June 29, 2023

E to E Transportation Infrastructure Private Limited: Long-term rating upgraded; short-term rating reaffirmed; ratings removed from ISSUER NOT COOPERATING category

Summary of rating action

Instrument*	Previous Rated Amount (Rs crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund based (CC)	20.00	20.00	[ICRA]BB+ (Stable); rating upgraded from [ICRA]BB (Stable) ISSUER NOT COOPERATING and removed from ISSUER NOT COOPERATING category
Short-term – Non-fund based	20.00	20.00	[ICRA]A4+; rating reaffirmed and removed from ISSUER NOT COOPERATING category
Total	**40.00**	**40.00**	

**Instrument details are provided in Annexure I*

Rationale

The ratings of E to E Transportation Infrastructure Private Limited (ETIPL) favourably factor in the long operational track record of the entity in the railway infrastructure segment along with its reputed clientele. ICRA notes that ETIPL has recently ventured into the supply chain management (SCM) segment, which is expected to help scale up its operations with relatively limited working capital requirements. ICRA takes note of the company's pending order book of ~Rs. 135 crore as of March 31, 2023, and new order receipts of Rs. 55 crore in April 2023, which together provides healthy near-term revenue visibility.

The ratings, however, remain constrained by the company's elongated working capital cycle and high-margin money requirements on its bank facilities (both fund-based and non-fund based), which, besides impacting its liquidity position, could also constrain its ability to scale up the operations, especially under its infra segment. The company has limited buffer available in its fund-based and non-fund based working capital facilities, reflected in its stretched liquidity position. The company's ability to tie-up requisite funds for the anticipated scale up under its new SCM business and maintain adequate cushion in its working capital facilities remains important from credit perspective. The ratings are further constrained by the moderation in the company's leverage and coverage indicators over the last two years. The ratings also factor in the company's exposure to various project execution risks such as time and cost overruns, inherent in engineering, procurement, and construction (EPC) contracts.

Key rating drivers and their description

Credit strengths

Operational track record in railway infrastructure segment and renowned clientele – ETIPL was incorporated in 2010 for undertaking railway projects and services. It has an established operational track record over nearly a decade in successful completion of projects. The company's clientele includes renowned players in the railway infrastructure sector such as RITES Limited and IRCON International Limited, among others, thereby mitigating the counterparty risk to some extent. The company started receiving orders directly from the Indian Railways in the recent past.

Adequate order book position – ETIPL's unexecuted order book stood at Rs. 135 crore as on March 31, 2023, and further, the company received new orders of Rs. 55 crore in April 2023. This provides adequate near-term revenue visibility. For FY2024, the company anticipates its new order inflows to remain robust at around Rs. 275 crore (including the new order receipts in April 2023), of which, about 50% is expected to be under its existing infra segment and the rest is anticipated to be from its new SCM segment.

Expected improvement in scale of operations in near term supported by SCM segment – The company has recently ventured into a new business vertical – supply chain management (SCM) –wherein it will be providing a full bouquet of services and supply-chain solutions to its customers such as design, engineering, project management, installation, testing and commissioning, among others. The company expects significant scale up in the SCM segment over the medium term, which once materialises, can improve its business risk profile. Although the profit margins under the SCM segment are likely to be relatively lower, the limited working capital requirements for this segment are expected to facilitate the company's revenue to scale up, with no major incremental working capital borrowings.

Credit challenges

Moderation in financial profile – While ETIPL's scale of operations had improved in FY2023, it remained moderate. Further, its financial profile had moderated, reflected in the weakening of its capital structure and coverage indicators. The company's leverage increased, marked by total outside liabilities/tangible net worth (TOL/TNW) increasing to 1.5 times as on March 31, 2023 (provisional numbers) from 1.1 times as on March 31, 2022. Further, the debt coverage indicators reduced with an interest coverage 2.4 times and DSCR of 1.6 times in FY2023, compared to an interest coverage of 3.4 times and DSCR of 3.0 times in FY2022. The coverage indicators moderated in FY2023 mainly owing to a steep increase in the company's interest expenses due to the interest paid to its suppliers on the additional credit period availed from them.

