September 09, 2021

E5 Infrastructure Private Limited: Ratings revised and placed under watch with negative implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term- Fund based	126.00	126.00	[ICRA]BBB+@; revised from [ICRA]A-(Stable) and placed under watch with negative implications
Short-term Non-fund based	249.00	249.00	[ICRA]A2@; revised from [ICRA]A2+ and placed under watch with negative implications
Long-term Term Loan	25.00	25.00	[ICRA]BBB+@; revised from [ICRA]A-(Stable) and placed under watch with negative implications
Total	**400.00**	**400.00**	

**Instrument details are provided in Annexure-1*

@ placed under watch with negative implications

Rationale

The downgrade in the ratings, which are placed on watch with negative implications, considers the heightened reputational risk for E5 Infrastructure Private Limited (E5 Infra), following the arrest of its founder and ex-Managing Director – Mr. Karandeep Sheoran in connection with the murder of an authority independent engineer for one of the projects under execution by the company. ICRA notes that Mr. Sheoran has resigned from the board of the company and transferred his shareholding to his father Mr. Rajender Singh (founder of Gawar Constructions Limited), who has long experience in the construction sector. Inclusion of Mr. Singh, as a CMD, mitigates the risk of disruption in the operations of E5 Infra to some extent. ICRA will monitor the impact of these developments on the company's performance, including any adverse action by authorities, lenders for its credit assessment.

The ratings continue to remain constrained by the execution risks associated with the orders-in-hand as ~80% of the pending order book as on July 15, 2021 is yet to start/in the early stage of execution. The project concentration risks are also high with top five projects forming around 75% of the outstanding order book as on July 15, 2021. The ratings are constrained by the moderate leverage with sizeable debt-funded capital expenditure incurred by E5 Infra in FY2021, and high creditors (relative to debtors and inventory). However, equity infusion and conversion of unsecured loans into equity in FY2021 has significantly improved its net worth position and reduced the leverage as reflected by the improvement in Total Outside Liabilities to Tangible Net Worth (TOL/TNW) to 2.1 times as on March 31, 2021 from 5.9 times as on March 31, 2020. ICRA notes that E5 Infra's working capital intensity in FY2021 was also supported by the liquidity relief measures (release of retention money, milestone-based billing instead of monthly billing, etc). Post the expiry of such relief measures, the working capital intensity is likely to increase from H2 FY2022 onwards. The ratings also factor in the risk associated with construction contracts and the intense competition in the fragmented road construction business, which coupled with the tender-based contract awarding system, limits its pricing flexibility and consequently profitability.

The company currently has sanctioned non-fund based limits of Rs. 129 crore (of which Rs. 25 crore is fungible with fund-based limits), of which ~Rs. 77 crore were utilised as on June 30, 2021. ICRA notes that the BG is yet to be submitted for a new order of Rs. 1,100 crore, which is in a joint venture (JV) with other partner. With growing scale of operations, increase in share of direct orders, and end of liquidity relief measures under Atmanirbhar Bharat scheme, the overall BG requirement is expected to increase substantially. Hence, timely enhancement of the BG limits remains critical.

The ratings favourably factor in the significant ramp-up in scale of E5 Infra as reflected by a CAGR of 86% in its operating income (OI) during FY2018-FY2021. The company has generated revenue of Rs. 337 crore in 5M FY2022 as against revenue of Rs. 202 crore in 5M FY2021. The sub-contract/JV with Gawar Construction Limited (GCL) and other EPC companies helped E5 Infra in building technical qualification and achieving a competitive scale in a relatively short span of time. The ratings are supported by its sizeable order book position of Rs. 2,685 crore as on July 15, 2021, which provides medium-term revenue visibility. The company's operating profitability remained healthy at around 13-14% in the past and is supported by cost efficiencies achieved due to backward integration (crushing and logistics), availability of raw materials at competitive rates through established relationships with suppliers, as well as asset ownership. The company's working capital cycle is also favourable with low receivables and inventory. With healthy profitability and low working capital intensity, the coverage indicators remained healthy with interest coverage of 15 times and DSCR of 2.9 times in FY2021. The ratings also factor in E5 Infra's reputed clientele comprising the National Highways Authority of India (NHAI), National Highways and Infrastructure Development Corporation Limited (NHIDCL), NBCC Limited, etc.

