

Extended monsoon impacts execution pace...

About the stock: Incorporated in 2008 by Prahladbhai Patel, 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, net debt free, robust return ratios (RoCE: 25+%)

Q2FY23 Results: PSP reported subdued numbers during Q2FY23.

- Revenue declined 8.7% YoY to ₹ 356.6 crore as execution pace in key projects got impacted by heavy and extended monsoon period
- EBITDA margin moderated to 10.8% (down 319 bps YoY) due to benign revenue recognition and higher employee expenses. Also, commencement of execution in newer projects (attracts lower margins during initial phase of construction) impacted margin performance. Effectively, EBITDA at ₹ 38.6 crore, was down 29.5% YoY
- PAT declined 37.4% YoY to ₹ 22.9 crore

What should investors do? PSP's share price has grown at ~6% CAGR over the past five years (from ₹ 419 in October 2017 to ₹ 571 levels in October 2022).

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

Target Price and Valuation: We value PSP at ₹ 720/share (14x FY24 P/E).

Key triggers for future price performance:

- PSP's pre-qualification for public projects would rise to ₹ 2,500+ crore with the completion of the Surat Diamond Bourse (SDB) project. Addition of big ticket sized project is expected to boost its overall order book position
- Significant traction and orders for pre-cast facility is likely to bring incremental benefits and associated revenue
- Expect revenue, earning CAGR of 15.3%, 6.9%, respectively, in FY22-24E

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

- Strong execution, lean balance sheet and healthy order book
- BUY with a target price of ₹ 350/share

Key Financial Summary

| (₹ Crore) | FY19 | FY20 | FY21 | FY22 | 5 Year CAGR (FY17-22) | FY23E | FY24E | 2 Year CAGR (FY22-24E) |
|-------------------|---------|---------|---------|---------|-----------------------|---------|---------|------------------------|
| Net Sales | 1,044.0 | 1,499.3 | 1,240.9 | 1,748.8 | 34.3 | 1,944.9 | 2,325.0 | 15.3 |
| EBITDA | 148.9 | 191.0 | 134.8 | 256.5 | 31.2 | 242.4 | 297.1 | 7.6 |
| EBITDA Margin (%) | 14.3 | 12.7 | 10.9 | 14.7 | | 12.5 | 12.8 | |
| Net Profit | 90.2 | 129.3 | 80.8 | 162.4 | 31.3 | 149.1 | 185.7 | 6.9 |
| EPS (₹) | 25.1 | 35.9 | 22.4 | 45.1 | | 41.4 | 51.6 | |
| P/E (x) | 22.8 | 15.9 | 25.5 | 12.7 | | 13.8 | 11.1 | |
| Price / Book (x) | 5.5 | 4.5 | 3.8 | 3.0 | | 2.5 | 2.2 | |
| EV/EBITDA (x) | 12.5 | 10.1 | 14.2 | 7.7 | | 8.2 | 6.7 | |
| RoCE (%) | 37.6 | 35.9 | 20.7 | 31.0 | | 24.4 | 25.2 | |
| RoE (%) | 24.3 | 28.3 | 15.5 | 23.7 | | 18.5 | 19.4 | |

Source: Company, ICICI Direct Research



Particulars

| Particular | Amount |
|---------------------------------|-----------|
| Market Capitalization (₹ crore) | 2,057.2 |
| Debt (FY22) (₹ crore) | 116.2 |
| Cash (FY22) (₹ crore) | 195.2 |
| EV (₹ crore) | 1,978.2 |
| 52 week H/L (₹) | 683 / 447 |
| 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

