INITIATING COVERAGE REPORT

PSP Projects Ltd.

Lokesh Kashikar
Sector Lead – Infrastructure and Constructions
+91-9004447175/ 022-4200 5548
lokesh.kashikar@smifs.com

Awanish Chandra
Executive Director
+91-8693822293/022-4200 5508
awanish.chandra@smifs.com

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PSP Projects Ltd

Sturdy foundation; Promising future prospects

PSP Projects, under the leadership of a first-generation entrepreneur and technocrat, has established a commendable reputation among Gujarat-based Corporates/Public undertakings for the construction of medium-sized buildings. This is largely supported by its demonstrated construction capabilities, a commitment to timely execution, and strong brand recall. Furthermore, tightly-run operations, centralized control, and focused approach on an asset-light model have enhanced its competencies and enabled it to expand into other targeted geographies. With this, it is well-positioned to leverage the substantial opportunities stemming from growing infrastructural needs, and is primed to secure sizable undertakings through the augmentation of its project bidding capacity. Moreover, an operational in-house pre-cast facility offers a distinct advantage, as it has the potential to accelerate project completion timelines and enhance client acceptance. At present, PSP offers healthy revenue visibility (Q2 FY24-end OB: Rs 49bn) with a 2.1x book-to-TTM bill. Target to bag more orders likely to sustain growth. We anticipate a CAGR of 17.7% for revenue and 20.6% for PAT over FY23-FY26E with continued execution, and a gradual improvement in operating margin. Additionally, well-managed balance sheet, strict working capital controls, and healthy return ratios are added positives. Given the favourable outlook, we initiate coverage with a Target Price of Rs905/share (15x Sept'25 estimated EPS), representing an upside potential of ~20%.

Growing opportunities, geographical expansion and rise in capabilities strengthened OB; assurance ample.
As of Q2 FY24-end, PSP's order backlog amounted to ~ Rs49bn. It is noteworthy that despite the removal of legacy projects in Maharashtra (worth ~Rs7.2bn), the order backlog has experienced a twofold increase over the past five years, driven by growing opportunities, diversification of its presence into different states, and improved capabilities. Generally, the company intends to add orders of ~1.2x targeted revenues and is aiming to secure orders ~Rs30bn in FY24. The start to the year has been encouraging, with ~Rs9.6bn added already, excluding L1 orders. For the rest of FY24, it is banking on a strong bid pipeline of >Rs130bn. The government's intent to increase the number of IITs, AIIMS, and medical colleges, and rising private capex keep PSP optimistic about healthy prospects ahead. Additionally, it is open to considering newer regions, provided the nature of work and order sizes justify the investments (bandwidth and capital). With this, we expect order inflows of Rs29bn, Rs33bn, and Rs38bn in FY24, FY25, and FY26, respectively.

Pre-cast facility to yield incremental advantages, expansion underway.
During the peak of the pandemic, PSP experienced a setback primarily due to the migration of labours, escalated project-related expenses, and a notable deceleration in the pace of execution. In an effort to mitigate the impact, PSP introduced an innovative facility that enables the pre-casting of components of the building industry, such as beams, columns, slabs, load-bearing walls, and staircases. The facility was initially constructed at a capex of Rs1.09bn under Phase-I, and had a capacity of 1 mn sq ft., with the potential to generate revenue of ~Rs2bn. Further, an investment of Rs0.51bn was made in H1 FY24 to construct an extra factory shed and acquire machinery and Molds primarily for infrastructure-oriented facilities. Overall, we believe that an in-house pre-cast facility provides a considerable advantage, as it augments company's ability to expedite project completion schedules, reduces costs, and enhances client acceptances. Incremental revenues and in-line margins serve as an additional positive aspect.

Revenue expected to clock 17.7% CAGR over FY23-26E, operating margin likely to reach 12.4% by FY26E.
PSP achieved a revenue CAGR of 21.4% during FY18-23, primarily attributable to enhancements in the order book position and an increase in execution proficiency. H1 FY24 was healthy with 59.1% y/y revenue growth. We anticipate improved momentum in execution to persist, allowing PSP to achieve a CAGR of 17.7% over FY23-26E (on the higher base), resulting in an estimated revenue of ~Rs31.4bn in FY26. This is likely to be supported by its comfortable order book position, anticipated inflows, and pick-up in execution. Further, the operating margin experienced a moderation in FY23, declining to 11.7% from 14.7% in FY22 as most of the projects were in their initial stages (foundation and plinth-level work typically attracts lower margins). However, we expect a gradual improvement in the margin to 12.4% by FY26E with better project mix, stable raw material prices, and increased efficiency (particularly with larger projects). Effectively, net profit to improve at 20.6% CAGR (~Rs2.3bn by FY26E).

Lean Balance Sheet, stringent WC control instils confidence on capital allocation.
PSP's balance sheet structure is characterized by a streamlined approach, which is reinforced by its asset-light business model. Although the Capex linked to the pre-cast facility, and heightened need for working capital have resulted in a rise in gross debt recently (~Rs4bn as of Q2FY24-end), we expect it to stabilize at ~Rs3.5bn over FY24-26E. Furthermore, incremental free cash flows would to be adequate to meet future working capital and Capex requirements. The cash conversion cycle, which was 41 days at Q2FY24-end, is projected to hover at ~45-47 days in light of the change in order book mix towards government orders.

View: Given PSP's healthy order backlog, strong execution capabilities, streamlined balance sheet, and promising prospects in key geographies, we have a positive outlook on the company's long-term business potential. As such, we assign 15x Sept'25 estimated EPS to the business, to arrive at Target Price of Rs905.
Risks: Key man dependence, lower order inflows, and addition of low-margin orders.

Rating: **BUY**	Upside: **~20%**
Current Price: **756**	Target Price: **905**

|Market data

Bloomberg:	PSPPL: IN
52-week H/L (Rs):	846/617
Mcap (Rs bn/USD bn):	27.2/0.33
Shares outstanding (mn):	36.0
Free float:	33.8%
Daily vol. (3M Avg.):	0.08mn
Face Value (Rs):	10
Group:	S&P BSE SmallCap

Source: Bloomberg, SMIFS Research

|Shareholding pattern (%)

	Sept-23	June-23	Mar-23	Dec-22
Promoter	66.2	66.2	67.6	67.5
FIIs	4.2	4.2	2.5	2.3
DIIs	5.4	5.4	4.6	4.2
Public/others	24.2	24.2	25.3	26.0

|Pro. Pledging

Pledging	0.0	0.0	0.0	0.0

Source: BSE

|Price performance (%) *

	1M	3M	12M	36M
NIFTY 50	2.7	2.1	7.1	51.6
NIFTY 500	4.5	4.2	12.5	64.4
PSPPL: IN	2.1	-6.5	19.5	94.3

*as on 24th Nov 2023; Source: AceEquity, SMIFS Research

Lokesh Kashikar
Sector Lead - Infrastructure
+91 9004447175
lokesh.kashikar@smifs.com

Awanish Chandra
Executive Director
+91 8693822293
awanish.chandra@smifs.com

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Adj EPS	RoE (%)	RoCE (%)	Adj P/E (x)	EV/EBITDA (x)
FY22	17,488	40.9	2,565	14.7	1,624	96.0	45.1	26.6	25.4	10.5	6.4
FY23	19,266	10.2	2,250	11.7	1,330	(18.1)	36.9	17.9	17.6	16.7	9.6
FY24E	24,472	27.0	2,961	12.1	1,693	27.3	47.0	19.4	17.9	16.1	9.2
FY25E	28,072	14.7	3,432	12.2	2,008	18.6	55.8	19.3	17.2	13.6	7.8
FY26E	31,389	11.8	3,906	12.4	2,334	16.2	64.8	18.9	17.2	11.7	6.6

Source: Company, SMIFS Research Estimates

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Investment Rationale

Extensive expertise in the construction industry; notable presence in select segments augurs favourably.

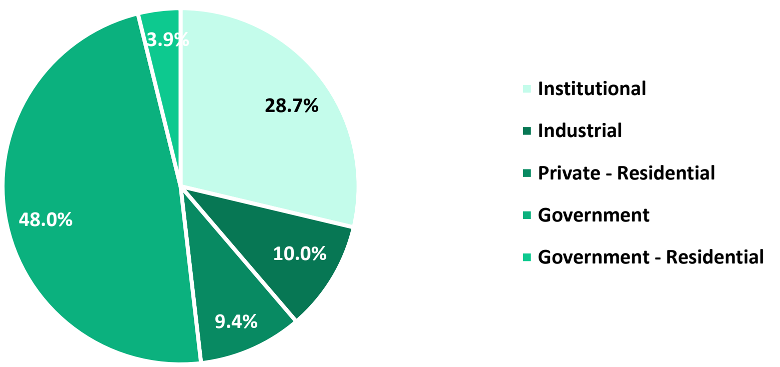
- PSP has established itself as a distinguished contractor in the state of Gujarat, with a focus on institutional, industrial, residential, and various government projects. This accomplishment has been attained by leveraging its vast expertise in the EPC construction domain, having effectively executed 212 projects till date.
- Although there has been an improvement in the average ticket size over time, the primary focus remains on capitalizing the expanding opportunities within the project's ticket size range of Rs1-5bn. We have learnt that the competition in projects with a value < Rs1bn has been intense, primarily due to the aggressive participation of a relatively higher number of unorganized players. This results in contracts with lower margins. Furthermore, companies seeking to award larger projects with a value > Rs5bn tend to prefer considerably bigger contractors due to the complexities and risks associated with construction. Consequently, the demand for an organized contractor with a proven track record of timely completion has placed PSP in a favourable position.
- Additionally, PSP has allocated its resources towards a focused assortment of segments, resulting in the maintenance of an asset-light business model. Notably, the company has completely abstained from involvement in asset-heavy segments, such as Roads - HAM/BOT and Power T&D, among others.
- The company's commendable track record of timely completion and delivery of quality work, complemented by effective management touchpoints, has resulted in a robust brand recall. This has resulted into a significant number of repeat orders from existing clients and a steady influx of new clients seeking the company's services. To name few, the company has a rich history of providing services to esteemed customers such as Zydus Cadila, Torrent, Adani, Reliance, Intas, and Claris.

