

CMP: ₹ 653

Target: ₹ 760 (16%)

Target Period: 12 months

BUY

September 15, 2022

Bigger opportunities knocking on door!

About the stock: Incorporated in 2008, PSP Projects (PSP) is one of the prominent contractors offering a diversified range of construction and allied services. Its focus remains on industrial, institutional, government, government residential and residential projects.

- PSP reported 34.3%, 31.2%, 31.3% CAGR in topline, EBITDA, PAT CAGR, respectively, during FY17-22
- Prudent management with net debt free, robust return ratios (RoCE: 25+%)

Key management meet highlights: We recently met a) Prahladbhai Patel, Chairman and Executive Director, and b) Hetal Patel, Chief Financial Officer in order to get key insights on the company's business and performance

- PSP has secured projects worth ₹ 1,344 crore at YTD FY23 level. With a strong order pipeline, it is aiming at overall order inflows of ₹ 2,500+ in FY23
- Execution has picked up in most projects (except two projects in Maharashtra) with the availability of desired level of manpower and land
- PSP has reiterated its guidance of 25% YoY topline growth (to ~₹ 2,200 crore) for FY23 with margin in the range of 11-13% over the medium term

What should investors do? PSP's share price has grown at 13% CAGR over the past five years (from ₹ 350 in September 2017 to ₹ 653 levels in September 2022).

- We maintain our **BUY** rating on the company

Target Price and Valuation: We value PSP at ₹ 760/share.

Key triggers for future price performance:

- PSP's pre-qualification for public projects has increased to ₹ 2,300+ crore. Addition of big ticket sized project to boost its overall order book position
- Diversification in select states offers a bigger opportunity pie. Further, significant traction in the pre-cast facility to bring incremental revenue
- Expect revenue CAGR of 15.3% in FY22-24E

Alternate Stock Idea: Besides PSP, we like HG Infra in the EPC space.

- Strong execution, lean balance sheet and healthy order book
- BUY with a target price of ₹ 765/share



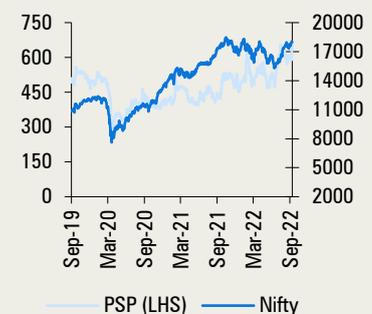
Particulars

Particular	Amount
Market Capitalization (₹ crore)	2,351.2
Debt (FY22) (₹ crore)	114.7
Cash (FY22) (₹ crore)	195.2
EV (₹ crore)	2,270.6
52 week H/L (₹)	674 / 416
Equity capital (₹ crore)	36.0
Face value (₹)	₹ 10

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoters	69.9	70.2	70.2	70.4
DII	3.1	3.9	3.0	2.9
FII	1.3	1.7	1.8	1.9
Other	25.7	24.2	25.1	24.8

Price Chart



Key Risks

Key Risk: (i) Delay in execution of key projects; (ii) Significant increase in commodity prices

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Key Financial Summary

(₹ Crore)	FY20	FY21	FY22	5 Year CAGR (FY17-22)	FY23E	FY24E	2 Year CAGR (FY22-24E)
Net Sales	1,499.3	1,240.9	1,748.8	34.3	2,035.7	2,325.2	15.3
EBITDA	191.0	134.8	256.5	31.2	254.0	298.8	7.9
EBITDA Margin (%)	12.7	10.9	14.7		12.5	12.8	
Net Profit	129.3	80.8	162.4	31.3	153.0	182.1	5.9
EPS (₹)	35.9	22.4	45.1		42.5	50.6	
P/E (x)	18.2	29.1	14.5		15.4	12.9	
Price / Book (x)	5.1	4.4	3.4		2.9	2.5	
EV/EBITDA (x)	11.7	16.3	8.9		9.1	7.6	
RoCE (%)	35.9	20.7	31.0		24.9	24.9	
RoE (%)	28.3	15.5	23.7		18.9	19.0	

