

March 07, 2023

## E5 Infrastructure Private Limited: Ratings downgraded to [ICRA]BB/[ICRA]A4 from [ICRA]BBB-/ [ICRA]A3; outlook revised from Negative to Stable

### 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]BB (Stable); downgraded from [ICRA]BBB-, outlook revised from Negative to Stable
Short-term Non-fund Based	249.00	249.00	[ICRA]A4; downgraded from [ICRA]A3
Long-term Term Loan	25.00	25.00	[ICRA]BB (Stable); downgraded from [ICRA]BBB-, outlook revised from Negative to Stable
<b>Total</b>	<b>400.00</b>	<b>400.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The revision in ratings factor in the significant reduction in the order book size of E5 Infrastructure Private Limited (E5 Infra), following the debarment by the National Highway Authority of India (NHAI), which is expected to have a bearing on the company's scale of operations and coverage metrics going forward. The NHAI has been the key client (directly or indirectly), accounting for over 60% of E5 Infra's order book and 90% of its revenue in FY2022. The pending order book stood at Rs. 443.4 crore as on December 31, 2022 with order book/operating income (OI) of FY2022 less than 1 times, providing limited medium-term revenue visibility. Consequently, the profitability and debt service coverage metrics could witness a decline, given the relatively high debt repayments in the medium term. Any elongation of receivables or slippages in order execution could materially impact its overall profitability and liquidity position. The project concentration risks are high with the top five projects forming over 60% of the outstanding order book as on December 31, 2022. The ratings continue to note the reputational risk following the arrest of its founder and ex-Managing Director (MD). Further, 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, however, supported by the experience of the promoter, Mr. Rajender Singh, of more than three decades in the construction sector. In the past, the company's operating profitability remained healthy at around 13-14%, supported by cost efficiencies achieved due to backward integration (crushing and logistics). However, the anticipated reduction in scale and addition of sub-contracts to the order book could put pressure on the margins. The maintenance of operating profitability and working capital intensity will remain a key rating sensitivity. Further, the ratings factor in the moderate leverage position, which is expected to improve with gradual debt repayments and no incremental external debt. ICRA notes the promoters' commitment to provide timely financial support to the company in case of any exigencies.

The rating outlook is revised from Negative to Stable as ICRA expects despite the decline in the company's scale of operations and credit metrics over the medium term, these will remain commensurate to the rating level.

### Key rating drivers and their description

#### Credit strengths

**Experience of promoter in construction business** – E5 Infra is currently managed by Mr. Rajender Singh, who has experience of more than three decades in the construction business. He was the co-founder and MD of Gawar Construction Ltd (GCL). He joined E5 Infra in September 2021 post the incident involving the ex-MD. ICRA has considered 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 infused Rs. 9.2 crore to support its liquidity position.

**Moderate leverage** – The company's overall leverage position remains moderate with healthy net worth position and prepayment of a part of the equipment loan. No incremental external debt is anticipated following the overall decline in the scale of operations. Hence, the leverage position is expected to remain comfortable in the near to medium term with TOL/TNW below 0.7 times.

### Credit challenges

**Debarment by NHAI and heightened reputational risk** – E5 Infra's key client, viz. NHAI, debarred the company from participating in the ongoing and future bids for five years from November 02, 2021 following the arrest of its founder and ex-MD. Besides increasing the reputational risk, the debarment adversely impacted its operational and financial risk profile as NHAI has been the key client (directly or indirectly), and in the absence of new order inflows, the order book has declined. The company's ability to take up projects from other departments or in other segments to increase its order book position, while maintaining healthy profitability will remain a key sensitivity for sustainable growth in future.

**Modest order book position and execution risk** – The pending order book stood at Rs. 443.4 crore as on December 31, 2022 with order book/OI of FY2022 of less than 1 times (in addition, the company has recently received a sub-contract of Rs. 73.6 crore), providing limited medium-term revenue visibility. The project concentration risks are high with the top five projects forming over 60% of the outstanding order book as on December 31, 2022. 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 in the early stage of execution. Timely execution of 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 onwards, given the limited orders-in-hand and the expectation of muted order book additions. The debt service coverage metrics are likely to witness a moderation as well, given the relatively high debt repayments.

**Moderate coverage and increasing working capital intensity** – The working capital intensity is expected to augment, as the debtor and inventory days are anticipated to increase, given the likely shift in counterparties and nature of contracts. Further, the debt service coverage metrics are estimated to decline due to the relatively high debt repayments, against the reducing scale of operations and cash inflows. ICRA has considered the promoters' commitment to provide timely financial support to the company in case of any exigencies.

### Liquidity position: Adequate

The company's liquidity is adequate, as reflected by its unencumbered cash and bank balances of around Rs. 6.1 crore and unutilised fund-based limits of Rs. 1.5 crore as on February 27, 2023. This apart, the expected cash flows from operations, are likely to be sufficient to meet its debt servicing obligations of around Rs. 50 crore over the next three years.

### Rating sensitivities

**Positive factors** – The ratings can be upgraded if the company is able to materially improve its order book position by securing adequate new orders thereby supporting its ability to maintain its credit metrics while improving its liquidity position.

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

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Construction Entities</a>
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 was one of the founder promoters of GCL, took over the company's shares from Mr. Sheoran and joined the board. 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	FY2021	FY2022
Operating income	737.3	961.6
PAT	51.4	66.9
OPBDIT/OI	13.8%	14.2%
PAT/OI	7.0%	7.0%
Total outside liabilities/Tangible net worth (times)	2.1	1.1
Total debt/OPBDIT (times)	1.1	0.8
Interest coverage (times)	14.9	12.0

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

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

## Rating history for past three years

Instrument		Current rating (FY2023)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021	Date & rating in FY2020	
						Mar 07, 2023	Dec 3, 2021			Sep 9, 2021
1	Long-term – Fund-based	Long Term	126.0	-	[ICRA]BB (Stable)	[ICRA] BBB- (Negative)	[ICRA] BBB+@	[ICRA]A- (Stable)	-	-
2	Long-term Term Loan	Long Term	25.0	3.1	[ICRA]BB (Stable)	[ICRA] BBB- (Negative)	[ICRA] BBB+@	[ICRA]A- (Stable)	-	-
3	Short-term Non-fund Based	Short Term	249.0	-	[ICRA]A4	[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 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	Long-term – Fund-based	-	-	-	126.0	[ICRA]BB (Stable)
NA	Long-term Term Loan	Jul 20, 2021	-	FY2027	25.0	[ICRA]BB (Stable)
NA	Short-term Non-fund Based	-	-	-	249.0	[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 – Not Applicable

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