PSP Projects Limited

December 14, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	300.00 (Enhanced from 145.00)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	1,055.00 (Enhanced from 960.00)	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)	Reaffirmed
Total Bank Facilities	**1,397.00 (₹ One Thousand Three Hundred Ninety-Seven Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of PSP Projects Limited (PSP) continues to remain underpinned by 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 [growth of 41% during FY22 (FY refers to the period April 01 to March 31)] along with healthy profitability, low leverage, healthy debt coverage indicators, strong liquidity position, experienced promoters along with increased thrust of government on infrastructure development. CARE Ratings also expects that PSP shall be benefited in the medium term with thrust of government on healthcare and education sector along with reconstruction of marquee government buildings under central vista scheme.

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

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Significant growth in order book position along with increased geographic diversification.
- Sustained growth in its total operating income (TOI) around ₹ 3000 crore while maintaining healthy profitability.

Negative factors – Factors that could lead to negative rating action/downgrade:

- 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 FY22 TOI.
- Deterioration in capital structure with overall gearing deteriorating to beyond 1.0x.

Detailed description of the key rating drivers

Key rating strengths

Strong order book position from reputed clientele albeit with inherent counter party credit risk: As on September 30, 2022, PSP had an outstanding order-book of ₹ 5,081 crore (₹ 3,852 crore as on June 30, 2021) translating into an order-book to TOI ratio of 2.90x, which provides healthy revenue visibility in the medium term. However, 56% 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.

Majority of all the orders are progressing as per schedule. However, Bhiwandi project (Project cost ₹ 601 crore) is in a commercial arbitration process and the matter has been filed with the honourable High Court of Bombay. Pandharpur project (Project cost of ₹ 158 crore) is delayed due to payment issues from the counter party. However, no major funds of PSP were blocked in the said projects which largely mitigates the risk from credit perspective.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

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 1 million square feet. The plant has been set up at a total cost of around ₹ 109 crore, funded through term loan and equipment loan of ₹ 33 crore and balance through internal accruals incurred during FY21 and FY22. Order book from the precast is to the tune of ₹ 236 crore as on September 30, 2022.

Low leverage and strong debt coverage indicators: PSP continued to maintain low leverage marked by an overall gearing of 0.35x (including mobilisation advances) as on March 31, 2022, which slightly moderated from 0.21x as at FY21 end owing to higher mobilisation advances. Debt coverage indicators continued to remain healthy as on FY22 end marked by interest coverage of 9.84x (FY21: 9.37x), total outside liabilities (TOL) to total net worth (TNW) of 0.85x (FY21: 0.84x), total debt to gross cash accruals (GCA) of 1.22x (FY21: 1.08x) and total debt to PBILDT at 0.91x (FY21: 0.82x).

Healthy profitability: PBILDT margin improved by 375 bps during FY22 and remained healthy at 14.85% owing to gradual pick-up in execution pace post COVID-19. Consequently, PAT margin improved to 9.29% during FY22 (FY21: 6.51%). During FY22, PSP reported healthy gross cash accruals (GCA) of ₹ 194 crore (FY21: ₹ 104 crore). During H1FY23, (refers to the period April 1 to September 30), PSP reported a TOI of ₹ 716 crore with a PBILDT margin of 13.92%. The performance during H1FY23 was marginally impacted due to prolonged monsoon season. 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 September 30, 2022 have a built-in price escalation clause for major components, which mitigates the risk to an extent.

Thrust of government on urban infrastructure development: In the budget 2022-23, the Government of India announced ₹ 76,549 crores to the Ministry of Housing and Urban Affairs (MHUA) which is about 40% higher than that for 2021-22 which shows the focus of the government towards the sector.
Besides, the healthcare infrastructure needs of the country have come into the spotlight post Covid-19 both by centre and states. The New Education policy announced in Jan 2021 aims to increase the gross enrolment ratio from 26.3% in 2018 to 50% by 2035, the average enrolment of 0.6 million students will rise sharply, leading to higher addition of colleges than the current rate. In terms of state-wise comparisons, the government's thrust on Uttar Pradesh, Northeast, and Madhya Pradesh is visible in capital outlays of these states while Gujarat, Maharashtra, and Karnataka shall lead to the private Capex in the medium term. CARE Ratings believes that PSP shall be benefited from the Government Thrust on urban infrastructure being its long-standing track record in buildings construction segment.

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. The second generation of management i.e., Mr. Prahalad Patel's son Mr. Sagar Patel and daughter Ms. Pooja Patel are also actively involved in the operations. Mr. Sagar Patel looks after the finance function while Ms. Pooja is actively involved in procurement planning and project execution.

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 and limited geographical presence. TOI of PSP during FY22 increased by around 41% to ₹ 1,749 crore (FY21: ₹ 1,241 crore) owing to ramp-up in project execution after COVID-19. Furthermore, scale of operations is expected to pick up in the medium term with strong order book in hand and its timely execution capability.

Geographical concentration in order book; albeit with reduction during FY22: As on September 30, 2022, out of the total orderbook of ₹ 5,081 crore, 50% of the orders were from Gujarat, 36% from Uttar Pradesh, 14% from Maharashtra and balance from Rajasthan. 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 which has geographically diversified the order book to a certain extent.

Working capital intensive operations: PSP's operations are working capital intensive marked by gross current asset of 210 days in FY22. Receivables and margin money for availing bank guarantees are the major current assets making operations working capital intensive. However, healthy cash accruals and availability of mobilization advances lead to lower reliance on working capital borrowing for PSP.

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

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 FY23-FY25 remains low at around ₹ 16-21 crore as against gross cash accruals of ₹ 194 crore during FY22.

Month-end utilisation of its sanctioned fund-based and non-fund-based limits have remained low at 53% and 55% respectively for the trailing twelve months ended September 30, 2022. PSP has also enhanced its overall working capital limits to meet increase in working capital requirement. Furthermore, as on March 31, 2022, PSP had an unencumbered cash balance and bank balance of ₹ 163 crore which underscores PSP's strong liquidity.

Analytical approach: Standalone

Applicable criteria

Policy on default recognition
Financial Ratios – Non-financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Rating Methodology: Construction Sector
Policy on Withdrawal of Ratings
Criteria for short-term instruments

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 196 projects till September 30, 2022.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	1,241	1,749	716
PBILDT	138	260	100
PAT	81	162	51
Overall gearing (times)	0.21	0.35	0.40
Interest coverage (times)	9.37	9.84	7.88

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Please refer Annexure-4

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Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	300.00	CARE A+; Stable
Non-fund-based - LT/ ST-Bank Guarantee	-	-	-	-	1055.00	CARE A+; Stable / CARE A1+
Non-fund-based - ST-Letter of credit	-	-	-	-	42.00	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	300.00	CARE A+; Stable	-	1)CARE A+; Stable (04-Oct-21)	1)CARE A+; Stable (07-Aug-20)	1)CARE A+; Stable (05-Jul-19)
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	1055.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (04-Oct-21)	1)CARE A+; Stable / CARE A1+ (07-Aug-20)	1)CARE A+; Stable / CARE A1+ (05-Jul-19)
3	Non-fund-based - ST-Letter of credit	ST	42.00	CARE A1+	-	1)CARE A1+ (04-Oct-21)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - LT/ ST-Bank Guarantee	Simple
3	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: 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 instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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