

## Execution to pick up sharply ahead!

**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+%)

### Q3FY23 Results: PSP reported subdued numbers during Q3FY23.

- Standalone revenue during Q3FY23 witnessed muted growth of 2.4% YoY to ₹ 497.8 crore impacted by slowed down execution in certain projects in Uttar Pradesh owing to a delay in approvals
- EBITDA margin was at 12.4% (down 290 bps YoY as the base quarter had some completion led benefits)
- At the PAT level, a subdued operating performance coupled with higher interest cost translated into 24.8% YoY decline in PAT to ₹ 35.3 crore

**What should investors do?** PSP's share price has grown at ~4% CAGR over the past five years.

- We maintain our **BUY** rating on the company given the strong revenue visibility and historically robust execution track record

**Target Price and Valuation:** We value PSP at ₹ 820/share (13x FY25 P/E).

### Key triggers for future price performance:

- PSP's pre-qualification for public projects has risen 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
- Expect revenue, earning CAGR of 17.4%, 11.6%, respectively, in FY23-24E, given the strong order book position

**Alternate Stock Idea:** Besides PSP, we like NCC Ltd in the EPC space.

- Strong execution likely amid healthy order book
- BUY with a target price of ₹ 100/share

### Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	5 Year CAGR (FY17-22)	FY23E	FY24E	FY25E	3 Year CAGR (FY22-24E)
Net Sales	1,044.0	1,499.3	1,240.9	1,748.8	34.3	2,010.4	2,413.5	2,830.2	17.4
EBITDA	148.9	191.0	134.8	256.5	31.2	248.5	303.0	353.3	11.3
EBITDA Margin (%)	14.3	12.7	10.9	14.7		12.4	12.6	12.5	
Net Profit	90.2	129.3	80.8	162.4	31.3	151.0	189.1	226.0	11.6
EPS (₹)	25.1	35.9	22.4	45.1		41.9	52.5	62.8	
P/E (x)	27.3	19.1	30.5	15.2		16.3	13.0	10.9	
Price / Book (x)	6.6	5.4	4.6	3.6		3.0	2.6	2.1	
EV/EBITDA (x)	15.2	12.3	17.2	9.2		9.5	7.6	6.2	
RoCE (%)	37.6	35.9	20.7	31.7		24.9	26.1	26.0	
RoE (%)	24.3	28.3	15.5	23.7		18.7	19.7	19.6	

Source: Company, ICICI Direct Research



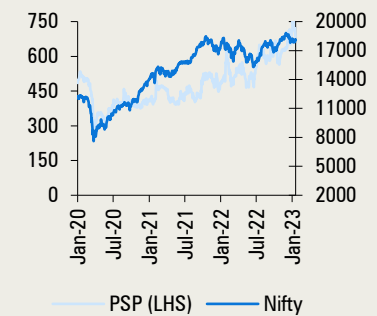
### Particulars

Particular	Amount
Market Capitalization (₹ crore)	2,466
Debt (FY22) (₹ crore)	100
Cash (FY22) (₹ crore)	195
EV (₹ crore)	2,370
52 week H/L (₹)	776 / 459
Equity capital (₹ crore)	36.0
Face value (₹)	₹ 10

### Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22
Promoters	70.2	70.2	70.4	70.5
DII	3.9	3.0	2.9	2.5
FII	1.7	1.8	1.9	2.0
Other	24.2	25.1	24.8	25.1

### Price Chart



### Key Risks

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

### Research Analyst

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## Key business highlight and outlook