Fig 1: PSP's specialized array of offered services.

Project Type	Services offered	Number of projects completed*
Institutional projects	Construction of buildings intended for hospitals and healthcare facilities, educational institutions, shopping centers, hospitality establishments, and corporate offices	93
Industrial projects	Construction of Industrial buildings for pharmaceutical plants, engineering firms, tire manufacturers, food processing establishments	66
Government projects	Executes diverse real estate and infrastructure projects led by the government and PSUs, including the Chief Minister's Office, Riverfront Development project, Vidhansabha Building Renovation.	31
Residential Projects	The development of private residential buildings catering to group housing, townships and independent houses for exclusive private clientele	19
Government Residential projects	Execution of residential cum-commercial projects, led by the government in the affordable housing sector through Mukhya Mantri GRUH Yojana	03

Source: Company, SMIFS Research; * as on 30th Sept'23

Fig 2: Diverse mix of clientele*



Source: Company, SMIFS Research; *% of order backlog as on 30th Sept'23

Established in Gujarat, diversifying presence to other promising regions.

- PSP, having been incorporated in the state of Gujarat, has positioned itself as a distinguished player with a focus on state-level projects. The company has effectively executed numerous noteworthy assignments, including the Surat Diamond Bourse, Gujarat Vidhan Sabha building, and Sabarmati Riverfront Development projects. The concentrated execution of projects within a specific region has enabled PSP to cultivate robust competencies across various stages of the project life cycle.
- Amidst the burgeoning economic development in the state of Gujarat, the company has seized the opportunity to expand its operations to other promising regions, in order to establish a pan-India presence over the medium-to-long term and ensure future-readiness.
- With that view, it had secured two projects in Maharashtra in FY19/FY20. However, it encountered impediments due to authority-related issues. Currently, the Bhiwandi project, which was initially estimated to cost ~Rs6bn, is undergoing commercial arbitration. A panel has been established, and hearings are expected to commence shortly. Similarly, the Pandharpur project, which had a value of ~Rs1.6bn, has been delayed due to payment issues from the counterparty and is also undergoing arbitration. It is worth noting that PSP has not suffered substantial financial losses in these projects and has already done provisions, thereby mitigating credit risk.
- In contrast with Maharashtra based projects, the advancements made in the projects situated in Uttar Pradesh have been promising. The company has successfully concluded the Kashi Vishwanath Temple project (valued at Rs3.4bn) within the stipulated timeframe, while the healthcare orders (project value: Rs14.9bn) and the affordable housing project (Rs2.4bn) are progressing well.
- With geographical diversification, the state of Gujarat accounted for ~83% of the total order book (Rs49bn), while Uttar Pradesh formed remaining ~17%. Projects based in Maharashtra has been removed from the order backlog in FY23 due to their lack of progress.
- Going forward, the company's emphasis on geographical diversification through the acquisition of multiple projects across targeted regions are expected to create incremental opportunities. We believe, the primary focus would be on the Western, Central, and Northern regions of India.

Fig 3: Project in Gujarat: BSE Brokers Forum (Gandhinagar)

Source: Company, SMIFS Research

Fig 4: Project in Gujarat: Dharnidhar Pride (Ahmedabad)

Source: Company, SMIFS Research

Fig 5: Key projects secured outside Gujarat State

Description Of Project	Location	Name of client	Contract Value (Rs bn)	Outstanding OB value (Rs bn)
Development Of Shri Kashi Vishwanath Dham	Uttar Pradesh	Uttar Pradesh PWD	3.4	Completed
Medical colleges at multiple locations	Uttar Pradesh	Uttar Pradesh PWD	14.9	3.1
Affordable Housing Project, Badaun	Uttar Pradesh	Uttar Pradesh PWD	2.4	1.9
EWS Housing Project, Bhiwandi	Maharashtra	Municipal Corporation	6.0	Under Arbitration
Affordable Housing Project, Pandharpur	Maharashtra	Municipal Corporation	1.6	Under Arbitration

Source: Company, SMIFS Research

SDB completed; poised to emerge as a prominent contender with rise in pre-qualification.

- PSP accomplished a significant milestone during Oct'17 by securing a crucial contract for the Surat Diamond Bourse (SDB) project, which spans over an area of 6.6mn sq ft. This was the company's maiden project with a value exceeding Rs15bn, surpassing competitors such as Shapoorji Pallonji and L&T. Notably, the building has acquired the distinction of being the largest office building globally, surpassing the USA's Pentagon.
- The initial projected value for the construction was ~Rs15.8bn, however, it was subsequently increased to ~Rs18.5bn due to alterations in scope and price variations.
- Upon its completion, PSP's pre-qualification for public projects has been augmented to ~Rs25bn. This development is expected to facilitate the company in securing projects of greater magnitude.
- The increase in pre-qualification has already enabled the company to secure a high-rise project from the Surat Municipal Corporation (SMC) in Jan'23. The project, likely to be the tallest office building in the country, is valued at Rs13.4bn and is currently in progress. It is our belief that the company stands to gain considerable advantages from an increase in pre-qualification and likely to bag higher-ticket size projects.

Fig 6: Salient features of Surat Diamond Bourse

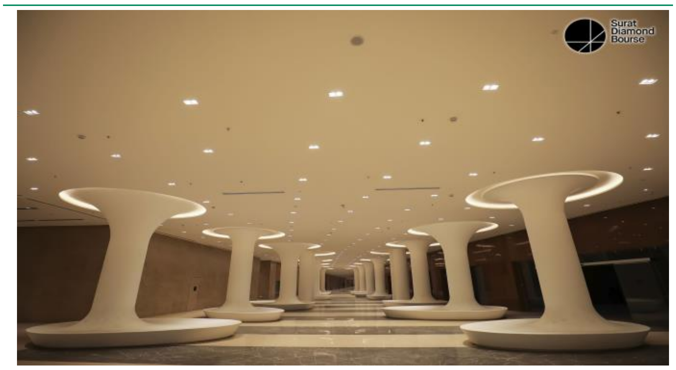
Particular	Details
Project	Surat Diamond Bourse – Main contract works, Surat (Gujarat)
Client	SDB Diamond Bourse
Total project area	6.6 mn sq ft
Project value	Rs18.5bn (increased from ~Rs15.8bn)
Buildings / Floors	9 towers/ G+15 floors each
Project awarding period	Oct'17
Completed	Jun'22

Source: Company, SMIFS Research

Fig 7: SDB - Comprises of 9 towers, with Ground + 15 floors

Source: Surat Diamond Bourse, SMIFS Research

Fig 8: SDB - Communal area situated within the premises



Source: Surat Diamond Bourse, SMIFS Research

Fig 9: SMC-Twin towers designated to serve as headquarter

Source: Surat Municipal Corporation, SMIFS Research

Fig 10: SMC - Displaying an aerial perspective

Source: Surat Municipal Corporation, SMIFS Research

Precast facility to yield incremental benefits; expansion underway.

- The construction industry in India experienced a significant setback during the height of the pandemic, primarily due to the migration of laborers to their respective hometowns, escalated project-related expenses, and a notable deceleration in the pace of execution. This has consequently led to an extension of the overall project completion timeline.
- In an effort to mitigate the impact, PSP has come out with innovative facility (located in Sanand, Gujarat) wherein it can pre-cast components of the building industry such as beams, columns, slabs, load-bearing walls, partition walls, staircases, and lift cores. This approach is expected to significantly decrease the time and effort required by traditional building methods through extensive prefabrication, ultimately reducing turnaround time and enhancing operational efficiencies.
- During phase I, the facility was built at the capex of Rs1.09bn and possesses a production capacity of 1 mn sq ft (spans across 60 acres; factory shed: 0.2mn sq ft). At full capacity, the facility has the potential to generate revenue of ~Rs2bn.
- Further, a sum of Rs0.51bn was invested in H1 FY24 towards the development of a new factory shed, procurement of machinery and molds for infrastructure-oriented facilities, and acquisition of molds for building-related facilities.
- The adoption of pre-cast elements is increasing due to the concomitant advantages of reduced time and cost. The company has emphasized that it is supplying components to Nestle, Adani School, Deepak Chemtek, and other clients. Additionally, the company has entered into the production stage for L&T (high-speed bullet train) order in Q2 FY24 with acquisition of required molds.
- The company is also under discussions with other clients for more potential orders. Margins are largely in-line with EPC orders.