Source: Company, ICICI Direct Research

Key management meet takeaways

- Order inflows and opportunities:** PSP has witnessed healthy inflows at YTD FY23 level – secured projects worth ₹ 1,344 crore, which, in turn, supported its overall order book position (₹ 4,613 crore at Q1FY23-end; 2.4x book to TTM revenues). The management has also indicated towards significant incremental opportunities coming from a) government and private clients, and b) redevelopment segment with higher focus remaining on Maharashtra, Gujarat, Uttar Pradesh and Delhi. With these, the company is targeting overall order inflows of ₹ 2,500+ crore during FY23
- Order pipeline:** In line with already secured projects, the bid pipeline remains equally strong for PSP, which includes a) gems and jewellery building job in Navi Mumbai (~₹ 1,500 crore), b) Gandhi Ashram (~₹ 1,000 crore), c) Indian Navy project in Karnataka (~₹ 800 crore), d) museums near Statue of Unity (~₹ 700 crore), e) recreational area near Dharoi Dam (~₹ 300 crore), f) Nestlé factory (~₹ 300 crore) and g) Capgemini IT park (~₹ 250 crore) in Chennai. Also, significant orders are in the pipeline from the Adani group, Central Vista, and GIFT city. PSP is currently focusing higher on bigger size projects with rise in experience, capabilities and pre-qualification criteria. In turn, this is likely to benefit the company with better operating leverage
- Revenue and margin guidance:** PSP has reiterated its guidance for 25% YoY topline growth (to ₹ 2,200 crore) during FY23 to be driven by its comfortable order book position and pick-up in execution. Margin is likely to hover in the range of 11-13% over the medium term depending on type, size and stage of projects. Softening of raw material prices in recent times is expected to aid the overall margin performance
- Execution capabilities:** PSP has built robust execution capabilities over the years by focusing on latest machines, cutting-edge technology and skilled manpower base. Additionally, it has managed to fill a vacuum that is vitally required to be occupied by an organised player in the project ticket size of ₹ 100-300 crore. Besides these, the company has also worked on bigger ticket size projects such as 30-story building (225-metre high) and Surat Diamond Bourse project (spread over 66 lakh sq ft area), which makes it the only contractor based out of Gujarat to work on such a large project. Going forward, the management seems comfortable to work on super/high-rise buildings (as on opportunity arises) having gained strong execution strength and investment/capex capabilities
- Update on UP project:** PSP faced severe labour-related problems in April-May 2022 as marriage season was at peak (labourers moved to their native places/or on leave to attend/perform wedding). However, most labourers returned to project sites later on – aiding in execution pace normalisation. As of now, construction in six project sites (out of seven) is taking place in line with project schedules and, thus, is likely to be complete by FY23-end. However, work on one project site has been delayed due to unavailability of desired land (it is located in campus of existing hospital). The management believes work on this project will get over by June 2023-end. Overall, the current monthly revenue run rate is ~₹ 40 crore. This is likely to rise to ₹ 50-60 crore in the near term with commencement of MEP and interior work
- Update on Maharashtra projects:** PSP has secured two projects in Maharashtra till now. However, it faced several challenges in both projects. In the residential project at Pandharpur, PSP has significantly slowed down execution pace and has sent a legal notice to the respective authority with regard to clearing outstanding bills (~₹ 17 crore) and requirement of further clarity on pending work. For the residential project at Bhiwandi, PSP secured the project a couple of years back but no significant progress was seen mainly from the government side due to land acquisition problem. Later on, PSP demanded a rise in the project cost in order to commence execution to offset a significant increase in raw material costs and protect its margin. With the government denying the escalations, PSP went to court and hearings are going on. As per the management, the project may witness rebidding with likely increase in overall size of the project (to ~₹ 1,700 crore)

