July 09, 2024

E to E Transportation Infrastructure Private Limited: Ratings reaffirmed; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/Cash credit	20.0	20.0	[ICRA]BB+; reaffirmed; Outlook revised to Positive from Stable
Short-term – Non-fund based	20.0	20.0	[ICRA]A4+; reaffirmed
Total	**40.0**	**40.0**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in outlook to Positive reflects ICRA's expectation of a sustained improvement in E to E Transportation Infrastructure Private Limited's (ETIPL) credit profile in the near to medium term, supported by ramp-up in execution and consequent impact on scale of operations, coupled with improvement in its working capital intensity and liquidity position. The ratings continue to derive comfort from the company's strong and reputed clientele (which lowers the counterparty credit risk) and decade long track record in the railway infrastructure segment.

ETIPL's performance has recovered notably over the last two fiscals with an operating income (OI) and operating profit margin of Rs. 170.2 crore and 11.4%, respectively, in FY2024, compared to an OI of Rs. 78.5 crore and 9.0% OPM in FY2022 (OI and OPM were Rs. 134.6 crore and 10.8%, respectively, in FY2023). It had an order book (OB) of ~Rs. 325 crore as on March 31, 2024 (against ~Rs. 135 crore as of March 2023), which provides healthy revenue visibility, given the project tenor of 12-18 months. ETIPL saw an improvement in working capital intensity as reflected in NWC/OI at 42% in FY2024 Vs. 48% in FY2023 and 66% in FY2022, though the overall working capital cycle continues to remain stretched. Moreover, significant billings done in March 2024 (Rs. 84 crore viz. 50% of annual revenues) resulted in inflated debtor and payable days. The company has increased the share of orders directly from Indian Railways and B2B clients, whose favourable credit terms (e.g., fast payment cycle, interest-free mobilisation advance provisions in B2B projects, etc) augur well for its working capital cycle going forward. ETIPL was able to secure enhancement in working capital lines during the past year at 25-30% margin and collateral requirement (previously as high as 47%), which will reduce the incremental margin money needs and support liquidity position. Though the operating margins are expected to remain rangebound (9-11%) over medium term, with scheduled repayment of debt and no major capex plans, debt coverage and leverage metrics are likely to improve over the medium term.

The ratings remain constrained by the company's modest scale of operations, highly working capital-intensive operations and execution risks associated with contracts (with nearly 50% of the orders in the nascent stages with less than 10% execution). It is vulnerable to intense competition in the segment, which constrains its pricing flexibility and profitability. It also has sizeable contingent liabilities (~Rs. 33 crore o/s as of May 2024 Vs. net worth of Rs. 67 crore as on March 31, 2024) in the form of bank guarantees, mainly for contractual performance and earnest money and security deposit. Nonetheless, ICRA draws comfort from ETIPL's established relationship with clients and no invocation of guarantees in the past. Even as the working capital intensity, as reflected in NWC/OI, improved YoY in FY2024, given the increasing scale of operations, the company's ability to judiciously manage its working capital and maintain adequate cushion remains important from the credit perspective. Its ability to further improve the cash conversion cycle and improve its liquidity position remains crucial to support its growth plans, and hence remains a key monitorable.

Key rating drivers and their description

Credit strengths

Established track record in railway infrastructure segment; reputed clientele – ETIPL was incorporated in 2010 for undertaking railway projects and providing associated services. It has an established operational track record of over a decade in successful completion of projects, which ensures improvement in credentials and repeat orders. The company's clientele includes renowned players in the railway infrastructure sector such as RITES Limited and IRCON International Limited, and more recently - Indian Railways (direct orders) and private entities like the Adani Group, ACC Limited, etc. The reputed clientele mitigates the counterparty risk to some extent.

Adequate order book position provides revenue visibility – The company's pending order book stood at ~Rs. 325 crore as on March 31, 2024 (1.9 times of FY2024 revenues). It additionally has orders of ~Rs. 450 crore in pipeline. The same provides healthy near-term revenue visibility. Nevertheless, its ability to secure projects consistently, amid the prevailing competition, remains a key to attain healthy revenue growth and would be a credit monitorable.

Credit challenges

Moderate financial profile – Despite long track record and healthy improvement during the last two years, ETIPL's revenues have remained moderate, at Rs. 170 crore in FY2024. The company's capital structure and coverage indicators remain modest as reflected in total outside liabilities/tangible net worth (TOL/TNW) of 2.0 times as on March 31, 2024 (Vs. 1.5 times as on March 31, 2023) and interest coverage of 2.8 times in FY2024 (Vs. 2.9 times in FY2023[1]). While ETIPL is expected to report healthy revenue growth of over 30% YoY and has no plans of any debt-funded capex, its ability to sustain revenues and margins at such levels (10-11%) and attain further improvement in debt coverage metrics remains crucial from the credit perspective.

Working capital-intensive operations – ETIPL's working capital intensity, measured by NWC/OI, remained high at ~42% as on March 31, 2024 (though improved from 48% and 66% as on March 31, 2023 and March 31, 2022 respectively), on account of high receivables and unbilled revenues, partly due to higher billing and execution in March 2024. The company has increased share of orders directly from Indian Railways and B2B clients, whose favourable payment terms augur well for its working capital cycle. The company has recured vendor financing lines, which provides 90-120 days credit period. In addition, it was able to secure enhancement in working capital lines at 25-30% collateral requirement (previously as high as 47%), which will reduce the incremental margin money needs and support liquidity position. ETIPL's ability to manage its working capital cycle judiciously to support its anticipated revenue scale up would a key monitorable.

