

PSP Projects Limited

January 05, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	45.00 (Enhanced from 8.00)	CARE A; Positive [Single A; Outlook: Positive]	Revised from CARE A; Stable [Single A; Outlook: Stable]
Long-term/ Short-term Bank Facilities	365.00 (Enhanced from 172.00)	CARE A; Positive/ CARE A1 [Single A; Outlook: Positive, A One]	Revised from CARE A; Stable/ CARE A1 [Single A; Outlook: Stable, A One]
Total Facilities	410.00 [Rupees Four Hundred and Ten crore only]		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of PSP Projects Ltd. (PSP) continue to take into account its promoter's vast experience and established presence in the civil construction industry along with its comfortable leverage, debt coverage indicators and liquidity. The ratings continue to factor its reputed clientele and stable demand outlook for civil construction industry.

The ratings, however, continue to be constrained on account of its moderate scale of operations, presence in highly fragmented and competitive civil construction industry, limited geographical and revenue diversity and working capital intensive nature of operations.

The ability of PSP to increase its scale of operations with greater diversification, maintain its profitability while efficiently managing its working capital requirements shall be the key rating sensitivities. Furthermore, incremental investment requirements or capital expenditure plans and its funding pattern shall also be the key rating monitorables.

Outlook: Positive

The outlook is 'Positive' on the expectation of growth in PSP's scale of operations along with improvement in its cash accruals on the back of its enhanced order book. The outlook may be revised to 'Stable' if the company is unable to ramp up its scale of operations and improve its cash accruals as envisaged.

Detailed description of the key rating drivers

Key Rating Strengths

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

Comfortable leverage and debt coverage indicators: PSP has a comfortable solvency position. Its overall gearing improved over the past three years ended March 31, 2017 and stood at a comfortable level of 0.10x as on March 31, 2017 and at 0.07x as on September 30, 2017. The overall gearing including mobilisation advances was also at a moderate level of 0.54x as on March 31, 2017. PSP's debt protection indicators were also comfortable with PBILDT interest coverage of 10.51x and total debt/ gross cash accruals (GCA) of 0.21x in FY17. Further, the PBILDT interest coverage and total debt/ GCA improved to 14.18x and 0.15x respectively during H1FY18.

Strong liquidity despite inherently working capital intensive operations: PSP's operations are inherently working capital intensive mainly on account of retention money which is usually released after one year of work completion. However,

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

PSP's liquidity is comfortable as indicated by negative working capital cycle during the past three years ended FY17. Further, large part of its working capital borrowing was overdraft (OD) against bank fixed deposit (FD). PSP had unencumbered cash balance and liquid investments of Rs.34.22 crore (excluding fixed deposit of Rs.107.93 crore kept as margin for working capital facilities and security deposits) as on March 31, 2017.

Furthermore, PSP came up with an Initial Public Offer (IPO) during May 2017 in which it raised Rs.151.20 crore through fresh issue of equity shares which further strengthened its liquidity as demonstrated by unencumbered cash balance of Rs.52.79 crore as on September 30, 2017.

Stable demand outlook for the construction industry: 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

Moderate scale of operations: PSP's total operating income (TOI) has grown over the past three years ended FY17; however, the TOI was at a moderate level of Rs.412.96 crore albeit with healthy PBILDT margin of 19.06% in FY17 as against TOI of Rs.467.94 crore with PBILDT margin of 10.54% in FY16. Further, its TOI grew by 81% y-o-y to Rs.304.65 crore in H1FY18 with stable profitability. Also, PSP had an outstanding order book of Rs.1,150 crore (2.70x of PSP's FY17 TOI) as on September 30, 2017 indicating healthy revenue visibility. In addition, the company has secured an order of Rs.1,575 crore for civil construction of Surat Diamond Bourse in October 2017.

Limited geographic and revenue diversity: Orders from Gujarat comprised around 74% of PSP's order book as on September 30, 2017 with all orders from civil construction. However, PSP is trying to geographically diversify its operations and has bagged orders from Rajasthan and Karnataka in the current order book.

Presence in 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.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology - Infrastructure Sector Ratings](#)

[Financial ratios – Non-Financial 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 80 projects till March 31, 2017.

PSP came up with its maiden offering of equity shares via an IPO during May 2017 in which it raised Rs.151.20 crore through fresh issue of equity shares and Rs.60.48 crore through offer for sale.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	467.94	412.96
PBILDT	49.31	78.71
PAT	25.13	41.31
Overall gearing (times)	0.03	0.10
Interest coverage (times)	16.14	10.51

A: Audited

As per published un-audited results, PSP reported total operating income of Rs.304.65 crore with PAT of Rs.26.22 crore during H1FY18 as against total operating income of Rs.168.66 crore with PAT of Rs.13.77 crore during H1FY17.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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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About CARE Ratings:

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	45.00	CARE A; Positive
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	365.00	CARE A; Positive / 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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	45.00	CARE A; Positive	1)CARE A; Stable (28-Jul-17) 2)CARE A; Stable (21-Jul-17)	-	-	-
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	365.00	CARE A; Positive / CARE A1	1)CARE A; Stable / CARE A1 (28-Jul-17) 2)CARE A; Stable / CARE A1 (21-Jul-17)	-	-	-

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