Research Analyst

Bhupendra Tiwary, CFA
bhupendra.tiwary@icicisecurities.com

Lokesh Kashikar
lokesh.kashikar@icicisecurities.com

Key business highlight and outlook

Order book robust, execution to pick up considerably

As on September 30, 2022, PSP's order book was healthy at ₹ 5,081 crore (2.9x book to TTM revenues) aided by ₹ 1,512 crore of order inflow secured during H1FY23. Most of its older projects are in the execution/fully mobilised state (excluding two EWS housing projects in Bhiwandi and Pandharpur worth ~₹ 730 crore). Additionally, it has secured orders worth ~₹ 345 crore post Q2FY23 - strengthening its order book position even further. Going forward, **PSP has guided for overall inflows worth ₹ 2,500+ crore during FY23E (vs. ₹ 1,802 crore of projects secured in FY22) to be backed by better opportunities coming from both - government and private clients, its expansion into different states, and improved eligibility of higher-ticket size projects. On the execution front, the company has retained its topline guidance of ₹ 2,200 crore despite muted performance reported in H1FY23 (revenue: ₹ 701.8 crore; -1% YoY growth). This is likely to be driven by its healthy order book position and expected pick-up in execution, going ahead. However, on a conservative basis, we expect PSP to report revenue CAGR of 15.3% in FY22-24E with margins likely to hover at ~12.5%.**

Lean balance sheet, prudent working capital management...

PSP has a lean balance sheet structure backed by its asset light model (no investments in metro and roads projects) and has a net cash positive position. While capex incurred towards pre-cast facility (₹ 109 crore) has increased the debt-level, to some extent, we do not expect a major swing in its net debt position further as incremental free cash flows would be sufficient for its working capital and capex requirement, going forward. Also, the **company has exhibited prudent working cycle management, which was at 30 days at Q2FY23-end. We expect the working capital cycle to hover in the same range, going ahead.**

Key conference call takeaways

- **Order inflows and pipeline:** PSP has received highest ever order inflow of ₹ 1,512 crore in H1FY23 (vs. ₹ 637 crore during H1FY22) mainly secured in Gujarat. At YTD FY23 level, the company has secured projects worth ₹ 1,857 crore. Going forward, the company has indicated towards strong order pipeline of ~₹ 5,000 crore (45% from Private clients; 52% from Gujarat). With these, the company is targeting overall orders worth ₹ 2,500+ crore during FY23, and 20-25% YoY growth in inflows during FY24
- **Impact of monsoon on execution and guidance:** As per the management, the execution in the key projects such as medical college and hospital job in Uttar Pradesh (outstanding order book value: ₹ 1,239 crore), and new orders (worth ₹ 1,512 crore) were at basement/ground and structural levels during Q2FY23. The progress of abovementioned projects got hit by heavy and extended monsoon period which resulted into lower productivity. Additionally, the company has increased its employee strength in the recent past to aid construction work in new orders. However, under-utilisation of employees coupled with benign revenue recognition, and execution of newer projects (attracts lower margins during initial period of construction) has impacted overall margin performance. Going forward, the management has indicated towards picked up execution pace from October 2022 with considerable decline in rains, which is likely improve its overall performance significantly during H2FY23
- **Margin:** Conservatively, the company expects overall margins to hover in the range of 11-13% over the medium term depending on type, size and stage of projects. Margin for pre-cast facility is expected to be in line with EPC orders
- **Update on Maharashtra projects:** PSP has secured two projects in Maharashtra till now. However, it faced several challenges in both the projects. In the residential project at Pandharpur, PSP significantly slowed down execution pace and has sent a legal notice to the respective authority with regard to clearance of 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 project cost in order to commence execution to offset 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. The next hearing is during November 2022 for finalisation of arbitration amount