Key rating drivers and their description

Credit strengths

Experience of promoter in construction business – E5 Infra is promoted by Mr. Rajender Singh, who has more than two decades of experience in the construction business through GCL. E5 Infra started working as sub-contractor for GCL and by undertaking projects in joint venture with GCL and other key large players. As the company gained experience and built its technical qualification, it is now eligible to bid for contracts on its own or as a lead member in the JV. Its current order book has ongoing projects in multiple states in India.

Sizeable order book position provides medium-term revenue visibility – The company has a sizeable order book position of Rs. 2,685 crore as on July 15, 2021, which is 3.6 times of its OI in FY2021. While the order book provides healthy revenue visibility along with strong growth potential, it also requires significant scale-up of execution for timely completion. The order book consists of orders from reputed clientele comprising the NHAI, NHIDCL, and NBCC Limited. Out of total pending order book as on July 31, 2021, 43% of orders are in JV, 35% are direct orders and the remaining are sub-contracts.

Healthy profitability and coverage metrics – The company has achieved a competitive scale of operations as its revenues witnessed strong CAGR of ~86% during FY2018-FY2021 and is expected to grow at over 20% in FY2022, supported by its orders-in-hand. It has generated revenue of Rs. 337 crore in 5M FY2022 as against revenue of Rs. 202 crore in 5M FY2021. The operating profitability remained healthy at around 13-14% in the past and is supported by cost efficiencies achieved due to backward integration (crushing and logistics), availability of raw materials at competitive rates through established relationships with suppliers, as well as asset ownership. Its working capital cycle is also favourable with low receivables and inventory. With healthy profitability and working capital intensity, the coverage indicators remained comfortable with interest coverage of 15 times and DSCR of 2.9 times in FY2021.

Credit challenges

Heightened reputational risk – The ratings factor in the heightened reputational risk for E5 Infra following the arrest of its founder and ex-Managing Director – Mr. Karandeep Sheoran in connection with the murder of an authority independent engineer for one of the projects under execution. ICRA has noted that Mr. Sheoran has resigned from the board of the company and transferred his shareholding to his father Mr. Rajender Singh (founder of Gawar Constructions Limited), who has long experience in the construction sector. Inclusion of Mr. Singh, as a CMD, provides comfort and mitigates the risk of disruption in the operations of E5 Infra to an extent. ICRA will monitor the impact of these developments on the company's performance, including any adverse action by authorities, lenders for its credit assessment.

Concentrated order book and execution risks – While the order book is strong, it remains concentrated on two large-size projects, which form around 54% of the pending order book, while the top five projects form around 75% of the outstanding order book as on July 15, 2021. E5 Infra is also exposed to execution risks associated with the contracts as ~80% of orders are in the early stages (less than 20% execution completed). Moreover, ~60% orders are yet to start work/not yet billed, as the largest order has been awarded recently. Any delay in securing right of way(ROW)/ necessary approvals could delay the project execution from the expected timelines. Though for such delays, the client typically provides time extensions, this could result in deferment of revenues from such projects.

Sizeable debt-funded capital expenditure, high creditors results in moderate leverage – The company's balance sheet is moderately leveraged with sizeable debt-funded capital expenditure incurred in FY2021, and high creditors (relative to debtors and inventory). Though equity infusion and conversion of unsecured loans into equity in FY2021 has significantly improved its net worth position and reduced leverage as reflected in improvement in Total Outside Liabilities to Tangible Net Worth (TOL/TNW) to 2.1 times as of March 31, 2021 from 5.9 times as of March 31, 2020. ICRA notes that E5 Infra's working capital intensity in FY2021 was supported by the liquidity relief measures (release of retention money, milestone-based billing instead of monthly billing, etc). Post the expiry of such relief measures, the working capital intensity could increase from H2 FY2022 onwards.

Timely enhancement of non-fund based limits remains critical – E5 Infra is exposed to intense competition in the tender-based contract award system, which could exert pressure on its margins. The company currently has sanctioned non-fund based limits of Rs. 129 crore (including Rs. 25-crore fund-based limits, which is fungible), of which ~Rs. 77 crore were utilised as on June 30, 2021. ICRA notes that BG is yet to be submitted for the new order of Rs. 1,100 crore, which is a JV project and it might be given by the other JV partner. In case the company has to extend this BG, then the cushion available in the currently sanctioned limits would no longer be available. This will limit its ability to take new projects and avail mobilisation advances in the existing projects. With growing scale of operations, increase in share of direct orders, and end of liquidity relief measures under the Atmanirbhar Bharat scheme, the overall BG requirement is expected to increase substantially. Hence, timely enhancement of the BG limits remains critical.

