

CMP: ₹ 703

Target: ₹ 820 (17%)

Target Period: 12 months

BUY

May 19, 2023

## Strong execution recovery likely in FY24!

**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 21.4%, 17.3%, 15.6% CAGR in topline, EBITDA, PAT CAGR, respectively, during FY17-22
- Prudent management, net debt free, robust return ratios

### Q4FY23 Results: PSP reported lower than guided execution.

- Standalone revenue witnessed lower-than-expected growth of 31% YoY to ₹ 727.4 crore, owing to a delay in ramp up of execution in the UP project
- EBITDA margin was at 10.7% (down 170 bps sequentially, I-direct estimated EBITDA margin of 12.6%) as cost absorption was lower given initial stage of construction
- At the PAT level, a subdued operating performance resulted into ~14% YoY decline in PAT

**What should investors do?** PSP's share price has grown at ~6% CAGR over the past five years.

- We maintain our **BUY** rating on the company given the strong revenue visibility and historical 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 21.3%, 30.8%, respectively, in FY23-25E, given the strong order book position

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

- Strong play on roads and water segment
- BUY with a target price of ₹ 410/share



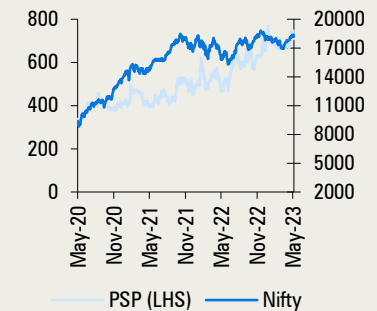
### Particulars

Particular	Amount
Market Capitalization (₹ crore)	2,531
Debt (FY23) (₹ crore)	145
Cash (FY23) (₹ crore)	242
EV (₹ crore)	2,434
52 week H/L (₹)	776 / 459
Equity capital (₹ crore)	36.0
Face value (₹)	₹ 10

### Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoters	70.4	70.5	67.5	65.6
DII	2.9	2.5	4.2	4.6
FII	1.9	2.0	2.3	2.5
Other	24.8	25.1	26.0	27.4

### 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

### Key Financial Summary

(₹ Crore)	FY20	FY21	FY22	FY23E	5 Year CAGR (FY18-23)	FY24E	FY25E	2 Year CAGR (FY23-25E)
Net Sales	1,499.3	1,240.9	1,748.8	1,926.6	21.4	2,408.3	2,834.0	21.3
EBITDA	191.0	134.8	256.5	225.0	17.3	300.9	356.3	25.8
EBITDA Margin (%)	12.7	10.9	14.7	11.7		12.5	12.6	
Net Profit	129.3	80.8	162.4	133.0	15.6	187.3	227.4	30.8
EPS (₹)	35.9	22.4	45.1	36.9		52.0	63.2	
P/E (x)	19.6	31.3	15.6	19.0		13.5	11.1	
Price / Book (x)	5.5	4.7	3.7	3.2		2.7	2.2	
EV/EBITDA (x)	12.6	17.6	9.5	10.8		7.6	6.0	
RoCE (%)	35.9	20.7	31.7	22.7		26.6	26.7	
RoE (%)	28.3	15.5	23.7	16.6		19.9	20.1	

Source: Company, ICICI Direct Research

## Key business highlight and outlook

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

As on March, 2023, PSP's order book was healthy at ₹ 5,052 crore (2.9x book to TTM revenues) aided by ~₹ 3421 crore of order inflow secured during FY23. All its projects are in the execution/ fully mobilised state as the company has removed two EWS housing projects in Bhiwandi and Pandharpur worth ~₹ 727 crore from the order book. Additionally, it has secured orders worth ₹ 758 crore, strengthening its order book position even further to ₹ 6418 crore. **Going forward, PSP has indicated at order inflow guidance to ₹ 3000+ crore in FY24. For FY24, the company expects to report revenues of ~₹ 2600 crore (implying ~35% YoY growth) given the strong revenue visibility at the current order book and margins of 11-13%. We conservatively bake in ~25% revenues growth in FY24. We expect PSP to report revenue CAGR of 21.3% during FY23-25E with margin likely to hover at ~12.5%.**

### Balance sheet remains healthy

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. Gross debt was at ₹ 145 crore in Q3 vs. ₹ 191 crore in Q3. Cash and equivalent was at ₹ 340 crore implying net cash of ₹ 195 crore. **Working capital days at the end of Q4FY23 was stable at 41 days (same at Q3FY23-end).** We highlight that working capital was sharply higher on a YoY basis for FY23 vs. 28 days in FY22, mainly due to increase in inventory and debtor days. With improved collection ahead, it expects the working capital days to reduce, going ahead.

