5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

PSP PROJECTS

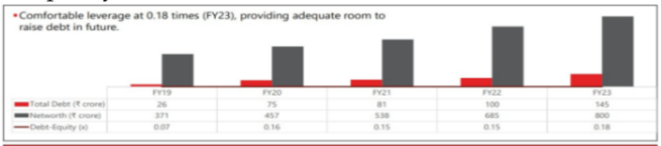
WHAT WE LIKE

STRONG GROWTH PROSPECTS

The capex plan for FY24 is around **70-80 crores** which excludes the **45 crores** for a new precast building. Further, the company is targeting sales of **4000 Crs** by FY25, which is 2X of the current sales.

STRONG BALANCE SHEET- 'RARE FEAT FOR A CONSTRUCTION COMPANY'

The company has negligible net debt & the majority of its debt is short-term in nature. Further, it has an average dividend payouts of **10-15%** in the last 5 years which shows the quality of its balance sheet.



Particulars (₹ Lakhs)	FY19	FY20	FY21	FY22	FY23
Total Debt	2,625.13	7,484.53	8,096.29	9,965.69	14,498.13
Cash and Bank Balance	3,504.68	4,121.16	11,533.18	8,758.63	9,384.51
Fixed Deposit	21,332.04	20,936.11	14,116.61	24,987.34	24,648.39
Total Cash and Bank Balance	24,836.72	25,057.27	25,649.79	33,745.97	34,032.90
Net Debt	-22,211.59	-17,572.74	-17,553.50	-23,780.28	-19,534.77

BACKWARD INTEGRATION

The company's investment of **110 Crs** in Precast technology will help in doubling down on automation in construction projects & this will improve the standardization, consistency, and efficiency of construction by reducing the project timelines by **50%**.

ENTRY BARRIERS

- Having a strong track record,
- Customer relationships,
- On time delivery and
- High working capital can be a barrier for other players to enter. Further, the company's strong reputation helps in getting repeat business.

DIVERSE CLIENTELE ACROSS INDUSTRIES

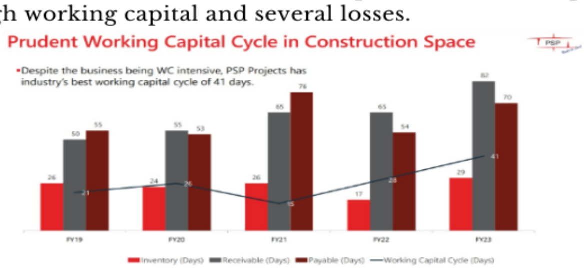
PSP has various customers spanning across industries like pharma, chemicals, FMCG, historic buildings, colleges which reduces the cyclicality to some extent.

TRANSFORMING FROM A SMALL PLAYER INTO THE BIG LEAGUE

After completing the huge Surat diamond bourse projects, PSP is now qualified to bid for projects worth 2500+ crores which will ensure higher scale of operations in future.

PRUDENT WORKING CAPITAL MANAGEMENT

PSP has an eagle-eyed watch over its working capital. It has been able to control its inventory and receivable days while increasing the days payable, suggesting strong supplier dominance. This is while PSP's peers are suffering from high working capital and several losses.



WHAT WE DON'T LIKE

CYCLICALITY OF THE INDUSTRY

Construction as an industry has always been very cyclical with its fortunes tied up with the economy's growth prospects. Owing to this coupled with several other factors, very few construction companies have created sustained wealth for its investors. Therefore, the 'base rates' are against the company.

REGION CONCENTRATION

Although the company is trying to diversify its revenue, Gujarat is the highest revenue contributor with the FY23 contribution being **74%** of revenues & the future order book is mainly from Gujarat. Thus, the fortunes will be tied with the infra push of the state which becomes a major risk.

POTENTIAL WORKING CAPITAL STRESS

If the client suddenly has some financial/cash flow issues and is unable to pay which is not a rare thing in this industry, it will definitely affect the receivables of PSP. thereby impacting working capital.

LABOUR RELATED RISKS

- Labour being their primary resource can potentially form a union which can hurt the company's prospects as it would lead to projects getting delayed, loss of credibility and recognition, and will have a difficult time bringing in new labour, as they have had issues previously.
- Further, any potential increase in the minimum wage rate if not passed on to the customers can vastly affect its margin profiles.

COMPETITIVE INTENSITY

Currently, the company is focusing on mid-value (100-500) contracts but as it increases its exposure in the higher value contracts (above INR 1000 crores), it will start facing pressure on margins due to the strong competitive intensity and aggressive bidding there from titans like L&T, Shapoorji Paloonji group, JMC, etc.

KEY MAN RISK

The promoter-Mr. Prahlad patel has led this business from scratch & converted it into a 3000 Crs company. Although his daughter is also part of the management (ensuring succession planning), the potential absence of Mr. Prahlad in future can vastly affect the company's fortunes & thus remains a major risk to look out for.

HIGH CONTINGENT LIABILITIES

While the majority of it is tied up to the bank guarantees for the projects which is an industry norm, there is a possibility for payouts of some of these liabilities if a project is written off, therefore this remains a major risk.

CORPORATE OVERVIEW STATUTORY REPORT FINANCIAL STATEMENTS

Notes to the Standalone Financial Statements for the year ended March 31, 2022

38 Contingent Liabilities and Capital Commitments

(i) Contingent Liabilities:

(₹ in Lakhs)

Particulars	As at March 31, 2022	As at March 31, 2021
Claims against Company not acknowledged as debt		
- Tax matters in dispute under appeal*	438.99	411.33
- Dispute in relation to the payment of wages	16.79	15.77
Bank guarantees for Performance, Earnest Money and Security Deposits**	48,317.41	36,313.31
Total	**48,773.19**	**36,740.41**

* The above matters are currently being considered by the tax authorities with various forums and the Company expects the judgement will be in its favour and has therefore, not recognised the provision in relation to these claims.

** includes bank gurantees of ₹ 196.87 Lakhs (March 31, 2021 ₹ 196.87 Lakhs) given on behalf of joint venture.