

Shubh Nivesh



On a strong growth trajectory!

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 FY18-23
- Prudent management, strong execution track record, healthy order book, net debt free status and robust return ratios are the key strengths of PSP

Investment Rationale

- **Robust Order Book and Bid pipeline ensures strong growth visibility:** PSP enjoys a healthy order book of ₹ 5321 crore (2.5x bill to TTM book). The company has secured orders worth ~₹ 758 crore in Q1FY24. Going forward, the company has indicated towards strong order pipeline of ~₹ 6000 crore with intent towards entering station redevelopment space (looking at Ahmedabad & Delhi station). PSP has indicated 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%.
- **Expect 23%/33% Revenues and Earnings CAGR over FY23-25E:** We note that all its projects are in the execution/ fully mobilised state, while bid pipeline conversion will boost further growth visibility. Consequently, we expect PSP to report revenue CAGR of 21.3% during FY23-25E with margin likely to hover at ~12.5%. This will translate into earnings CAGR of 32.5%.
- **Healthy Balance sheet; Return ratios to expand further:** PSP has a lean balance sheet backed by its asset light model (no investments in metro/ roads projects) and has a net cash positive position. Gross debt stood at ₹ 282 crore in Q1FY24 and cash and equivalent was ₹ 323 crore implying net cash of ₹ 41 crore. With healthy earnings growth, RoCE is seen expanding further from current healthy levels of ~25% in FY23 to ~29% in FY25E.

Rating and Target price

- PSP is well placed for healthy growth at decent margins to be driven by strong executable order book position. Healthy order inflows secured at FY23 and Q1FY24 coupled with robust bidding pipeline brightens company's prospects. At the CMP, the company is trading at a valuation of ~12x FY25E P/E.
- We maintain **BUY** on the company. We value PSP at **15x P/E on FY25E to arrive at target price as ₹ 975/share**
- **This is our high conviction Smallcap Idea**



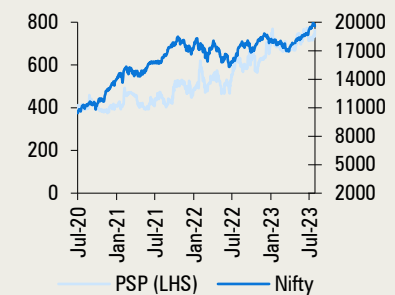
Particulars

Particular	Amount
Market Capitalization (₹ crore)	2,799
Debt (FY23) (₹ crore)	145
Cash (FY23) (₹ crore)	242
EV (₹ crore)	2,702
52 week H/L (₹)	799 / 560
Equity capital (₹ crore)	36.0
Face value (₹)	₹ 10

Shareholding pattern

	Sep-22	Dec-22	Mar-23	Jun-23
Promoters	70.5	67.5	67.6	66.2
DII	2.5	4.2	4.6	5.4
FII	2.0	2.3	2.5	4.2
Other	25.1	26.0	25.4	24.2

Price Chart



Recent event & key risks

- Reported a strong 48%/29% topline and bottomline growth respectively in Q1FY24
- **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	2,503.8	2,922.2	23.2
EBITDA	191.0	134.8	256.5	225.0	17.3	313.8	364.6	27.3
EBITDA Margin (%)	12.7	10.9	14.7	11.7		12.5	12.5	
Net Profit	129.3	80.8	162.4	133.0	15.6	196.9	233.6	32.5
EPS (₹)	35.9	22.4	45.1	36.9		54.7	64.9	
P/E (x)	21.7	34.6	17.2	21.0		14.2	12.0	
EV/EBITDA (x)	14.0	19.7	10.5	12.0		8.1	6.6	
RoCE (%)	41.1	22.2	35.5	24.8		29.6	29.4	
RoE (%)	31.2	16.2	26.6	17.9		22.5	22.2	

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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