### Order book robust, execution to pick up considerably

As on December, 2022, PSP's order book was healthy at ₹ 5,075 crore (2.9x book to TTM revenues) aided by ~₹ 1,950 crore of order inflow secured during 9MFY23. Most of its older projects are in the execution/fully mobilised state (excluding two EWS Housing projects in Bhiwandi and Pandharpur worth ~₹ 700 crore). **Additionally, it has secured orders a project by Surat Municipal Corporation worth ~₹ 1344 crore post Q3FY23 - strengthening its order book position even further to ₹ 6418 crore.** Furthermore, it also has a L1 project in Gujarat (~₹ 350 crore) is at approval stage, which is likely to be received very soon. **Going forward, PSP has now raised its order inflow guidance to ₹ 3800-4000 crore in FY23 vs. ₹ 2500-3000 crore, guided earlier. On the execution front, the company has marginally trimmed its FY23 topline guidance to ₹ 2,100 crore (~20% YoY growth) vs. ₹ 2200 guided earlier. We bake in ~15% revenue growth for FY23, conservatively. For FY24, the company expects to report 20-25% YoY growth given the strong revenue visibility at the current order book. We expect PSP to report revenue CAGR of 17.4% during FY22-25E with margin likely to hover at ~12.5%.**

### Lean balance sheet, working capital to normalise ahead...

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. **Working capital days at the end of Q3FY23 increased to 41 days (vs. 31 days at Q2FY23-end)** mainly due to increase in debtor days. With receipt of ~₹ 130 crore collection in January, it expects the working capital days to reduce, going ahead. **We expect the working capital cycle to normalise to 30 days, going ahead.**

### Key conference call takeaways

- Guidance:** On the execution front, the company has marginally trimmed its FY23 topline guidance to ₹ 2,100 crore (~20% YoY growth) vs. ₹ 2200 guided, earlier. For FY24, the company expects to report 20-25% YoY growth given the strong revenue visibility at the current order book. We highlight that PSP has now raised its order inflow guidance to ₹ 3800-4000 crore in FY23 (already received orders worth ₹ 3284 crore till date). 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
- Order inflow and pipeline:** PSP has received ~₹ 1,950 crore of order inflow during 9MFY23. Additionally, it has secured orders for a project by Surat Municipal Corporation worth ~₹ 1344 crore post Q3FY23 - strengthening its order book position even further to ₹ 6418 crore. The company also said the L1 project in Gujarat (~₹ 350 crore) is at approval stage, which is likely to be received very soon. Going forward, PSP has indicated towards strong order pipeline of ~₹ 4500 crore (60% from private clients; 30% from Gujarat). With this, PSP has now raised its order inflow guidance to ₹ 3800-4000 crore in FY23
- Update on Maharashtra projects:** Outstanding order book for Bhiwandi, Pandharpur project is at ₹ 601 crore, ₹ 127 crore, respectively. The company added that for Bhiwandi project, post the hearing in November 2022, the case has moved forward for arbitration and appointment of arbitrator is likely in the near term
- Pre-cast facility:** PSP has commissioned precast facility in Gujarat with the objective to provide sustainable building solutions and technological upgradation. First order for the same is for National High-Speed Project from L&T worth ₹ 195 crore during Q2FY23 while balance orders are from residential and industrial segments as part of its existing orders
- Debt:** Gross debt was at ₹ 191 crore in Q3 vs. ₹ 157 crore in Q2. Long term borrowing has increased to ₹ 51 crore at Q3FY23-end vs. ₹ 46 crore at Q2FY23-end. Working capital loan has increased from ₹ 111 crore at Q2FY23-end to ₹ 140 crore at Q2FY23-end mainly due to increase in requirement

towards newer projects for mobilisation purpose. **The management expects working capital debt to normalise led by improved collection**

- **Working capital days:** Working capital days at the end of Q3FY23 increased to 41 days (vs. 31 days at Q2FY23-end) mainly due to increase in debtor days. With the receipt of ~₹ 130 crore collection in January, it expects the working capital days to reduce, going ahead
- **Capex:** PSP incurred capex of ₹ 29 crore during Q3FY23 (vs. ₹ 6 crore during Q2FY23) for additional mobilisation at new sites. Going forward, the company has guided for overall capex of ₹ 50-60 crore (3-4% of sales) during FY23E

Overall, PSP reported a subdued performance during Q3FY23. However, the company is well placed for healthy growth at decent margins to be driven by strong order book position and expected sharp pick-up in execution. Healthy order inflows secured at YTD FY23 level and robust bidding pipeline brighten the company's prospects. At the CMP, the company is trading at a valuation of ~11x FY25E P/E. We maintain BUY recommendation with a revised target price of ₹ 820, as we roll forward our valuations to FY25 at 13x P/E vs. ₹ 720 at 14x FY24E P/E earlier.

