February 10, 2020

EMS Infracon Pvt. Ltd.: [ICRA]BBB(Stable)/[ICRA]A3+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based/ CC	15.00	[ICRA]BBB (Stable) Assigned
Short Term - Non-Fund Based	165.00	[ICRA]A3+ Assigned
Long Term / Short Term - Unallocated	100.00	[ICRA]BBB (Stable)/ A3+ Assigned
Total	**280.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings take into account the experience of promoters in executing water supply and water treatment projects and civil construction projects and healthy clientele of the company comprising of state government departments of the states of Uttar Pradesh, Uttarakhand and Bihar. The ratings favourably take into account the company's healthy financial risk profile marked with robust profitability, and low external borrowing resulting in comfortable credit metrics.

The ratings are however constrained by moderate operational risk profile with limited revenue visibility from the current order book and concentration of order book on few clients and geographies. Further the ratings are also constrained by the high working capital intensity of operations given sizable receivable. Further the credit profile of the company remains exposed to risks associated with construction business including high bank guarantee exposure and ensuring availability of sufficient BGs for for efficiently executing on-going projects and taking up new projects.

Key rating drivers and their description

Credit strengths

Experience of the company and its promoters in executing projects in the segment water supply and water treatment – The promoters of the company have a decade of experience in executing water supply and water treatment projects. In the past the company had also done power supply and civil construction projects, however in recent years the company has focused on water supply and treatment projects. The experience and track record makes EMS Infracon Pvt. Ltd. (EIPL) eligible for bidding in multiple tenders in this segment.

Healthy financial risk profile characterised by robust profitability, debt coverage and comfortable liquidity – The company has a strong financial profile, characterised by healthy profitability, with operating profit margin of 27.5% in FY2019 and strong capitalisation as reflected in low TOL/TNW ratio 0.8 times as on March 31, 2019. EPIL has low reliance on external debt that results in healthy debt coverage indicators. The company has a comfortable liquidity profile, given the strong cash generation from operations and availability of unencumbered cash balance and access to undrawn fund-based facilities.

Credit challenges

Moderate revenue visibility – EIPL had an order book of Rs. 280 crore as on October 31, 2019 that translated into a revenue visibility of less than one year based on operating income for FY2019. However, the company also has emerged as L1 in a tender for Rs. 217 crore, which will improve its order book. Nevertheless, taking this L1 order into account the order book to operating income ratio is 1.6 times only, which implied limited revenue visibility. This renders the future revenue growth dependent of new order inflow.

Order book concentration – The projects in the current order book of the company are present primarily in the states of UP and Bihar and are from two clients, i.e., the Uttar Pradesh Jal Nigam (UPJN) and Bihar Urban Infrastructure Development Corporation (BUIDCo). Thus, the current order book has sizable revenue concentration in terms of geography and clientele.

High working capital intensity – The company has a working capital-intensive operation with sizeable receivables due over six months pertaining to claims pending for approval with authority for works done, and retention amounts associated with contract works in addition to bills pending realization.

Liquidity position: Adequate

EIPL has a healthy cash flow profile as reflected in the consistent healthy generation of cash from operations. Further, given the low repayment obligations and limited capex plans, the company is expected to generate healthy free cash flows. ICRA has also taken comfort from the unencumbered cash and bank balance of Rs. 57.27 crore at the end of March 2019 and unutilized fund-based borrowing facility of Rs. 15 crore at the end of Jun'19, that inturn supports its liquidity profile.

Rating sensitivities

Positive triggers – ICRA could upgrade EPIL's rating if there is a sustained improvement in its scale of operations, diversification of clientele, and working capital intensity.

Negative triggers – Negative pressure on EPIL's rating could arise if there is substantial decline in revenues, or profitability. Downgrade pressure may also emerge if there is significant deterioration in its working capital intensity leading to reduction in liquidity cushion.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on standalone financial statements of the rated entity.

About the company

EMS Infracon Private Limited (EIPL) is an EPC contractor with focus on executing water supply & sewerage Infrastructure projects. EIPL has also undertaken EPC works in other segments like power transmission and civil construction in the past. The clientele of EPIL 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 govt. agencies. EIPL was incorporated in 2010. The company took over the partnership firm 'M/s Satish Kumar (SK)' in June 2012, that was engaged in the civil construction business and was promoted by Mr. Satish Kumar and Ramveer Singh. EIPL did not have significant operations before the takeover. In FY2019, the company reported a net profit of Rs. 62.5 crore on an operating income of Rs. 313.1 crore compared to a net profit of Rs. 34.0 crore on an operating income of Rs. 234.2 crore in the previous year.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	234.2	313.1
PAT (Rs. crore)	34.0	62.5
OPBDIT/OI (%)	24.0%	27.5%
RoCE (%)	62.1%	62.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.8
Total Debt/OPBDIT (times)	0.3	0.2
Interest Coverage (times)	16.8	33.2
DSCR	10.6	23.0

Status of non-cooperation with previous CRA:

"CARE had, vide its press release dated March 20, 2018, placed the rating(s) of EMS Infracon Pvt Ltd. (EIPL) under the 'issuer non-cooperating' category as EIPL had failed to provide information for monitoring of the rating. EIPL continues to be noncooperative despite repeated requests for submission of information through e-mails, phone calls and a letter dated July 02, 2019. 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."

Brickwork Ratings, vide its press release dated January 8, 2020, placed the rating(s) of EMS Infracon Pvt Ltd. (EIPL) under the 'issuer non-cooperating' category. "The initial rating was done in May 2018 with rating assigned BWR BBB+(Stable)/A2. Rating was due for a review in May 2019. BWR followed up with the issuer to provide required information vide emails. 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 its ability to service its debt and maintain a valid rating. Since, the issuer is not cooperating in providing the required information, BWR has migrated the rating to Issuer Non-Cooperation."

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017
					10-Feb-2020	-	-	-
1	Long Term - Fund Based/ CC	Long Term	15.00	-	[ICRA]BBB (Stable)	-	-	-
2	Short Term - Non-Fund Based	Short Term	165.00	-	[ICRA]A3+	-	-	-
3	Long Term / Short Term - Unallocated	Long Term / Short Term	100.00	-	[ICRA]BBB (Stable)/ A3+	-	-	-

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long Term - Fund Based/ CC	-	-	-	15.00	[ICRA]BBB(Stable)
NA	Short Term - Non-Fund Based	-	-	-	165.00	[ICRA]A3+
NA	Long Term / Short Term - Unallocated	-	-	-	100.00	[ICRA]BBB(Stable)/ A3+

Source: EIPL

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

Analyst Contacts

Shubham Jain
+91 124 4545 306
shubhamj@icraindia.com

Abhishek Gupta
+91 124 4545 863
abhishek.gupta@icraindia.com

Nitin Kumar
+91 124 4545 845
nitin.kumar2@icraindia.com

Relationship Contact

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents