PSP Projects Limited

October 04, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	145.00 (Enhanced from 45.00)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	960.00 (Enhanced from 565.00)	CARE A+; Stable / CARE A1+ (Single A Plus; Outlook: Stable/ A One Plus)	Reaffirmed
Short Term Bank Facilities	42.00	CARE A1+ (A One Plus)	Assigned
Total Bank Facilities	**1,147.00 (Rs. One Thousand One Hundred Forty-Seven Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of PSP Projects Limited (PSP) continues to remain underpinned from experienced promoters and its established presence in the civil construction industry, operational track record of over a decade with demonstrated execution capability and healthy revenue visibility with orders from reputed clientele. The ratings continue to derive strength from its stable scale of operations [albeit declined during FY21 (FY refers to the period April 01 to March 31)] along with healthy profitability, low leverage, healthy debt coverage indicators, strong liquidity position along with increased thrust of government on infrastructure development.

The above rating strengths, however, continue to be tempered on account of high geographical concentration of PSP's order book (in Uttar Pradesh and Gujarat) along with inherent counterparty risk associated with execution of projects from state authorities, relatively moderate scale of operations owing limited segmental diversification, susceptibility of profitability to raw material price volatility, working capital intensive operations and presence in intensely competitive and fragmented construction industry.

Rating Sensitivities

Positive Factors:

- Significant growth in order book position along with increased geographic diversification.
- Sustained growth in its total operating income (TOI) to beyond Rs.2500 crore along with healthy profitability margins.

Negative Factors:

- Decline in TOI by more than 20% or decline in its PBILDT margins to below 10% on a sustained basis.
- Substantial decline in order book to less than 1.50x of FY21 TOI.
- Deterioration in capital structure with overall gearing deteriorating to beyond 1.0x

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and established operations: The principal promoter, Mr. Prahalad S. Patel has over three decades of experience in the construction industry. Further, PSP has established strong relationship with reputed clientele and has demonstrated track record of over a decade of timely completion of projects which has helped it to secure repeat orders from its existing customers.

Strong order book position from reputed clientele albeit with inherent counter party credit risk: As on June 30, 2021, PSP had an outstanding order-book of Rs.3852 crore (Rs.3073 crore as on March 31, 2020) translating into an order-book to TOI ratio of 3.06x, which provides healthy revenue visibility in the medium term. Furthermore, PSP has also received additional orders/Letter of Intent for Rs.637 crore during Q2FY22 (Q2 refers to the period July 01 to September 30). However, 65% of the orders are from state government agencies exposing PSP to inherent counterparty risk. At the same time thrust of government on healthcare development increases focus for state governments for timely completion of projects and thereby mitigating the cash flow risk to an extent.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Majority of all the orders are progressing as per schedule. However, Bhiwandi project (Project cost Rs.601 crore) is stuck owing to delay in availability of project site and the work is yet to start. A commercial arbitration appeal in this matter has been filed with the honourable High Court of Bombay. However, no major funds of PSP were blocked in the said project which largely mitigates the risk from credit perspective.

Set-up of new manufacturing plant for precast materials
PSP has set-up a manufacturing plant for Precast concrete and allied elements near Sanad, Gujarat with a production capacity of 3 million square feet. The plant has been set up at a total cost of around Rs.85 crore, funded through term loan and equipment loan of Rs.33 crore and balance through internal accruals incurred during FY21 and FY22. PSP's ability to generate envisaged returns from aforementioned investment is crucial from credit perspective.

Low leverage and strong debt coverage indicators: PSP continued to maintain low leverage marked by an overall gearing of 0.21x (including mobilisation advances) as on March 31, 2021, which improved from 0.42x as at FY20 end owing to reduction in mobilisation advances and healthy accruals to reserves. Despite slight moderation in its scale of operations and profitability during FY21, debt coverage indicators continued to remain healthy marked by Interest Coverage of 10.48x (FY20: 14.73x), total debt to gross cash accruals (GCA) of 1.08x (FY20: 1.22x) and total debt/PBILDT at 0.73x (FY20: 0.88x).

Moderate profitability: PBILDT margin albeit declined by 190 bps during FY21, remained moderate at 12.25%. Consequently, PAT margin moderated to 6.43% during FY21 (FY20: 8.48%). However, with gradual pickup of execution pace and despite COVID-19 2nd wave, PSP reported a TOI of Rs.321 crore with a PBILDT margin of 13.44% during Q1FY22 (refers to the period April 1 to June 30) as against TOI of Rs.112 crore and PDILDT of 5.45% during Q1FY21.

Thrust of government on infrastructure development: Growth in infrastructure is critical for the development of the economy and hence, the construction sector assumes an important role. The focus of the government on infrastructure development is expected to translate into steady business potential for the construction industry in the long-run. Going forward, companies with better financial flexibility would be able to grow at a faster rate by leveraging upon potential opportunities.