**Exhibit 1: Variance Analysis**

Particulars	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Total Operating Income	497.4	608.0	485.6	2.4	356.6	39.5	Topline growth impacted by weak execution in UP projects
Consumption of raw materials	408.8	502.0	387.5	5.5	290.4	40.8	
Employee benefit expenses	23.5	23.0	16.4	43.2	22.5	4.4	
Other Expenses	3.5	6.0	7.7	-54.6	5.1	-31.9	
EBITDA	61.6	77.0	74.1	-16.8	38.6	59.7	Lower revenue recognition impacted margin performance
EBITDA Margin(%)	12.4	12.7	15.3	-286 bps	10.8	157 bps	
Other Income	6.5	8.5	7.6	-14.8	8.3	-22.2	
Depreciation	9.8	9.0	9.4	4.9	9.1	8.7	
Interest	10.1	7.0	9.8	3.8	7.0	43.7	
PBT	48.2	69.5	62.5	-23.0	30.8	56.2	
Taxes	12.9	17.0	15.6	-17.7	7.9	62.6	
PAT	35.3	52.5	46.9	-24.8	22.9	54.0	

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY22	FY23E			FY24E			FY25E	Comments
		Old	New	% Change	Old	New	% Change	New	
Revenue	1,748.8	1,944.9	2,010.4	3.4	2,325.0	2,413.5	3.8	2,830.2	Realign estimates
EBITDA	256.5	242.4	248.5	2.5	297.1	303.0	2.0	353.3	
EBITDA Margin (%)	14.7	12.5	12.4	-10 bps	12.8	12.6	-22 bps	12.5	
PAT	162.4	149.1	151.0	1.3	185.7	189.1	1.9	226.0	
Diluted EPS (₹)	45.1	41.4	41.9	1.3	51.6	52.5	1.9	62.8	

Source: Company, ICICI Direct Research

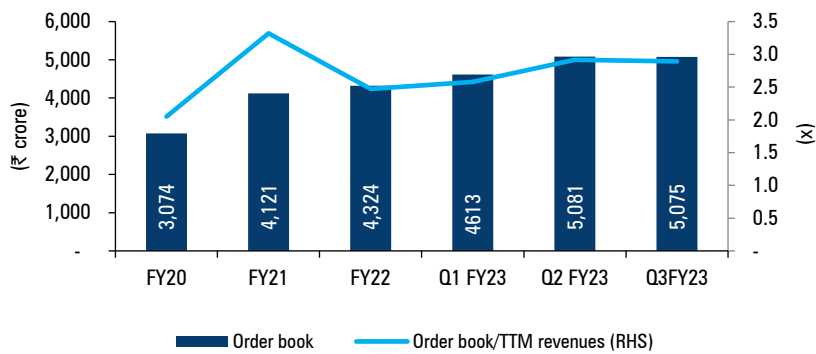
## Company Analysis

Exhibit 3: 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	1,074
EWS Housing Project	Maharashtra	Municipal Corporation	601	601
Sports Complex	Gujarat	Municipal Corporation	504	464
Corporate Office Building	Gujarat	Institutional	290	260
Residential Project	Gujarat	Private Company	252	222
Residential Buildings of PAC Mahila Battalion at Badaun, UP	Uttar Pradesh	Public Works Department	239	208
Residential Project	Gujarat	Adani Estate Management Pvt. Ltd.	349	183
Precast Order for National High Speed Project	Gujarat	L&T	195	195
Construction Of Steel Plant	Gujarat	Private Company	257	109
Fore Court Development at Ahmedabad Airport	Gujarat	Private Company	204	197
Noodle Factory Phase II	Gujarat	Industrial	315	301
Tallest Residential in GIFT City	Gujarat	Nila Infra	122	122
<b>Total</b>			<b>4,818</b>	<b>3,936</b>

