PSP Projects Limited

September 28, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	45.00	**CARE A+; Stable [Single A Plus; Outlook: Stable]**	**Revised from CARE A; Positive [Single A; Outlook: Positive]**
Long Term/ Short Term Bank Facilities	365.00	**CARE A+; Stable / CARE A1+ [Single A Plus; Outlook: Stable, A One Plus]**	**Revised from CARE A; Positive / CARE A1 [Single A; Outlook: Positive, A One]**
Total Facilities	**410.00 [Rupees Four hundred and Ten crore only]**		

Details of instruments/ facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of PSP Projects Ltd. (PSP) takes into account significant growth in its scale of operations during FY18 and Q1FY19 along with improvement in its capital structure and its healthy order book.

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

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 FY18 and Q1FY19 along with improvement in its capital structure and healthy order book: PSP's total operating income (TOI) has grown at a compounded annual growth rate (CAGR) of around 38% in last three years. Its TOI increased y-o-y by 81% during FY18 to Rs.747.10 crore largely on account of timely execution of orders. Moreover, it reported TOI of Rs.234.72 crore during Q1FY19 which was 51% higher than Q1FY18. However, its profitability saw moderation during FY18 and stood at 16.02% as compared to 19.14% during FY17 mainly on account of discontinuation of free issue of material in many of its contracts. PSP's capital structure has improved with long term debt equity ratio of 0.01x as on March 31, 2018 against 0.05x as on March 31, 2017 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 nearly doubled from Rs.1,150 crore (2.70x of FY17 TOI) as on September 30, 2017 to Rs.2,331.84 crore (3.12x of PSP's FY18 TOI) as on September 20, 2018 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. 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'S overall gearing stood at a comfortable level of 0.03x as on March 31, 2018 and at 0.01x as on June 30, 2018. The overall gearing including mobilisation advances also remained comfortable at 0.40x as on March 31, 2018. PSP's debt coverage indicators improved with PBILDT interest coverage of 13.75x during FY18 (10.50x during FY17) and total debt/ gross cash accruals (GCA) of 0.13 years in FY18 (0.21 years in FY17). Further, the PBILDT interest coverage and total debt/ GCA stood at 26.77x and 0.13 years respectively during Q1FY19.

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, PSP's liquidity is comfortable as indicated by lean working capital cycle and lower utilization of fund-based limits during

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

FY18. 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.85.29 crore (excluding fixed deposit of Rs.172.16 crore kept as margin for working capital facilities and security deposits) as on March 31, 2018.

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

Limited geographic and revenue diversity: Orders from Gujarat comprised around 91% of PSP's order book as on September 20, 2018 with 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 and Karnataka in the current order book. Moreover, 61% of its order book comprised only of a single project viz. Surat Diamond Bourse (SDB) as on September 20, 2018 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 FY18, PSP's scale of operations continues to remain moderate within the overall construction industry.

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 103 projects till June 30, 2018.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	413.19	747.10
PBILDT	79.08	119.67
PAT	41.61	64.37
Overall gearing (times)	0.10	0.03
Interest coverage (times)	10.50	13.75

A: Audited

As per published un-audited results, PSP reported total operating income of Rs.240.81 crore with PAT of Rs.21.08 crore during Q1FY19 as against total operating income of Rs.159.91 crore with PAT of Rs.13.56 crore during Q1FY18.

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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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+; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	365.00	CARE A+; Stable / 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	45.00	CARE A+; Stable	-	1)CARE A; Positive (05-Jan-18) 2)CARE A; Stable (28-Jul-17) 3)CARE A; Stable (21-Jul-17)	-	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	365.00	CARE A+; Stable / CARE A1+	-	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)	-	-

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