INSTITUTIONAL RESEARCH

HSIE Results Daily

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Results Reviews

- **ICICI Lombard:** ICICI Lombard (ICICIGI) printed NEP 9% ahead of estimates (+18% YoY); however, reinvestments into building the retail health agency kept opex ratios elevated (32.7%), dragging calculated CORs to 106% and APAT to INR4.6bn (+3% YoY). We expect loss ratios in the health segment to normalise during the rest of FY23, while we also expect loss ratios in motor TP segment to inch up during H2. We remain wary of the competitive pricing environment in the motor OD segment; however, with a strong demand outlook in the underlying autos segment, we argue that the pessimism is overdone. We maintain our ADD rating, with a TP of INR1,370 (implied Sep-24E PE of 30x and P/ABV of 5.1x).
- **L&T Technology Services:** L&T Technology Services (LTTS) posted better-than-expected revenue and margin performance in Q2FY23, upped its FY23E revenue guidance (lower-band) and maintained a medium-term growth outlook. Revenue growth of 4.5% QoQ and 18.1% YoY CC was supported by strong growth in transportation vertical and plant engineering vertical, offset by relative weakness in the telecom & hi-tech and medical devices verticals. Operating outperformance was supported by business-mix and better utilisation. While the cyclicality risk arising from macro downturn persists, LTTS' structural drivers and consistency in large deal wins (third successive quarter of USD 50mn+ TCV win) provide line of sight. LTTS revised its revenue guidance to 15.5% to 16.5% CC for FY23E (vs. 14.5 to 16.5% CC earlier), implying strong recovery in Q4FY23E, following furlough impact in Q3FY23E. Some key positives include (1) consistency in operating profile, supported by business mix in recent quarters (offshoring lever ahead); (2) strong commentary on deal pipeline (higher sequentially) and strong bookings in Europe; and (3) strength in largest vertical (broad-based across automotive, rail and aero with large wins). Near-term softness is likely to play out in telecom & hi-tech sub-segment (ISV, consumer electronics) and medical devices vertical (spend recalibration) and reflected in soft USD 10mn+ deal count in Q2. Maintain ADD on LTTS, with a revised TP of INR 3,750, based on 28x June-24E EPS, supported by 19% EPS CAGR over FY22-25E, but upside potential is limited as stock is trading at 29x FY24E.
- **Sonata Software:** We maintain our BUY rating on Sonata, following an in-line revenue growth in the IT services segment (IITS, +3.9% QoQ CC) and better-than-expected margin performance. The sell-to-Microsoft portfolio (ISV, +3.0% QoQ) continues to perform while the sell-with-Microsoft portfolio (Dynamics) growth will accelerate as the new deal ramps up. The company remains optimistic about the Microsoft opportunity (product engineering + dynamics) and is confident of delivering ~15-20% growth. The management has a target of doubling its IITS revenue in the next four years. The focus is to pivot to large annuity-based managed services contracts; the recent two large deal wins (USD 10mn+) indicate improved sales rigor and these will start contributing from Q4FY23E. The IITS EBITDA margin expanded 108bps QoQ to 23.5% (vs estimate of 72bps decline), led by higher offshoring (+100 bps QoQ) and stable utilisation. The attrition has started moderating and the freshers hiring program is on track (~600 in FY23E). The next wage hike and sales investments will come in Q4, the target margin range for IITS is 22-23%. DPS growth was strong (+72% YoY), supported by growth in cloud licenses

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and annuity revenue. We increase our EPS estimate by 4/5% for FY24/25E, led by improving revenue and margin outlook. Our target price of INR 680 is based on 18x June-24E EPS. The stock trades at a P/E of 16/14x FY23/24E (5y/10Y average P/E of 14/10x).