Fig 11: Precast - Comprehensive view of the facility

Source: Company, SMIFS Research

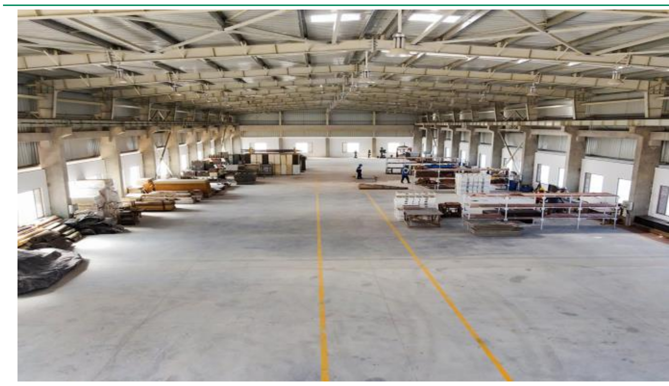
Fig 12: Precast – Closure perspective of the factory shed

Source: Company, SMIFS Research

Fig 13: Showcasing pre-casted building components

Source: Company, SMIFS Research

Fig 14: Inside of precast facility within factory shed



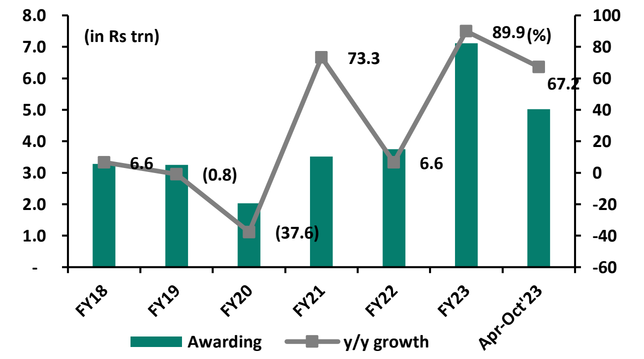
Source: Company, SMIFS Research

The flourishing infrastructure sector presents abundant prospects

PSP is positioned favourably to attract substantial inflows over the medium-to-long term with a strong infrastructure development and significant growth in sub-segments.

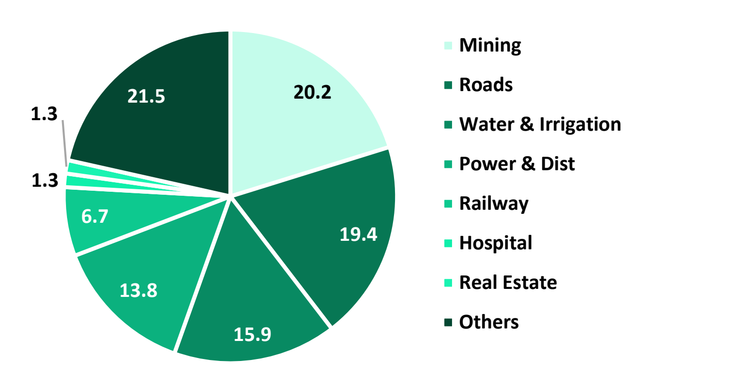
- **India's Infrastructure industry expanding at healthy pace.** The Indian infrastructure industry has demonstrated a robust ~14% CAGR in awarding over the past decade, driven by investments in projects related to roads and highways, water and irrigation, hospitals, real estate, mining, and urban infrastructure. Notably, in FY23, the project awards experienced a remarkable ~90% y/y surge, reaching a total of Rs7.1 trn. Further, the momentum continued during Apr-Oct'23, witnessing a substantial 67% y/y growth (to ~Rs5 trn). We anticipate the positive trend to persist in the medium to longer term due to strong focus on infrastructure development driving economic growth and social transformation. The code-of-conduct implementation to have limited impact.

Fig 15: Significant rise in project awards seen in FY23



Source: Industry, SMIFS Research

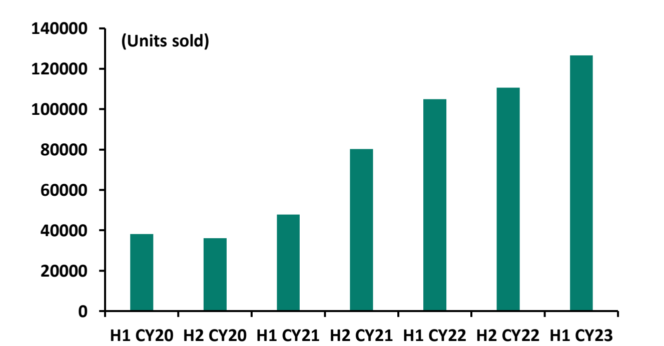
Fig 16: Mining, roads, water & power forms major pie in awarding*



Source: Industry, SMIFS Research; * Project awarding during FY23

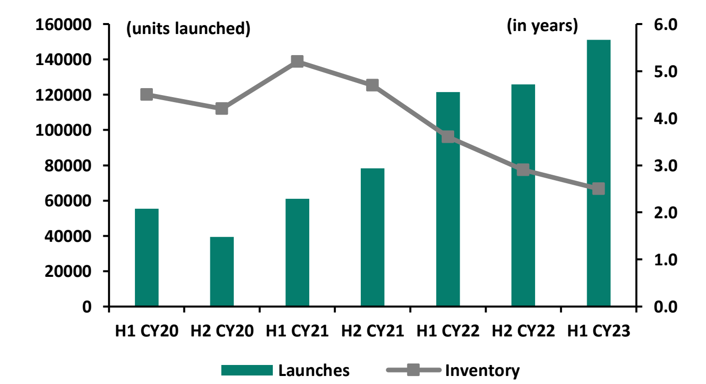
- **Residential sector witnessed a remarkable upswing post Pandemic.** The residential market has embarked on a new chapter of growth propelled by buoyant consumer sentiment, robust property launches, competitive pricing, and a conducive interest rate regime. This growth is further exemplified by the substantial rise in sales volume across the top seven cities, which increased from 36,114 units in H1 CY20 to 126,587 units in H1 CY23.
- Improved affordability due to a decrease in the home loan to income ratio, an increase in the working population, the stabilization of interest rates, the preference of buyers for larger quality homes, an increase in household savings, and the consolidation of the supply-side are anticipated to facilitate continued growth in the residential sector.
- Driven by robust consumer demand, the number of launches in the top seven cities has surged to a record high of 151,138 units (at H1 CY23). Nevertheless, the evaluation of inventory level indicates a decline in the projected timeframe to sell. At H2 CY21-end, it was at 5.2 years, but it has since dropped to 2.5 years at H2 CY23-end. Consequently, developers are likely to continue launching new projects to keep up sales momentum.

Fig 17: Residential sales scaled to new high during H1 CY23



Source: JLL, SMIFS Research

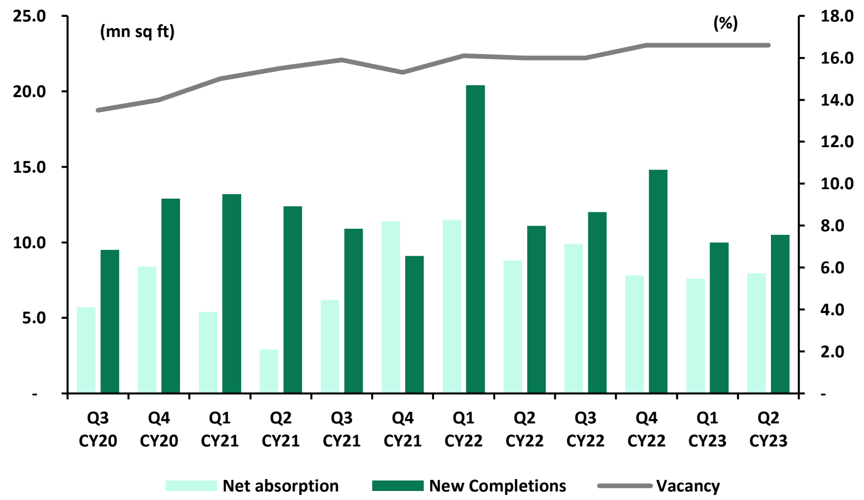
Fig 18: Despite higher launches, inventory is moving southwards



Source: JLL, SMIFS Research

- **Office market displaying resilience.** The office market in India has experienced a significant increase in net absorption, with 25.9mn sq ft in CY21, 38mn sq ft in CY22, and 15.6mn sq ft in H1 CY23. This growth is particularly noteworthy considering the challenges posed by the Covid-19 pandemic, the adoption of hybrid workplace strategies by IT/BFSI-related companies, and a volatile global economic climate. However, completions have surpassed absorptions as suppliers are anticipating strong demand from the domestic firms while global companies are expanding their operations (albeit at a slightly slower pace). While we expect temporary slowdown in new supplies with higher vacancy rate, medium-to-longer term growth remains intact.

