

PSP Projects Limited

July 05, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long Term Bank Facilities	45.00	CARE A+; Stable [Single A Plus; Outlook: Stable]	Reaffirmed
Long Term/ Short Term Bank Facilities	565.00 (enhanced from 365.00)	CARE A+; Stable / CARE A1+ [Single A Plus; Outlook: Stable, A One Plus]	Reaffirmed
Total Facilities	610.00 [Rupees Six hundred and Ten crore only]		

Details of facilities in Annexure - I

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of PSP Projects Limited (PSP) continue to derive strength from promoter's vast experience and established presence of PSP in the civil construction industry along with its reputed clientele, comfortable leverage, debt coverage indicators and liquidity.

The ratings are further strengthened on account of significant growth in its scale of operations during the past two years along with its healthy capital structure and its healthy order book.

The ratings, however, continue to be constrained on account of its presence in a highly fragmented and competitive civil construction industry, limited geographical and revenue diversity, high client concentration, increase in working capital intensity of the operations and increase in exposure to subsidiary which has invested in a real estate project.

The ability of PSP to further 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 a key rating monitorable.

Detailed description of the key rating drivers

Key Rating Strengths:

Significant growth in scale of operations during FY19 along with its healthy capital structure and healthy order book: PSP's total operating income (TOI) has grown at a compounded annual growth rate (CAGR) of around 32% in last three years. Its TOI increased y-o-y by 43% during FY19 largely on account of timely execution of orders. Further its profitability remained healthy during FY19 in line with FY18. PSP's capital structure remained healthy with negligible long term debt as on March 31, 2019 as it was able to meet its routine capex requirements through internal accruals without resorting to any external long-term debt. Also, PSP's outstanding order book improved by 16.37% to Rs.2,978 crore (2.80x of PSP's FY19 TOI) as on March 31, 2019 from Rs.2,559 crore (3.43x of PSP's FY18 TOI) as on March 31, 2018 and it has further received new orders worth Rs.763 crore in Q1FY20 indicating healthy revenue visibility.

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. During FY19 the company has increased its investment in PSP Projects Inc. by Rs.5.05 crore. PSP Projects Inc. has invested in P&J Builders LLC (P&J) which is engaged in real estate development of a mid-scale project in California, USA. P&J has completed phase-I of the project and is in the process of development of phase-II for which PSP expects additional investment in the range of Rs.5-10 crore in the medium term. The outstanding investment in PSP Inc. is Rs.23.93 crore as on March 31, 2019 which was 6.46% of its tangible network as on that date.

Further, 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's overall gearing (including mobilisation advances) remained comfortable at 0.39x as on March 31, 2019, thereby providing sufficient gearing headroom to the company to raise additional debt for its capex. Further, PSP's debt coverage indicators improved with PBILDT interest coverage of 18.72x during FY19 (13.73x during FY18), total debt/ gross cash accruals (GCA) (including mobilization advances) of 1.28 years in FY19 (1.62 years in FY18) and total debt/ PBILDT (including mobilization advances) of 0.83 years in FY19 (1.02 years in FY18).

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

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.

Liquidity analysis: PSP's liquidity is comfortable as marked by strong accruals of Rs.111.83 crore in FY19 against negligible debt repayment obligations and unencumbered cash balance and liquid investments to the tune of Rs.77.39 crore as on March 31, 2019. Its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year. Further, large part of its working capital borrowing was overdraft (OD) against bank fixed deposit (FD). Further, the cash flow from operations increased from Rs.55.84 crore in FY18 to Rs.68.41 crore in FY19 despite increase in scale of operations.

Key Rating Weaknesses:

Limited geographic and revenue diversity: Orders from Gujarat comprised around 88% of PSP's order book as on March 31, 2019 with largely all orders from civil construction which makes its operations susceptible to concentration risk arising out of any adverse unforeseen event in a particular geography/segment. However, PSP is trying to geographically diversify its operations and has orders from Rajasthan, Karnataka and Maharashtra in the current order book. Moreover, 39% of its order book comprised only of a single project viz. Surat Diamond Bourse (SDB) as on March 31, 2019 which reflects a highly concentrated order book with its prospects being very intricately linked to a single order.

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. Despite growth during FY19, PSP's scale of operations continues to remain moderate within the overall construction industry.

Working capital intensive nature of 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. Further, the operating cycle has increased gradually from a negative 21 days in FY17 to 23 days in FY19 and Gross Current Assets Days has also increased from 54 days in FY17 to 80 days in FY19 on account of high working capital intensity in execution of new orders.

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 120 projects till March 31, 2019.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	747.10	1066.12
PBILDT	119.49	171.51
PAT	64.37	90.24
Overall gearing (times)	0.03	0.02
Interest coverage (times)	13.73	18.72

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-I: Details of Facilities

Name of the Bank Facilities	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+; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	565.00	CARE A+; Stable / CARE A1+

Annexure-II: Rating History of last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	45.00	CARE A+; Stable	-	1)CARE A+; Stable (28-Sep-18)	1)CARE A; Positive (05-Jan-18) 2)CARE A; Stable (28-Jul-17) 3)CARE A; Stable (21-Jul-17)	-
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	565.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (28-Sep-18)	1)CARE A; Positive / CARE A1 (05-Jan-18) 2)CARE A; Stable / CARE A1 (28-Jul-17) 3)CARE A; Stable / CARE A1 (21-Jul-17)	-

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.

Contact us

Media Contact

Mradul Mishra
Contact no. - +91-22-6837 4424
Email ID - mradul.mishra@careratings.com

Analyst Contact

Mr. Naresh M. Golani
Contact no. - 079 – 4026 5618
Email ID – naresh.golani@careratings.com

Business Development Contact

Mr. Deepak Prajapati
Contact no. - 079 – 4026 5602
Email ID – deepak.prajapati@careratings.com

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