- **Heidelberg Cement:** We maintain our REDUCE rating on Heidelberg Cement (HEIM), with a lower target price of INR 180/share (8x Mar-24E EBITDA). In the absence of any major planned expansion over the next four years, we expect subdued volume growth and loss in market share to continue, as other players expand in HEIM's core markets. HEIM reported weak results in Q2FY23 due to continued volume decline (down 19% YoY) and NSR falling 5% QoQ. Opex went up 3% QoQ on higher input, freight and fixed costs. Subsequently, unitary EBITDA declined 44% QoQ to INR 476/MT (halved YoY).
- **PSP Projects:** PSP Projects (PSP) reported weak revenue/EBITDA/APAT of INR 3.6/0.4/0.2bn, thereby missing our estimates at all levels. PSP continues to disappoint on the execution front as the extended monsoon in Q2FY23 led to weak execution and revenue booking. Its entire order book (OB) (excl. Bhiwandi and Pandharpur forming 14%) is under execution, and execution is expected to pick up in H2FY23. The current bid pipeline stands at INR 50bn, of which 52% orders are from Gujarat and 45% are private. FY23 revenue guidance stands at INR 20bn, with margin of 12-12.5% and an order inflow (OI) of INR 25bn. We maintain BUY on PSP with a reduced TP of INR 675/sh (13x rolled over to Sep-24E EPS).

ICICI Lombard

A mixed bag

ICICI Lombard (ICICIGI) printed NEP 9% ahead of estimates (+18% YoY); however, reinvestments into building the retail health agency kept opex ratios elevated (32.7%), dragging calculated CORs to 106% and APAT to INR4.6bn (+3% YoY). We expect loss ratios in the health segment to normalise during the rest of FY23, while we also expect loss ratios in motor TP segment to inch up during H2. We remain wary of the competitive pricing environment in the motor OD segment; however, with a strong demand outlook in the underlying autos segment, we argue that the pessimism is overdone. We maintain our ADD rating, with a TP of INR1,370 (implied Sep-24E PE of 30x and P/ABV of 5.1x).

- **Business update**: NEP clocked in 9% ahead of estimates at INR38.4bn (+18% YoY), owing to a sharp uptick in health (+32% YoY) and crop segments (3.2x YoY) and higher retention in these lines. Loss ratios in the health segment shot up to 81.8% (+810bps QoQ), primarily due to seasonal uptick in monsoon-related diseases, while normalisation of road traffic coupled with pricing pressure pushed up the claims ratio in motor OD segment. Optically, claims ratio in the motor TP segment improved 730bps sequentially to 66.6%; however, we believe this was driven by reserve releases and low frequency in court settlements and expect this to inch up to 75-80% levels. Opex ratio (including commissions) remained elevated at 32.7% on the back of continued investments in building the retail health agency channel, driving calculated COR to 106% (+84bps QoQ, albeit in line with estimates). Sharp improvement in investment yields to 8.7% (+165bps QoQ) drove float income (INR8.6bn) and APAT to INR4.6bn (+3% YoY; +9% vs. estimate; adj. for one-off tax gains).
- **Commentary—a mixed bag:** Management highlighted that the H1FY23 mix of CV business improved to 23%, benefitting from improving discipline in the segment, whereas the private car segment continued to bleed. Experience in motor TP claims from the changes in MV Act are yet to play out; we continue to monitor this closely. The management is confident on growth outlook (~18-20% YoY in H2) and it expects motor OD pricing to improve in the near term. ICICIGI remains upbeat on its ability to capitalise on the agency force of Bharti AXA to scale up the retail health business.

Quarterly financial summary

(INR bn)	Q2FY23	Q2FY22	YoY(%)	Q2FY22	QoQ(%)	FY22	FY23E	FY24E	FY25E
Premium (NEP)	38.37	32.50	18.0	34.68	10.6	130.3	153.9	178.5	207.1
Operating profit	6.01	5.94	1.2	4.65	29.3	17.2	22.3	27.3	33.1
OP margin (%)	18.3	18.3	0bps	13.4	486bps	13.2	14.5	15.3	16.0
APAT	4.62	4.47	3.4	3.49	32.4	12.7	16.5	20.3	24.6
AEPS	9.4	9.1	3.4	7.1	32.4	25.8	33.5	41.2	50.0
P/E (x)						44.4	34.2	27.9	22.9
P/B (x)						6.0	5.3	4.6	4.0
ROE (%)						14.5	16.3	17.5	18.4

Note: FY22 onwards, numbers include Bharti AXA GI's merger. Source: Company, HSIE Research