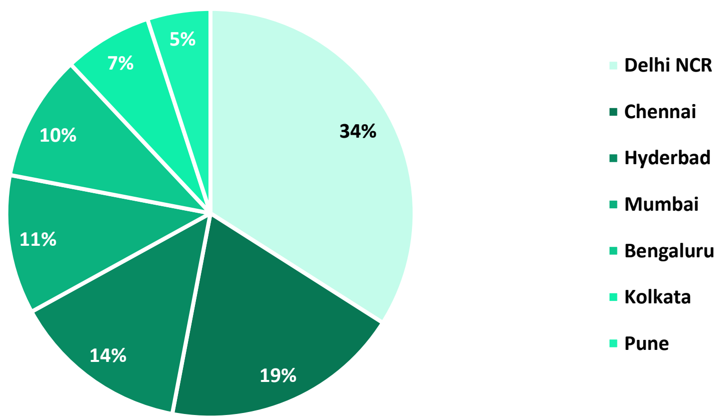
Fig 19: New completions outpaced net absorptions across past many quarters



Source: JLL, SMIFS Research

- **Retail sector on an upward growth trajectory.** CY22 witnessed a strong resurgence of India's retail sector, which has carried over into H1 CY23. The sector's growth has been driven by stable economic conditions and restored consumer confidence, resulting in a surge of leasing activity and new store launches by both national and global retailers. The demand for quality retail spaces has increased due to their effective management, robust support infrastructure, and low vacancy rates. Malls are adapting to the changing needs of shoppers by implementing placemaking initiatives that offer distinctive experiences and amenities that cannot be found online.
- The retail stock in the top seven cities of India reached 89mn sq ft, with ~1.1mn sq ft of mall supply being recorded during H1 CY23. Ahead, the sector is expected to see an addition of ~40mn sq ft of shopping mall stock between H2 CY23 and CY27 among the top seven cities.

Fig 20: Supply* of shopping malls to be dominated by Delhi-NCR over H2 CY23-CY27



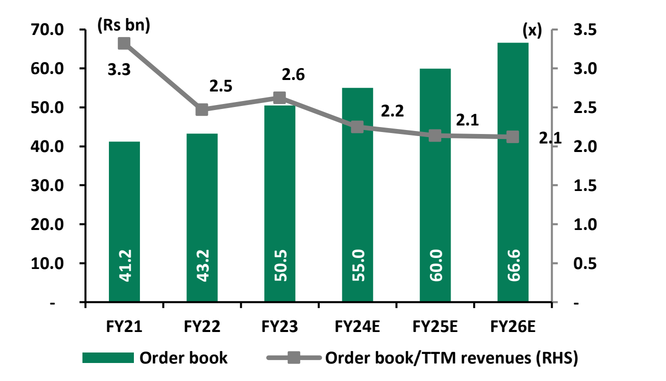
Source: JLL, SMIFS Research; Supply expected to be ~40mn sq ft during H2 CY23-CY27

- **The post-pandemic era brought about a major transformation in healthcare sector.** India's healthcare infrastructure encountered a significant hurdle during the pandemic when the demand for infrastructure and service delivery reached its peak. Nevertheless, India adeptly navigated the crisis and emerged as a trailblazer in managing such circumstances. This triumph has opened doors for heightened investments and advancements to effectively combat forthcoming life-threatening diseases, pandemics, and foster the growth of the healthcare and life sciences sector in the nation.
- At present, the healthcare infrastructure encompasses a diverse array of facilities, spanning from primary healthcare centres to tertiary care hospitals. It is anticipated that the healthcare system in India will attain a value of USD50bn by CY33, propelled by investments from both the public and private sectors. Additionally, the country benefits from a large pool of highly skilled medical professionals, including doctors, nurses, and paramedical staff. Furthermore, the growth of India's healthcare sector is bolstered by medical tourism, cost-competitiveness, and comparatively low expenses for clinical research.
- Real estate plays a crucial role in facilitating this transformation by providing modern, fully equipped healthcare facilities. Developers and investors are working together with healthcare providers, both public and private, to build and improve healthcare facilities across the country. These collaborations are driving the progress of state-of-the-art hospitals, clinics, diagnostic centres, laboratories, and specialized treatment centres.

Strong order book position offers healthy assurance; inflows to persist with improved prospects and enhanced bid capacity

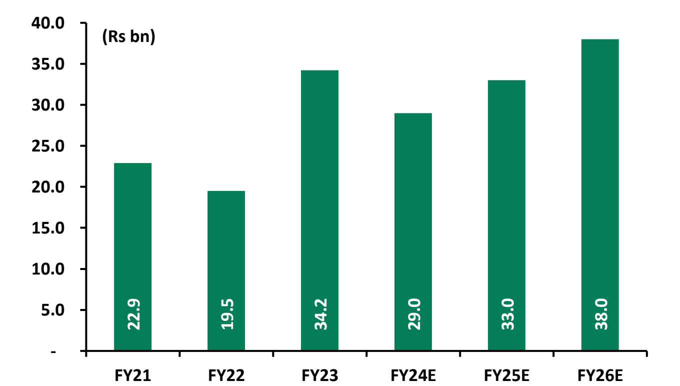
- PSP's order backlog, amounting to ~Rs49bn as of 30th Sept'23, has witnessed a twofold increase over the past five years. Following the elimination of legacy Maharashtra projects from the order backlog, the majority of PSP's projects are currently in the execution/mobilisation stage. The assurance of 2.1x TTM revenues is deemed sufficient for the short to medium term.
- The robust order backlog has been bolstered by the receipt of the highest single-year orders amounting to ~ Rs34.2bn in FY23. Furthermore, the commencement of FY24 has been encouraging, with the successful acquisition of orders with an aggregate EPC potential of ~Rs9.6bn. The recent key additions encompassed an order for the development of a tourist/pilgrimage destination at the Dharoi Dam project (phase-I: ~Rs3.2bn), construction orders for Sabha Halls at Vadodara and Surat from the BAPS Swaminarayan Sanstha (~Rs2.6bn), and the construction of a private city and Vishram place for a private client at Surat (~Rs1.4bn). It also holds L1 position in two projects worth ~Rs4.6bn.
- Overall, PSP is seeking to secure orders worth ~Rs30bn in FY24 (~1.2x FY24 management's projected revenues; ~Rs14.2bn already added including L1 at YTD level) buoyed by its increased bidding capacity and promising prospects. To achieve this, the company has identified an immediate prospect amounting to ~Rs65bn primarily consisting of university projects in Vadodara, Lucknow and Hyderabad (Rs16.5bn), the Museum projects in Madhya Pradesh and Ahmedabad (Rs14bn), AIIMS Hospital in Haryana (Rs10bn), two commercial buildings in Delhi (Rs7bn) among others. In addition, the company has identified a Delhi station redevelopment opportunity that is expected to be valued at ~Rs48bn (to bid on a Joint Venture basis; bids to be submitted by Nov'23-end). Further, it is also awaiting outcome in projects worth ~Rs25bn.
- The management perceives no shortage of opportunities over medium-to-longer term and cites the recent Gujarat state budget, announced in Feb'23, as a prime example. The budget identifies investment requirements of ~Rs5trn over the next five years to develop a range of infrastructure projects. These projects encompass industrial corridors, Gujarat financial city, metro-rail systems, bullet trains, railway station redevelopments, urban transportation projects, hospitals, educational institutions, multilevel parking, and numerous others.
- In addition to exploring additional prospects in Gujarat, the company is amenable to evaluating opportunities in other regions, provided that they satisfy the company's selection criteria. Presently, the company is engaged in active projects in Uttar Pradesh, while having previously gained experience operating in different other states.
- With this, we anticipate enhanced momentum in order inflows to persist with emergence of favourable prospects from both government and private clients. The expansion of operations into multiple states and the enhanced eligibility for projects of greater value are indicative of a promising future.

Fig 21: Decent order backlog; assurance at ~2.1x



Source: Company, SMIFS Research Estimates

Fig 22: Highest ever inflows in FY23; expects to persist ahead

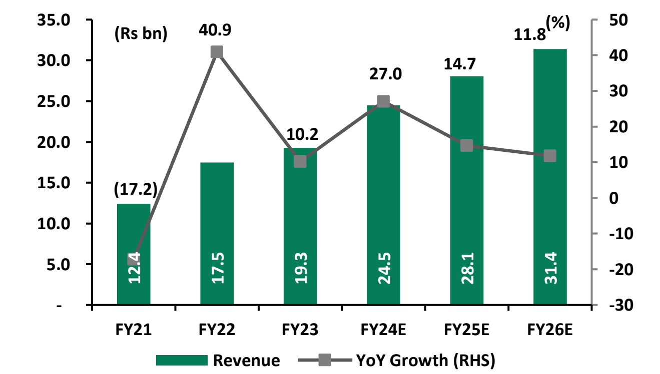


Source: Company, SMIFS Research Estimates

Set to achieve 17.7% revenue CAGR over FY23-26E; margin likely to reach ~12.4% by FY26E

