

October 28, 2022

EMS Infracon Pvt. Ltd.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash Credit	17.00	17.00	[ICRA]BBB+(Stable); reaffirmed
Short-term – Non-fund Based	233.00	263.00	[ICRA]A2; reaffirmed
Long-term / Short-term – Unallocated	30.00	0.00	-
Total	280.00	280.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation factors in the continued healthy operational and financial risk profile of EMS Infracon Private Limited (EIPL), driven by its adequate order book providing healthy revenue visibility and its comfortable financial risk profile with low leverage and healthy debt coverage indicators. It has an order book of ~Rs. 1,019.1 crore as on July 31, 2022 translating into an order book to OI ratio of 3.0 times of its operating income (OI) in FY2022. The ratings favourably consider the company's healthy financial risk profile, marked by robust profitability (OPBDITA/OI of around 30% in FY2022), low leverage (TOL/TNW of 0.3 times as on March 31, 2022), healthy interest cover of 18.5 times (in FY2022) and healthy liquidity position. The rating takes comfort from the adequate cushion in EIPL's fund-based and non-fund based facilities. The ratings continue to draw comfort from the experience of its promoters in executing water supply, sewage treatment projects and civil construction projects and its healthy clientele comprising Government bodies.

The ratings remain constrained by the company's moderate scale of operations, its high working capital intensity and high concentration of orders on few states. The working capital intensity of operations remains high, 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 ~63% in FY2022 from ~56% in FY2021 and ~37% in FY2020). The credit profile is exposed to execution risk as more than three fourth of the pending order book is in the early execution stage owing to addition/receipt of appointed date (A.D.) of large orders in the recent months. The ratings factor in its entry into developmental business as EIPL is undertaking one hybrid annuity model (HAM) based sewage treatment project through a special purpose vehicle (SPV/subsidiary). EIPL would be infusing equity/unsecured loans of Rs. 21.82 crore in this SPV, which is planned to be met from the available liquidity and accruals from operations. EIPL has extended a corporate guarantee for the debt availed by this SPV. The ratings also take into account the risk associated with construction contracts and the intense competition in the sector, which coupled with the tender-based contract awarding system, could result in volatility in revenues and profit margins in future. The ratings 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. However, incremental HAM projects undertaken by the company, which significantly increases its equity commitments and impacts the leverage and liquidity position, will remain a key monitorable.

Key rating drivers and their description

Experience of promoters and track record of operations – EIPL's promoters have more than a decade of experience in executing water supply and sewage treatment projects. In the past, the company had executed power supply and civil construction projects. However, in the recent years, it has focussed on water supply and treatment projects. Its experience and track record make EIPL eligible for bidding in multiple tenders in this segment.

Adequate order book position providing medium-term revenue visibility – EIPL has a pending order book of Rs. 1,019 crore as on July 31, 2022, which is ~3 times of the OI in FY2022 thereby providing healthy medium-term revenue visibility.

Healthy financial risk profile – The company has a healthy financial profile, characterised by robust 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 0.3 times as on March 31, 2022. With robust profitability, its net worth position significantly strengthened to Rs. 377 crore as on March 31, 2022 from Rs. 160 crore as on March 31, 2019. EIPL's liquidity position is healthy, 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 at around Rs. 300 crore during the last four years. While the order book is strong, it remains concentrated on water supply and sewage treatment segments in few states. The project and client concentration risks are high with top three projects forming 66% and top three clients constituting more than 90% of the outstanding order book as on July 31, 2022. EIPL is also exposed to execution risks associated with the contracts as more than three fourth 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 a similar segment provides comfort. The current order book is concentrated in Rajasthan, West Bengal, Uttar Pradesh and Uttarakhand.

High working capital intensity – The company has high working capital-intensive operations with sizeable receivables due over six months. The NWC/OI increased sharply during the last three years to 63% in FY2022 from 57% in FY2021 and 37% in FY2020. The increase in working capital intensity in FY2022 was mainly due to an increase in receivables to Rs. 167.99 crore as on March 31, 2022 from Rs. 91.45 crore as on March 31, 2021, partly owing to higher billing in March 2022. As these receivables get realised, the debtor days and working capital intensity are 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), which is being developed in an SPV - Mirzapur Ghazipur STPs Private Limited (MGSP). This project would entail equity commitment (~Rs. 20-25 crore) from EIPL and exposes it to project implementation risks. Further, EIPL had extended corporate guarantee towards the debt availed by MGSP. For arriving at the ratings, ICRA has done full consolidation of EIPL with MGSP, factoring in the corporate guarantee extended by the sponsor (EIPL) against the entire tenure of debt taken in the SPV. 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 this project. Further, incremental HAM projects undertaken by the company, which significantly increases its equity commitments and impacts leverage and liquidity position, will remain a key monitorable.

Competitive nature of industry and sizeable non-fund based exposure – EIPL is exposed to the cyclical nature 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. 215 crore as on August 31, 2022), 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: Adequate

The company's liquidity is adequate, as reflected by its free cash and bank balances and liquid investments of around Rs. 23.76 crore as of August 2022, and low/nil utilisation of its fund-based working capital bank limits (Rs. 29-crore unutilised limits as on August 31, 2022). This apart, the expected cash flows from operations, are likely to be sufficient to meet its debt servicing obligations and equity commitments in the 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 a substantial decline in its revenues or profitability, or significant investments in BOT/HAM projects leads to a moderation in its credit metrics or liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Consolidation and Rating Approach Construction Entities
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has done full consolidation of HAM project SPV as EIPL has extended corporate guarantee for the debt of his subsidiary. Refer Annexure II

About the company

EMS Infracon Private Limited (EIPL) is an EPC contractor with focus on executing water supply and sewerage infrastructure projects. EIPL has also undertaken EPC works in other segments like power transmission and civil construction in the past. The clientele comprises Urban Local Bodies of UP and Bihar, like UP Jal Nigam, Bihar Urban Infrastructure Development Corporation Ltd. (BUIDCo), Paschimanchal and Madhyanchal Vidyut Vitran Nigam Limited, MES, among others. The company gets the contracts through tenders floated by various government agencies.

EIPL was incorporated in 2010 by its current directors Ramveer Singh and Ashish Tomar. The company 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.

Key financial indicators (audited/provisional)

EIPL Standalone	FY2021	FY2022 [^]
Operating income	306.9	337.7
PAT	69.8	74.7
OPBDIT/OI	31.0%	31.4%
PAT/OI	22.7%	22.1%
Total outside liabilities/Tangible net worth (times)	0.2	0.3
Total debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	21.4	18.5

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore, [^]Provisional

Status of non-cooperation with previous CRA: NA

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				October 28, 2022	Jul 05, 2021	-	Feb 10, 2020
1 Cash Credit (CC)	Long term	17.0	-	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)	-	[ICRA]BBB(Stable)
2 Non-fund Based Bank Facilities	Short term	263.0	-	[ICRA]A2	[ICRA]A2	-	[ICRA]A3+
3 Unallocated	Long term/short term	0.00	-	-	[ICRA]BBB+(Stable)/A2	-	[ICRA]BBB(Stable)/A3+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based / Cash Credit	Simple
Non-fund Based	Very Simple

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 are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	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	263.00	[ICRA]A2

Source: EIPL

Annexure II: List of entities considered for consolidated analysis

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

Source: EIPL, ICRA Research

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