

July 05, 2021

EMS Infracon Pvt. Ltd.: Ratings upgraded to [ICRA]BBB+(Stable)/[ICRA]A2

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based/ CC	15.00	17.00	[ICRA]BBB+(Stable); upgraded from [ICRA]BBB(Stable)
Short Term - Non-fund Based	165.00	233.00	[ICRA]A2; upgraded from [ICRA]A3+
Long Term / Short Term - Unallocated	100.00	30.00	[ICRA]BBB+(Stable)/A2; upgraded from [ICRA]BBB(Stable)/A3+
Total	280.00	280.00	

*Instrument details are provided in Annexure-1

Rationale

The upgrade in ratings factors in the improvement in revenue visibility for EMS Infracon Pvt. Ltd. (EIPL) with increase in order book to ~Rs.1,100 crore as on May 31, 2021 from Rs. 400 crore as on March 31, 2020, translating into an order book to OI ratio of 3.5 times. The ratings favourably consider the company's healthy financial risk profile, marked by robust profitability (OPBDITA/OI of around 30%), low leverage (TOL/TNW of 0.2 times as on March 31, 2021) and strong liquidity position. The ratings continue to draw comfort from the experience of its promoters in executing water supply, sewage treatment projects and civil construction projects and healthy clientele comprising Government bodies.

The ratings remain constrained by the company's moderate scale of operations and order book concentration risks with high geographical, segmental and project concentration risks. The ratings are exposed to execution risk as ~90% of the pending order book is in early execution stage due to addition of large orders in the recent months. Further, the ratings are constrained by the high working capital intensity of operations, given the sizeable receivables and retention money/security deposits (increased over the years due to longer receivable cycle) held by clients (NWC/OI increased to 57% in FY2021 from 37% in FY2020 and 16% in FY2019). The ratings factor in the company's entry into developmental business as EIPL had bagged one hybrid annuity model (HAM) based STP-expand project in February 2021. This would entail equity commitment from EIPL and exposes it to funding and execution risks. The ratings note the risk associated with construction contracts and the intense competition in the fragmented construction business, which coupled with the tender-based contract awarding system, could result in volatility in revenues and profit margins. The ratings also consider the company's exposure to sizeable contingent liabilities in the form of bank guarantees, mainly for contractual performance, earnest money deposit, etc. Nonetheless, ICRA draws comfort from EIPL's execution track record and absence of invocation of guarantees in the past.

The Stable outlook on the long-term rating reflects ICRA's opinion that EIPL will continue to benefit from its favourable operational track record in the water supply and sewage treatment segment, its reputed clientele and its healthy order book position.

Key rating drivers and their description

Credit strengths

Experience of promoters and track record of operations – The company's promoters have more than a decade of experience in executing water supply and sewage treatment projects. In the past, it had executed power supply and civil construction

projects. However, in the recent years, EIPL has focussed on water supply and treatment projects. Its experience and track record make EIPL eligible for bidding in multiple tenders in this segment.

Improved revenue visibility – The company's order book position improved significantly with pending order book of ~Rs.1,100 crore as on May 31, 2021 against order book position of Rs. 400-500 crore in the past years. This provides healthy revenue visibility with order book to OI ratio of 3.5 times. While a part of the order book includes maintenance contracts, which are spread over longer period (typically 15 years), the order book is adequate to provide revenue growth over the next two years.

Healthy financial risk profile – The company has a favourable financial profile, characterised by strong profitability, with an operating profit margin of 25-30% during the past four years and strong capitalisation as reflected in low TOL/TNW ratio of 0.2 times as on March 31, 2021. With robust profitability, its net worth position significantly strengthened to Rs. 300 crore as on March 31, 2021 from Rs. 160 crore as on March 31, 2019. EIPL's liquidity position is strong, supported by availability of unencumbered cash balance and access to undrawn fund-based facilities. These factors have helped the company in keeping a low reliance on external debt and consequently robust debt coverage indicators.

Credit challenges

Moderate scale of operations and concentration risks – The company's scale of operations remained moderate and range-bound at around Rs. 300 crore during the last three years. While the order book is strong, it remains concentrated on few projects and clients in water supply and sewage treatment segments. The project and client concentration risks are high with top three projects and top three clients forming more than 90% of the outstanding order book as on May 31, 2021. EIPL is also exposed to execution risks associated with the contracts as ~90% of orders are in the early stage with less than 20% progress, as the large orders were awarded over the last few months. However, the company's past track record of timely execution in similar segment provides comfort. The current order book is concentrated in Rajasthan, West Bengal, UP and UK.

High working capital intensity – The company has working capital-intensive operations with sizeable receivables due over the next six months pertaining to claims pending for approval with the authority for the works done, and retention amounts associated with contract works, in addition to bills pending realisation. The NWC/OI increased sharply during the last two years to 57% in FY2021 from 37% in FY2020 and 16% in FY2019. The increase in FY2021 was mainly driven by the surge in receivables to Rs. 102 crore as on March 31, 2021 from Rs. 39 crore as on March 31, 2020 owing to higher billing in March 2021. As these receivables get realised, the debtor days and working capital intensity is expected to reduce. The retention money, and security deposits increased over the years due to longer release cycle. While the terms vary across contracts, typically only 50% of the security deposits are released on the expiry of the defect liability period (DLP). The DLP period starts after trial runs and stabilisation period, which elongates the release cycle. Besides, the contracts involve operations and maintenance (period within 5-15 years), which is concurrent with DLP.