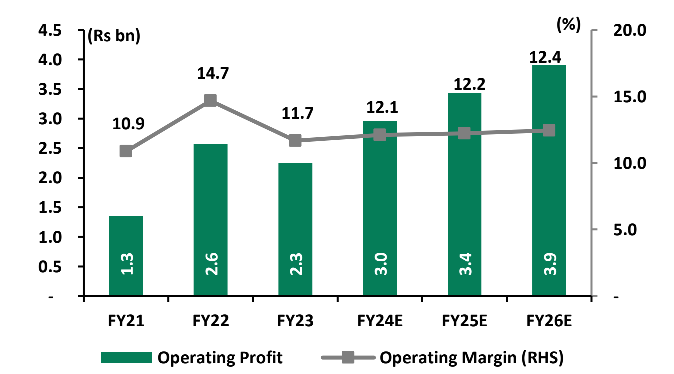
- PSP experienced healthy 21.4% revenue CAGR during FY18-23, primarily attributable to improvement in the order book position and increased proficiency in project execution. However, there were challenges in maintaining this pace of execution in between, as evidenced by a 17.2% y/y decline in revenue in FY21, which was caused by disruptions resulting from the Covid-19 pandemic. Additionally, in FY23, revenue growth was lower than expected at 10.2% y/y due to factors such as a shortage of available labour, heavy and prolonged rainfall, and delays in obtaining design approvals for certain projects.
- During H1 FY24, PSP has regained momentum in execution, thanks to increased construction activities. As a result, it has achieved a healthy 59.1% y/y growth in its topline. Looking ahead, we anticipate that the improved execution momentum to persist, allowing PSP to achieve 17.7% CAGR over FY23-26E, resulting in an estimated revenue of ~Rs31.4bn in FY26. This is likely to be supported by the comfortable order book position, anticipated inflows, and pick-up in execution.
- The operating margin experienced a moderation in FY23, declining to 11.7% from 14.7% in FY22. This was primarily due to the fact that most of the projects were in their initial stages, where foundation and plinth-level work typically command lower margins. Nevertheless, this figure remained within the management's guided range of 11-13%. Looking ahead, we expect a gradual improvement in the margin to 12.4% by FY26E, driven by a better project mix, stable raw material prices, increased efficiency (particularly with larger projects), and a significant contribution from the precast facility. Additionally, built-in escalation clauses in most private projects for raw material price variations provide an added cushion.
- Effectively, net profitability is likely to experience a CAGR of 20.6%, resulting into ~Rs2.3bn bottom-line in FY26E. This improvement is expected to be driven by robust revenue growth, margin expansion, and favourable interest and depreciation expenses.

Fig 23: Healthy topline growth likely to continue



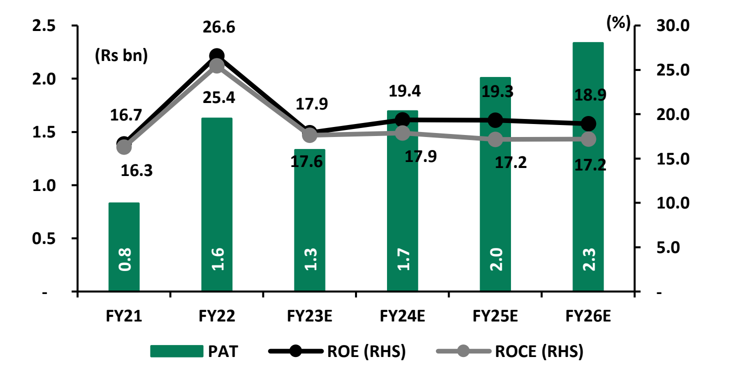
Source: Company, SMIFS Research Estimates

Fig 24: Margin to experience a gradual improvement



Source: Company, SMIFS Research Estimates

Fig 25: Return ratios to remain strong with strong profitability



Source: Company, SMIFS Research Estimates

Lean Balance Sheet, stringent WC control instils confidence

- PSP possesses a streamlined balance sheet structure, supported by its asset-light business model, which does not entail any investments in infrastructure projects such as Roads- HAM/BOT or Power T&D.
- The Capex incurred towards the precast facility, the need for higher working capital, and the inventory buildup at certain projects to expedite execution have resulted in an increase in gross debt to ~Rs4bn (as of Q2FY24-end). The outstanding working capital limits were ~Rs3.2bn, and the term loan availed of was ~Rs0.8bn. However, with a significant portion of the remaining works related to Uttar Pradesh healthcare orders expected to be completed by the FY24-end, the gross debt is anticipated to reduce by Rs0.5bn-1bn by FY24-end. Overall, we expect the gross debt to stabilize at ~Rs3.5bn over FY24-26E. Additionally, incremental free cash flows would be sufficient to meet the company's working capital and capital expenditure requirements in the future.
- As on 30th Sept'23, PSP had access to fixed deposits of ~Rs2.8bn. These comprised ~Rs0.4bn of unencumbered Fixed Deposits, and ~Rs2.4bn of Fixed Deposits with liens or given to clients as security deposits for credit facilities.
- The company has demonstrated a judicious approach to managing its working cycle. Typically, PSP receives mobilisation advances ranging from 5-10% in most of its projects (including government clients). Its longstanding relationships with suppliers have enabled it to secure favourable credit terms, while its use of technology has supported its prudent inventory management skills. The company has projected a cash-conversion cycle of 41 days at Q2 FY24-end. We expect it to increase slightly to ~45-47 days over the next few years in light of the change in order book mix towards government orders. However, this range is well within the industry cycle of 30-90 days, which is considered to be a comfortable norm under ordinary circumstances.
- During Q2 FY24, the company has managed to successfully raise its bank credit facilities from ~Rs10.5bn to ~Rs15bn, resulting in a net increase of Rs4.5bn. With this, the fund-based facilities rose from ~Rs1.5bn to ~Rs2.3bn (current utilization at ~Rs2.1bn). Furthermore, the non-fund-based facilities saw an increase from ~Rs9.0bn to ~Rs12.7bn (current utilization at ~Rs7.3bn). Notably, the margin requirements imposed by the consortium of banks were also reduced from ~25% to ~20% now. This development will enable the company to secure a greater number of projects without encountering significant constraints.
- The company additionally possesses exceptional return ratios, with a RoE and RoCE of ~18.9% and ~17.2%, respectively, projected for FY26E.

Exit from US subsidiary marks conclusion of significant overhang

- PSP, through its wholly-owned subsidiary PSP Projects INC, has been engaged in project operations in Livermore and San Francisco (US). The company has been functioning as a developer in these projects, entailing the construction of houses on its owned land parcels. Although the subsidiary has received loans and investments amounting to ~Rs 0.26bn (as of Dec'21), there was a lack of clarity regarding the total capital requirements, posing a risk to its overall balance sheet position.
- Fortunately, the company has successfully divested its entire stake of 100% in the subsidiary, thereby recuperating its entire investments, extended loans, and advances. Consequently, PSP's overall operations are now primarily focused on its core EPC business in India.

Corporate Governance

It is our firm conviction that sound corporate governance practices are indispensable in fostering the confidence of the esteemed shareholders. In this regard, we are pleased to offer a comprehensive blueprint on corporate governance, which encompasses critical aspects such as the board of directors, remuneration of key managerial personnel, and contingent liability. This framework is intended to provide our valued investors with the assurance they require in their dealings with PSP.

Promoters' Shareholding

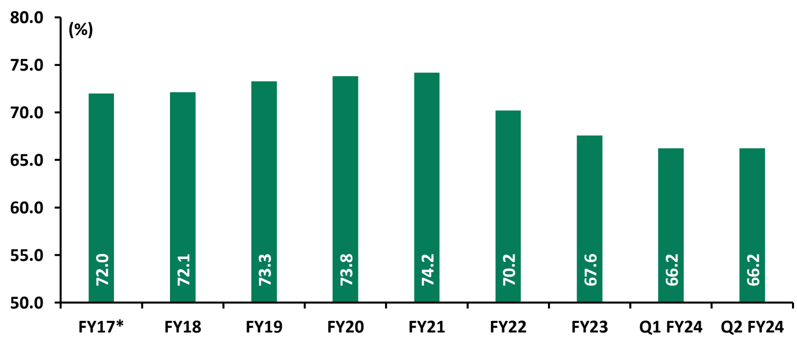
At present, the equity capital is predominantly held by the promoters, with a total stake of ~66.2%. Prahaladbhai Patel possesses the majority of this stake, accounting for 52.6%, while the remaining 13.6% is held by his family members and trust. Further information regarding the shareholding and its fluctuations can be found in the accompanying table and chart.

Fig 26: Promoter Shareholding*

Particular	% Holding
Prahaladbhai Patel	52.6
Shilpaben Patel	5.0
Pooja Patel	2.8
Sagar Patel	5.6
Others (family trust)	0.2

Source: BSE India, SMIFS Research

Fig 27: Promoter's Shareholding trend



Source: BSE India, SMIFS Research; *as on 25th May'17

The stake held by promoters has exhibited a consistent improvement, rising from 72% (on the date of listing; 29th May'17, to 74.2% at FY21-end. However, it has since gradually decreased to 66.2% in Q2 FY24-end. According to the management, the decision to sell equity was primarily made in order to enhance stock liquidity.

Promoter Remuneration

The remuneration received by the promoter amounted to ~11.3% of FY23 PBT. Although it appears to be relatively high, this can be attributed in part to the decline in profitability during FY23. We are of the opinion that the growth in profit will bring back the ratio at the earlier level.

