PSP Projects Limited

February 06, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	208.00 (Reduced from 300.00)	CARE A+; Stable	Reaffirmed
Long-term / Short-term bank facilities	1,300.00 (Enhanced from 1,055.00)	CARE A+; Stable / CARE A1+	Reaffirmed
Short-term bank facilities	42.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of ratings assigned to 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 two decades with demonstrated execution capability and healthy revenue visibility with orders from reputed clientele. Ratings continue to derive strength from its stable scale of operations [compounded annual growth rate (CAGR) of 25% over FY21 to FY23 (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 Limited (CARE Ratings) 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, limited segmental and geographical diversification, working capital intensive operations and presence in intensely competitive and fragmented construction industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significantly growing order book position along with increased geographic diversification.
- Sustained growth in total operating income (TOI) to beyond ₹3,000 crore, along with healthy profitability and improving gross current asset days.

Negative factors

- Declining TOI by 20% or more in the medium to long term or declining profit before interest, lease rentals, depreciation and tax (PBILDT) margins to below 10% on a sustained basis.
- Substantially declining order book to less than 1.50x of FY22 TOI.
- Deteriorating capital structure with overall gearing deteriorating beyond 1.0x.
- Increasing working capital intensity with gross current asset days more than 300 days on sustained basis.

Analytical approach: Standalone

Outlook: Stable

The outlook is expected to remain stable on account of expectation of stable scale of operations backed by revenue visibility while maintaining profitability considering strong order book and thrust of government on development of urban infrastructure and revival in capital expenditure (capex) from private sector.

Detailed description of the key rating drivers:

Key strengths

Strong order book position from reputed clientele but with inherent counter party credit risk:

As on September 30, 2023, PSP had an outstanding order-book of ₹4,898 crore (₹5,081 crore as on September 30, 2022) translating into an order-book to TOI ratio of 2.54x, which provides healthy revenue visibility in the medium term. However, 52% of the outstanding 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.

[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. There has been a significant ramp-up in the operations as marked by orders of ₹207 crore. Precast plant act as a backward integration for PSP and ensure faster execution of projects.

Low leverage and strong debt coverage indicators:
PSP continues to maintain low leverage marked by an overall gearing of 0.49x (including mobilisation advances) as on March 31, 2023, which slightly moderated from 0.35x as at FY22-end owing to higher mobilisation advances. Debt coverage indicators continue to remain healthy as on FY23-end marked by interest coverage of 7.13x (FY22: 9.84x), total outside liabilities (TOL) to total net worth (TNW) of 1.10x (FY22: 0.82x), total debt to gross cash accruals (GCA) of 2.29x (FY22: 1.22x) and total debt to PBILDT at 1.71x (FY22: 0.91x).

Healthy profitability:
Over the year, PSP has reported healthy profitability in the range of 11-13% owing to higher proportion of high-margin private orders in the order book composition. PBILDT margin and profit after tax (PAT) margins for FY23 remained healthy at 11.83% and 6.90% respectively. In FY23, PSP reported healthy GCA of ₹ 170 crore (FY22: ₹194 crore). In H1FY24, (refers to the period April 1 to September 30), PSP reported a TOI of ₹1,128 crore with a PBILDT margin of 13.30% against TOI of ₹ 716 crore with a PBILDT margin of 13.92% in H1FY23. The high growth in TOI is observed due to strong execution of the projects during the period.

Thrust of government on urban infrastructure development:
In the budget 2023-24, the government proposes to set up an Urban Infrastructure Development Fund to develop the urban infra by public agencies in tier-2 and tier-3 cities. The allocation of Ministry of Housing and Urban Affairs for FY24 stood at ₹76,432, about 2.5% higher than the revised estimated for FY23. The railway station redevelopment projects have also been exhibiting a significant project pipeline in the medium term. 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 January 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, north east, 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 will benefit from the government’s thrust on urban infrastructure being its long-standing track record in buildings construction segment.

Experienced promoters and established operations:
The principal promoter, Prahalad S. Patel has over three decades of experience in the construction industry. 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, Prahalad Patel’s son Sagar Patel and daughter Pooja Patel, are also actively involved in the operations. Sagar Patel looks after the finance function while Pooja is actively involved in procurement planning and project execution.

Key weaknesses
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. However, TOI of PSP in FY23 increased by around 10% to ₹1,927 crore (FY22: ₹1,749 crore) owing to ramp-up in project execution. 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:
As on September 30, 2023, out of the total orderbook of ₹4,898 crore, 83% of the orders were from Gujarat and 17% from Uttar Pradesh. 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.

Working capital intensive operations:
PSP's operations are working capital intensive marked by increase in gross current asset days to 245 days in FY23 from 176 days in FY22. The increase is primarily on account of increase in margin money and stuck funds for the Surat Diamond Bourse project. PSP has initiated the arbitration proceeding against Surat Diamond Bourse for recovery of funds that are currently stuck. However, healthy cash accruals coupled with low repayment obligations 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. 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 projects 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 does not have any major term debt and its scheduled repayment for FY24-FY26 remains low at around ₹20-30 crore as against GCA of ₹170 crore in FY23.
PSP has also enhanced its overall working capital limits to meet increase in working capital requirement. As on March 31, 2023, PSP had an unencumbered cash balance and bank balance of ₹ 85 crore which underscores PSP's strong liquidity.

Assumptions/Covenants
Not applicable

Environment, social, and governance (ESG) risks

Risk factors	Compliance and action done by the company.
Environmental	The company has implemented measures to identify and safeguard mature trees located within construction sites. The company fostered partnerships with local communities, environmental organizations, and governmental bodies to actively support and engage in community-based tree planting campaigns and projects focused on bolstering the greenery.
Social	The company has offered financial assistance to hospitals and trusts for procuring operation theatre equipment, instruments and infrastructure development of hospitals. The company supports gender equality establishment of women's hostels, fostering an environment of empowerment and support. The company supports education by awarding scholarships to deserving and financially challenged students, distributing stationery and ration kits among school students, and enhancing the learning environment with initiatives like installing R.O. plants and air coolers.
Governance	The company has half of the board members comprising of independent directors. The company is governance-driven, marked by processes, systems, digitalisation, policies, certifications and responsible succession planning.

Applicable criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Construction

About the company and industry
Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Industrials	Construction	Construction	Civil construction

Incorporated in August 2008, PSP (formerly known as PSP Projects Pvt Ltd) is an Ahmedabad; Gujarat-based company promoted by 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 212 projects till September 30, 2023.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	1,749	1,927	1,128
PBILDT	260	228	150
PAT	162	133	76
Overall gearing (times)	0.35	0.49	-
Interest coverage (times)	9.84	7.13	6.97

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

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	-	-	-	-	208.00	CARE A+; Stable
Non-fund-based - LT/ ST-Bank guarantee	-	-	-	-	1300.00	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 2023-2024	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
1	Fund-based - LT-Cash credit	LT	208.00	CARE A+; Stable	-	1)CARE A+; Stable (14-Dec-22)	1)CARE A+; Stable (04-Oct-21)	1)CARE A+; Stable (07-Aug-20)
2	Non-fund-based - LT/ ST-Bank guarantee	LT/ST*	1300.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (14-Dec-22)	1)CARE A+; Stable / CARE A1+ (04-Oct-21)	1)CARE A+; Stable / CARE A1+ (07-Aug-20)
3	Non-fund-based - ST-Letter of credit	ST	42.00	CARE A1+	-	1)CARE A1+ (14-Dec-22)	1)CARE A1+ (04-Oct-21)	-

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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: Lender details

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

Note on the 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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