PSP Projects Limited

February 18, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	158.00 (Reduced from 208.00)	CARE A+; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	1,300.00	CARE A+; Stable / CARE A1+	Reaffirmed
Short Term Bank Facilities	50.00	CARE A1+	Assigned
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 derive strength from 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. PSP has a robust order book of ₹6,417 crore as on December 31, 2024, providing revenue visibility in medium term. The company has its forte in the building construction segment and hence the order book is largely from the segment while spread across projects from government buildings, universities, residential and commercial buildings. Ratings also factor in satisfactory financial performance in FY24 (FY refers to April 01 to March 31) with a revenue growth of ~28% in FY24, while maintaining profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin at ~11% in the year. The performance moderated in current fiscal with stagnated revenue and reduced PBILDT margin to ~8% in 9MFY25 (against ~11% in 9MFY24) owing to out-of-scope expenses recognised for projects executed in Uttar Pradesh and slower execution of other high margin contracts in order book. However, CARE Ratings Limited (CARE Ratings) understands that margins are expected to improve from Q4FY25 onwards with completion of large part of such projects. From FY26, margins are likely to restore to historical level, which shall be important from a credit perspective.

Ratings also factor in comfortable leverage and liquidity profile with total debt/PBILDT at 2.25x and 2.38x for FY24 and H1FY25 respectively. Going forward, CARE Ratings expect the total debt/PBILDT to remain below 2x in the medium term. The company raised funds of ₹244 crore via qualified institutional placement (QIP) in Q1FY25, which has augmented net worth and aided working capital requirements.

Prahaladbhai S. Patel (Promoter) has signed a definitive share purchase agreement (SPA) Adani Infra (India) Limited (AIIL) to sell 30.07% shareholding for an aggregate equity value of ~₹685 crore. AIIL has also come up with an open offer for purchasing up to 26% of shareholding in PSP from the company's public shareholders. Based on the acceptance open offer and completion of sale purchase agreement, AIIL will hold between 30.07% to 43.07% in PSP, which will be equal to aggregate stake of existing promoters. CARE Ratings Limited (CARE Ratings) expects that PSP shall be benefited in the long run with wider access to engineering, procurement, and construction (EPC) opportunities from the Adani group of companies.

However, rating strengths continue to be tempered considering high geographical concentration of PSP's order book (in Gujarat and Uttar Pradesh) and inherent counterparty risk associated with execution of projects from state authorities, working capital intensive operations and presence in intensely competitive and fragmented construction industry. The gross current asset (GCA) days have also been elevated in FY24 and current fiscal led by extended collection from few debtors and slower project progress. Receivables have been largely stuck for Surat Diamond Bourse project. However, given the traction in recovery and improved execution pace expected in the last quarter of fiscal FY25, GCA days are expected to improve from Q4FY25, which would remain a key monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant growth in order book position along with increased geographic diversification.
- Sustained growth in its the total operating income (TOI) to beyond ₹3,000 crore along while maintaining healthy profitability and improving GCA days.

Negative factors

- Decline in TOI by 20% or more in medium-to-long term or decline in its PBILDT margins to below 10% on a sustained basis.
- Substantial decline in order book to less than 1.50x TOI.
- Deterioration in capital structure with overall gearing deteriorating to beyond 1.0x.
- Increasing working capital intensity with GCA days over 300 days on sustained basis.

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

Analytical approach: Standalone

Outlook: Stable

The outlook is expected to remain stable considering expectation of stable scale of operations backed by revenue visibility, considering strong order book and thrust of government on development of urban infrastructure.

Detailed description of key rating drivers:

Key strengths

Strong order book position:

The company had outstanding order book of ~₹6,546 crore as on September 30, 2024, representing ~2.66x of TOI of FY24, providing revenue visibility in the medium-to-long term. The order book is fairly diversified in terms of contribution regarding the government and private orders with Government orders constituting ~56% of the order book and the rest is from private players. Orders are majorly across four segments with the highest contribution from Government offices (22%) followed by sports and university complex (14%), Riverfront and Dam redevelopment (14%), commercial (11%), Industrial work (9%), Civil Work (9%), residential (7%) and other segments (14%). In terms of geography, PSP has its order book spread across Gujarat, Uttar Pradesh, Karnataka and Rajasthan with majority orders concentrated in Gujarat (~87%). Even though currently the orderbook is concentrated in Gujarat, PSP has executed multiple marquee and complex projects across the country.

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 one million square feet. The plant has been set up at a total cost of ~₹ 109 crore, funded through term loan and equipment loan of ₹33 crore and balance through internal accruals incurred in FY21 and FY22. There has been a significant ramp-up in operations as marked by orders of ₹181 crore. Precast plant act as a backward integration for PSP and ensure faster execution of projects.

Satisfactory financial performance in FY24:

PSP reported a TOI of ₹1,749 crore in FY22, which grew to ₹2,463 crore in FY24 indicating a compound annual growth rate (CAGR) growth of ~19%. The y-o-y growth in revenue in FY24 was ~28%. The operating margin declined marginally in FY24 to 10.66% from 11.83% in FY23 mainly on the account of out-of-scope expenses for UP projects. The company is executing project related to setting up of hospitals in Uttar Pradesh, where the company had to incur higher expenses against fixed price contract, resulting in lower margins on the project.

