December 03, 2021

E5 Infrastructure Private Limited: Ratings downgraded and removed from watch with negative implications; Negative outlook assigned

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-(Negative); downgraded from [ICRA]BBB+@; removed from watch with negative implications
Short-term Non-fund Based	249.00	249.00	[ICRA]A3; downgraded from [ICRA]A2@; removed from watch with negative implications
Long-term Term Loan	25.00	25.00	[ICRA]BBB-(Negative); downgraded from [ICRA]BBB+@; removed from watch with negative implications
Total	**400.00**	**400.00**	

**Instrument details are provided in Annexure-1*

@ Placed under watch with negative implications

Rationale

ICRA had placed the ratings of E5 Infrastructure Private Limited (E5 Infra) on watch with negative implications considering the heightened reputational risk following the arrest of its founder and ex-Managing Director (MD) in connection with the murder of an authority independent engineer for one of the projects under execution by the company. Subsequently, E5 Infra's key client, viz. National Highways Authority of India (NHAI), debarred the company from participating in ongoing and future bids for five years from November 02, 2021.

The ratings downgrade and the Negative outlook factor in the impact of the debarment on the company's operational and financial risk profile as NHAI has been the key client (directly or indirectly), accounting for 83% of E5 Infra's order book and 90% of its revenue in FY2021. The ratings revision also factors in the reduction in the order book size of the company as one of the largest projects under a joint venture (JV) with Gawar Construction Limited (GCL) will now be executed only by GCL. The pending order book stood at Rs. 1,422 crore as on September 30, 2021 with order book/operating income (OI) of FY2021 at 1.9 times, providing limited revenue visibility over the medium term. The project concentration risks are high with the top five projects forming around 66% of the outstanding order book as on September 30, 2021.

While the company has been able to bill and realise the payments for the ongoing projects with NHAI during September-November 2021 (post the incident), any elongation of receivables from NHAI or slippages in order execution could materially impact its overall profitability and liquidity position. This remains the key risk in the near to medium term. Further, this event has resulted in heightened reputational risk for E5 Infra, which could have a bearing on new order inflows. The company's ability to take up projects from other departments or in other segments to increase its order book position will remain a key sensitivity for sustainable growth in future.

The ratings are constrained by the moderate leverage, given the sizeable debt-funded capital expenditure incurred by E5 Infra in FY2021 and the elevated creditors position (relative to debtors and inventory). E5 Infra is expected to witness a reduction in its scale of operations in FY2023, given the limited orders-in-hand and the expectation of muted order book additions. Consequently, the debt service coverage metrics are expected to witness a moderation given the high debt repayments. ICRA has taken note of the promoters' commitment to provide timely financial support to the company in case of any exigencies. In the three months post the incident, the promoters have infused Rs. 9.2 crore for liquidity support.

The ratings are supported by the experience of the promoter, Mr. Rajender Singh, of more than three decades in the construction sector, and the near-term revenue visibility from the current order book. 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 equity infusion and conversion of unsecured loans into equity in FY2021 has significantly improved E5 Infra's net worth position and reduced the leverage as reflected in the improvement in Total Outside Liabilities/Tangible Net Worth (TOL/TNW) to 2.1 times as on March 31, 2021 from 5.9 times as on March 31, 2020.

E5 Infra's working capital cycle is also favourable with low receivables and inventory. Its 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. The maintenance of operating profitability and working capital intensity will remain a key rating sensitivity.

Key rating drivers and their description

Credit strengths

Experience of promoter in construction business – E5 Infra is currently promoted by Mr. Rajender Singh, who has experience of more than three decades in the construction business. He was the co-founder and MD of GCL. He joined E5 Infra in September 2021 post the incident involving the ex-MD. ICRA has taken note of the promoters' commitment to provide timely financial support to the company in case of any exigencies. In the three months post the incident, the promoters have infused Rs. 9.2 crore for liquidity support.

Healthy profitability – The company has achieved a competitive scale of operations as its revenues witnessed a strong compound annual growth rate (CAGR) of ~86% during FY2018-FY2021 and is expected to grow by more than 10% in FY2022, supported by its orders-in-hand. E5 Infra generated revenue of Rs. 443 crore in 7M FY2022 (as against Rs. 318 crore of revenue in 7M 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. While recent events have increased the revenue risk, the company has orders-in-hand which provide near-term revenue visibility. Nevertheless, the ability to secure incremental orders at healthy profitability will be important.