### Key conference call takeaways

- **Order pipeline:** Going forward, the company has indicated towards a strong order pipeline of ~₹ 6000 crore (~67% from private clients; ~20% from Gujarat). Major big projects in the bid pipeline include a Gems & Jewellery Park in Navi Mumbai (~₹ 2500 crore) and Central Vista (~₹ 1200 crore). With this, PSP has given an order inflow guidance of ₹ 3000 crore in FY23
- **Update on Maharashtra projects:** During the quarter, the company removed the two Maharashtra projects from its order book. Outstanding order book for Bhiwandi/Pandharpur project was at ₹ 601 crore, ₹ 127 crore, respectively. The company informed that for the Bhiwandi project, the case has moved forward for arbitration and outcome could take some time. For Pandharpur project, PSP refused to start the work as delays were caused by the client
- **Capex:** Going forward, the company has **guided for overall capex of ₹ 50-60 crore (3-4% of sales) during FY23E**
- **Borrowing limit:** Total funded and non-funded limit was at ₹ 1047 crore, of which the company has utilised ₹ 897 crore. It has received further extension of limit of ~₹ 450 crore
- **Balance sheet items:** Unbilled revenue was at ₹ 257 crore, Retention - Non-current was at ₹ 100 crore & Retention- current was at ₹ 34 crore, advance billing was at ₹ 78 crore, mobilisation of advance was at ₹ 245 crore for FY23

Overall, PSP has reported a subdued performance during Q4FY23. 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 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 target price of ₹ 820, at 13x FY25 P/E.

**Exhibit 1: Variance Analysis**

Particulars	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Total Operating Income	727.4	800.0	555.3	31.0	497.4	46.2	Topline growth weaker than expected impacted by weak execution in UP projects
Consumption of raw materials	611.9	660.0	431.0	42.0	408.8	49.7	
Employee benefit expenses	25.7	25.2	25.2	1.8	23.5	9.5	
Other Expenses	12.2	14.0	10.9	11.5	3.5	249.7	
EBITDA	77.7	100.8	88.1	-11.9	61.6	26.0	The cost absorption was lower given initial stage of construction
EBITDA Margin(%)	10.7	12.6	15.9	-520 bps	12.4	-172 bps	
Other Income	6.7	5.1	5.4	23.0	6.5	2.8	
Depreciation	12.4	10.1	10.2	21.1	9.8	25.7	
Interest	9.2	9.7	9.5	-2.9	10.1	-9.3	
PBT	62.8	86.1	73.9	-15.1	48.2	30.3	
Taxes	16.4	23.0	20.1	-18.0	12.9	27.9	
PAT	46.3	63.1	53.8	-13.9	35.3	31.2	

Source: Company, ICICI Direct Research

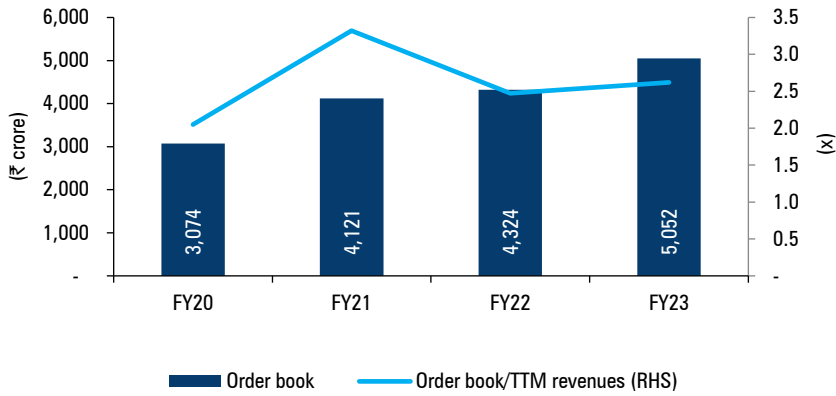
**Exhibit 2: Change in estimates**

Particulars	FY23		FY24E		FY25E		Comments
	New	Old	New	% Change	Old	New	
Revenue	1,926.6	2,413.5	2,408.3	-0.2	2,830.2	2,834.0	0.1 Realign estimates
EBITDA	225.0	303.0	300.9	-0.7	353.3	356.3	0.9
EBITDA Margin (%)	11.7	12.6	12.5	-6 bps	12.5	12.6	9 bps
PAT	133.0	189.1	187.3	-0.9	226.0	227.4	0.6
Diluted EPS (₹)	36.9	52.5	52.0	-0.9	62.8	63.2	0.6

