

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



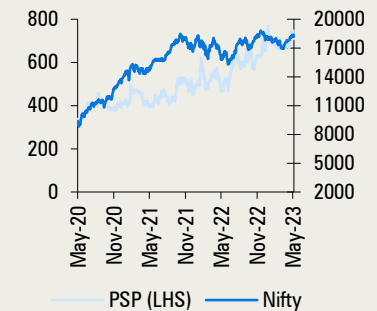
Particulars

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

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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	

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

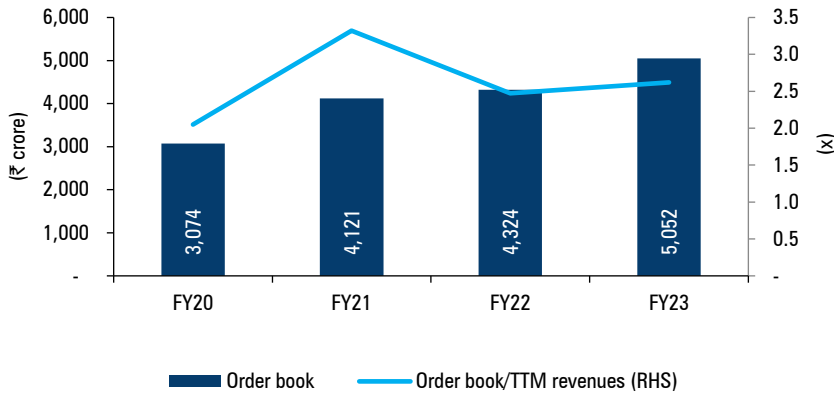
Exhibit 2: Change in estimates

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

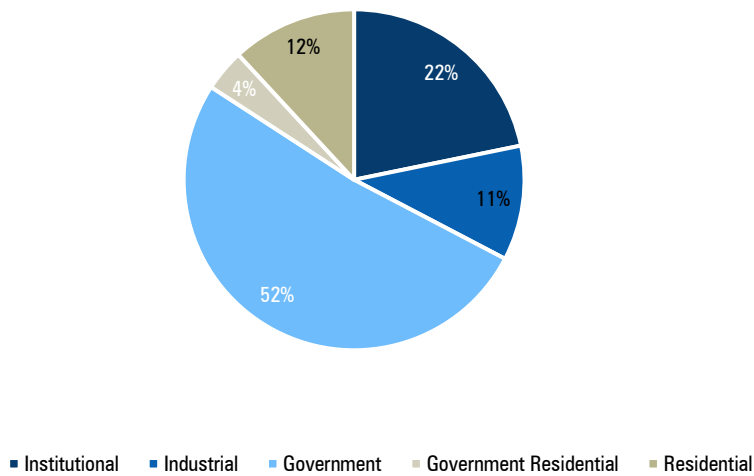
Company Analysis

Exhibit 3: Order book* trend



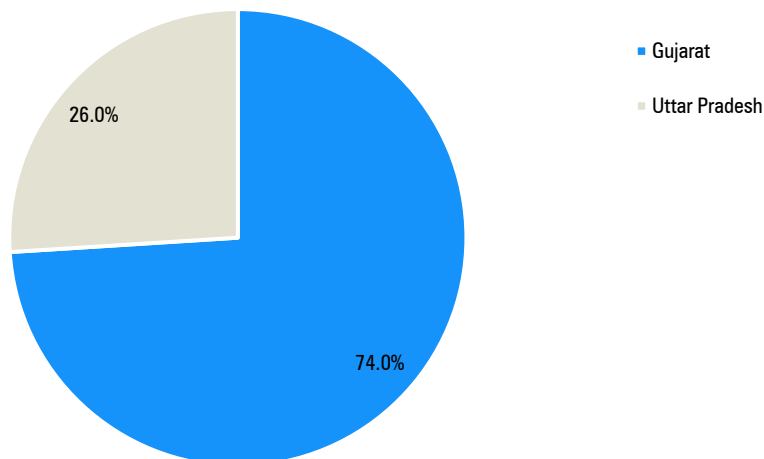
Source: Company, ICICI Direct Research

Exhibit 4: Order book* spread across major verticals



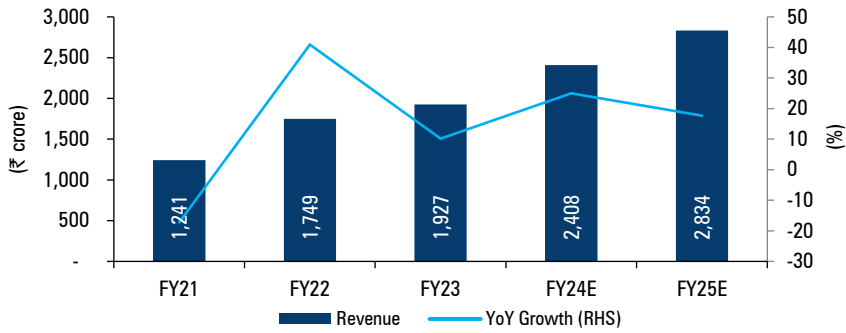
Source: Company, ICICI Direct Research; * order book worth ₹ 5,052 crore at Q4FY23-end

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



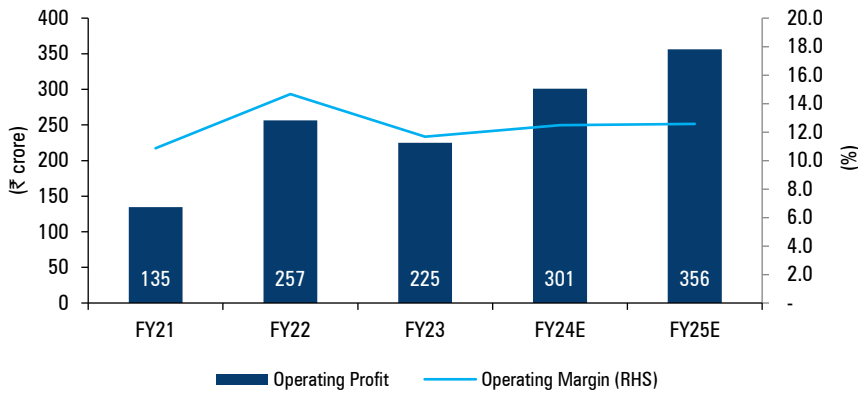
Source: Company, ICICI Direct Research;

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



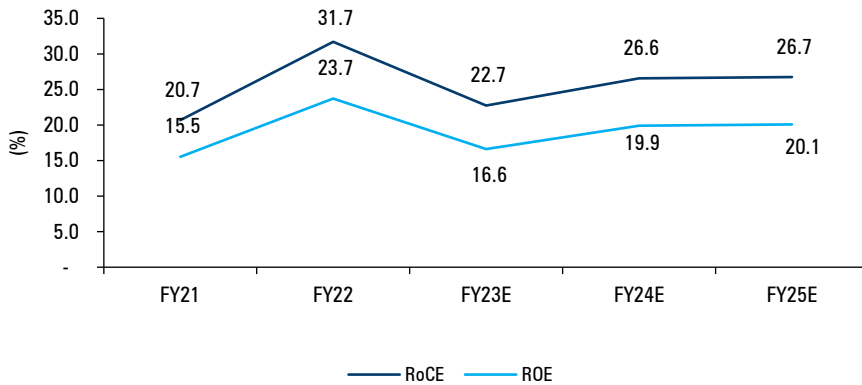
Source: Company, ICICI Direct Research

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
Net Sales	1,748.8	1,926.6	2,408.3	2,834.0
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
EBITDA	256.5	225.0	300.9	356.3
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
Rep. PAT	162.4	133.0	187.3	227.4
Exceptional items	-	-	-	-
Adj. Net Profit	162.4	133.0	187.3	227.4
Growth (%)	101.0	(18.1)	40.8	21.4
EPS (₹)	45.1	36.9	52.0	63.2

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
Net CF from operating activities	174.2	96.9	263.0	242.1
Net purchase of Fixed Assets	(81.6)	(90.0)	(42.4)	(40.1)
Others	(102.8)	44.6	8.2	9.4
Net CF from Investing Activities	(184.3)	(45.4)	(34.2)	(30.8)
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)
Net CF rom Financing Activities	(23.4)	(4.5)	(80.8)	(63.3)
Net Cash flow	(33.6)	46.9	148.0	148.0
Opening Cash and Cash Equivalent	228.8	195.2	242.1	390.1
Closing Cash & cash equivalents	195.2	242.1	390.1	538.1

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Liabilities				
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	-	-	-	-
Total Liabilities	775.0	932.6	1,072.0	1,269.4
Assets				
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
Total Assets	775.0	932.6	1,072.0	1,269.4

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
(Year-end March)	FY22	FY23	FY24E	FY25E
Per share data (₹)				
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
Operating Ratios (%)				
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
Return Ratios (%)				
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
Valuation Ratios (x)				
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
Solvency Ratios (x)				
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

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