- **Opportunities from Central Vista and other big-ticket size projects:** As per the management, the authority has tendered jobs worth ₹ 6,500 crore till now in the Central Vista Project. Hence, significant opportunities (to the tune of ₹ 12,000- 13,000 crore) are still pending, and likely to come at bidding stage over next year. Also, **the company has bid for Surat Municipal Building project having potential order size of ₹ 1,080 crore. However, it is likely to get cancelled as PSP was a lone bidder. With Gujarat Election around the corner, the retendering and awarding process is likely to take time**
- **Pre-cast facility:** PSP has commissioned precast facility in Gujarat during December 2022 with the objective to provide sustainable building solutions and technological upgradation. **Currently, the company is getting higher number of enquiries with completion of orders for various godown, buildings and warehouses. Order book from precast is to the tune of ₹ 236.4 crore at Q2FY23-end (secured repeat order for National High-Speed Project from L&T worth ₹ 195 crore during Q2FY23)**
- **Debt:** Long term borrowing has declined from ₹ 50 crore at Q1FY23-end to ₹ 46 crore at Q2FY23-end. However, working capital loan has increased from ₹ 67 crore at Q1FY23-end to ₹ 111 crore at Q2FY23-end mainly due to increase in requirement towards newer projects for mobilisation purpose. **The management expects working capital debt to normalise to ₹ 60-80 crore by FY23-end**
- **Working capital days:** Working capital days at the end of Q2FY23 declined to 30 days (vs. 35 days at Q1FY23-end) mainly due to increase in creditor days (71 vs. 54 days at Q1FY23-end). Debtor remained steady at ~72 days while there was increase in inventory (29 vs. 19 days at Q1FY23-end)
- **Capex:** PSP incurred negligible capex of ₹ 6 crore during Q2FY23 (vs. ₹ 3 crore during Q2FY23). Going forward, the company has **guided for overall capex of ₹ 35-50 crore (3-4% of sales) during FY23E**

Overall, PSP reported a subdued performance during Q2FY23. However, it is set to enter the big league 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 healthy growth at decent margins to be driven by strong order book position, and expected pick up in execution. Healthy order inflows secured at YTD FY23 level and robust bidding pipeline brightens company's prospects. At the CMP, the company is trading at a valuation of ~11x FY24E P/E. We maintain BUY recommendation with a revised target price of ₹ 720 (14x FY24E P/E) vs. ₹ 760 at 15x FY24E P/E earlier.

Exhibit 1: Variance Analysis

| Particulars | Q2 FY23 | Q2 FY23E | Q2 FY22 | YoY (%) | Q1 FY23 | QoQ (%) | Comments |
|------------------------------|---------|----------|---------|----------|---------|----------|--|
| Total Operating Income | 356.6 | 413.9 | 390.4 | -8.7 | 345.2 | 3.3 | Topline growth impacted by slowed down execution pace due to heavy monsoon. |
| Consumption of raw materials | 290.4 | 329.0 | 315.0 | -7.8 | 271.0 | 7.2 | |
| Employee benefit expenses | 22.5 | 24.8 | 15.5 | 45.0 | 21.8 | 3.2 | |
| Other Expenses | 5.1 | 6.2 | 5.2 | -2.6 | 5.4 | -5.2 | |
| EBITDA | 38.6 | 53.8 | 54.7 | -29.5 | 47.1 | -18.0 | Lower revenue recognition, higher employee expenses and commencement of newer projects impacted margin performance |
| EBITDA Margin(%) | 10.8 | 13.0 | 14.0 | -319 bps | 13.6 | -282 bps | |
| Other Income | 8.3 | 5.9 | 4.6 | 80.5 | 5.6 | 48.4 | |
| Depreciation | 9.1 | 9.6 | 7.0 | 28.9 | 8.7 | 3.8 | |
| Interest | 7.0 | 5.9 | 3.8 | 87.2 | 5.6 | 26.0 | |
| PBT | 30.8 | 44.2 | 48.5 | -36.5 | 38.4 | -19.7 | |
| Taxes | 7.9 | 11.1 | 12.0 | -33.8 | 9.9 | -20.3 | |
| PAT | 22.9 | 33.1 | 36.6 | -37.4 | 28.5 | -19.5 | |

