

PSP Projects Limited (Revised)

August 7, 2020

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	CARE A+; Stable / CARE A1+ [Single A Plus; Outlook: Stable / A One Plus]	Reaffirmed
Total Bank Facilities	610.00 [Rs. Six 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 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 and debt coverage indicators.

The ratings, however, continue to be constrained on account of its presence in a highly fragmented and competitive civil construction industry, geographical concentration of PSP's order book (in Gujarat) and high client concentration and increase in exposure to subsidiary which has invested in a real estate project.

The ratings are also constrained by increase in working capital intensity of the operations led by disruption in execution of its order book due to lockdown situation arising on account of COVID-19 pandemic.

Key Rating Sensitivities**Positive Factors:**

- Significant and sustained growth in order book and total operating income along with enhanced geographical diversification

Negative Factors:

- Slower than expected ramp in execution in H1FY21
- Sustained contraction in profitability margins
- Decline in order book to less than 1.50x of FY20 TOI

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. During FY20, the company has increased its investment in PSP Projects Inc. by Rs.3.66 crore. PSP Projects Inc. has invested in P&J Builders LLC (P&J) which is engaged in real estate development of two mid-scale projects in USA. P&J has largely completed the first project which is in California, USA and is in the process of development of second project which is in San Francisco, USA 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.27.59 crore as on March 31, 2020 which was 6.05% of its tangible net worth 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 0.33x as on March 31, 2020, thereby providing sufficient gearing headroom to the company to raise additional debt for its capex. Further, PSP's debt coverage indicators remained healthy with PBILDT interest coverage of 14.73x during FY20 (18.73x during FY19), total debt/ gross cash accruals (GCA) (including mobilization advances) of 0.98 years in FY20 (1.28 years in FY19) and total debt/ PBILDT (including mobilization advances) of 0.70 years in FY20 (0.84 years in FY19).

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.

Key Rating Weaknesses

Geographic and client concentration visible in order book; albeit reduction in concentration in FY20: PSP's outstanding order book stood at Rs.3,073 crore as on March 31, 2020 (2.02x of FY20 TOI) with orders from Gujarat comprising around 62% of order book (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, in FY20, PSP has received large sized contracts in the state of Maharashtra and Uttar Pradesh which has diversified its order book to an extent. PSP is trying to geographically diversify its operations and has orders from Rajasthan, Karnataka, Maharashtra and Uttar Pradesh in the current order book. Further, the top two projects of PSP's outstanding order book viz. SDB and residential project at Bhiwandi, Maharashtra comprised around 40% of its order book as on March 31, 2020 which reflects a highly concentrated order book with its prospects being very intricately linked to these two projects.

Presence in highly fragmented and competitive construction industry and temporary disruption in execution of order-book due to COVID-19 pandemic: 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 FY20, PSP's scale of operations continues to remain moderate within the overall construction industry. Going forward, any substantial decline in PSP's order book or sustained contraction in its profitability margins would be a key rating sensitivity. Furthermore, overall performance of PSP remains impacted since March 2020 on account of disruption in execution of order book due to lockdown situation arising because of COVID-19 pandemic. The operations of the company remained shut for large part of Q1FY21 and have gradually resumed since June 2020 with limited availability of workforce. Ramp up in execution of orders in H1FY21 would also be a key rating sensitivity.

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 9 days in FY18 to 48 days in FY20 and Gross Current Assets Days has also increased from 63 days in FY18 to 99 days in FY20 on account of high working capital intensity in execution of new orders.

Liquidity: Strong

PSP's liquidity profile remains strong as marked by healthy accruals of Rs.155.03 crore in FY20 against negligible debt repayment obligations and unencumbered cash balance and liquid investments of Rs.10.84 crore besides fixed deposits of Rs.185.87 crore kept as margin for working capital facilities and security deposits as on March 31, 2020. 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).

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](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Consolidation and Factoring Linkages in Ratings](#)

[Rating Methodology - Construction Sector](#)

[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 143 projects till March 31, 2020.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (Ab.)
Total operating income	1,066.21	1,523.94
PBILDT	171.60	215.66
PAT	90.24	129.26
Overall gearing (times)*	0.39	0.33
Interest coverage (times)	18.73	14.73

A: Audited, Ab.: Abridged; as published, * considering mobilization advances as debt.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: 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-2: 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	45.00	CARE A+; Stable	-	1)CARE A+; Stable (05-Jul-19)	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+ (05-Jul-19)	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)

Annexure-3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Bank Facilities	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - LT/ ST-Bank Guarantees	Simple

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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