Source: Company, ICICI Direct Research

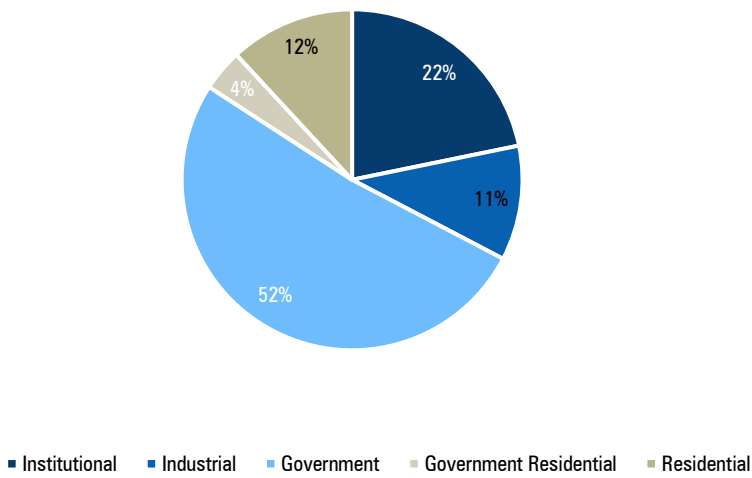
## Company Analysis

Exhibit 3: Order book\* trend



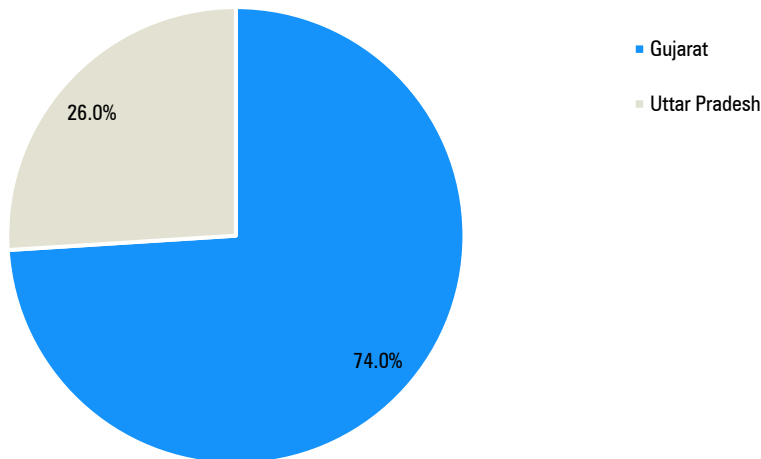
Source: Company, ICICI Direct Research

Exhibit 4: Order book\* spread across major verticals



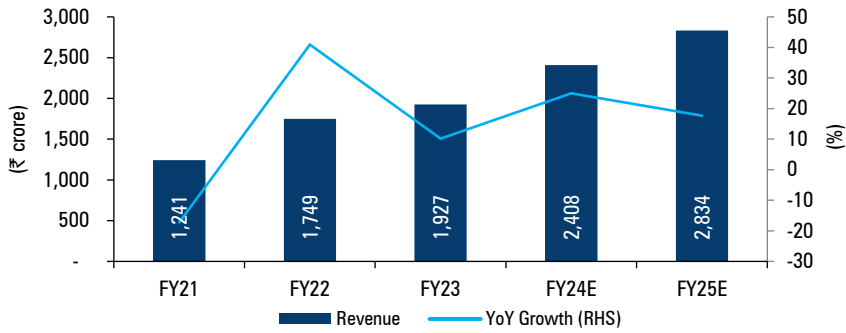
Source: Company, ICICI Direct Research; \* order book worth ₹ 5,052 crore at Q4FY23-end

Exhibit 5: Gujarat, Uttar Pradesh contribute majority to order book



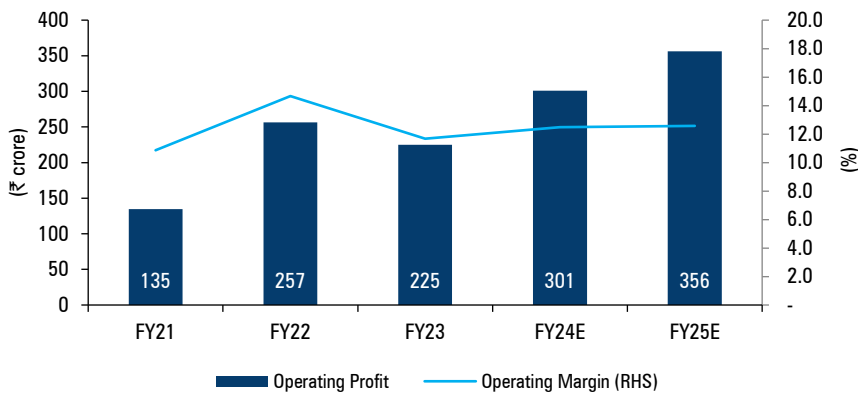
Source: Company, ICICI Direct Research;