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

| (₹ Crore) | FY20 | FY21 | FY22 | FY23E | | | FY24E | | | Comments |
|-------------------|---------|---------|---------|---------|---------|----------|---------|---------|----------|----------|
| | | | | Old | New | % Change | Old | New | % Change | |
| Revenue | 1,499.3 | 1,240.9 | 1,748.8 | 2,035.7 | 1,944.9 | -4.5 | 2,325.2 | 2,325.0 | 0.0 | |
| EBITDA | 191.0 | 134.8 | 256.5 | 254.0 | 242.4 | -4.5 | 298.8 | 297.1 | -0.6 | |
| EBITDA Margin (%) | 12.7 | 10.9 | 14.7 | 12.5 | 12.5 | -1 bps | 12.8 | 12.8 | -7 bps | |
| PAT | 129.3 | 80.8 | 162.4 | 153.0 | 149.1 | -2.6 | 182.1 | 185.7 | 2.0 | |
| Diluted EPS (₹) | 35.9 | 22.4 | 45.1 | 42.5 | 41.4 | -2.6 | 50.6 | 51.6 | 2.0 | |

Source: Company, ICICI Direct Research

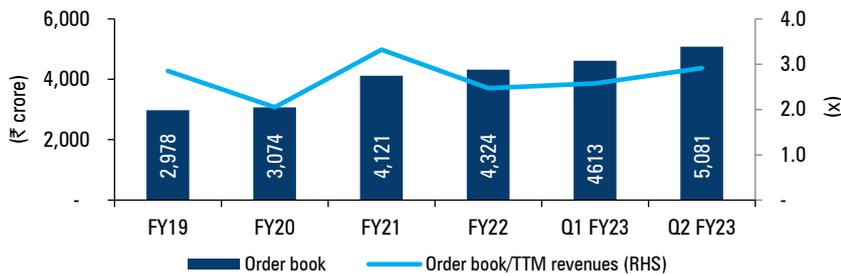
Company Analysis

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 | 1,239 |
| EWS Housing Project | Maharashtra | Municipal Corporation | 601 | 601 |
| Sports Complex | Gujarat | Municipal Corporation | 504 | 488 |
| Corporate Office Building | Gujarat | Institutional | 290 | 290 |
| Residential Project | Gujarat | Private Company | 252 | 240 |
| Residential Buildings of PAC Mahila Battalion at Badaun, UP | Uttar Pradesh | Public Works Department | 239 | 224 |
| Residential Project | Gujarat | Adani Estate Management Pvt | 349 | 210 |
| Precast Order for National High Speed Project | Gujarat | L&T | 195 | 195 |
| Construction Of Steel Plant | Gujarat | Private Company | 257 | 145 |
| Fore Court Development at Ahmedabad Airport | Gujarat | Private Company | 128 | 128 |
| Noodle Factory Phase II | Gujarat | Industrial | 115 | 115 |
| Total | | | 4,421 | 3,875 |