Change in estimates

(INR bn)	FY23E			FY24E			FY25E		
	Old	Revised	Change %	Old	Revised	Change %	Old	Revised	Change %
Net written premium	159	159	-	186	186	-	216	216	-
Net earned premium	154	154	-	179	179	-	207	207	-
COR (%)	105.2	105.2	0bps	104.2	104.2	0bps	104.3	104.3	0bps
COR (%) IRDAI	103.4	103.4	0bps	102.1	102.1	0bps	97.1	97.1	0bps
PAT	16.49	16	-	20	20	-	25	25	-

Source: Company, HSIE Research

ADD

CMP *(as on 18 Oct 2022)*	INR 1,149
Target Price	INR 1,370
NIFTY	17,487

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 1,370	INR 1,370
EPS %	FY23E	FY24E
	Nil	Nil

KEY STOCK DATA	
Bloomberg code	ICICIGI IN
No. of Shares (mn)	491
MCap (INR bn) / ($ mn)	565/6,855
6m avg traded value (INR mn)	983
52 Week high / low	INR 1,548/1,071

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(9.6)	(15.3)	(24.4)
Relative (%)	(17.8)	(18.5)	(19.8)

SHAREHOLDING PATTERN (%)	Jun-22	Sep-22
Promoters	48.0	NA
FIs & Local MFs	15.4	NA
FPIs	25.0	NA
Public & Others	11.6	NA
Pledged Shares	Nil	NA

Source : BSE

Pledged shares as % of total shares

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L&T Technology Services

Steady progression

L&T Technology Services (LTTS) posted better-than-expected revenue and margin performance in Q2FY23, upped its FY23E revenue guidance (lower-band) and maintained a medium-term growth outlook. Revenue growth of 4.5% QoQ and 18.1% YoY CC was supported by strong growth in transportation vertical and plant engineering vertical, offset by relative weakness in the telecom & hi-tech and medical devices verticals. Operating outperformance was supported by business-mix and better utilisation. While the cyclicality risk arising from macro downturn persists, LTTS' structural drivers and consistency in large deal wins (third successive quarter of USD 50mn+ TCV win) provide line of sight. LTTS revised its revenue guidance to 15.5% to 16.5% CC for FY23E (vs. 14.5 to 16.5% CC earlier), implying strong recovery in Q4FY23E, following furlough impact in Q3FY23E. Some key positives include (1) consistency in operating profile, supported by business mix in recent quarters (offshoring lever ahead); (2) strong commentary on deal pipeline (higher sequentially) and strong bookings in Europe; and (3) strength in largest vertical (broad-based across automotive, rail and aero with large wins). Near-term softness is likely to play out in telecom & hi-tech sub-segment (ISV, consumer electronics) and medical devices vertical (spend recalibration) and reflected in soft USD 10mn+ deal count in Q2. Maintain ADD on LTTS, with a revised TP of INR 3,750, based on 28x June-24E EPS, supported by 19% EPS CAGR over FY22-25E, but upside potential is limited as stock is trading at 29x FY24E.

- **Q2FY23 highlights:** (1) LTTS' revenue stood at USD 247.1mn (higher than our estimate of USD 244.7mn), +3.2/+13.7% QoQ/YoY (+4.5/+18.1% QoQ/YoY CC); (2) growth was largely led by transportation (+7.2% QoQ), followed by plant engineering (+5.1% QoQ) and industrial product (+2.6% QoQ), while telecom/medical devices declined by -1.4/-2.2% QoQ; (3) LTTS won a USD 60mn+ five year deal from a global transportation company (BMW Group) during the quarter; (4) EBITM was flat sequentially despite wage increase, led by better business mix (lower share of telecom & hi-tech), better utilisation, operational efficiencies and FX; the management maintains its aspiration of 18%+ operating margin for medium term; (5) the company added 41 employees in Q2FY23 (vs 572 added in Q1FY23) and continues to hire more freshers in H2FY23E. Attrition inched up 90bps QoQ to 24.1%, reaching its peak, and is expected to taper down, going ahead. (6) LTTS maintained its USD 1.5bn outlook by FY25E (quarterly annualized rate), implying a CQGR of 4.3% (includes inorganic).
- **Outlook:** We have factored in USD revenue growth of +13.4/+14.8/14.6% and EBITM of 18.3/18.5/18.5% for FY23/24/25E respectively. LTTS is currently trading at 29x FY24E, with FY22-25E EPS CAGR at 19%.