Fig 28: Remuneration of promoter *(Rs in mn)*

Promoter	FY19	FY20	FY21	FY22	FY23
Mr. Prahaladbhai Patel	54.0	54.0	50.0	148.0*	156.0
Mrs. Shilpaben P. Patel	18.0	18.0	4.9	NA	NA
Mrs Pooja P. Patel	10.2	10.2	12.3	15.0	24.0
Mr Sagar p. Patel	0.0	1.0	2.2	5.1	24.0
Total Remuneration	82.2	83.2	69.4	168.1	204.0
As a % of PBT	5.9%	4.8%	6.2%	7.7%	11.3%

Source: Company, SMIFS Research; *includes salary: Rs63mn, perquisites and allowances: Rs70mn and commission: Rs15mn.

Independent Director's Compensation

Independent directors were cumulatively paid ~Rs0.165mn which is 0.009% of PBT as on FY23. Independent directors were paid sitting fees.

Fig 29: Remuneration of Independent Director *(Rs in mn)*

Name	FY23 Compensation (Rs in mn)	As % to PBT (FY23)
Mr. Vasishtha Patel	0.06	0.003
Mr. Sandeep H. Shah	0.06	0.003
Mrs. Achala M. Patel	0.03	0.002
Mrs. Zarana Patel	0.015	0.001
Total	***0.165***	***0.009***

Source: Company Annual Report, SMIFS Research

Board Composition

Independent directors constitute 50% of the board composition. The details are given below:

Fig 30: Board Composition

	FY19	FY20	FY21	FY22	FY23
Executive Directors	3	4	3	3	3
Non-Executive Independent Directors	3	4	4	4	3

Source: Company Annual Reports, SMIFS Research

Contingent Liabilities

The majority of the contingent liabilities pertain to earnest money deposits, security deposits, and bank guarantees provided for performance. To provide further clarification, the earnest money deposit is a compulsory prerequisite for most government and private contracts and serves as a deposit that guarantees the bidders' dedication to the contract. Typically, it constitutes 1-2% of the total tender value. Additionally, upon winning the project, the contractor is obligated to deposit a sum, generally in the form of a bank guarantee, equal to 5-10% of the cost of the work. This deposit is intended to safeguard the interests of the client in the event of improper performance of the contract. Therefore, the contingent liability of ~Rs8.3bn at FY23-end is kind of compulsory prerequisite required towards the company's business.

Fig 31: Contingent Liabilities *(Rs in mn)*

	FY19	FY20	FY21	FY22	FY23
Service Tax (Company is contesting demands)	17	1	41	44	44
Bank Guarantee for performance, Earnest Money Deposits and Security Deposits	3,383	4,042	3,631	4,832	8,225
Excise duty liability that may arise in respect of matters in appeal	-	-	-	-	-
Dispute in relation to the payment of wages	1	2	2	2	1
Total	3,401	4,045	3,674	4,877	8,270
Net worth	3,714	4,571	5,380	6,847	7,998
Contingent Liabilities (As a % of Net worth)	91.6	88.5	68.3	71.2	103.4

Source: Company Annual Reports, SMIFS Research

Key Management Personnel

Fig 32: Details of promoter and director

Name	Designation	Profile
Mr. Prahaladbhai Patel	Chairman, Managing Director and Chief Executive Officer	Mr. Prahaladbhai Patel has a bachelor's degree in civil engineering from Saurashtra University. Before starting PSP, he worked in the civil construction industry. With 30+ years of experience, he has been vital in growing and advancing the company.
Ms. Pooja P. Patel	Whole Time Director	Ms. Pooja P. Patel, who has a bachelor's degree in civil engineering from Gujarat Technological University and a post-graduate diploma in Financial Management from Ahmedabad Management Association, has been actively engaged in project planning, material procurement, and project execution for PSP since 2015. In addition, she has represented PSP in the Indian Concrete Institute Chapter-1 in Ahmedabad.
Mr. Sagar P. Patel	Executive Director	Mr. Sagar Patel holds a bachelor's degree in civil engineering from Gujarat Technological University. At the age of 27, he is actively involved in project planning, project tendering, contract management, and project execution. Furthermore, he is responsible for overseeing the entire Precast Manufacturing Division of the Company.
Mr. Sandeep Shah	Independent Director	Mr. Sandeep Shah holds a commerce degree and has also studied law at Gujarat University. He is currently a member of the Board of Directors at Creative Infotech Pvt Ltd and has extensive experience in the IT industry. Additionally, he serves as the Chairman of the Corporate Social Responsibility Committee.
Mr. Vasishtha Patel	Independent Director	Mr. Vasishtha Patel has a Bachelor's degree in Business Administration from Sardar Patel University and a Master's degree in Business Administration from South Gujarat University. He has over 21 years of experience in management and exports. In his previous roles, he held managerial positions where he managed business opportunities and operations. Currently, he is the Director of Multico Exports Pvt Ltd. He also holds the prestigious position of Chairman of the Audit Committee of PSP.
Mrs. Achala Patel	Independent Director	Mrs. Achala Patel has a postgraduate and M. Phil degree from Gujarat. She excelled in her studies and was awarded a gold medal and ranked first in both her undergraduate and postgraduate studies. Mrs. Patel is the founder and Designated Partner of MAP Power LLP and Chopper Worx Construction LLP. For the past 16 years, she has been involved in the business of high voltage power transmission and representing European companies in India and neighbouring countries. She also holds the position of Chairperson of the Nomination and Remuneration Committee.

Source: Company Investor Presentation, SMIFS Research

CSR Activities

The company has been actively involved in CSR activities for the betterment of the society. It has spent ~Rs33.5mn in FY23 and ~Rs29.1mn in FY22. The spend as % of prescribed limit is above 100% for both FY23 and FY22.

Fig 33: CSR spend *(Rs in mn)*

Period	Avg Net Profit (last 3 Yrs)	Prescribed Expenditure	Total Spends	Spend as % of prescribed limit
FY23	1,741	33.5	33.5	100
FY22	1,455	29.1	30.4	105
FY21	1,397	27.9	26.7*	96

Source: Company Annual Reports, SMIFS Research; Note: In FY21, the company has spent Rs26.7mn out of the total CSR obligation of Rs27.9mn towards various CSR activities. The balance of Rs1.2mn was transferred to PM CARES Fund later on.

Auditors

M/s. Kantilal Patel & Co., (Chartered Accountants) and M/s. Riddhi P. Sheth & Co., (Chartered Accountants), were the Joint Statutory Auditors. The auditors have given a true and fair view for the results of FY23. M/s Kantilal Patel & Co. serves as the Statutory Auditor for Ratnamani Metal & Tubes, Gujarat Ambuja Export, and Gujarat Craft Industries. Additionally, A-1 Acid Ltd. has designated Riddhi P. Sheth as their auditor.

Fig 34: Auditor fee

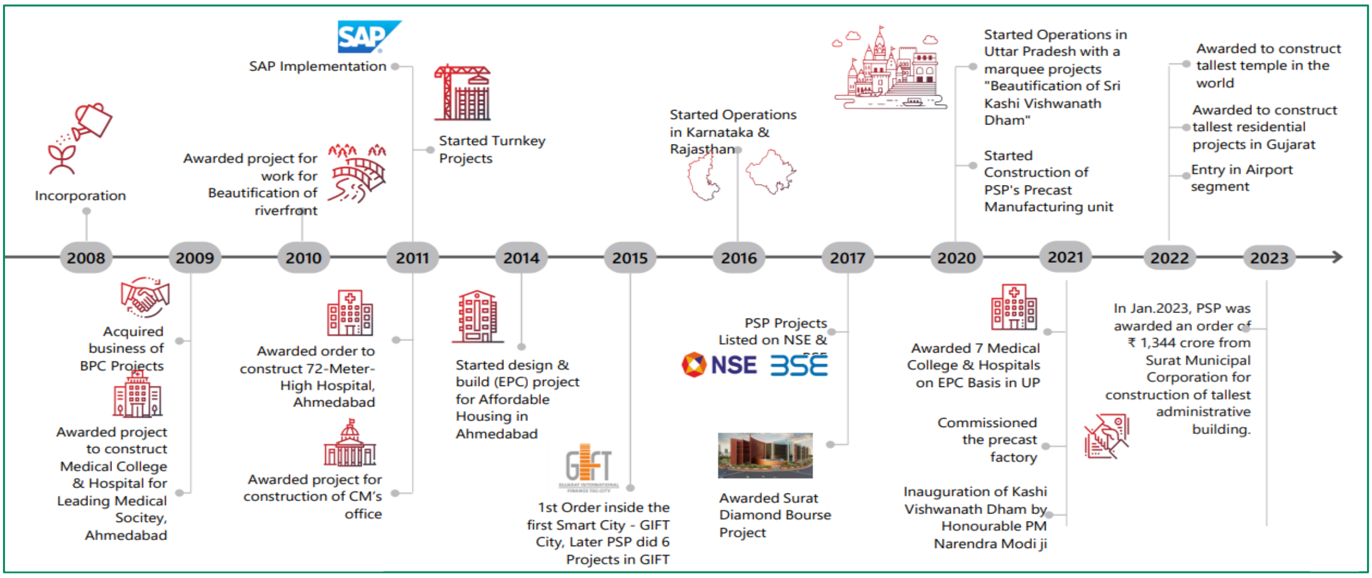
Auditor Name	Type	Auditor Fees - (Rs mn)	As a % of PBT
M/s. Kantilal Patel & Co. and M/s. Riddhi P. Sheth & Co.	Statutory Auditors	2.4	0.13

Source: Company Annual Reports, SMIFS Research

Company Background

- PSP Projects Ltd. is a multidisciplinary construction company that offers a diverse range of construction and allied services across various sectors, including industrial, institutional, government, government residential, and residential projects in India.
- The company provides services across the entire construction value chain, from planning and design to construction and post-construction activities, catering to both private and public sector enterprises.
- Historically, PSP Projects Ltd. has focused on projects in the Gujarat region, where it has completed several construction projects and continues to undertake new ones. However, the company has recently diversified its portfolio of services geographically and is currently undertaking or has bid for projects across India.
- The company is led by Prahaladbhai Patel, a seasoned professional with over 30 years of experience in the construction industry.
- PSP Projects Ltd.'s execution capabilities have grown significantly since its inception, both in terms of the size of projects it bids for and executes, as well as the number of projects it executes simultaneously.
- The company has earned a strong reputation in an industry notorious for execution due to its consistent record of timely execution over the years.