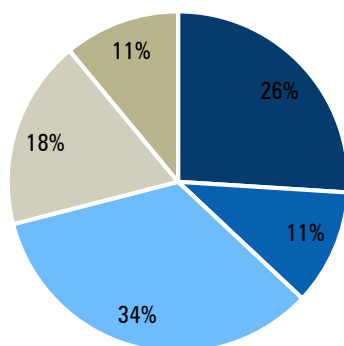
Source: Company, ICICI Direct Research

Exhibit 4: Order book\* trend



Source: Company, ICICI Direct Research

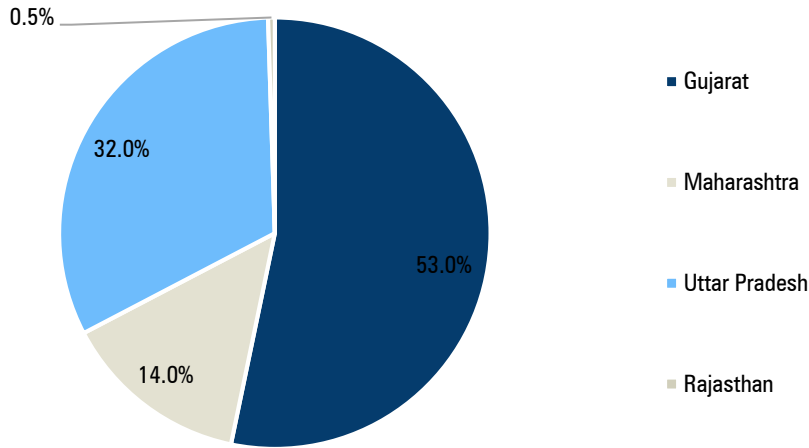
Exhibit 5: Order book\* spread across major verticals



■ Institutional ■ Industrial ■ Government ■ Government Residential ■ Residential

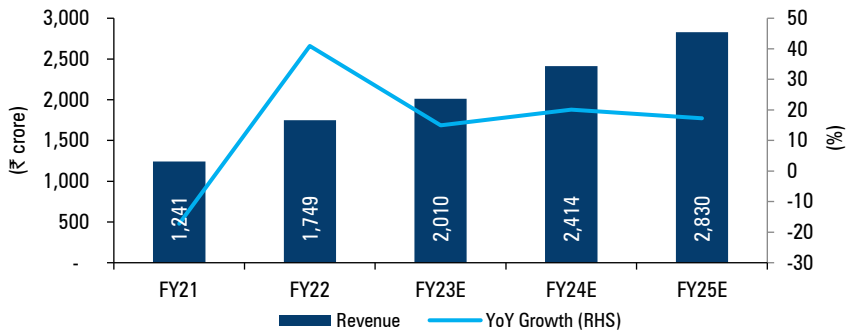
Source: Company, ICICI Direct Research; \* order book worth ₹ 5,075 crore at Q3FY23-end

Exhibit 6: Gujarat, Uttar Pradesh contribute majority to order book\*



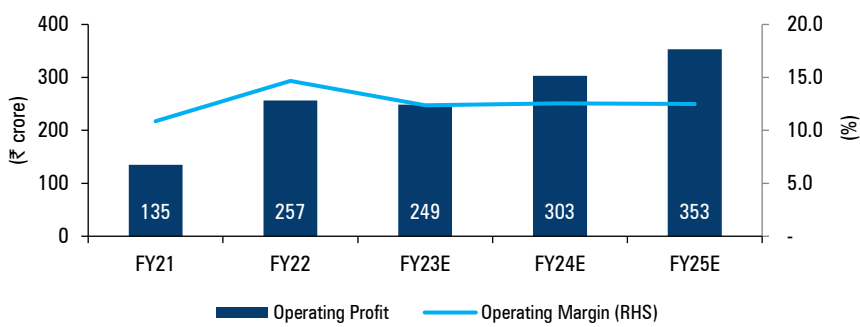
Source: Company, ICICI Direct Research; order book worth ₹ 5,018 crore at Q2FY23-end