Quarterly financial summary

YE March (INR bn)	Q2 FY23	Q2 FY22	*YoY (%)*	Q1 FY23	*QoQ (%)*	FY21	FY22	FY23E	FY24E	FY25E
Revenue (USD mn)	247	217	*13.7*	240	*3.2*	737	880	998	1,146	1,313
Net Sales	19.95	16.08	*24.1*	18.74	*6.5*	54.50	65.70	79.61	92.85	107.68
EBIT	3.63	2.96	*22.4*	3.43	*5.6*	7.89	12.01	14.57	17.17	19.95
APAT	2.82	2.30	*22.8*	2.74	*3.0*	6.27	9.57	11.49	13.49	16.10
Diluted EPS (INR)	26.8	21.8	*22.8*	26.0	*3.0*	59.4	90.7	108.8	127.9	152.5
P/E (x)						61.9	40.5	33.8	28.7	24.1
EV / EBITDA (x)						36.8	26.0	21.5	17.9	15.1
RoE (%)						20.1	25.1	25.5	25.4	25.2

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (INR bn)	FY23E Old	FY23E Revised	Change %	FY24E Old	FY24E Revised	Change %
Revenue (USD mn)	994	998	*0.4*	1,117	1,146	*2.7*
Revenue	79.02	79.61	*0.7*	90.44	92.85	*2.7*
EBIT	14.36	14.57	*1.5*	16.27	17.17	*5.5*
EBIT margin (%)	18.2	18.3	14bps	18.0	18.5	50bps
APAT	11.36	11.49	*1.1*	12.92	13.49	*4.5*
EPS (INR)	107.6	108.8	*1.1*	122.4	127.9	*4.5*

Source: Company, HSIE Research

ADD

CMP *(as on 18 Oct 2022)*	INR 3,675
Target Price	INR 3,750
NIFTY	17,487

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 3,520	INR 3,750
EPS %	FY23E	FY24E
	+1.1	+4.5

KEY STOCK DATA	
Bloomberg code	LTTS IN
No. of Shares (mn)	106
MCap (INR bn) / ($ mn)	388/4,712
6m avg traded value (INR mn)	1,315
52 Week high / low	INR 5,928/2,923

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	15.7	(14.6)	(24.1)
Relative (%)	7.6	(17.8)	(19.5)

SHAREHOLDING PATTERN (%)

	Mar-22	Jun-22
Promoters	73.90	73.88
FIs & Local MFs	5.20	4.08
FPIs	7.14	6.34
Public & Others	13.76	15.70
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Sonata Software

Focus on higher annuity and profitability

We maintain our BUY rating on Sonata, following an in-line revenue growth in the IT services segment (IITS, +3.9% QoQ CC) and better-than-expected margin performance. The sell-to-Microsoft portfolio (ISV, +3.0% QoQ) continues to perform while the sell-with-Microsoft portfolio (Dynamics) growth will accelerate as the new deal ramps up. The company remains optimistic about the Microsoft opportunity (product engineering + dynamics) and is confident of delivering ~15-20% growth. The management has a target of doubling its IITS revenue in the next four years. The focus is to pivot to large annuity-based managed services contracts; the recent two large deal wins (USD 10mn+) indicate improved sales rigor and these will start contributing from Q4FY23E. The IITS EBITDA margin expanded 108bps QoQ to 23.5% (vs estimate of 72bps decline), led by higher offshoring (+100 bps QoQ) and stable utilisation. The attrition has started moderating and the freshers hiring program is on track (~600 in FY23E). The next wage hike and sales investments will come in Q4, the target margin range for IITS is 22-23%. DPS growth was strong (+72% YoY), supported by growth in cloud licenses and annuity revenue. We increase our EPS estimate by 4/5% for FY24/25E, led by improving revenue and margin outlook. Our target price of INR 680 is based on 18x June-24E EPS. The stock trades at a P/E of 16/14x FY23/24E (5y/10Y average P/E of 14/10x).