Liquidity position: Adequate

E5 Infra's cash flows from operations are expected to be sufficient to meet its debt servicing obligations of around Rs. 50.0 crore, margin money requirements for BG submissions over the near to medium term. In addition, the company reported liquidity cushion of ~Rs. 9 crore (unencumbered cash and bank balances of around Rs. 4 crore and around Rs. 5 crore of unutilised fund-based limits) as on August 31, 2021.

Rating sensitivities

Positive factors – An upgrade in the ratings is unlikely in the near term. However, Stable outlook can be assigned if there is limited or no impact of the event on the company's operational and financial risk profile in the medium term and/ or if it is able to secure new orders from authorities and requisite enhancement in non-fund based limits from lenders.

Negative factors – Negative pressure on the ratings could arise if there is any adverse action taken by the project authorities or lenders on the company, which could impact its operational and financial profile. The ratings could also be downgraded if there are significant delays in project execution, leading to decline in its scale, operating profitability or deterioration in its liquidity position. The ratings could also come under pressure if there is significant exposure to developmental projects and E5 Infra's equity/funding commitments towards these projects in comparison to its net worth.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Construction Entities
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

About the company

E5 Infra was formed as a proprietorship firm by Mr. Karandeep Sheoran in November 2015 and was reconstituted as a private limited company on January 3, 2020. On September 5, 2021, Mr. Rajender Singh, who is one of the promoters of GCL, has taken over the shares of the company from Mr. Sheoran and joined the board of the company. Mr. Sheoran has resigned from the board and is currently not associated with the company. E5 Infra is involved in the business of construction of roads, airport runways, railways, and buildings.

Key financial indicators (audited)

E5 Infra Standalone	FY2020	FY2021
Operating Income (Rs. crore)	316.1	737.3
PAT (Rs. crore)	20.2	51.4
OPBDIT/OI (%)	12.9%	13.8%
PAT/OI (%)	6.4%	7.0%
Total Outside Liabilities/Tangible Net Worth (times)	5.9	2.1
Total Debt/OPBDIT (times)	1.5	1.1
Interest Coverage (times)	16.4	15.1

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

Status of non-cooperation with previous CRA: Not Applicable

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 Aug 6, 2021 (Rs. crore)	Date & Rating		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Sep 9, 2021	Aug 16, 2021	-	-	-
1	Long term- Fund based	Long-term	126.0	-	[ICRA]BBB+@	[ICRA]A-(Stable)	-	-	-
2	Long-term Term Loan	Long-term	25.0	0.0	[ICRA]BBB+@	[ICRA]A-(Stable)	-	-	-
3	Short term Non-fund based	Short-term	249.0	-	[ICRA]A2@	[ICRA]A2+	-	-	-

@ placed under watch with negative implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term- Fund based	Simple
Long-term Term Loan	Simple
Short term 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, is available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN No/Lender Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
IndusInd Bank	Long-term-Fund based	-	-	-	1.00	[ICRA]BBB+@
IDFC First Bank	Long-term-Fund based	-	-	-	5.00^	[ICRA]BBB+@
Axis Bank	Long-term-Fund based	-	-	-	5.00^	[ICRA]BBB+@
Federal Bank	Long-term-Fund based	-	-	-	5.00^	[ICRA]BBB+@
RBL Bank	Long-term-Fund based	-	-	-	5.00^	[ICRA]BBB+@
HDFC Bank	Long-term-Fund based	-	-	-	5.00^	[ICRA]BBB+@
Unallocated	Long-term-Fund based	-	-	-	100.00	[ICRA]BBB+@
Axis Finance Limited	Long-term Term Loan	Jul 20, 2021	-	*	25.00	[ICRA]BBB+@
IndusInd Bank	Short-term Non-fund based	-	-	-	19.00	[ICRA]A2@
IDFC First Bank	Short-term Non-fund based	-	-	-	20.00	[ICRA]A2@
Axis Bank	Short-term Non-fund based	-	-	-	20.00	[ICRA]A2@
Federal Bank	Short-term Non-fund based	-	-	-	10.00	[ICRA]A2@
RBL Bank	Short-term Non-fund based	-	-	-	15.00	[ICRA]A2@
HDFC Bank	Short-term Non-fund based	-	-	-	20.00	[ICRA]A2@
Unallocated	Short-term Non-fund based	-	-	-	145.00	[ICRA]A2@

Source: *Company, ICRA*

^fungibility with non-fund based limits

**maturity date will be based on the disbursement date*

@ placed under watch with negative implications

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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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.

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