Key Milestones



Source: Company Investor Presentation, SMIFS Research

Key projects (under execution)

Project Details	Name of Client	Location	Contract Value (Rs bn)	Outstanding Value* (Rs bn)
SMC Highrise building	Surat Municipal Corporation	Gujarat	13.4	12.2
Sports Complex	Municipal Corporation	Gujarat	5.0	3.6
Dharoi Dam	State Government	Gujarat	3.2	3.1
Medical Colleges & Hospital at 7 Locations	Public Works Department	Uttar Pradesh	14.9	3.1
Noodle Factory Phase II & III	Multinational	Gujarat	3.2	2.8
BAPS Sabha Hall at Vadodara and Surat	Institutional	Gujarat	2.6	2.5
Corporate Office Building	Private Company	Gujarat	2.9	2.0
National High-Speed Project (Precast)	L&T	Gujarat	2.0	1.9
Residential Buildings at Badaun	Public Works Department	Uttar Pradesh	2.4	1.9
Residential Project	Private Company	Gujarat	2.5	1.8
Commercial Building in Surat	Institutional	Gujarat	1.4	1.4
Tallest Residential in GIFT city	Nila Infra	Gujarat	1.2	1.0

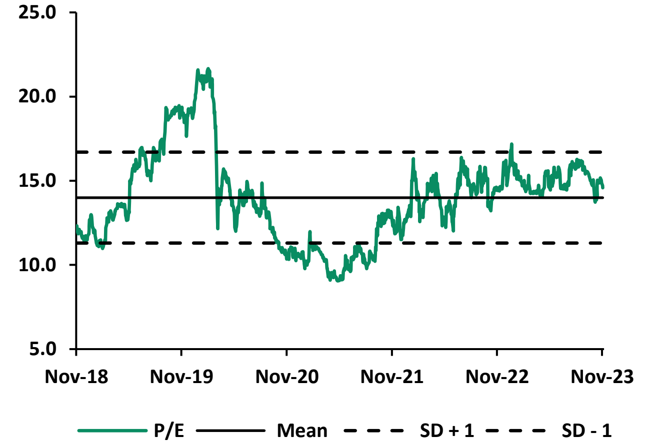
Source: Company Investor Presentation, SMIFS Research; *as on 30th Sept'23

Valuation and Recommendations

We envisage PSP's robust pipeline, strong execution capabilities, and healthy order book will support revenue growth in the future. Margin is expected to gradually improve due to a better project mix, stable raw material prices, increased efficiency (particularly with larger projects), and a significant contribution from the precast facility. Additionally, the company's lean balance sheet, asset light business model, healthy working capital days, and strong return ratios are all positive factors.

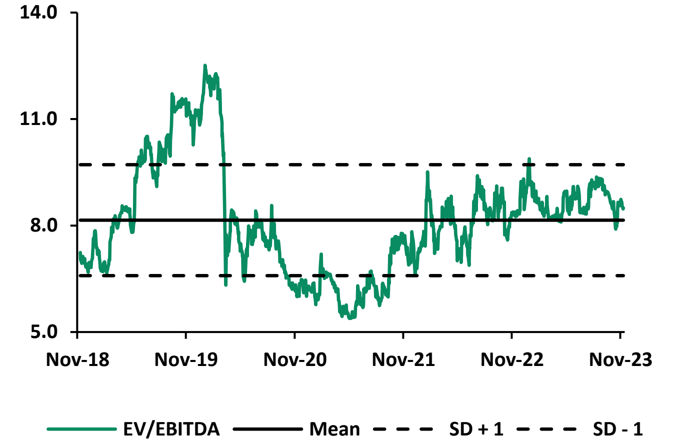
At the ruling price of Rs756, the stock is trading at the P/E of 13.6x FY25E and 11.7x FY26E. We believe that PSP to receive premium valuation compared with peers due to its superior growth and highest return metrics among peers. With this, we recommend a 'BUY' rating with the target price of Rs 905, ascribing 15x P/E on Sept’25 expected EPS.

Fig 35: 1-year forward P/E



Source: AceEquity, SMIFS Research

Fig 36: 1-year forward EV/EBITDA



Source: AceEquity, SMIFS Research

Peer Comparison

Company	Revenue CAGR FY23-26E (%)	Operating Margin FY26E (%)	PAT CAGR FY23-26E (%)	ROE (%)	ROCE (%)	Net D/E (x)	P/E (x)	EV/EBITDA (x)
				FY26E				
Ahluwalia	23.9	11.5	27.0	20.2	21.9	(0.4)	13.7	7.4
Capacit'e	14.9	16.8	18.3	11.6	11.3	0.2	12.1	4.5
NCC Ltd	13.3	10.1	16.2	11.2	15.4	0.1	11.5	5.4
PSP Projects	**17.7**	**12.4**	**20.6**	**18.9**	**17.2**	**(0.1)**	**11.7**	**6.6**

Source: Company, Bloomberg, SMIFS Research Estimates

Key Risk and concern

The success of the PSP Projects is predominantly reliant on a sole promoter

- Mr. Prahaladbhai Patel possesses a wealth of experience spanning over three decades in the construction industry. Over the course of these years, Mr. Patel has established significant connections within the industry, acquired extensive technical expertise, and consistently demonstrated exceptional dedication to his projects.
- Although the next-generation, Ms. Pooja Patel and Mr. Sagar Patel, have been associated with the company for a considerable period of time, the personal involvement of Mr. Prahaladbhai Patel remains indispensable throughout the entire life cycle of each project. Furthermore, we believe that only a select few individuals out of the 1,836 employees are entrusted with crucial decision-making responsibilities.
- However, as project volumes continue to rise, it may become increasingly challenging to maintain such meticulous promoter involvement, potentially resulting in certain execution challenges.

Below-than-expected order inflows has potential to deteriorate financial performance

- PSP's revenues are derived primarily from contracts awarded to the company on a project-by-project basis. Additionally, significant number of projects in the construction industry are undertaken on a non-recurring basis.
- Thus, if the company is unable to acquire new projects or if these projects do not come with favourable terms and conditions, it could have a negative effect on the financial performance. The magnitude of this impact may differ based on the timing and nature of these contracts.

Rise in raw material prices has potential to affect margin performance

- The timely and cost-effective implementation of PSP's projects is heavily reliant on the sufficient and punctual provision of raw materials, with steel, cement, stone, bricks, wood, aggregate, concrete, sand, sanitary and plumbing items being the most crucial.
- Although a majority of the projects have provisions for price escalation, a substantial increase in the cost of raw materials may have an adverse impact on profit margins, particularly in relation to fixed price contracts.

Quarterly financials, operating metrics and key performance indicators

Y/E March (Rs mn)	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
Net sales	**4,856**	**5,553**	**3,452**	**3,566**	**4,974**	**7,274**	**5,096**	**6,071**
Raw Material and Construction cost	3,875	4,310	2,710	2,904	4,088	6,119	4,085	4,986
Employee Cost	164	252	218	225	235	257	282	296
Other Expenditure	77	109	54	51	35	122	83	52
EBITDA	**741**	**881**	**471**	**386**	**616**	**777**	**646**	**737**
Depreciation	94	102	87	91	98	124	118	144
Interest	98	95	56	70	101	92	91	125
Other Income	76	54	56	83	65	67	57	60
PBT	**625**	**739**	**384**	**308**	**482**	**628**	**494**	**530**
Tax	156	201	99	79	129	164	127	136
Tax rate (%)	25.0	27.2	25.8	25.6	26.7	26.2	25.7	25.6
Reported PAT	**469**	**538**	**285**	**229**	**353**	**463**	**367**	**394**
Extraordinary Item	-	-	-	-	-	-	-	-
Adjusted PAT	**469**	**538**	**285**	**229**	**353**	**463**	**367**	**394**
YoY Growth (%)								
Revenue	24.5	10.9	8.8	-8.7	2.4	31.0	47.6	70.3
EBITDA	57.8	42.0	19.6	-29.5	-16.8	-11.9	37.2	91.0
Adj. PAT	53.0	32.3	13.6	-37.4	-24.8	-13.9	28.9	71.9
QoQ Growth (%)								
Revenue	24.4	14.4	-37.8	3.3	39.5	46.2	-29.9	19.2
EBITDA	35.4	19.0	-46.5	-18.0	59.7	26.0	-16.7	14.1
Adj. PAT	28.2	14.7	-47.1	-19.5	54.0	31.2	-20.7	7.3
Margin (%)								
Gross Profit	20.2	22.4	21.5	18.6	17.8	15.9	19.8	17.9
EBITDA	15.3	15.9	13.6	10.8	12.4	10.7	12.7	12.1
Adj. PAT	9.7	9.7	8.3	6.4	7.1	6.4	7.2	6.5
Employee cost as % of sales	*3.4*	*4.5*	*6.3*	*6.3*	*4.7*	*3.5*	*5.5*	*4.9*
Other expenses as % of sales	*1.6*	*2.0*	*1.6*	*1.4*	*0.7*	*1.7*	*1.6*	*0.9*