Exhibit 6: Revenue to improve at 21.3% CAGR during FY23-FY25E



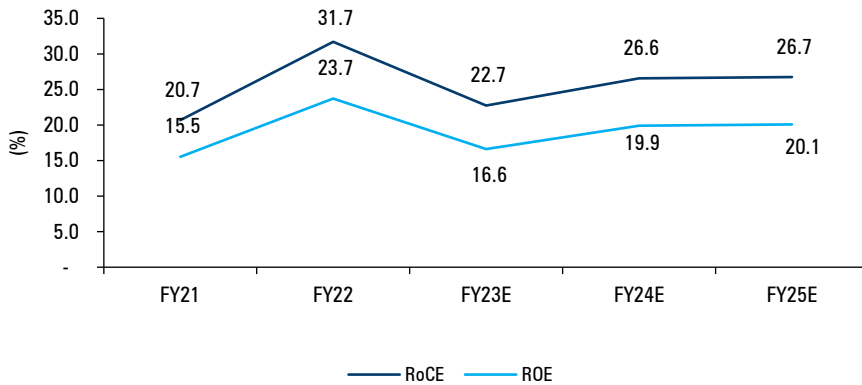
Source: Company, ICICI Direct Research

Exhibit 7: Margin to improve in FY24



Source: Company, ICICI Direct Research

Exhibit 8: Strong return ratios



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
<b>Net Sales</b>	<b>1,748.8</b>	<b>1,926.6</b>	<b>2,408.3</b>	<b>2,834.0</b>
Growth (%)	40.9	10.2	25.0	17.7
Raw Material Cost	500.0	577.3	701.9	823.6
Employee Cost	72.3	93.5	108.5	119.3
Other Expenditure	920.0	1,030.8	1,297.0	1,534.8
Total Operating Expenditure	1,492.3	1,701.6	2,107.4	2,477.7
<b>EBITDA</b>	<b>256.5</b>	<b>225.0</b>	<b>300.9</b>	<b>356.3</b>
Growth (%)	90.3	(12.3)	33.7	18.4
Other income	21.3	27.1	29.8	32.8
Depreciation	32.1	40.0	45.8	49.7
EBIT	245.7	212.1	284.9	339.4
Interest	26.4	32.0	32.8	33.3
PBT	219.3	180.1	252.1	306.1
Tax	56.9	47.1	64.8	78.7
<b>Rep. PAT</b>	<b>162.4</b>	<b>133.0</b>	<b>187.3</b>	<b>227.4</b>
Exceptional items	-	-	-	-
<b>Adj. Net Profit</b>	<b>162.4</b>	<b>133.0</b>	<b>187.3</b>	<b>227.4</b>
Growth (%)	101.0	(18.1)	40.8	21.4
<b>EPS (₹)</b>	<b>45.1</b>	<b>36.9</b>	<b>52.0</b>	<b>63.2</b>

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(₹ Crore)	FY22	FY23	FY24E	FY25E
Profit after Tax	162.4	133.0	187.3	227.4
Depreciation	32.1	40.0	45.8	49.7
Interest	26.4	32.0	32.8	33.3
Others	(21.4)	(29.9)	(29.8)	(32.8)
Cash Flow before wc changes	199.4	175.1	236.1	277.7
Net Increase in Current Assets	(136.1)	(407.4)	(11.4)	(147.4)
Net Increase in Current Liabilities	110.8	329.2	38.3	111.9
<b>Net CF from operating activities</b>	<b>174.2</b>	<b>96.9</b>	<b>263.0</b>	<b>242.1</b>
Net purchase of Fixed Assets	(81.6)	(90.0)	(42.4)	(40.1)
Others	(102.8)	44.6	8.2	9.4
<b>Net CF from Investing Activities</b>	<b>(184.3)</b>	<b>(45.4)</b>	<b>(34.2)</b>	<b>(30.8)</b>
Proceeds from share capital	(1.3)	9.1	(9.1)	(0.0)
Proceeds/Repayment from Loan	18.7	45.3	(2.9)	6.0
Interest paid	(26.4)	(32.0)	(32.8)	(33.3)
Others	(14.4)	(27.0)	(36.0)	(36.0)
<b>Net CF rom Financing Activities</b>	<b>(23.4)</b>	<b>(4.5)</b>	<b>(80.8)</b>	<b>(63.3)</b>
<b>Net Cash flow</b>	<b>(33.6)</b>	<b>46.9</b>	<b>148.0</b>	<b>148.0</b>
Opening Cash and Cash Equivalent	228.8	195.2	242.1	390.1
<b>Closing Cash &amp; cash equivalents</b>	<b>195.2</b>	<b>242.1</b>	<b>390.1</b>	<b>538.1</b>