- **Pre-cast facility:** PSP commissioned a precast facility in Gujarat during December 2022 with the objective of providing sustainable building solutions and technological upgradation. Order from precast facility at Q1FY23-end was at ₹ 29.2 crore. Recently, the company received orders worth ~₹ 150 crore from L&T, and expects the momentum to continue for orders with ongoing discussion with various potential clients. Margins for pre-cast facility are expected to be in-line with EPC orders
- **Construction related costs:** As per the management, the construction cost may have gone up by 20% over the past three years with a significant rise in steel, cement and MEP prices. Also, wage of labourers generally gets increased by 7-8% on a yearly basis. Further, the company normally relies on own purchased machineries for day-to-day operations
- **Pre-qualification to rise to ₹ 2,500+ crore:** PSP achieved a major breakthrough in October 2017 when it secured a key contract work for the Surat Diamond Bourse (SDB) project. The project is complete as of now and awaiting final completion certificate for revised project value (~₹ 1,900 crore; already received certificate for original project valued at ₹ 1,575 crore). With the receipt of revised certificate, PSP would become eligible to bid for public projects having project size of ₹ 2,500+ crore. This, in turn, would help the company to bag larger sized projects
- **Competitive intensity:** Competitive intensity in the projects valued at ₹ 200-300 crore is comparatively less than competition at jobs valued at ₹ 500+ crore
- **Impact of Gujarat election:** The management does not expect any major impact of the upcoming Gujarat election on its inflows/execution (except awards by government may not happen during "Model Code of Conduct" period)
- **Management bandwidth:** While the company is headed by its chairman (PS Patel), it is well managed professionally by each department head having been given clear guidelines and processes to follow. Also, the project managers/ supervisors/ site engineers have been instructed to report any issues/requirements related to respective projects directly to higher authorities, which ensures clearing of concerns at a rapid pace and, in turn, smooth execution. Also, the second generation of PS Patel (son and daughter) are gearing up by working in the company in different positions

PSP is set to enter the big leagues mainly backed by a) its rich construction experience, b) eligibility to bid for higher-ticket size project with improvement in pre-qualification criteria, and c) geographical diversification. Additionally, the company is well placed for robust growth with a healthy order book position, strong revenue visibility and decent margins. Healthy order inflows secured at YTD FY23 level and robust bidding pipeline brighten the company's prospects. At the CMP, the company is currently trading at a valuation of 12.9x FY24E P/E. We have a BUY recommendation on the stock with revised target price of ₹ 760 (15x FY24E P/E) vs. ₹ 710, earlier at 14x FY24 P/E.

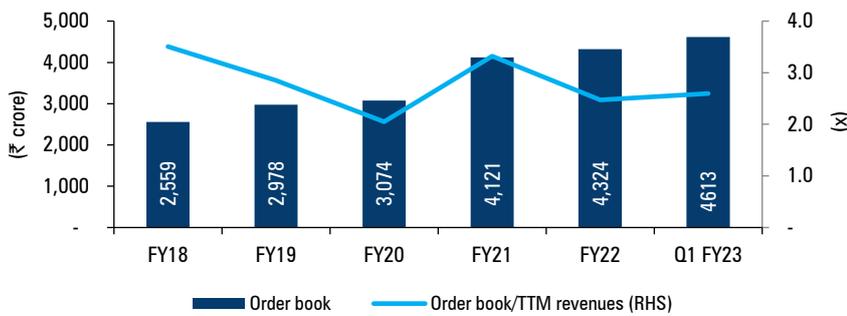
Company Analysis

Exhibit 1: Key project details

Description Of Project	Location	Name of client	Contract Value (₹ crore)	Order book Value (₹ crore)
Medical Colleges & Hospitals At 7 Locations	Uttar Pradesh	Public Works Department	1,491	1,314
High Rise Buildings cum Commercial units - EWS Housing Project under PMAY, Bhiwandi	Maharashtra	Municipal Corporation	601	601
Sports Complex	Gujarat	Municipal Corporation	504	501
Residential Project	Gujarat	Private Developer	499	391
Construction of Steel plant	Gujarat	Private Company	257	176
Residential Project	Gujarat	Private Company	252	252
Construction of Residential Buildings of PAC Mahila Battalion at Badaun, UP	Uttar Pradesh	Public Works Department	239	233

