director & CEO Mr. P.S.Patel was honoured with “Hercules Awards” by Gujarat Innovation Society (GIC) for remarkable contribution in the field of construction. B) Company was awarded as “The Most Admired Multidisciplinary Construction Company of the Year (Gujarat) from The Rising Leadership Awards 2017 C) Project “The Signature by Hiranandani” at GIFT City Gandhinagar was awarded with “Excellence in delivery award by REALTY PLUS EXCELLENCE AWARDS (GUJARAT) 2017” D) Company was honoured by Quality Mark Awards 2017 (Building & Construction Category) by Quality Mark Trust.

Three pillar of PSP - Mr. Prahaladbhai Patel, Mr Mahesh Patel and Maulik Patel. Promoter's next generation that is daughter (Pooja Patel) and son (Sagar Patel) is also involved PSP's business.

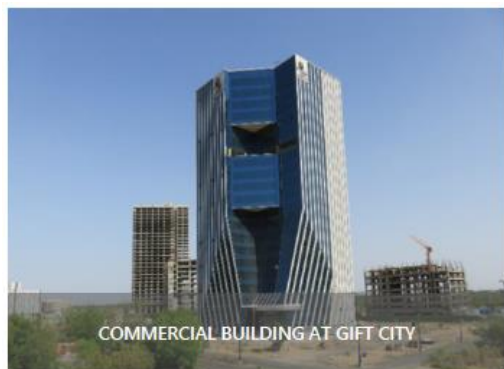
"In construction industry, money doesn't stop work. Quality, speed of execution, approach to client that stops the work. Big companies gives you work because you have been standing with them in the delivery of work and not using bad material in it".

- Mr. Prahaladbhai Patel

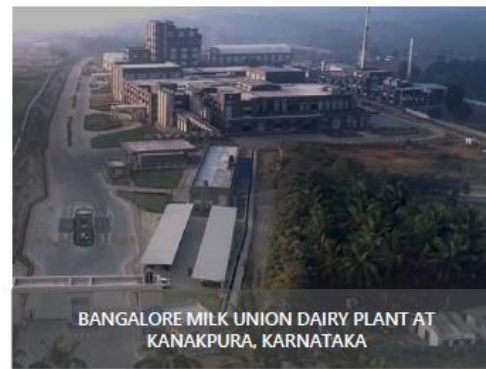
Exhibit 26: Management Profile

Name	Designation	Details
Prahaladbhai Patel	Chairman, MD and CEO	He has a bachelor's degree in civil engineering and has been working in the civil construction since 1984. With total experience of 36 years in the construction space and has played a significant role in the growth of PSP projects since its incorporation
Pooja Patel	Whole Time Director	She has a bachelor's degree in civil engineering from Gujarat Technological University and a postgraduate diploma in financial management from Ahmedabad Management Association. She has been actively involved in planning of projects, procurement of materials and execution of projects.
Sagar Patel	Executive Director	He has a bachelor's degree in civil engineering from Gujarat Technological University. He is involved in project planning, project tendering, contracts, and execution of projects.
Mahesh Patel	Sr VP - Operations	He Holds a diploma in civil engineering and Heads the project operations of company; He has been an instrumental part of all the projects completed by PSP till date. He has been with the company since inception.
Maulik Patel	VP - Procurement	He has bachelor degree in commerce. And Heads the procurement, management of plants and machineries. He has been associated with the company since inception.
Hetal Patel	Chief Financial Officer	She is member of the Institute of Chartered Accountants of India and Also a certified internal auditor. She is with company since the past 8 years.

Source: Company

Exhibit 27: Completed projects by PSP

Source : Company

Exhibit 28: Completed projects by PSP

Source : Company

Exhibit 29: Completed projects by PSP

Source : Company

Exhibit 30: Completed projects by PSP

Source : Company

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net sales	10,440	14,993	12,409	16,443	19,884	23,965
<i>Change (yoy, %)</i>	43	44	(17)	33	21	21
Operating expenses	(8,951)	(13,083)	(11,060)	(14,310)	(17,275)	(20,787)
EBITDA	1,489	1,910	1,348	2,133	2,608	3,178
<i>Change (yoy, %)</i>	47	28	-29	58	22	22
<i>Margin (%)</i>	14.3	12.7	10.9	13.0	13.1	13.3
Depreciation	(242)	(267)	(256)	(334)	(435)	(519)
EBIT	1,247	1,643	1,092	1,799	2,173	2,659
Interest paid	(92)	(146)	(147)	(116)	(85)	(54)
Other income	229	247	169	186	214	278
Pre-tax profit	1,385	1,744	1,087	1,870	2,302	2,884
Tax	(483)	(452)	(279)	(480)	(591)	(740)
<i>Effective tax rate (%)</i>	34.9	25.9	25.7	25.7	25.7	25.7
Minority Interest	-	-	-	-	-	-
Net profit	902	1,292	808	1,390	1,712	2,144
Exceptional items	-	-	(27)	-	-	-
Adjusted net profit	902	1,292	835	1,390	1,712	2,144
<i>Change (yoy, %)</i>	40	43	(35)	66	23	25
EPS	25	36	23	39	48	60
Dividend per sh	5	10	-	4	4	4
<i>Dividend Payout %</i>	20	28	-	10	8	7