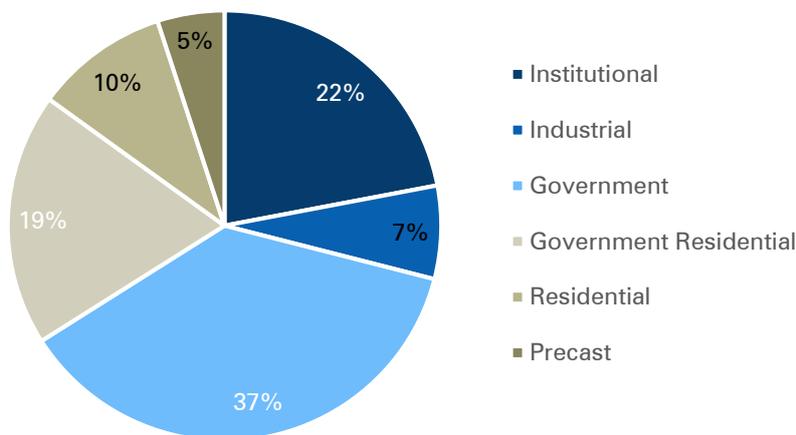
Source: Company, ICICI Direct Research

Exhibit 2: Order book* trend



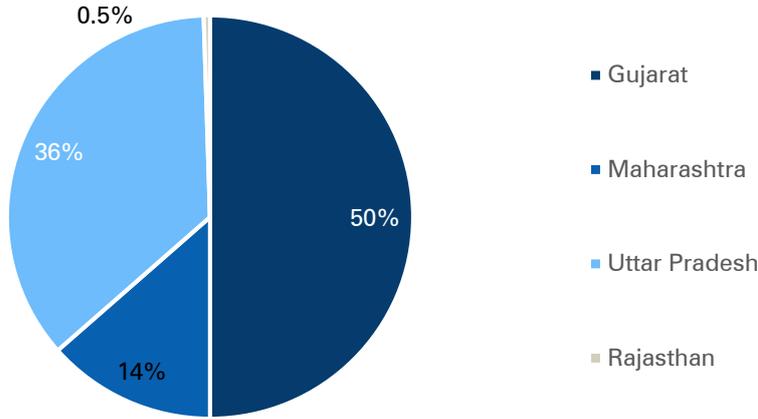
Source: Company, ICICI Direct Research

Exhibit 3: Order book* spread across major verticals



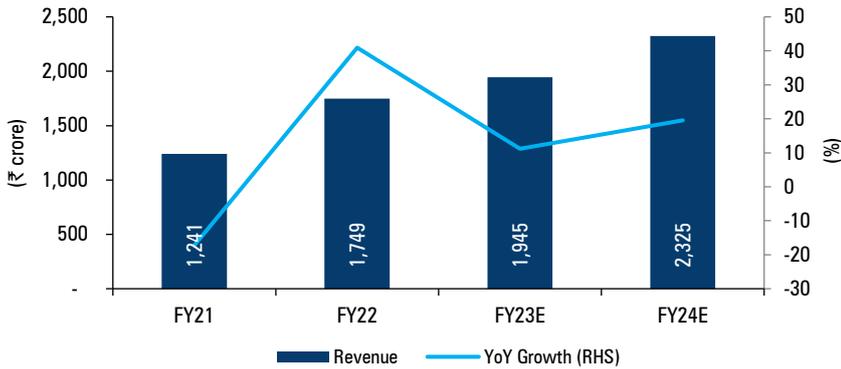
Source: Company, ICICI Direct Research; * order book worth ₹ 5,018 crore at Q2FY23-end

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



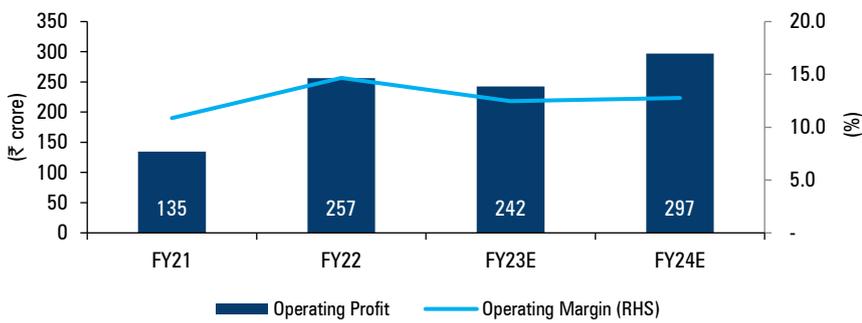
Source: Company, ICICI Direct Research; order book worth ₹ 5,018 crore at Q2FY23-end