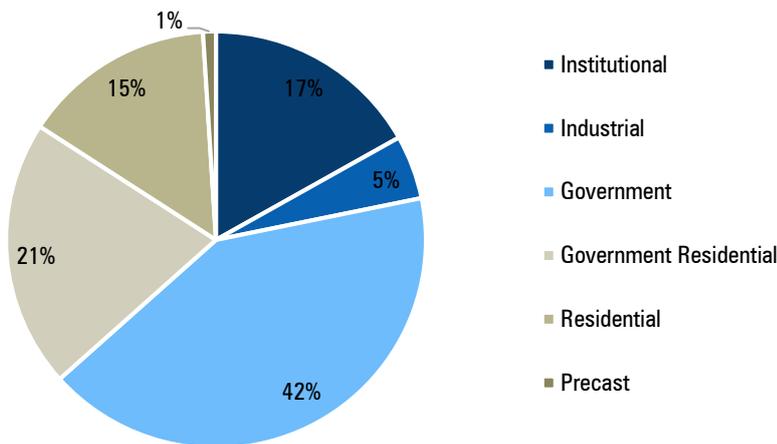
Source: Company, ICICI Direct Research

Exhibit 2: Order book* trend



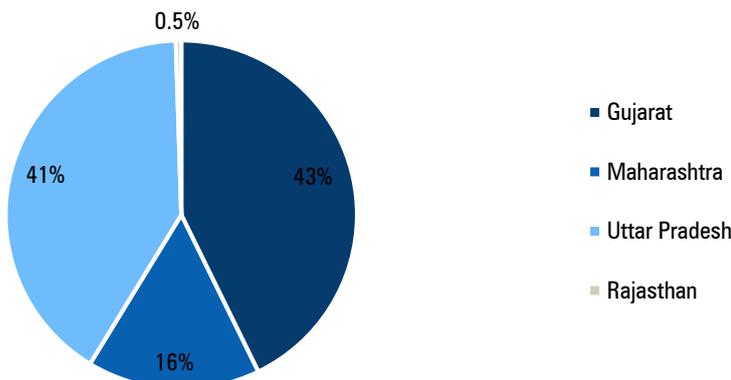
Source: Company, ICICI Direct Research; order book worth ₹ 4,613 crore at Q1FY23-end

Exhibit 3: Order book* spread across major verticals



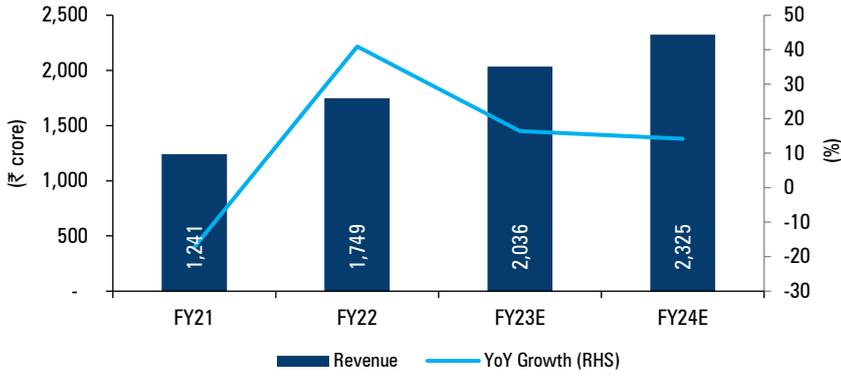
Source: Company, ICICI Direct Research; * order book worth ₹ 4,613 crore at Q1FY23-end