- **Q2FY23 Highlights**: IITS revenue stood at USD 57.8mn, +1.8% QoQ growth, in line with our estimate of USD 57.7mn. Digital revenue contributed 73% to IITS revenue, growing +1.8% QoQ. Among the verticals, ISV grew +3% QoQ while travel/retail were down -9.4/-1.1% QoQ due to cross-currency impact. IITS EBITDA margin stood at 23.5% (+110bps QoQ) while DPS EBITDA margin stood at 4.5% (-120bps QoQ). Consolidated revenue witnessed de-growth of 15.9% QoQ due to a sequential decline in DPS as a result of seasonality. Consolidated EBITDA margin stood at 10.3% (+237bps QoQ). The company added 403 headcounts in Q2 (290 fresher added in H1) and plans to add around 600 freshers in FY23E.
- **Outlook:** We expect IITS growth of +15/11% and DPS growth of 34/20% for FY23/24E. IITS margin will be at 23/22.9% and DPS margin at 3.4/3.5% for FY22/23/24E respectively. IITS revenue/consolidated EPS CAGRs for FY22-25E are expected to be +13/16%.

Quarterly Financial summary

YE March (INR bn)	Q2 FY23	Q2 FY22	YoY (%)	Q1 FY23	QoQ (%)	FY21	FY22	FY23E	FY24E	FY25E
IITS Revenues (USD mn)	57.8	49.4	*17.0*	56.8	*1.8*	160	203	233	259	289
Net Sales	14.96	9.63	*55.3*	17.79	*(15.9)*	42.28	55.53	72.91	86.35	101.45
EBIT	1.41	1.11	*26.6*	1.29	*9.6*	3.40	4.16	5.52	6.42	7.59
APAT	1.13	0.91	*23.6*	1.08	*4.6*	2.44	3.76	4.40	5.06	5.92
Diluted EPS (INR)	8.0	6.5	*23.6*	7.7	*4.6*	17.4	26.8	31.4	36.1	42.3
P/E (x)						28.9	18.7	16.0	13.9	11.9
EV / EBITDA (x)						17.3	14.0	10.2	8.4	6.7
RoE (%)						31.0	37.6	36.4	34.9	34.4

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE March (INR bn)	FY23E Old	FY23E Revised	Change %	FY24E Old	FY24E Revised	Change %
Revenue (USD mn)	232	233	*0.4*	257	259	*0.8*
Revenue	70.00	72.91	*4.2*	82.79	86.35	*4.3*
EBIT	5.23	5.52	*5.5*	6.17	6.42	*4.0*
EBIT margin (%)	7.5	7.6	10bps	7.4	7.4	-2bps
APAT	4.19	4.40	*5.1*	4.88	5.06	*3.8*
EPS (INR)	29.9	31.4	*5.1*	34.8	36.1	*3.8*

Source: Company, HSIE Research

BUY

CMP *(as on 18 Oct 2022)*	INR 502
Target Price	INR 680
NIFTY	17,487

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 650	INR 680
EPS %	FY23E	FY24E
	+5.1	+3.8

KEY STOCK DATA	
Bloomberg code	SSOF IN
No. of Shares (mn)	140
MCap (INR bn) / ($ mn)	70/856
6m avg traded value (INR mn)	113
52 Week high / low	INR 773/458

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	1.3	(15.2)	(27.6)
Relative (%)	(6.8)	(18.3)	(23.1)

SHAREHOLDING PATTERN (%)	Jun-22	Sep-22
Promoters	28.17	28.17
FIs & Local MFs	14.97	13.98
FPIs	12.87	12.96
Public & Others	43.99	44.89
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Heidelberg Cement

Volume decline and market share loss continue

We maintain our REDUCE rating on Heidelberg Cement (HEIM), with a lower target price of INR 180/share (8x Mar-24E EBITDA). In the absence of any major planned expansion over the next four years, we expect subdued volume growth and loss in market share to continue, as other players expand in HEIM's core markets. HEIM reported weak results in Q2FY23 due to continued volume decline (down 19% YoY) and NSR falling 5% QoQ. Opex went up 3% QoQ on higher input, freight and fixed costs. Subsequently, unitary EBITDA declined 44% QoQ to INR 476/MT (halved YoY).