Financial performance moderated in current fiscal with flat revenue in 9MFY25 (decline of 0.01% from 9MFY24) driven by lower execution in H1FY25 due to general elections and extended monsoon in several parts of the country. This and low margin from UP projects impacted the PBILDT margin in 9MFY25, which dipped to ~8%. However, with majority work done and projects expected to be handed over by Q4FY25, margins are expected to improve thereafter.

Low leverage and strong debt coverage indicators:

PSP's capital structure continued to remain comfortable with overall gearing of 0.65x as on March 31, 2024, against 0.49x as on March 31, 2024. The company raised funds of ~₹244 crore via QIP in Q1FY25 which has improved its net worth while financing the incremental working capital requirement and facilitating debt reduction. Post QIP, overall gearing as on September 30, 2024, stood at 0.45x. Interest coverage ratio and has seen improvement in FY24 at 5.17x (from 7.13x in FY23). Total debt to PBILDT stood at 2.38x in H1FY25 and 2.25x in FY24 and the same is expected to remain below 2x in medium term.

Thrust of government on urban infrastructure development:

The Union Budget of India placed a strong emphasis on infrastructure development, recognising it as a key driver for economic growth and development. The emphasis has been particularly on urban infrastructure development with rising urban population requiring infrastructure expansion and upgradation. Development of smart cities with integrated infrastructure, digital connectivity is one of the focused sectors by the government. Investment in infrastructure by the private sector is being proposed to be promoted through viability gap funding and supportive policies and regulations. CARE Ratings believes PSP shall benefit from the government's thrust on urban infrastructure being its long-standing track record in buildings construction segment.

Experienced promoters and established operations with expected synergies from the Adani group:

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.

On November 19, 2024, PSP announced signing of a definitive share purchase agreement (SPA) with AIIL) to sell 30.07% shareholding for an aggregate equity value of ~₹685 crore. In line with SEBI regulations, AIIL has also come up with an open offer for purchasing up to 26% of shareholding in PSP from the company's public shareholders. Based on the acceptance open offer and completion of the sale purchase agreement, AIIL will hold between 30.07% to 43.07% in PSP, which will be equal to the aggregate stake of existing promoters. The transaction is likely to provide PSP access to wider EPC opportunities with the Adani group of companies.

Key weaknesses

Limited segmental diversification:

PSP has relatively moderate scale of operations compared to some large players in the construction sector. It is considering limited segmental diversification with presence in only buildings construction and limited geographical presence. With strong Government focus on urban infrastructure and wide scale opportunities, sale of operations is expected to pick up in the medium term.

Elongation in GCA days

PSP's operations are working capital intensive, common to players operating in the EPC segment. Driven by slowdown in work execution and debtors stuck from few key projects executed, working capital intensity has increased. This is marked by increase in GCA days to 237 days in FY24 from 245 days in FY23. Collection period has also remained high at 125 days for FY24 and expected to remain elevated till FY25 fiscal and improve thereafter. Debtors have been primarily stuck in the Surat Diamond Bourse project. PSP has reached an out-of-court settlement for recovery of funds pending with Surat Diamond Bourse and has been gradually recovering money with entire dues expected to be recovered by December 2025.
Improvement in GCA days going forward shall remain a key monitorable.

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 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: Adequate

PSP's liquidity profile is characterised by sufficient cushion in cash accruals of ₹182 crore against repayment obligations of ₹36.4 crore in FY25. Month-end utilisation of its sanctioned fund-based and non-fund-based limits was at 63% and 69% respectively for the 12 months ended October 2024. As on September 30, 2024, PSP had an unencumbered cash balance and bank balance of ₹107 crore.

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 within construction sites. The company fostered partnerships with local communities, environmental organisations, 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 including installing R.O. plants and air coolers.
Governance	The company has half of the board members comprising independent directors. The company is governance-driven, marked by processes, systems, digitalisation, policies, certifications and responsible succession planning.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Construction
Infrastructure Sector Ratings
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Construction	Construction	Civil Construction

Incorporated in August 2008, PSP (formerly known as PSP Projects Private Limited) is an Ahmedabad; Gujarat-based company promoted by Prahalad S. Patel, who was earlier engaged in civil construction through a proprietorship firm, BPC Projects. PSP took over 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.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	9MFY25 (UA)
Total operating income	1,926.78	2,462.62	1,813.19
PBILDT	227.85	262.54	147.64
PAT	133.02	123.90	51.50
Overall gearing (times)	0.49	0.65	NA
Interest coverage (times)	7.13	5.17	4.34

A: Audited UA: Unaudited; NA: Not available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	158.00	CARE A+; Stable
Fund-based - ST-Bill Discounting/ Bills Purchasing		-	-	-	50.00	CARE A1+
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 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 2024-2025	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
1	Fund-based - LT-Cash Credit	LT	158.00	CARE A+; Stable	-	1)CARE A+; Stable (06-Feb-24)	1)CARE A+; Stable (14-Dec-22)	1)CARE A+; Stable (04-Oct-21)
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	1300.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (06-Feb-24)	1)CARE A+; Stable / CARE A1+ (14-Dec-22)	1)CARE A+; Stable / CARE A1+ (04-Oct-21)
3	Non-fund-based - ST-Letter of credit	ST	42.00	CARE A1+	-	1)CARE A1+ (06-Feb-24)	1)CARE A1+ (14-Dec-22)	1)CARE A1+ (04-Oct-21)
4	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	50.00	CARE A1+				

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - ST-Bill Discounting/ Bills Purchasing	Simple
3	Non-fund-based - LT/ ST-Bank Guarantee	Simple
4	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 complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for 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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