Credit challenges

Debarment by NHAI and heightened reputational risk – E5 Infra's key client, viz. NHAI, has debarred the company from participating in ongoing and future bids for five years from November 02, 2021 following the arrest of its founder and ex-MD, in connection with the murder of an authority independent engineer for one of the projects under execution by the company. The ratings downgrade and the Negative outlook factor in the impact of the debarment on the company's operational and financial risk profile as NHAI has been the key client (directly or indirectly), accounting for 83% of E5 Infra's order book and 90% of its revenue in FY2021. The ratings revision also factors in the reduction in the company's order book size as one of the largest projects in JV with GCL will now be executed only by GCL.

While the company has been able to bill and realise the payments for the ongoing projects with NHAI during September-November 2021 (post the incident), any elongation of receivables from NHAI or slippages in order execution could materially impact its overall profitability and liquidity position. This remains the key risk in the near to medium term. Further, this event has resulted in heightened reputational risk for E5 Infra, which could have a bearing on new order inflows. The company's ability to take up projects from other departments or in other segments to increase its order book position will remain a key sensitivity for sustainable growth in future.

Execution risk and reduction in order book size – The pending order book stood at Rs. 1,422 crore as on September 30, 2021 with order book/OI of FY2021 at 1.9 times, providing limited revenue visibility over the medium term. The project concentration risks are high with the top five projects forming around 66% of the outstanding order book as on September 30, 2021. The ratings remain constrained by the execution risks associated with the orders-in-hand as some of the projects in the pending order book are yet to start/in the early stage of execution. Timely execution of the projects and timely receipt of payments from clients will remain crucial. E5 Infra is expected to witness a reduction in its scale of operations in FY2023, given the limited orders-in-hand and the expectation of muted order book additions. The debt service coverage metrics are expected to witness a moderation as well, given the high debt repayments.

Sizeable debt-funded capital expenditure and high creditors result in moderate leverage – The ratings are constrained by the moderate leverage, given the sizeable debt-funded capital expenditure incurred by E5 Infra in FY2021 and the elevated creditors position (relative to debtors and inventory). Its 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.

Liquidity position: Adequate

E5 Infra's cash flows from operations are expected to be sufficient to meet its debt servicing obligations of Rs. 50.0 crore over the near to medium term. In addition, the company reported a liquidity cushion of Rs. 13.5 crore (unencumbered cash and bank balances of Rs. 6.4 crore and Rs. 7.1 crore of unutilised fund-based limits) as on November 11, 2021.

Rating sensitivities

Positive factors - An upgrade in the ratings is unlikely in the near term. However, the outlook can be revised to Stable if there is limited or no impact of the event on the operational and financial risk profile of the company over the medium term and if the company is able to improve its order book position by securing adequate new orders.

Negative factors - Pressure on the ratings could arise if there are significant delays in project execution and bill realisation, if new order inflows remain muted leading to a decline in E5 Infra's scale and operating profitability or a deterioration in its liquidity position or if there are delays in timely promoter support.

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, took 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 Oct 31, 2021 (Rs. crore)	Date & Rating			Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Dec 3, 2021	Sep 9, 2021	Aug 16, 2021	-	-	-
1	Long Term – Fund Based	Long Term	126.0	-	**[ICRA]BBB- (Negative)**	[ICRA]BBB+@	[ICRA]A-(Stable)	-	-	-
2	Long-term Term Loan	Long Term	25.0	14.98	**[ICRA]BBB- (Negative)**	[ICRA]BBB+@	[ICRA]A-(Stable)	-	-	-
3	Short-term Non-fund Based	Short Term	249.0	-	**[ICRA]A3**	[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: www.icra.in

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- (Negative)
IDFC First Bank		-	-	-	5.00^	
Axis Bank		-	-	-	5.00^	
Federal Bank		-	-	-	5.00^	
RBL Bank		-	-	-	5.00^	
HDFC Bank		-	-	-	5.00^	
Unallocated		-	-	-	100.00	
Axis Finance Limited	Long-term Term Loan	Jul 20, 2021	-	FY2027	25.00	[ICRA]BBB- (Negative)
IndusInd Bank	Short-term Non-fund Based	-	-	-	19.00	[ICRA]A3
IDFC First Bank		-	-	-	20.00	
Axis Bank		-	-	-	20.00	
Federal Bank		-	-	-	10.00	
RBL Bank		-	-	-	15.00	
HDFC Bank		-	-	-	20.00	
Unallocated		-	-	-	145.00	

Source: *Company, ICRA*

^ Fungibility with non-fund based limits

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.

For more information, visit www.icra.in

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