Exhibit 4: Gujarat, Uttar Pradesh contribute majority to order book*



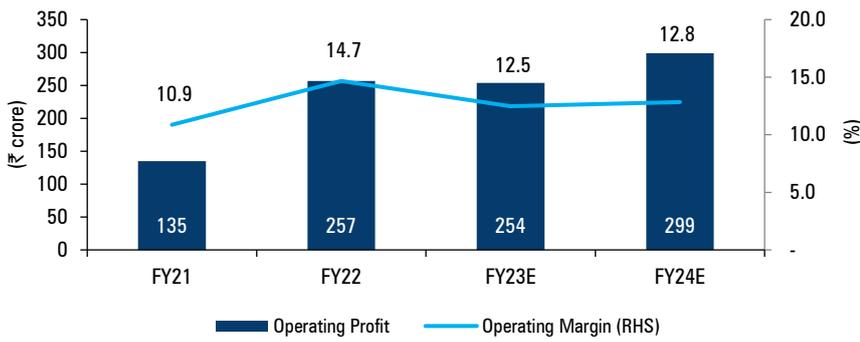
Source: Company, ICICI Direct Research; order book worth ₹ 4,613 crore at Q1FY23-end

Exhibit 5: Revenue to improve at 15.3% CAGR during FY22-FY24E



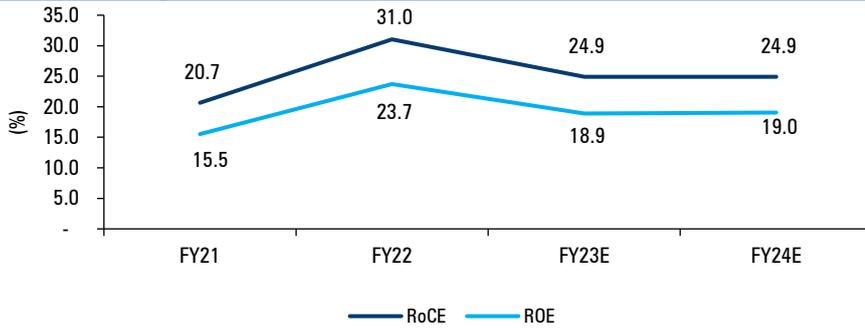
Source: Company, ICICI Direct Research

Exhibit 6: Margin to moderate



Source: Company, ICICI Direct Research

Exhibit 7: Strong return ratios



Source: Company, ICICI Direct Research

Financial summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Net Sales	1,240.9	1,748.8	2,035.7	2,325.2
Growth (%)	(17.2)	40.9	16.4	14.2
Raw Material Cost	1,040.2	1,391.3	1,663.1	1,885.8
Employee Cost	50.9	72.3	92.1	110.5
Other Expenditure	15.0	28.6	26.5	30.2
Total Operating Expenditure	1,106.0	1,492.3	1,781.7	2,026.5
EBITDA	134.8	256.5	254.0	298.8
Growth (%)	(29.4)	90.3	(1.0)	17.6
Other income	16.9	21.3	22.6	24.1
Depreciation	25.6	32.1	43.2	48.1
EBIT	126.1	245.7	233.4	274.8
Interest	14.7	26.4	28.9	31.4
PBT	111.4	219.3	204.6	243.4
Tax	27.9	56.9	51.6	61.3
Rep. PAT	83.5	162.4	153.0	182.1
Exceptional items				
Adj. Net Profit	83.5	162.4	153.0	182.1
Growth (%)	(35.4)	94.4	(5.8)	19.0
EPS (₹)	22.4	45.1	42.5	50.6

