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PSP Projects Limited

SDB Project: A Marvel In The Making!



Site Visit

We recently visited PSP's Surat Diamond Bourse (SDB) project to get an update on its progress and execution challenges if any, given the sheer size of the project. We met Ms. Pooja Patel, PSP's Executive Director, who is currently overseeing the project. Key takeaways:

SDB - India's largest diamond trading hub

- The SDB project, awarded by Surat Diamond Association, entails a total cost of Rs 24bn (of which construction cost: Rs 15.7bn). SDB would be India's second diamond trading hub, spread across 35.54 acres with availability of 6.6mn sq.ft. built-up area encompassing 4,200+ offices (from 300-75,000 sq.ft.) for national and international traders. The project will have 9 towers with two basements and 15 floors.
- The project will house facilities like safe deposit vaults, a museum, customs office, money transfer desks, travel desk, retail zone, auction house and a diamond club among others.
- Surat International Airport is likely to be commissioned by Mar'19, implying good flight connectivity with other international airports. SDB's vision is to attract diamond merchants/traders from across the globe to Surat and execute business transactions under one roof.
- PSP had won the project in 3QFY18 and is targeting its completion within 30 months (by Jun'20). This project is the largest in the company's history.

Execution on track

- As per management, work at the site is progressing as per schedule and the company has managed to execute Rs 1.97bn of work till Sep'18 (work executed till 1QFY19 was Rs 1.42bn).

- Current monthly billing from the project is Rs 250-300mn, which would average Rs 0.8bn-0.9bn a quarter. The run-rate should pick up in FY20 as the project progresses. Management remains confident on achieving ~Rs 4bn revenue from the project in FY19, ~Rs 8bn in FY20 and the rest in FY21.
- There is a pass-through clause for all raw materials (construction & finishing materials) like cement, steel, marble tiles, and granite in the agreement.
- Currently, about 4,000 contract workers and 300 company employees have been deployed at the site. PSP also plans to add 1,000 more workers over the next 3-4 months once MEP work commences.
- Labor cost escalation, if any, will have to be borne by PSP; it has considered an avg. 8-10% labor cost escalation in its workings. Average pay to contract labor is between Rs 400-700/day depending upon the labor skills as per industry standards.
- Most workers at the site are from UP and Bihar, but PSP has not faced any labor shortage after the recent backlash against UP/Bihar labor in Gujarat.
- PSP is trying to get the contract for interior work and landscaping of the project, which can be started parallelly to the construction of office floors. However, tendering of the works is yet to be taken up by the Surat Diamond Association and it may come under open bidding. Interior works would be a Rs 4.5-5bn opportunity for the company.

Construction specifics

- For PSP, the project is not challenging design-wise but more so size-wise as this is the largest project in the company's operating history. To maintain a grip on execution and coordination, management has divided the project into 3 sub-parts with each

having a dedicated project in-charge and all the three reporting to the main project manager.

- One of the challenges faced by PSP during the initial stages of construction was de-watering of the site given proximity to the sea. De-watering is a critical process as it removes accumulated ground water that may hamper construction and impact quality. Normally, the process involves pumping or evaporation of ground water and is usually done prior to excavation for footing, or to lower the water table causing problems during excavation. PSP was initially using 60 electric submersible pumps for de-watering but is now using only 6, as initial basement construction for most of the towers has been completed. The de-watering cost borne by the company were Rs 30-40mn and it was a part of the tender cost.
- As per the project manager, for timely completion of the project, structural work needs to be completed within 18 months. Besides, there is MEP (mechanical, electrical, plumbing) work of ~Rs 5bn and the façade of ~Rs 3bn.
- Foundation work for all nine towers is progressing as per schedule. Basement and ground floor have been constructed for towers 5-9, and first floor construction is in progress. Construction work on basement and ground floor for towers 1-4 should begin now since the designs for these towers came in late from the client.
- The SDB structure is designed by Morphogenesis, one of the India's most creative architecture and design firms and ranked amongst the 'Top 100' Architectural Design Firms worldwide by Building Design Magazine UK in WA100 over 2012-2017.

- PSP procures cement from JK Laxmi and Ultratech Cement, whose plants are located close to the project site. As per the company, there is no shortage of availability of other RM for the site; therefore, inventory levels have gradually come down since the project started.
- All equipment such as tower cranes, transit mixture, batching plants and other plants are owned by the company.
- PSP has used huge volumes of shuttering material from the PERI Group, Germany, as it had used PERI's material earlier in other projects and found the quality of material to be superior than others. Total capex for shuttering material was Rs 220mn.

Project funding & WC status

- As per management, SDB association has been able to pre-book/sell 90% of the 6.6m sq.ft. areas to end consumers since offices have been offered to diamond merchants/traders at very attractive rates.
- On the client's capacity to pay, management highlighted that construction cost is being funded from raising periodic installments from diamond merchants/end-users who have already purchased offices after seeing the construction progress.
- PSP raises monthly bills for which 100% payment comes from the association within 10-15 days of raising the bill. Besides, it has been able to manage

WC requirements from the initial mobilization advance of ~Rs 788mn (5% of Rs 15.75bn) together with timely payments from clients. Due to this, both inventories and receivables remain in control, leading to no WC cycle pressures.

We currently have a LONG rating on the stock with Dec'18 TP of Rs 544.

Exhibit 1: PSP using electric pumps for dewatering



Source: SDB site, Company, Equirus Securities

Exhibit 2: Ongoing work at the site



Source: SDB site, Company, Equirus Securities

Exhibit 3: Basement, G-1 construction work for all towers progressing smoothly



Source: SDB site, Company, Equirus Securities

Exhibit 5: Q.C. Office: Responsible for ensuring quality of incoming Raw materials



Source: SDB site, Company, Equirus Securities

Exhibit 4: Steel procured from Mono steel, Electrotherm and Gallant Ispat



Source: SDB site, Company, Equirus Securities

Exhibit 6: Concrete batching plant, cement procured from JK Laxmi and Ultratech



Source: SDB site, Company, Equirus Securities

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