- **Q2FY23 performance:** Volume fell 19% YoY to 1mn MT: it fell for fourth consecutive quarter (lowest sales in last six years for Q2). Utilisation slumped to 64% vs 79/71% YoY/QoQ. The share of trade sales was flat QoQ at 83% (down 3% YoY). Opex rose 3% QoQ due to increase in input cost, freight cost and fixed expense by 3% each. Its fuel cost, though fell marginally QoQ, remained high at INR 3.1 per Kcal. Due to the triple whammy of lower realisation, low utilisation and elevated costs, unitary EBITDA declined 44% QoQ to INR 476/MT (halved YoY).
- **Outlook:** The management believes that it has temporary lost sales due to its focus on premium sales and it expects volume to rebound Q3 onwards. We expect subdued volume growth and loss in market share to continue, as other players expand in HEIM's core markets. The management expects energy costs to decline Q3 onwards on falling fuel prices, increasing the share of green fuel/green power usage. It is also undertaking 0.3/0.5mn MT clinker/grinding expansion by FY24E. The Gujarat greenfield IU expansion (3.5mn MT cement and 2mn MT clinker) is expected in FY27E (vs earlier guided timeline by FY26E). Factoring in weak performance, we trimmed our FY23/FY24/FY25E EBITDA estimates by 6/4/9% respectively.

Quarterly/annual financial summary

YE Mar (INR bn)	Q2 FY23	Q2 FY22	*YoY (%)*	Q1 FY23	*QoQ (%)*	FY21	FY22	FY23E	FY24E	FY25E
Sales (mn MT)	1.00	1.23	*(18.8)*	1.11	*(10.1)*	4.49	4.78	4.68	5.01	5.26
NSR (INR/MT)	5,061	4,683	*8.1*	5,305	*(4.6)*	4,718	4,808	5,193	5,193	5,245
Opex (INR/MT)	4,585	3,737	*22.7*	4,450	*3.0*	3,589	3,899	4,412	4,219	4,294
EBITDA(INR/MT)	476	946	*(49.7)*	855	*(44.3)*	1,129	910	781	974	951
Net Sales	5.06	5.76	*(12.2)*	5.90	*(14.2)*	21.17	22.97	24.31	26.01	27.59
EBITDA	0.48	1.16	*(59.1)*	0.95	*(49.9)*	5.07	4.35	3.66	4.88	5.00
APAT	0.07	0.60	*(88.2)*	0.52	*(86.4)*	3.15	2.52	1.99	2.95	3.15
AEPS (INR)	0.3	2.6	*(88.2)*	2.3	*(86.4)*	13.9	11.1	8.8	13.0	13.9
EV/EBITDA (x)						8.5	9.9	11.6	9.1	9.8
EV/MT (INR bn)						6.87	6.90	6.76	6.54	7.26
P/E (x)						13.9	17.7	22.4	15.1	14.2
RoE (%)						22.4	16.5	12.6	17.9	17.6

Source: Company, HSIE Research

Change in Estimates

INR bn	FY23E Old	FY23E Revised	*Change %*	FY24E Old	FY24E Revised	*Change %*	FY25E Old	FY25E Revised	*Change %*
Net Sales	26.0	24.3	*(6.7)*	27.5	26.0	*(5.4)*	29.4	27.6	*(6.3)*
EBITDA	3.9	3.7	*(5.6)*	5.1	4.9	*(4.4)*	5.5	5.0	*(9.4)*
APAT	2.1	2.0	*(3.3)*	3.0	3.0	*(2.0)*	3.3	3.2	*(4.7)*

Source: HSIE Research

REDUCE

CMP *(as on 18 Oct 2022)*	INR 196
Target Price	INR 180
NIFTY	17,487

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 185	INR 180
EBITDA revision %	FY23E *(5.6)*	FY24E *(4.4)*

KEY STOCK DATA	
Bloomberg code	HEIM IN
No. of Shares (mn)	227
MCap (INR bn) / ($ mn)	44/538
6m avg traded value (INR mn)	99
52 Week high / low	INR 261/164

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	10.2	(3.4)	(24.3)
Relative (%)	2.1	(6.6)	(19.7)

SHAREHOLDING PATTERN (%)	Mar-22	Jun-22
Promoters	69.39	69.39
FIs & Local MFs	10.65	10.04
FPIs	5.45	6.40
Public & Others	14.50	14.17
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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PSP Projects

Execution continues to disappoint

PSP Projects (PSP) reported weak revenue/EBITDA/APAT of INR 3.6/0.4/0.2bn, thereby missing our estimates at all levels. PSP continues to disappoint on the execution front as the extended monsoon in Q2FY23 led to weak execution and revenue booking. Its entire order book (OB) (excl. Bhiwandi and Pandharpur forming 14%) is under execution, and execution is expected to pick up in H2FY23. The current bid pipeline stands at INR 50bn, of which 52% orders are from Gujarat and 45% are private. FY23 revenue guidance stands at INR 20bn, with margin of 12-12.5% and an order inflow (OI) of INR 25bn. We maintain BUY on PSP with a reduced TP of INR 675/sh (13x rolled over to Sep-24E EPS).