Key Rating Weaknesses
Relatively moderate scale of operations and limited segmental diversification: PSP has relatively moderate scale of operations as compared to some of the large players in the construction sector. It is on account of limited segmental diversification with presence in only buildings construction. TOI of PSP during FY21 declined by around 18% to Rs.1,257 crore (FY20: Rs.1,524 crore) due to Covid -19 related disruptions and negligible progress in Bhiwandi project with aggregate value of Rs.601 crore. Nevertheless, scale of operations are expected to pick up in the medium term with commencement of execution in 5 of the 7 newly awarded projects in Uttar Pradesh.

Geographical concentration in order book; albeit with reduction during FY21: As on June 30, 2021, out of the total orderbook of Rs.3,852 crore, 44% of the orders were Uttar Pradesh, 36% from Gujarat, 19% from Maharashtra and balance from Rajasthan and Karnataka. All the orders are towards civil construction which makes its operations susceptible to concentration risk arising out of any adverse unforeseen event in a particular geography/segment. However, PSP has secured multiple projects relating to hospital and medical colleges in Uttar Pradesh during last one year which has geographically diversified the order book to a certain extent.

Susceptibility of profitability to fluctuations in input prices: Considering execution period of contracts awarded to PSP usually range from 12-24 months, its profitability remains susceptible to fluctuations in the input prices. However, majority of the order book as at June 30, 2021 have a built-in price escalation clause for major components, which mitigates the risk to an extent.

Presence in a highly fragmented and competitive construction industry: The civil construction industry is highly fragmented and competitive with presence of many mid and large sized players and its tender driven nature of business. Further, Gujarat, which offers a relatively conducive and stable environment for construction companies witnesses high level of competition due to large number of players willing to take up projects located in this region. However, PSP's established track record in execution of multiple civil construction in Gujarat and Maharashtra and in-house availability of resources gives it an edge to bid competitively and execute orders in a timely manner.

***Liquidity: Strong liquidity despite working capital intensive operations*:** PSP's operations are working capital intensive marked by gross current asset of 197 days in FY21. Receivables and margin money for availing bank guarantees are the

major current assets making operations working capital intensive. However, PSP has a strong liquidity characterized by sufficient cushion in cash accruals vis-à-vis repayment obligations along with unutilized bank lines. PSP doesn't have any major term debt and its scheduled repayment for FY22-FY24 remains low at around Rs.6-19 crore as against gross cash accruals of Rs.104 crore during FY21.
Month-end utilisation of its sanctioned fund-based and non fund-based limits have remained low at 38% and 58% respectively for the trailing twelve months ended June 30, 2021. PSP has also enhanced its overall working capital limits to meet increase in working capital requirement. Furthermore, as on March 31, 2021, PSP had an unencumbered cash balance and bank balance of Rs.122 crore which underscores PSP's strong liquidity.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial Ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology - Construction Sector

About the Company
Incorporated in August 2008, PSP (formerly known as PSP Projects Pvt Ltd) is an Ahmedabad; Gujarat based company promoted by Mr. Prahalad S. Patel, who was earlier engaged in the business of civil construction through a proprietorship firm, namely BPC Projects. PSP took over the business of BPC Projects in 2009 and is currently engaged in providing construction and allied services across industrial, institutional, government, and residential projects. PSP is engaged in planning, designing, construction and post-construction activities in the construction value chain and has executed around 166 projects till March 31, 2021.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	1,523.94	1,257.18
PBILDT	215.66	154.03
PAT	129.26	80.79
Overall gearing (times)*	0.42	0.21
Interest coverage (times)	14.73	10.48

*A: Audited; *including mobilisation advances*

Based on un-audited results of Q1FY22, PSP reported TOI of Rs.321 crore (Q1FY21: Rs.112 crore) and profit after tax of Rs.25 crore (Q1FY21: net loss of Rs.2 crore).

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure – 2

Complexity levels of various rated instruments for this company: Please refer Annexure-3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	145.00	CARE A+; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	-	960.00	CARE A+; Stable / CARE A1+
Non-fund-based - ST-Letter of credit	-	-	-	-	42.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	145.00	CARE A+; Stable	-	1)CARE A+; Stable (07-Aug-20)	1)CARE A+; Stable (05-Jul-19)	1)CARE A+; Stable (28-Sep-18)
2	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST*	960.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (07-Aug-20)	1)CARE A+; Stable / CARE A1+ (05-Jul-19)	1)CARE A+; Stable / CARE A1+ (28-Sep-18)
3	Non-fund-based - ST-Letter of credit	ST	42.00	CARE A1+				

** Long Term / Short Term*

Annexure-3: Complexity levels of various instruments for rated company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - LT/ ST-Bank Guarantees	Simple
3	Non-fund-based - ST-Letter of credit	Simple

Annexure 4: Bank Lender Details for this Company

To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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