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



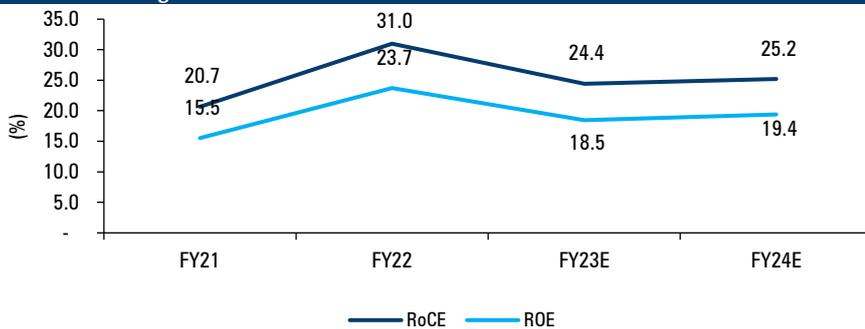
Source: Company, ICICI Direct Research

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 | 1,944.9 | 2,325.0 |
| Growth (%) | (17.2) | 40.9 | 11.2 | 19.5 |
| Raw Material Cost | 1,040.2 | 1,391.3 | 1,585.1 | 1,890.2 |
| Employee Cost | 50.9 | 72.3 | 92.1 | 107.5 |
| Other Expenditure | 15.0 | 28.6 | 25.3 | 30.2 |
| Total Operating Expenditure | 1,106.0 | 1,492.3 | 1,702.4 | 2,028.0 |
| EBITDA | 134.8 | 256.5 | 242.4 | 297.1 |
| Growth (%) | (29.4) | 90.3 | (5.5) | 22.5 |
| Other income | 16.9 | 21.3 | 24.3 | 26.6 |
| Depreciation | 25.6 | 32.1 | 39.4 | 44.3 |
| EBIT | 126.1 | 245.7 | 227.4 | 279.3 |
| Interest | 14.7 | 26.4 | 28.1 | 31.1 |
| PBT | 111.4 | 219.3 | 199.3 | 248.2 |
| Tax | 27.9 | 56.9 | 50.2 | 62.6 |
| Rep. PAT | 83.5 | 162.4 | 149.1 | 185.7 |
| Exceptional items | | | | |
| Adj. Net Profit | 83.5 | 162.4 | 149.1 | 185.7 |
| Growth (%) | (35.4) | 94.4 | (8.2) | 24.5 |
| EPS (₹) | 22.4 | 45.1 | 41.4 | 51.6 |

Source: Company, ICICI Direct Research

| Exhibit 9: Cash flow statement | | | | |
|---|---------------|----------------|---------------|---------------|
| | ₹ crore | | | |
| (₹ Crore) | FY21 | FY22 | FY23E | FY24E |
| Profit after Tax | 80.8 | 162.4 | 149.1 | 185.7 |
| Depreciation | 25.6 | 32.1 | 39.4 | 44.3 |
| Interest | 14.7 | 26.4 | 28.1 | 31.1 |
| Others | (20.3) | (21.4) | (24.3) | (26.6) |
| Cash Flow before wc changes | 100.8 | 199.4 | 192.2 | 234.5 |
| Net Increase in Current Assets | 32.9 | (161.8) | (118.5) | (170.6) |
| Net Increase in Current Liabilities | (55.9) | 94.3 | 24.4 | 89.3 |
| Net CF from operating activities | 77.8 | 131.9 | 98.1 | 153.2 |
| Net purchase of Fixed Assets | (75.6) | (81.6) | (50.1) | (60.1) |
| Others | 38.3 | (77.0) | (1.4) | (23.4) |
| Net CF from Investing Activities | (37.3) | (158.6) | (51.6) | (83.6) |
| Proceeds from share capital | 0.1 | (1.3) | (0.0) | - |
| Proceeds/Repayment from Loan | 6.1 | 35.2 | 15.6 | 28.0 |
| Interest paid | (14.7) | (26.4) | (28.1) | (31.1) |
| Others | - | (14.4) | (27.0) | (36.0) |
| Net CF from Financing Activities | (8.5) | (6.8) | (39.4) | (39.1) |
| Net Cash flow | 32.0 | (33.6) | 7.1 | 30.5 |
| Opening Cash and Cash Equivalent | 196.7 | 228.8 | 195.2 | 202.3 |
| Closing Cash & cash equivalent | 228.8 | 195.2 | 202.3 | 232.8 |

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 | 770.8 | 920.5 |
| Networth | 538.0 | 684.7 | 806.8 | 956.5 |
| Loan Funds | 81.0 | 116.2 | 131.8 | 159.8 |
| Deferred Tax liability | (9.2) | (9.4) | (9.4) | (9.4) |
| Other financial liabilities | 0.8 | 1.5 | 1.8 | 2.1 |
| Total Liabilities | 610.6 | 793.1 | 931.1 | 1,109.0 |
| Assets | | | | |
| Net Block | 116.2 | 207.4 | 218.1 | 233.9 |
| Capital WIP | 41.6 | - | - | - |
| Non-current Investments | 0.8 | 0.7 | 0.7 | 0.8 |
| Other non-current assets | 131.4 | 229.8 | 255.5 | 305.5 |
| Loans | - | - | - | - |
| Inventories | 89.2 | 80.6 | 111.9 | 140.1 |
| Trade Receivables | 222.0 | 311.8 | 373.0 | 465.0 |
| Cash & Bank Balances | 228.8 | 195.2 | 202.3 | 232.8 |
| Loans & Advances | 8.5 | 5.9 | 6.6 | 7.9 |
| Other current assets | 142.6 | 225.8 | 251.2 | 300.2 |
| Total current assets | 691.1 | 819.4 | 944.9 | 1,146.1 |
| Total Current liabilities | 370.6 | 464.2 | 488.2 | 577.2 |
| Net Current Assets | 320.5 | 355.2 | 456.7 | 568.9 |
| Total Assets | 610.6 | 793.1 | 931.1 | 1,109.0 |

Source: Company, ICICI Direct Research

| Exhibit 11: Key ratios | | | | |
|-----------------------------|-------|-------|-------|-------|
| (Year-end March) | FY21 | FY22 | FY23E | FY24E |
| Per share data (₹) | | | | |
| Reported EPS | 45.1 | 45.1 | 41.4 | 51.6 |
| Cash EPS | 54.0 | 54.0 | 52.4 | 63.9 |
| BV per share | 190.2 | 190.2 | 224.1 | 265.7 |
| Revenue per share | 485.8 | 485.8 | 540.2 | 645.8 |
| Cash Per Share | 54.2 | 54.2 | 56.2 | 64.7 |
| Operating Ratios (%) | | | | |
| EBITDA Margin | 14.7 | 14.7 | 12.5 | 12.8 |
| EBIT/ Net Sales | 12.8 | 12.8 | 10.4 | 10.9 |
| PAT Margin | 9.3 | 9.3 | 7.7 | 8.0 |
| Inventory days | 16.8 | 16.8 | 21.0 | 22.0 |
| Debtor days | 65.1 | 65.1 | 70.0 | 73.0 |
| Creditor days | 53.8 | 53.8 | 60.0 | 59.0 |
| Return Ratios (%) | | | | |
| RoE | 23.7 | 23.7 | 18.5 | 19.4 |
| RoCE | 31.0 | 31.0 | 24.4 | 25.2 |
| RoIC | 32.2 | 37.6 | 27.9 | 28.9 |
| Valuation Ratios (x) | | | | |
| P/E | 25.5 | 12.7 | 13.8 | 11.1 |
| EV / EBITDA | 14.2 | 7.7 | 8.2 | 6.7 |
| EV / Net Sales | 1.5 | 1.1 | 1.0 | 0.9 |
| Price to Book Value | 3.8 | 3.0 | 2.5 | 2.2 |
| Solvency Ratios (x) | | | | |
| Debt / EBITDA | 0.6 | 0.5 | 0.5 | 0.5 |
| Net Debt / Equity | (0.3) | (0.1) | (0.1) | (0.1) |

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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