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
Profit after Tax	80.8	162.4	153.0	182.1
Depreciation	25.6	32.1	43.2	48.1
Interest	14.7	26.4	28.9	31.4
Others	(20.3)	(21.4)	(22.6)	(24.1)
Cash Flow before wc changes	100.8	199.4	202.4	237.4
Net Increase in Current Assets	32.9	(161.8)	(142.0)	(134.5)
Net Increase in Current Liabilities	(55.9)	95.8	18.0	56.5
Net CF from operating activities	77.8	133.4	78.5	159.4
Net purchase of Fixed Assets	(75.6)	(81.6)	(50.1)	(50.1)
Others	38.3	(77.0)	(15.2)	(14.1)
Net CF from Investing Activities	(37.3)	(158.6)	(65.3)	(64.2)
Proceeds from share capital	0.1	(1.3)	(0.0)	-
Proceeds/Repayment from Loan	6.1	33.7	20.3	19.6
Interest paid	(14.7)	(26.4)	(28.9)	(31.4)
Others	-	(14.4)	(27.0)	(36.0)
Net CF from Financing Activities	(8.5)	(8.4)	(35.6)	(47.8)
Net Cash flow	32.0	(33.6)	(22.4)	47.4
Opening Cash and Cash Equivalent	196.7	228.8	195.2	172.8
Closing Cash & cash equivalent	228.8	195.2	172.8	220.2

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity capital	36.0	36.0	36.0	36.0
Reserves & Surplus	502.0	648.7	774.7	920.8
Networth	538.0	684.7	810.7	956.8
Loan Funds	81.0	114.7	135.0	154.5
Deferred Tax liability	(9.2)	(9.4)	(9.4)	(9.4)
Other financial liabilities	0.8	1.5	1.8	2.2
Total Liabilities	610.6	791.5	938.2	1,104.2
Assets				
Net Block	116.2	207.4	214.3	216.4
Capital WIP	41.6	-	-	-
Non-current Investments	0.8	0.7	0.8	1.0
Other non-current assets	131.4	229.8	267.5	305.5
Loans	-	-	-	-
Inventories	89.2	80.6	111.5	127.4
Trade Receivables	222.0	311.8	384.8	465.0
Cash & Bank Balances	228.8	195.2	172.8	220.2
Loans & Advances	8.5	5.9	6.9	7.9
Other current assets	142.6	225.8	262.9	300.3
Total current assets	691.1	819.4	938.9	1,120.8
Total Current liabilities	370.6	465.7	483.4	539.5
Net Current Assets	320.5	353.7	455.5	581.3
Total Assets	610.6	791.5	938.2	1,104.2

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
Reported EPS	22.4	45.1	42.5	50.6
Cash EPS	29.6	54.0	54.5	63.9
BV per share	149.4	190.2	225.2	265.8
Revenue per share	344.7	485.8	565.5	645.9
Cash Per Share	63.5	54.2	48.0	61.2
Operating Ratios (%)				
EBITDA Margin	10.9	14.7	12.5	12.8
EBIT/ Net Sales	8.8	12.8	10.4	10.8
PAT Margin	6.7	9.3	7.5	7.8
Inventory days	26.2	16.8	20.0	20.0
Debtor days	65.3	65.1	69.0	73.0
Creditor days	76.4	53.8	52.0	50.0
Return Ratios (%)				
RoE	15.5	23.7	18.9	19.0
RoCE	20.7	31.0	24.9	24.9
RoC	32.2	37.7	27.6	28.4
Valuation Ratios (x)				
P/E	29.1	14.5	15.4	12.9
EV / EBITDA	16.3	8.9	9.1	7.6
EV / Net Sales	1.8	1.3	1.1	1.0
Price to Book Value	4.4	3.4	2.9	2.5
Solvency Ratios (x)				
Debt / EBITDA	0.6	0.4	0.5	0.5
Net Debt / Equity	(0.3)	(0.1)	(0.0)	(0.1)

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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