- **Financial highlights:** PSP posted revenue of INR 3.6bn (-8.7/+3.3% YoY/QoQ, a 10.5% miss). EBITDA came in at INR 386mn (-29.5/-18 YoY/QoQ, a 29.8% miss). EBITDA margin stood at 10.8% (-319/-282bps YoY/QoQ, vs. our estimate of 13.8%). RPAT/APAT came in at INR 229mn (-37.3/-19.5% YoY/QoQ, a 31.4% miss). Execution was impacted by extended monsoon, resulting in lower revenue. However, some impact on the profitability was curtailed due to reversal of impairment of loans given to subsidiary. With execution now stabilised, PSP is confident of achieving FY23 revenue of INR 20bn with a margin of 12-12.5%.
- **Well-diversified OB; execution pressure builds up for H2FY23:** With H1FY23 OI of INR 15.1bn (the highest-ever semi-annual inflow), the OB stood at the highest-ever level of INR 50.8bn (~2.9x FY22 revenue). This includes INR 2.4bn worth of precast orders. Government and institutional orders comprised a major chunk of the OB at 37.5/22.1%, as of Sep'22. The OB is well-diversified geographically, with 50/36/14% coming from Gujarat/UP/Maharashtra. The bid pipeline stands at INR 50bn, 45% of which comprises private orders and 52% of which is from Gujarat. PSP revised its FY23 OI guidance upwards to INR 25bn. During the quarter, PSP was awarded fourteen projects and completed ten projects. With this, the total projects completed until date total 196. Apart from the Pandharpur and Bhiwandi projects (cumulative 14% of the OB), all projects in the OB are mobilised.
- **Comfortable balance sheet:** Standalone gross debt increased to INR 1.6bn, as of Sep'22 vs. INR 1.4bn, as of Jun'22. The working capital days have increased to 86, as of Sep'22, vs. 71, as of Mar'22.

Standalone financial summary (INR mn)

Particulars	2Q FY23	2Q FY22	YoY (%)	1Q FY23	QoQ (%)	FY22	FY23E	FY24E	FY25E
Net Sales	3,566	3,904	(8.7)	3,452	3.3	17,488	19,517	22,460	25,605
EBITDA	386	547	(29.5)	471	(18.0)	2,565	2,434	2,821	3,204
APAT	229	366	(37.3)	285	(19.5)	1,624	1,537	1,757	1,984
Diluted EPS (INR)	6.4	10.2	(37.3)	7.9	(19.5)	45.1	42.7	48.8	55.1
P/E (x)						12.7	13.4	11.7	10.4
EV / EBITDA (x)						8.3	8.6	7.3	6.3
RoE (%)						26.6	20.6	19.9	19.1

Source: Company, HSIE Research

Standalone Estimate Change Summary (INR mn)

Particulars	FY23E			FY24E			FY25E		
	New	Old	*Chg.(%)*	New	Old	*Chg.(%)*	New	Old	*Chg.(%)*
Revenues	19,517	20,429	-4.5	22,460	24,670	-9.0	25,605	-	NA
EBITDA	2,434	2,548	-4.5	2,821	3,214	-12.2	3,204	-	NA
EBITDA (%)	12.5	12.5	-0.1	12.6	13.0	-46.8	12.5	-	NA
APAT	1,537	1,577	-2.5	1,757	1,952	-10.0	1,984	-	NA

Source: Company, HSIE Research; NA: Not Applicable

BUY

CMP (as on 18 Oct 2022)	INR 571
Target Price	INR 675
NIFTY	17,487

KEY CHANGES		OLD	NEW
Rating		BUY	BUY
Price Target		INR 705	INR 675
EPS change %	FY23E	FY24E	FY25E
	-2.5	*-10.0*	-