Working capital-intensive operations and stretched liquidity position – ETIPL's working capital intensity, measured by NWC/OI, remained high at ~49% as on March 31, 2023 (though improved in comparison to 66% as on March 31, 2022), on account of high receivables and unbilled revenues, partly due to higher billing and execution in March 2023. Further, at present, the cash collateral requirements for the existing bank facilities are high at around 45% for its fund-based facility and 25% for non-fund-based facility (over and above the cash margin requirement of 25% for bank guarantee), which blocks its liquid fund and restricts its ability to deploy the same for business growth. The company's liquidity position weakened in the recent past, characterised by limited availability of buffer in both its fund-based and non-fund based working capital facilities, notwithstanding the enhancement in its limits in March 2023. Nonetheless, in FY2024, with increased share of revenues from the SCM business, which is expected to have a relatively lower working capital cycle, the company's overall working capital intensity is likely to reduce. However, its ability to secure additional working capital facilities to support its anticipated revenue scale up would be crucial.

Exposure to inherent project execution risks – ETIPL remains exposed to project execution risks, inherent in the EPC sector, such as time and cost overruns. Nonetheless, the company's execution track record in terms of its ability to complete projects in a timely manner without any significant time and/or cost overruns, provides comfort. Besides, in its new SCM segment, the company's revenues would be exposed to a relatively higher counterparty risk. Nevertheless, it anticipates deploying various measures such as escrow mechanism and trade credit insurance, to mitigate the counterparty risk.

Liquidity position: Stretched

ETIPL's liquidity profile is stretched, characterised by availability of limited buffer in its working capital facilities. The average utilisation of the cash credit facility stood at around 95% during April 2022 to May 2023, notwithstanding the recent enhancement of its fund-based limits. Besides, its non-fund-based limits also remain highly utilised with a similar average utilisation of 95% during the corresponding period. Although the company has recently secured ~Rs. 8.0-crore unsecured purchase financing facility from Siemens Limited and is in talks with several other lenders for additional bank lines, its ability to tie-up requisite funds to support its anticipated scale up of operations (under both its infra segment and SCM business), remains to be seen and will be a critical credit monitorable.

Rating sensitivities

Positive factors – ICRA could upgrade ETIPL's ratings, if there is any significant improvement in the company's working capital cycle and liquidity position, while sustaining its revenue growth and profitability at adequate levels.

Negative factors – Pressure on the company's ratings could arise, if any further stretch in its working capital cycle and/or the company's inability to tie-up adequate working capital facilities results in sustained weakening of its liquidity position. Further, the ratings could also come under pressure, if there is any sustained deterioration of the earnings and/or debt protection metrics.

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. The company is primarily owned and controlled by two private equity funds – VenturEast (shareholding of 56.5% as on March 31, 2023) and Zephyr Peacock India (shareholding of 39.5% as on March 31, 2023).

Key financial indicators

ETIPL – Consolidated	FY2021	FY2022	FY2023*
Operating income (Rs. crore)	101.42	78.47	134.28
PAT (Rs. crore)	10.91	4.09	6.58
OPBDIT/OI (%)	14.00%	9.02%	10.56%
PAT/OI (%)	10.76%	5.21%	4.90%
Total outside liabilities/Tangible net worth (times)	0.81	1.11	1.54
Total debt/OPBDIT (times)	1.51	4.21	3.04
Interest coverage (times)	5.48	3.40	2.38

*(Source: ETIPL; ICRA); *Provisional financials*

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 (FY2024)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2023 (Rs. crore)	Date & Rating on	FY2023		FY2022	FY2021
					June 29, 2023	March 16, 2023	July 28, 2022	April 05, 2021	-
1	**Cash credit**	Long-term	20.0	-	[ICRA]BB+ (Stable)	[ICRA]BB (Stable); ISSUER NOT COOPERATING	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-
2	**Bank guarantee**	Short-term	20.0	-	[ICRA]A4+	[ICRA]A4+; ISSUER NOT COOPERATING	[ICRA]A3	[ICRA]A3	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Cash credit	Simple
Bank guarantee	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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	20.0	[ICRA]BB+ (Stable)
NA	Bank Guarantee	NA	NA	NA	20.0	[ICRA]A4+

Source: ETIPL and ICRA

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's Ownership	Consolidation Approach
E To E Operations and Maintenance Private Limited	100%	Full Consolidation
E To E Consultancy Private Limited	100%	Full Consolidation
E To E Transportation Training Services Private Limited	100%	Full Consolidation
E to E Rail Pte. Ltd.	100%	Full Consolidation
E To E Wireless & Network Solutions Private Limited	100%	Full Consolidation
ETIPL & Indus Projects JV	50%	Proportional Consolidation
SKE E to E JV	50%	Proportional Consolidation

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About ICRA Limited:

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