Exposure towards HAM project – EIPL had bagged one HAM project in February 2021 in joint venture with the EMIT Group (Ercol Marelli Impianti Tecnologi S.r.l). This project would entail equity commitment (~Rs. 20-25 crore) from EIPL and exposes it to funding (debt tie-up) and execution risks. For arriving at the ratings, ICRA has done limited consolidation of EIPL with this HAM project, factoring in the equity commitments and support towards meeting any cash flow mismatches. Overall, the timely completion of the project within the budgeted cost will be crucial to maintain returns from these investments. Further, the risk of delays in receipt of grant and annuity in these projects or rise in maintenance costs could increase the support required towards these projects.

Competitive nature of industry and sizeable non-fund based exposure – EIPL is exposed to the cyclicity inherent in the construction industry and intense competition in the tender-based contract award system, resulting in volatility in revenues and profit margins. However, its long presence and established relationship with the clients led to healthy repeat order flow. Like other contractors, EIPL is exposed to sizeable contingent liabilities in the form of bank guarantees (~Rs. 125 crore as on February 28, 2021), mainly towards performance guarantee, earnest money deposit, and security deposits. Nonetheless, ICRA draws comfort from the company's healthy execution track record and no invocation of guarantees in the past.

Liquidity position: Strong

The company's liquidity is **strong** as reflected by its sizeable cash and bank balances and liquid investments of around Rs. 80 crore, and no fund-based working capital bank limits utilisation (Rs. 15-crore unutilised limits as on March 31, 2021). This apart, the expected cash flows from operations, are likely to be sufficient to meet its debt servicing obligations and equity commitments in the recently secured HAM project over the near to medium term.

Rating sensitivities

Positive factors – The ratings maybe upgraded if there is a significant improvement in its scale of operations, diversification of clientele, while maintaining the profitability and liquidity position, thereby resulting in an improvement in cash flow from operations.

Negative factors – The ratings may be downgraded if EIPL's working capital intensity remains elevated, or if there is substantial decline in its revenues or profitability, or significant investments in BOT/HAM projects leads to moderation of credit metrics or liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Construction Entities Consolidation and Rating Approach
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has done limited consolidation of HAM project SPV factoring in the equity commitments and support towards meeting any cash flow mismatches. Refer Annexure-2

About the company

Incorporated in 2010, EMS Infracon Pvt. Ltd is an EPC contractor with focus on executing water supply and sewerage infrastructure projects. It has undertaken EPC works in other segments such as power transmission and civil construction in the past. EIPL took over the partnership firm, M/s Satish Kumar (SK)' in June 2012, which was involved in the civil construction business and was promoted by Mr. Satish Kumar and Mr. Ramveer Singh.

EIPL's key clientele comprises Uttar Pradesh Jal Nigam (UPJN), Uttarakhand Urban Sector Development Agency (UUSDA), Uttarakhand Peyjal Nigam (UKPJN) and Rajasthan Urban Infrastructure Development Project (RUIDP). It has recently received a contract from the Kolkata Municipal Corporation (KMC). The company gets the contracts through tenders floated by various Government agencies. EIPL was incorporated in 2010.

Key financial indicators

EIPL Standalone	FY2020	FY2021 (Provisional)
Operating Income (Rs. crore)	315.8	305.5
PAT (Rs. crore)	71.8	68.3
OPBDIT/OI (%)	30.0%	30.6%
PAT/OI (%)	22.7%	22.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.2
Total Debt/OPBDIT (times)	0.1	0.0
Interest Coverage (times)	32.7	21.2

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Company, ICRA research

Status of non-cooperation with previous CRA:

CARE had, vide its press release dated August 08, 2019, placed the ratings of EIPL under the 'Issuer non-cooperating' category as EIPL had failed to provide information for monitoring of the rating. EIPL continues to be non-cooperative despite repeated requests for submission of information through e-mails, phone calls and a letter dated October 05, 2020. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating has been revised to CARE BB; Stable; ISSUER NOT COOPERATING from CARE BB+; Stable; Issuer not Cooperating on October 30, 2020 due to non-receipt of requisite information.

Brickwork Ratings, vide its press release dated January 8, 2020, placed the rating(s) of EIPL under the 'issuer non-cooperating' category. BWR followed up with the issuer to provide required information via emails dated - 03.02.2021, 09.02.2021, 03.03.2021, 08.03.2021 and telephone calls but the company did not provide any information regarding review of the rating. Despite the best efforts of BWR to get at least the minimum required business and financial information and documents for a review, the issuer has not provided the same. In the absence of adequate information from the issuer, BWR is unable to assess the issuer's financial performance and maintain a valid rating. Since the issuer is not cooperating in providing the required information, BWR has downgraded the rating to BWR BB- (stable)/A4 under Issuer Non Cooperation from BWR BB+ (stable)/A4+ under Issuer Non Cooperation on March 30, 2021.

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jun 28, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					July 05, 2021		Feb 10, 2020	
1	Cash Credit	Long-term	17.00	-	[ICRA]BBB+(Stable)	-	[ICRA]BBB(Stable)	
2	Bank Guarantee	Short-term	233.00	-	[ICRA]A2	-	[ICRA]A3+	
3	Unallocated	Long/Short-term	30.00	-	[ICRA]BBB+(Stable)/A2	-	[ICRA]BBB(Stable)/A3+	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Bank Guarantee	Very Simple
Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	17.00	[ICRA]BBB+(Stable)
NA	Bank Guarantee	NA	NA	NA	233.00	[ICRA]A2
NA	Unallocated	NA	NA	NA	30.00	[ICRA]BBB+(Stable)/[ICRA]A2

Source: EIPL

Annexure-2: List of entities considered for consolidated analysis

Company Name	EIPL Ownership	Consolidation Approach
Mirzapur Ghazipur STPs Private Limited	60%	Limited Consolidation

Source: EIPL, ICRA Research

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