Balance Sheet

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Shareholders' funds	3,714	4,571	5,380	6,626	8,194	10,194
Share capital	360	360	360	360	360	360
Reserves & surplus	3,354	4,211	5,020	6,266	7,834	9,834
Total Debt	4	40	28	28	28	28
Other liabilities	-	4	8	8	8	8
Curr Liab & prov	3,587	4,977	4,488	5,484	6,344	7,390
Current liabilities	3,584	4,970	4,478	5,474	6,334	7,380
Provisions	3	7	10	10	10	10
Total liabilities	3,591	5,022	4,524	5,520	6,380	7,426
Total equity & liabilities	7,305	9,593	9,904	12,146	14,574	17,620
Net fixed assets	1,032	1,079	1,578	1,828	2,093	2,274
Investments	-	-	-	-	-	-
Other non-curr assets	942	1,594	1,414	1,806	2,166	2,587
Current assets	5,332	6,920	6,911	8,512	10,315	12,759
Inventories	750	968	892	1,326	1,604	1,933
Sundry Debtors	1,426	2,240	2,220	2,942	3,558	4,288
Cash and Bank	2,217	1,967	2,288	2,392	2,992	4,009
Loans and advances	158	119	85	111	133	161
Total assets	7,305	9,593	9,904	12,146	14,574	17,620

Cash Flow Statement

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Pre-tax profit	1,385	1,744	1,087	1,870	2,302	2,884
Depreciation	242	267	256	334	435	519
Tax paid	(477)	(556)	(243)	(504)	(615)	(765)
Chg in working capital	(720)	(1,116)	(362)	(717)	(528)	(628)
Other operating activities	(153)	(149)	(30)	(70)	(129)	(225)
Cash flow from operations (a)	277	190	708	912	1,464	1,786
Capital expenditure	(394)	(331)	(792)	(584)	(700)	(700)
Chg in investments	(160)	(2)	678	-	-	-
Other investing activities	215	220	168	186	214	278
Cash flow from investing (b)	(339)	(112)	54	(397)	(486)	(422)
Equity raised/(repaid)	-	-	-	-	-	-
Debt raised/(repaid)	2	418	(21)	(266)	(235)	(204)
Dividend (incl. tax)	(217)	(434)	-	(144)	(144)	(144)
Chg in minorities	-	-	-	-	-	-
Other financing activities	-	-	-	-	-	-
Cash flow from financing (c)	(215)	(16)	(21)	(410)	(379)	(348)
Net chg in cash (a+b+c)	(277)	61	741	104	600	1,017

Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Book Value (Rs)	103	127	149	184	228	283
Adj EPS (Rs)	25.1	35.9	23.2	38.6	47.5	59.6
Adj EPS growth (%)	40	43	-35	66	23	25
EBITDA margin (%)	14.3	12.7	10.9	13.0	13.1	13.3
Pre-tax margin (%)	13	12	9	11	12	12
Net Debt/Equity (x)	-0.6	-0.4	-0.4	-0.4	-0.4	-0.4
ROCE (%)	37	39	22	30	29	29
ROE (%)	27	31	17	23	23	23
DuPont Analysis						
Asset turnover (x)	1.6	1.8	1.3	1.5	1.5	1.5
Leverage factor (x)	1.9	2.0	2.0	1.8	1.8	1.8
Net margin (%)	8.6	8.6	6.7	8.5	8.6	8.9
Working Capital & Liquidity ratio						
Inventory days	26	24	26	29	29	29
Receivable days	50	55	65	65	65	65
Payable days	65	60	86	86	86	86

Valuations

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
PER (x)	19	14	21	13	10	8
Price/Book value (x)	4.7	3.8	3.2	2.6	2.1	1.7
EV/Net sales (x)	1	1	1	1	1	1
EV/EBITDA (x)	10	8	11	7	6	4
Dividend Yield (%)	1	2	0	1	1	1

Source: Company; IDBI Capital Research



Notes

Dealing	(91-22) 6836 1111	dealing@idbicapital.com
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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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