Exhibit 7: Revenue to improve at 17.4% CAGR during FY22-FY25E



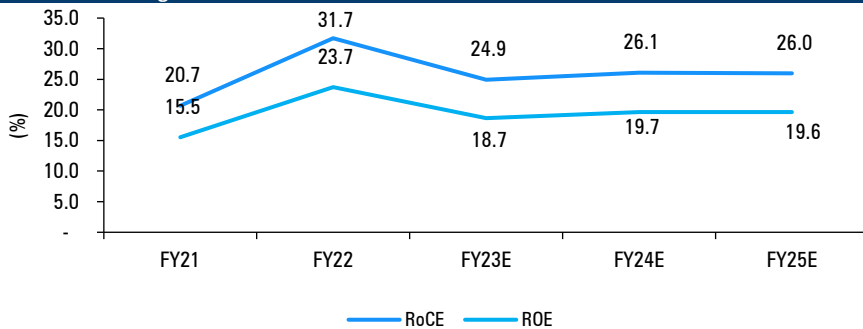
Source: Company, ICICI Direct Research

Exhibit 8: Margin to moderate



Source: Company, ICICI Direct Research

Exhibit 9: Strong return ratios



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Net Sales</b>	<b>1,748.8</b>	<b>2,010.4</b>	<b>2,413.5</b>	<b>2,830.2</b>
Growth (%)	40.9	15.0	20.1	17.3
Raw Material Cost	500.0	607.7	730.1	849.1
Employee Cost	72.3	92.9	108.5	119.3
Other Expenditure	920.0	1,061.2	1,271.9	1,508.5
Total Operating Expenditure	1,492.3	1,761.9	2,110.5	2,476.9
<b>EBITDA</b>	<b>256.5</b>	<b>248.5</b>	<b>303.0</b>	<b>353.3</b>
Growth (%)	90.3	(3.1)	21.9	16.6
Other income	21.3	25.5	28.8	32.6
Depreciation	32.1	37.7	43.4	47.3
EBIT	245.7	236.4	288.4	338.6
Interest	26.4	32.5	33.9	34.4
PBT	219.3	203.9	254.6	304.2
Tax	56.9	52.9	65.4	78.2
<b>Rep. PAT</b>	<b>162.4</b>	<b>151.0</b>	<b>189.1</b>	<b>226.0</b>
Exceptional items	-	-	-	-
<b>Adj. Net Profit</b>	<b>162.4</b>	<b>151.0</b>	<b>189.1</b>	<b>226.0</b>
Growth (%)	101.0	(7.0)	25.3	19.5
<b>EPS (₹)</b>	<b>45.1</b>	<b>41.9</b>	<b>52.5</b>	<b>62.8</b>