Exposure to inherent project execution and industry risks – ETIPL is exposed to the project execution risk inherent in the EPC sector such as time and cost overrun, with nearly 50% of its pending order book in the nascent stages of execution (<10% of completion) as on March 31, 2024. The company is also susceptible to the risk of sizeable contingent liabilities in the form of BGs (~Rs. 33 crore as on May 30, 2024 Vs. net worth of Rs. 67.1 crore). Nonetheless, a favourable execution track record and no instances of crystallisation of BGs in the past provide comfort. Besides, in its new SCM segment (or B2B business), the company's revenues would be exposed to relatively higher counterparty risk even as it anticipates deploying various measures such as escrow mechanism and trade credit insurance, to mitigate the same. The company faces stiff competition in the Railway EPC space because of a tender-based contract awarding system and the presence of multiple players in the segment, which constrain earnings growth.

[1] *Adjusted interest cover viz. OPBDITA+ interest income on margin FD/finance cost, stood at 3.1 times/3.2 times in FY2024/FY2023.*

Liquidity position: Adequate

The estimated cash flow from operations is expected to remain adequate to meet its debt repayment obligations. The liquidity is supported by marginal repayment obligations (Rs. 2.8 crore in FY2025 and Rs. 3.1 crore in FY2026), no major capex plans and cushion available in the form of free cash balance (Rs. 4.6 crore) and unutilised working capital limits (~Rs. 39 crore) as on May 31, 2024. The company has received Rs. 60-crore enhancement in WC limits over the last one year until May 2024 and the average limit utilised was 70% and 85% for fund-based and non-fund based facilities for the twelve-month period ending May 31, 2024. ICRA notes that the company has secured bid bond limits of Rs. 10 crore, which will reduce dependence on BG limits, thus providing additional support to the liquidity. While the sanctioned lines remain adequate currently, timely enhancement in limits would be imperative to support scaling up of operations.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company is able to sustain its scale of operations and operating margins while improving its working capital cycle and liquidity position.

Negative factors – Negative pressure on the rating could arise if slowdown in order inflow or execution-related delays result in decline in scale and operating profit margin on a sustained basis. Further, deterioration in the working capital cycle, which puts pressure on its liquidity position and debt coverage indicators, could also result in a downgrade. Specific credit metric that will be a monitorable is interest cover falling below 2.8 times.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology – Construction](#)
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of ETIPL, along with its subsidiaries and joint ventures (JVs) as listed in Annexure II.

About the company

ETIPL, incorporated in March 2010, is involved in the business of procurement and supply of track linking, signalling and electrification of equipment related to rail transport infrastructure. Its major business segments include turnkey EPC projects, manpower deployment and training and project maintenance services. The company ventured into a new business segment – supply chain management from FY2023 onwards. ETIPL is primarily owned and controlled by two private equity funds – VenturEast (shareholding of 57.89% as on March 31, 2024) and Zephyr Peacock India (shareholding of 36.89% as on March 31, 2024).

Key financial indicators (audited)

	FY2023	FY2024
Operating income (Rs. crore)	134.6	170.2
PAT (Rs. crore)	7.9	10.6
OPBDIT/OI	10.8%	11.4%
PAT/OI	5.9%	6.3%
Total outside liabilities/Tangible net worth (times)	1.5	2.0
Total debt/OPBDIT (times)	3.0	3.2
Interest coverage (times)	2.9	2.8

Source: Company, ICRA Research; All ratios as per ICRA's calculations

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 (FY2025)			Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022
				09-Jul-24	29-Jun-23	16-Mar-23	28-Jul-22	05-Apr-21
1	Fund-based – Cash credit	Long term	20.00	[ICRA]BB+ (Positive)	[ICRA]BB+ (Stable)	[ICRA]BB (Stable); ISSUER NOT COOPERATING	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2	Non-fund based	Short term	20.00	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+; ISSUER NOT COOPERATING	[ICRA]A3	[ICRA]A3

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based-CC	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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based working capital facility	-	-	-	20.0	[ICRA]BB+ (Positive)
NA	Non-fund based facility	-	-	-	20.0	[ICRA]A4+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	ETIPL Ownership	Consolidation Approach
E To E Operations and Maintenance Private Limited	100.00%	Full consolidation
E To E Consultancy Private Limited	100.00%	Full consolidation
E To E Transportation Training Services Private Limited	100.00%	Full consolidation
E to E Rail Pte. Ltd.	100.00%	Full consolidation
E to E Rail Private Limited, United Kingdom	100.00%	Full consolidation
E To E Wireless & Network Solutions Private Limited	100.00%	Full consolidation
ETIPL & Indus Projects JV	50.00%	Proportional Consolidation
SKE E to E JV	50.00%	Proportional Consolidation
ETIPL – PGIPL JV	49.00%	Proportional Consolidation

Source: Company

ANALYST CONTACTS

Rajeshwar Burla
+91 40 6939 6443
rajeshwar.burla@icraindia.com

Ashish Modani
+91 20 6606 9912
ashish.modani@icraindia.com

Ritu Goswami
+91 124 4545 826
ritu.goswami@icraindia.com

Rohit Pati
+91 79780 71600
rohit.pati@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@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

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches