

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

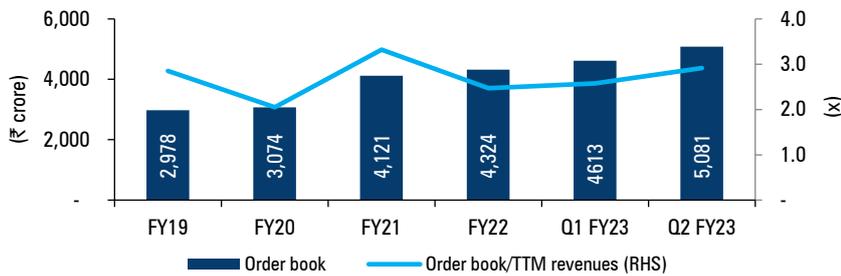
Company Analysis

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

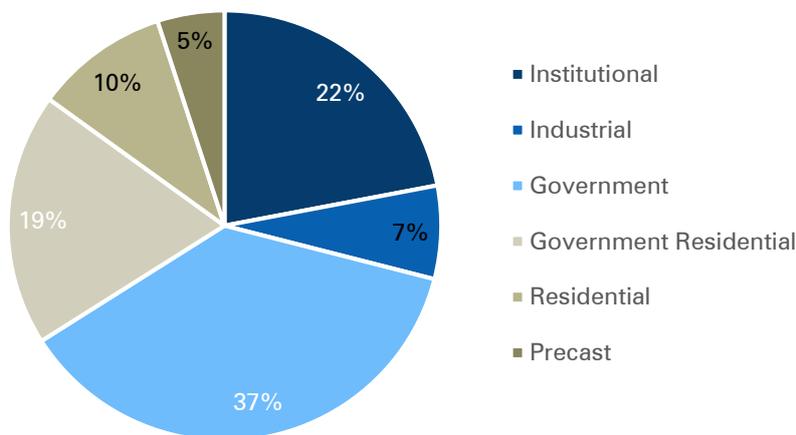
Source: Company, ICICI Direct Research

Exhibit 2: Order book* trend



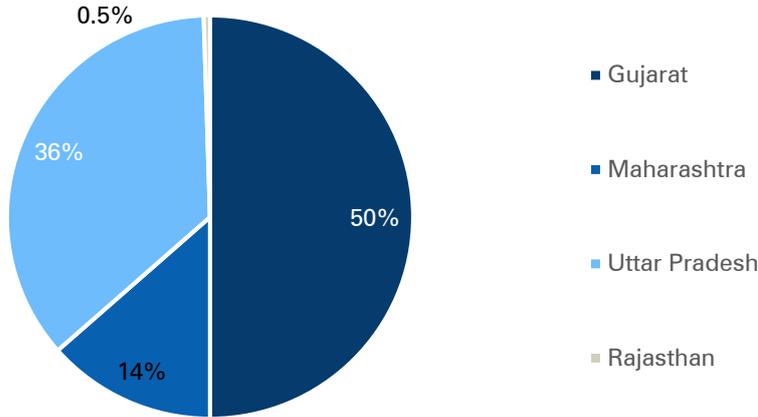
Source: Company, ICICI Direct Research

Exhibit 3: Order book* spread across major verticals



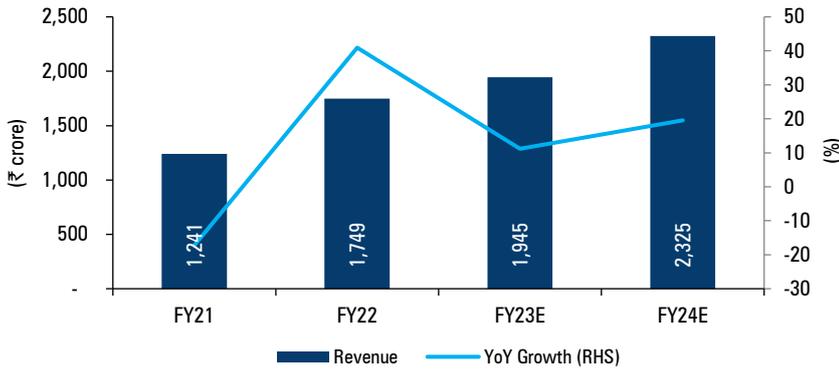
Source: Company, ICICI Direct Research; * order book worth ₹ 5,018 crore at Q2FY23-end

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



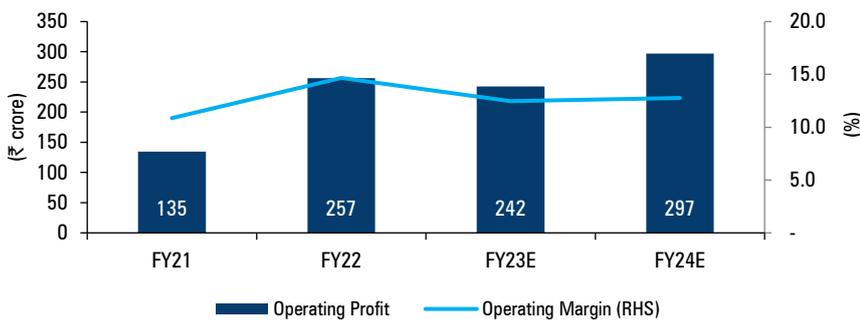
Source: Company, ICICI Direct Research; order book worth ₹ 5,018 crore at Q2FY23-end

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



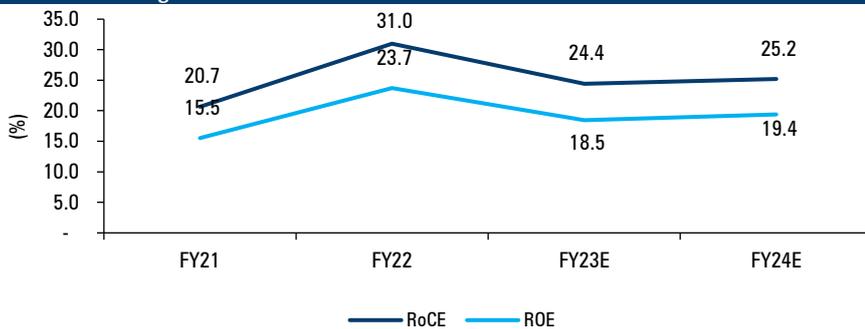
Source: Company, ICICI Direct Research

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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