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(₹ Crore)	FY22	FY23E	FY24E	FY25E
Profit after Tax	162.4	151.0	189.1	226.0
Depreciation	32.1	37.7	43.4	47.3
Interest	26.4	32.5	33.9	34.4
Others	(21.4)	(25.5)	(28.8)	(32.6)
Cash Flow before wc changes	199.4	195.6	237.6	275.1
Net Increase in Current Assets	(136.1)	(99.3)	(119.4)	(125.2)
Net Increase in Current Liabilities	110.8	10.8	78.9	82.9
<b>Net CF from operating activities</b>	<b>174.2</b>	<b>107.1</b>	<b>197.1</b>	<b>232.8</b>
Net purchase of Fixed Assets	(81.6)	(50.1)	(60.1)	(40.2)
Others	(102.8)	2.5	3.5	4.7
<b>Net CF from Investing Activities</b>	<b>(184.3)</b>	<b>(47.6)</b>	<b>(56.6)</b>	<b>(35.4)</b>
Proceeds from share capital	(1.3)	0.0	-	0.0
Proceeds/Repayment from Loan	18.7	50.3	4.0	6.0
Interest paid	(26.4)	(32.5)	(33.9)	(34.4)
Others	(14.4)	(27.0)	(36.0)	(36.0)
<b>Net CF rom Financing Activities</b>	<b>(23.4)</b>	<b>(9.2)</b>	<b>(65.9)</b>	<b>(64.4)</b>
<b>Net Cash flow</b>	<b>(33.6)</b>	<b>50.4</b>	<b>74.6</b>	<b>133.0</b>
Opening Cash and Cash Equivalent	228.8	195.2	245.5	320.1
<b>Closing Cash &amp; cash equivalents</b>	<b>195.2</b>	<b>245.5</b>	<b>320.1</b>	<b>453.1</b>

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Liabilities</b>				
Equity capital	36.0	36.0	36.0	36.0
Reserves & Surplus	648.7	772.7	925.8	1,115.8
Networth	684.7	808.7	961.8	1,151.8
Loan Funds	99.7	150.0	154.0	160.0
Deferred Tax liability	(9.4)	(9.4)	(9.4)	(9.4)
Other financial liabilities	-	-	-	-
<b>Total Liabilities</b>	<b>775.0</b>	<b>949.3</b>	<b>1,106.4</b>	<b>1,302.4</b>
<b>Assets</b>				
Net Block	207.4	219.8	236.5	229.4
Capital WIP	-	-	-	-
Non-current Investments	228.6	251.4	276.5	304.1
Othe non-current assets	1.9	2.1	2.3	2.6
Loans	-	-	-	-
Inventories	80.6	110.2	132.2	155.1
Trade Receivables	311.8	358.4	430.3	504.6
Cash & Bank Balances	195.2	245.5	320.1	453.1
Loans & Advances	5.9	6.5	7.2	7.9
Other current assets	225.8	248.4	273.3	300.6
Total current assets	819.4	969.1	1,163.1	1,421.3
Total Current liabilities	482.2	493.1	572.0	654.8
Net Current Assets	337.1	476.0	591.1	766.4
<b>Total Assets</b>	<b>775.0</b>	<b>949.3</b>	<b>1,106.4</b>	<b>1,302.4</b>

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Per share data (₹)</b>				
Reported EPS	45.1	41.9	52.5	62.8
Cash EPS	54.0	52.4	64.6	75.9
BV per share	190.2	224.6	267.2	320.0
Revenue per share	485.8	558.5	670.4	786.2
Cash Per Share	54.2	68.2	88.9	125.9
<b>Operating Ratios (%)</b>				
EBITDA Margin	14.7	12.4	12.6	12.5
EBIT/ Net Sales	12.8	10.5	10.8	10.8
PAT Margin	9.3	7.5	7.8	8.0
Inventory days	16.8	20.0	20.0	20.0
Debtor days	65.1	65.1	65.1	65.1
Creditor days	53.8	53.8	53.8	53.8
<b>Return Ratios (%)</b>				
RoE	23.7	18.7	19.7	19.6
RoCE	31.7	24.9	26.1	26.0
RoC	38.8	30.0	33.1	36.1
<b>Valuation Ratios (x)</b>				
P/E	15.2	16.3	13.0	10.9
EV / EBITDA	9.2	9.5	7.6	6.2
EV / Net Sales	1.4	1.2	1.0	0.8
Price to Book Value	3.6	3.0	2.6	2.1
<b>Solvency Ratios (x)</b>				
Debt / EBITDA	0.4	0.6	0.5	0.5
Net Debt / Equity	(0.1)	(0.1)	(0.2)	(0.3)

Source: Company, ICICI Direct Research

## RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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