Source: Company, SMIFS Research

Key Assumptions

Operating Details	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24
Order book (Rs mn)	40,090	43,230	46,130	50,810	50,750	50,520	53,210	48,980
Inflows (Rs mn)	3,428	8,222	5,496	9,620	4,370	14,520	7,580	1,750
Order book/TTM bill (x)	**2.4**	**2.5**	**2.6**	**2.9**	**2.9**	**2.6**	**2.5**	**2.1**

Source: Company, SMIFS Research

Financial Statements (Standalone)

Income Statement					
YE March (Rs mn)	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
Revenues	17,488	19,266	24,472	28,072	31,389
Raw Materials	13,913	15,820	20,077	23,027	25,766
% of sales	*79.6*	*82.1*	*82.0*	*82.0*	*82.1*
Personnel	723	935	1,126	1,262	1,391
% of sales	*4.1*	*4.9*	*4.6*	*4.5*	*4.4*
Other Expenses	286	261	308	351	326
% of sales	*1.6*	*1.4*	*1.3*	*1.3*	*1.0*
EBITDA	**2,565**	**2,250**	**2,961**	**3,432**	**3,906**
Other Income	213	271	301	349	395
Depreciation	321	400	548	596	661
EBIT	**2,457**	**2,121**	**2,714**	**3,186**	**3,640**
Finance cost	264	320	450	501	520
Core PBT	**1,981**	**1,530**	**1,963**	**2,335**	**2,726**
Exceptional Items	-	-	-	-	-
PBT	**2,193**	**1,801**	**2,264**	**2,684**	**3,120**
Tax-Total	569	471	570	676	786
Tax Rate (%) - Total	*25.9*	*26.2*	*25.2*	*25.2*	*25.2*
Reported PAT	**1,624**	**1,330**	**1,693**	**2,008**	**2,334**
Adjusted PAT	**1,624**	**1,330**	**1,693**	**2,008**	**2,334**

Source: Company, SMIFS Research Estimates

Key Ratios					
YE March	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
Growth Ratio (%)					
Revenue	40.9	10.2	27.0	14.7	11.8
EBITDA	90.3	(12.3)	31.6	15.9	13.8
Adjusted PAT	96.0	(18.1)	27.3	18.6	16.2
Margin Ratios (%)					
Gross Profit	20.4	17.9	18.0	18.0	17.9
EBITDA	14.7	11.7	12.1	12.2	12.4
EBIT	14.1	11.0	11.1	11.3	11.6
Core PBT	11.3	7.9	8.0	8.3	8.7
Adjusted PAT	9.3	6.9	6.9	7.2	7.4
Return Ratios (%)					
ROE	26.6	17.9	19.4	19.3	18.9
ROCE	25.4	17.6	17.9	17.2	17.2
Turnover Ratios (days)					
Gross block turnover ratio	6.1	5.1	5.2	5.0	4.8
Adj OCF / Adj PAT (%)	62.8	8.7	10.7	65.6	70.6
Inventory	16.8	28.7	32.0	31.0	30.0
Debtors	65.1	82.3	77.0	78.0	79.0
Creditors	53.8	69.6	64.0	63.0	62.0
Cash conversion cycle	28.1	41.4	45.0	46.0	47.0
Solvency Ratio (x)					
Debt-equity	0.2	0.2	0.4	0.3	0.3
Net debt/equity	(0.1)	(0.1)	0.0	(0.0)	(0.1)
Gross debt/EBITDA	0.7	0.5	0.8	1.2	1.0
Current Ratio	1.5	1.4	1.4	1.5	1.6
Interest coverage ratio	9.3	6.6	6.0	6.4	7.0
Dividend					
DPS	4.0	5.0	5.5	6.0	7.0
Dividend Yield (%)	0.8	0.8	0.7	0.8	0.9
Dividend Payout (%)	8.9	13.5	11.7	10.8	10.8
Per share Ratios (Rs)					
Basic EPS (reported)	45.1	36.9	47.0	55.8	64.8
Adj EPS	45.1	36.9	47.0	55.8	64.8
CEPS	54.0	48.1	62.3	72.3	83.2
BV	190.2	222.2	263.7	313.5	371.3
Valuation (x)*					
Adj P/E	10.5	16.7	16.1	13.6	11.7
P/BV	2.5	2.8	2.9	2.4	2.0
EV/EBITDA	6.4	9.6	9.2	7.8	6.6
EV/Sales	0.9	1.1	1.1	1.0	0.8
Adj Mcap / Core PBT	7.6	12.9	12.2	9.9	8.2
Adj Mcap / Adj OCF	14.8	170.8	132.3	17.6	13.6

Source: Company, SMIFS Research Estimates

Balance Sheet					
YE March (Rs mn)	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
Source of funds					
Share Capital	360	360	360	360	360
Reserves & Surplus	6,487	7,638	9,134	10,926	13,007
Shareholders' Funds	**6,847**	**7,998**	**9,494**	**11,286**	**13,367**
Total Loan Funds	**1,162**	**1,773**	**3,464**	**3,537**	**3,473**
Other Liabilities	15	21	26	29	33
Total Liabilities	**8,024**	**9,792**	**12,983**	**14,851**	**16,873**
Application of funds					
Gross Block	3,426	4,134	5,234	6,034	6,934
Net Block	2,060	2,384	2,940	3,149	3,392
Capital WIP	-	177	177	177	177
Intangible Assets	14	12	11	11	11
Investments	**7**	**7**	**7**	**7**	**7**
Other Non-Current Assets	**2,391**	**2,245**	**2,522**	**2,717**	**3,003**
Inventories	806	1,516	2,145	2,384	2,580
Sundry Debtors	3,118	4,342	5,163	5,999	6,794
Cash and Bank Balance	1,952	2,421	3,292	4,013	4,834
Other current assets	2,318	4,458	5,479	6,100	6,724
Total Current Assets	**8,194**	**12,737**	**16,080**	**18,496**	**20,931**
Sundry Creditors	2,576	3,676	4,291	4,845	5,332
Other current liabilities	2,066	4,094	4,463	4,860	5,318
Total Current Liabilities	**4,642**	**7,770**	**8,754**	**9,705**	**10,650**
Net Current Assets	**3,552**	**4,967**	**7,326**	**8,791**	**10,282**
Total Assets	**8,024**	**9,792**	**12,983**	**14,851**	**16,873**

Source: Company, SMIFS Research Estimates

Cash Flow					
YE March (Rs mn)	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
Operating profit before WC changes	2,461	2,116	2,961	3,432	3,906
Net changes in working capital	(684)	(1,275)	(1,760)	(936)	(952)
Tax Paid	(636)	(568)	(570)	(676)	(786)
Cash flow from operating activities	**1,141**	**273**	**631**	**1,820**	**2,168**
Adj. OCF	**1,021**	**115**	**181**	**1,318**	**1,648**
Capital expenditure	(766)	(797)	(1,103)	(804)	(905)
Adj FCF	255	(682)	(922)	514	743
Cash flow from investing activities	**(1,405)**	**(484)**	**(802)**	**(455)**	**(510)**
Debt	187	611	1,691	73	(64)
Dividend	(144)	(180)	(198)	(216)	(252)
Interest and Lease	(120)	(158)	(450)	(501)	(520)
Cash flow from financing activities	**(13)**	**273**	**1,043**	**(645)**	**(836)**
Net change in cash	**(277)**	**63**	**871**	**720**	**821**

Source: Company, SMIFS Research Estimates

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Contact us:

SMIFS Limited. (https://www.smifs.com/)

Compliance Officer:
Sudipto Datta,
5F Vaibhav, 4 Lee Road, Kolkata 700020, West Bengal, India.
Contact No.: +91 33 4011 5401 / +91 33 6634 5401
Email Id.: compliance@smifs.com

Mumbai Office:
206/207, Trade Centre, Bandra Kurla Complex (BKC), Bandra East, Mumbai – 400051, India
Contact No.: (D) +91 22 4200 5508, (B) +91 22 4200 5555
Email Id: institutional.equities@smifs.com

Kolkata Office:
Vaibhav, 4 Lee Road, Kolkata 700020, West Bengal, India.
Contact No.: (D) +91 33 6634 5408, (B) +91 33 4011 5400
Email Id: smifs.institutional@smifs.com