KEY STOCK DATA	
Bloomberg code	PSPPL IN
No. of Shares (mn)	36
MCap (INR bn) / ($ mn)	21/250
6m avg traded value (INR mn)	130
52 Week high / low	INR 684/447

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	(12.7)	5.0	7.5
Relative (%)	(20.8)	1.8	12.0

SHAREHOLDING PATTERN (%)	Mar-22	Jun-22*
Promoters	70.20	70.39
FIs & Local MFs	4.77	4.82
FPIs	1.78	1.89
Public & Others	23.25	22.90
Pledged Shares	-	-

Source: BSE
*Shareholding pattern as on Sep-22, not available

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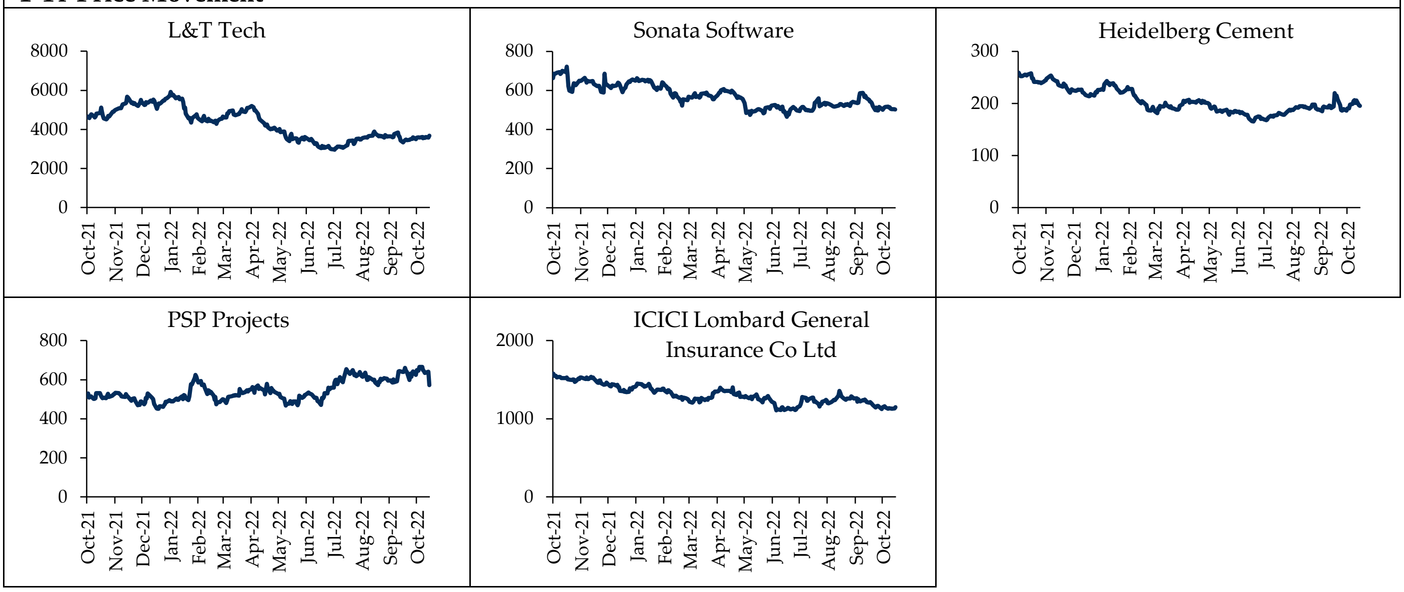
Rating Criteria
BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: > 10% Downside return potential

Disclosure:

Analyst	Company Covered	Qualification	Any holding in the stock
Krishnan ASV	ICICI Lombard	PGDM	NO
Sahej Mittal	ICICI Lombard	ACA	NO
Apurva Prasad	L&T Technology Services, Sonata Software	MBA	NO
Amit Chandra	L&T Technology Services, Sonata Software	MBA	NO
Vinesh Vala	L&T Technology Services, Sonata Software	MBA	NO
Rajesh Ravi	Heidelberg Cement	MBA	NO
Keshav Lahoti	Heidelberg Cement	CA	NO
Parikshit Kandpal	PSP Projects	CFA	NO
Nikhil Kanodia	PSP Projects	MBA	NO
Manoj Rawat	PSP Projects	MBA	NO

1 Yr Price Movement



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