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
<b>Liabilities</b>				
Equity capital	36.0	36.0	36.0	36.0
Reserves & Surplus	648.7	763.8	906.1	1,097.5
Networth	684.7	799.8	942.1	1,133.5
Loan Funds	99.7	145.0	142.1	148.1
Deferred Tax liability	(9.4)	(12.2)	(12.2)	(12.2)
Other financial liabilities	-	-	-	-
<b>Total Liabilities</b>	<b>775.0</b>	<b>932.6</b>	<b>1,072.0</b>	<b>1,269.4</b>
<b>Assets</b>				
Net Block	207.4	239.6	253.9	244.3
Capital WIP	-	17.7	-	-
Non-current Investments	228.6	205.8	226.7	249.3
Othe non-current assets	1.9	7.2	8.0	8.8
Loans	-	-	-	-
Inventories	80.6	151.6	132.0	155.3
Trade Receivables	311.8	434.2	429.4	505.3
Cash & Bank Balances	195.2	242.1	390.1	538.1
Loans & Advances	5.9	4.4	4.8	5.3
Other current assets	225.8	441.4	476.9	524.6
Total current assets	819.4	1,273.7	1,433.2	1,728.6
Total Current liabilities	482.2	811.4	849.7	961.6
Net Current Assets	337.1	462.3	583.4	767.0
<b>Total Assets</b>	<b>775.0</b>	<b>932.6</b>	<b>1,072.0</b>	<b>1,269.4</b>

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
(Year-end March)	FY22	FY23	FY24E	FY25E
<b>Per share data (₹)</b>				
Reported EPS	45.1	36.9	52.0	63.2
Cash EPS	54.0	48.1	64.8	77.0
BV per share	190.2	222.2	261.7	314.9
Revenue per share	485.8	535.2	669.0	787.2
Cash Per Share	54.2	67.2	108.4	149.5
<b>Operating Ratios (%)</b>				
EBITDA Margin	14.7	11.7	12.5	12.6
EBIT/ Net Sales	12.8	9.6	10.6	10.8
PAT Margin	9.3	6.9	7.8	8.0
Inventory days	16.8	28.7	20.0	20.0
Debtor days	65.1	82.3	65.1	65.1
Creditor days	53.8	69.6	53.8	53.8
<b>Return Ratios (%)</b>				
RoE	23.7	16.6	19.9	20.1
RoCE	31.7	22.7	26.6	26.7
RoC	38.8	27.5	37.5	42.0
<b>Valuation Ratios (x)</b>				
P/E	15.6	19.0	13.5	11.1
EV / EBITDA	9.5	10.8	7.6	6.0
EV / Net Sales	1.4	1.3	0.9	0.8
Price to Book Value	3.7	3.2	2.7	2.2
<b>Solvency Ratios (x)</b>				
Debt / EBITDA	0.4	0.6	0.5	0.4
Net Debt / Equity	(0.1)	(0.1)	(0.3)	(0.3)

Source: Company, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

[pankaj.pandey@icicisecurities.com](mailto:pankaj.pandey@icicisecurities.com)

ICICI Direct Research Desk,  
ICICI Securities Limited,  
Third Floor, Brillanto House,  
Road No 13, MIDC,  
Andheri (East)  
Mumbai – 400 093  
[research@icicidirect.com](mailto:research@icicidirect.com)

## ANALYST CERTIFICATION

I/We, Bhupendra Tiwary, CFA, MBA (Finance) Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

## Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on [www.icicibank.com](http://www.icicibank.com).

### Investments in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by Sebi and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk-free return to the investors.

Name of the Compliance officer (Research Analyst): Mr. Anoop Goyal  
Contact number: 022-40701000 E-mail Address: [complianceofficer@icicisecurities.com](mailto:complianceofficer@icicisecurities.com)

For any queries or grievances: Mr. Prabodh Avadhoot Email address: [headservicequality@icicidirect.com](mailto:headservicequality@icicidirect.com) Contact Number: 18601231122

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit [icicidirect.com](http://icicidirect.com) to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.



